M&G Investments

Stewardship Report 2023

Active Stewardship and Sustainable Investment

Contents

Foreword

At M&G Investments, our purpose is to give everyone real confidence to put their money to work. Our clients trust us with their savings and investments. We help them transform their wealth, seeking to deliver positive returns, as well as providing an opportunity to invest to have a positive impact on society and the planet. Our purpose reflects where we are as a business and our future ambitions. It is underpinned by our values and behaviours, which guide how we work and lead our strategy.

We are focused on active management across public and private markets. The business is underpinned by deep and broad investment expertise across both fund management and extensive in-house research capabilities. Within public markets, we focus on value-add equity and multi-strategy investments and within fixed income, we are recognised as one of Europe's leading investors. Our private markets business encompasses capabilities across private and structured credit, private equity, impact, infrastructure and real estate.

Given our strong position as a responsible international investor, we work with the companies in which we invest to help deliver real world change, including in relation to climate change. In that regard, our stewardship approach is based on our belief that divestment does not have a direct impact on real-world emissions reductions. Our priority as an active, long-term investor is to encourage change through engagement and voting – we engage with companies both bilaterally and through collective engagement programmes; details of both are highlighted in this report.

At the same time, governments need to create the right conditions for accelerated climate action. Here we can also play a role through advocacy and collective effort, to promote greater economy-wide ambition. We do this through collaboration with peers and by supporting ambitious public climate policy and appropriate regulation.

"Our purpose is to give everyone real confidence to put their money to work.

In order to help us address the societal challenges we are facing as investors, including climate change and biodiversity loss, over the past year we have continued to build out our Stewardship & Sustainability team to ensure we have the right expertise, tools and data in place (details of the team can be found on page 74). At the same time, we adopted an improved net zero investment framework to support investment decisions and stewardship efforts, continued to implement our Thermal Coal Investment Policy and joined the newly formed Institutional Investors Group on Climate Change (IIGCC) Net Zero Engagement Initiative and Nature Action 100. Further details of action we have taken, and our achievements throughout 2023, can be found within this report.

Across the broader group, M&G plc's life business has been serving individual savers since 1848, while the investment management business launched the UK's first unit trust for private investors in 1931. Now, we continue to help millions of people to manage and grow their savings, while serving a wide range of institutional clients around the world.

Meeting the expectations of this diverse client base means sticking to our principles, taking a responsible, active and long-term approach, which considers all the relevant financial and non-financial elements of our investments. Along the same lines, we encourage responsible practices in our investee companies through active engagement with company management, while using our votes to protect the interests of our clients as shareholders.

This report provides an overview of the stewardship activities M&G Investments[1] has carried out over 2023, and demonstrates how we use our position as long-term, active, responsible investors to promote good practices at our investee companies.

Joseph Pinto
Chief Executive Officer, M&G Asset Management

[1]Please note, responsAbility and M&G Investments Southern Africa are not in the scope of this report.

Preface: M&G Investments and the UK Stewardship Code 2020

The UK Stewardship Code 2020 sets high stewardship standards for both asset owners and asset managers. The code comprises a set of 'apply and explain' principles, and allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy. Here we describe M&G Investments' approach as an asset manager.

The 2020 code reflects the fact that the investment market has changed considerably since the publication of the first UK Stewardship Code in 2010, with significant growth in assets other than listed equity, including fixed income, real estate and infrastructure. These investments have different terms, investment periods, rights and responsibilities; signatories to the 2020 code need to consider how to exercise stewardship effectively, and report accordingly, across asset classes.

Of note, environmental, particularly climate change, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship.

We were among the first group of signatories to the new code in 2021, having reported in line with the code since 2020. We have demonstrated that our stewardship activities are in line with the code through a two-pronged approach:

1. Through this annual stewardship report, which highlights key activities from the previous year across equities, fixed income, property and infrastructure.
2. Through a principle-by-principle document, reviewed annually, that provides an overview of our stewardship approach, and specifically outlines how we adhere to the code. This can be found in the appendix of this report.

2020 principles for asset owners and asset managers	
Purpose and governance	
1	Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
2	Signatories' governance, resources and incentives support stewardship.
3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.
4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.
Investment approach	
6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8	Signatories monitor and hold to account managers and/or service providers.
Engagement	
9	Signatories engage with issuers to maintain or enhance the value of assets.
10	Signatories, where necessary, participate in collaborative engagement to influence issuers.
11	Signatories, where necessary, escalate stewardship activities to influence issuers.
Exercising rights and responsibilities	
12	Signatories actively exercise their rights and responsibilities.

Source: Financial Reporting Council, 2019.

Introduction

Welcome to M&G Investments' Annual Stewardship Report for the year ended 31 December 2023 – our 8th annual edition.

We have made good progress on our climate, diversity & inclusion and modern slavery engagement programmes, and we have now developed an engagement approach to natural capital and biodiversity. This effort was helped by the hire of two senior directors to the team, Oliver Grayer from IIGCC and Daniel Adams from Investec.

Climate is one of our top-down engagement programmes for listed equity and fixed income investee companies, in both developed and developing markets. Under our commitment to the Net Zero Asset Managers initiative (NZAMi), which covers 30.4% of our AUMA, we have undertaken to assess or engage with companies representing 70% of our scope 1 and 2 financed carbon emissions (FCE) for listed companies, to help ensure they are Paris aligned.

By the end of December 2023, we had assessed, or started the engagement process, with 70 of our 100 largest financed carbon emitters (known as our 'Hot 100' companies), representing 85% of our Hot 100 FCE. The Hot 100 list represents 76% of M&G Investments' FCE for listed equity and fixed income, which means that as part of our NZAMi commitment, we are now engaging with, or have assessed as having credible transition plans, 64% of our listed equity and fixed income emissions (excluding the assets managed by M&G Investments Southern Africa (MGSA) and responsAbility) measured as at January 2023.

Examples of our bilateral and collective climate engagements are set out in this report.

The Hot 100 list will include our assets managed by MGSA going forward, meaning a number of new names will join the list.

For each company, we devise a specific engagement strategy with a clear objective, key performance indicators to determine progress, and a timetable for engagement. The first phase of our engagement plan has been to ask 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. The next phase, running in 2024, will be to examine transition plans in more detail, understanding the steps, milestones and capital expenditure plans to decarbonise.

We have also continued to engage actively through the Institutional Investors Group on Climate Change's (IIGCC) collective engagement initiative Climate Action 100+ (CA100+).

We are a member of the IIGCC Corporate Programme Advisory Group, which sets the high-level engagement strategy for the CA100+, as well as six company working groups on the CA100+ focus list. During 2023, we were co-leads on diversified miner Rio Tinto, chemicals company BASF, and cement maker Holcim, representing the 700 plus members of CA100+.

In addition to CA100+, IIGCC created an initial list of 107 companies including more companies that are heavy users of fossil fuels, for a new collective engagement programme – the Net Zero Engagement Initiative (NZEI). Within the programme, we are participating in four company working groups, including Italian cement maker Buzzi, Norwegian chemicals company Yara, German industrial gases firm Linde, and Finnish pulp and energy group UPM. Engagement started with an introductory letter to make our expectations known: for the companies to make a comprehensive commitment to reducing emissions to net zero by 2050 or sooner; to set GHG targets aligned with the relevant emission pathway and consistent with limiting the global temperature increase to 1.5°C; and to disclose GHG emissions, which will enable investors to track underlying decarbonisation progress. The introductory letters were then followed up by meetings later in the year.

Our Thermal Coal Investment Policy came into effect in 2022, with a commitment to phase out our exposure to unabated thermal coal by 2030 in OECD countries and by 2040 across the rest of the world. The M&G Investments Coal Appeals Committee identified various companies in OECD countries where phase-out plans were unclear or non-existent, or where they did not appear to meet our expectation in terms of phase-out timelines. As a result, 44 time-limited divestment exceptions (where companies are given a specific timeframe to meet our requirements) were provided during the year, and we undertook to engage with those companies to assess whether they may be able to become compliant with our policy's parameters. Please see examples of coal-related engagements carried out in 2023 later in this report. It was pleasing to see that AES Andes announced its intention to exit coal by the end of 2025. Conversely, we had to divest our holding of NRG Energy as the company did not meet the requirements of the policy.

Biodiversity is a topic that is clearly gaining momentum for investors. We started engaging on this important area in 2022, and in 2023 we further developed our engagement approach to natural capital, which included creating a pipeline of 19 companies that are seen as priorities for engagement. Our approach is a widening of our lens on climate to incorporate natural capital and biodiversity. In the same way that we built our Hot 100 focus list for climate, we have developed a list that comprises our largest holdings that have the greatest impact on nature. This was done using data from the TNFD priority sectors, Forest 500 and Nature Action 100, to identify the most material sectors and companies exposed to biodiversity risk. We then undertook company assessments, leveraging tools such as ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) to identify material impacts and dependencies, and started to engage bilaterally on the outcomes of these assessments.

Also in 2023, IIGCC launched its nature equivalent to CA100+ called Nature Action 100 (NA100). We are a founding member and are in the working groups for five companies, three of which are extending our work on CA100+.

Meanwhile, we continue to co-chair the Natural Capital Committee for the International Corporate Governance Network (ICGN). Having published a viewpoint article on how investors should start thinking about biodiversity in 2022, the committee subsequently produced a biodiversity action toolkit[2]. I then chaired a webinar in May with a panel of speakers from different asset managers to discuss a number of tools that investors can use when analysing biodiversity risks in their portfolios.

Alongside climate change, diversity & inclusion remains one of our top-down engagement programmes. In 2022, we published our expectations on diversity at board level for our investee companies, and wrote to over 1,000 of them explaining those expectations. Since then, there has been discernible improvement in our focus list of 202 laggards, of which 113 companies have increased their level of female representation. Moreover, 79 of those companies not only improved, but now fully meet our expectations on gender diversity.

During 2023, we engaged with 73 companies on the topic of diversity, with a large majority of those engagements being part of our top-down diversity engagement programme. To fully utilise our stewardship tools, we can vote against board elections where we believe insufficient progress has been made. In 2023, we opposed the election of directors at 46 of the identified laggard companies. While the focus has been on gender diversity, we will be broadening this to include ethnic diversity in 2024.

[2]https://www.icgn.org/icgn-biodiversity-action-toolkit

You can read more on our approach to diversity in both the engagement and voting sections of this report.

Given the increasing number of shareholder and management resolutions on climate and biodiversity in the 2022 voting season, we updated our voting policy in 2023 to set our expectations for climate and biodiversity disclosures and explain our approach to shareholder resolutions. There is more explanation of this in our voting section.

In this report, we detail some of the actions and initiatives that we have been involved in over the past year, offer case studies on our voting and engagement activities, and provide examples of our numerous interactions with external parties.

Throughout our stewardship activities we focus on collaboration with the investment teams on engagements, including the determination of priorities and focus areas, to support the investment process. As a long-term investor we use stewardship, including engagement and voting, along with our ability to share knowledge and provide guidance to companies. For example, we encourage high carbon emitters to make meaningful transition efforts. We cannot stand still though. There is a need for continued evolution of our approach, in line with our clients' requirements, as well as being able to navigate the complexity arising from the fast-changing nature of sustainability issues and the urgent need to make progress on the net zero transition.

I hope that it provides insight into our activities as an active and responsible investor.

Rupert Krefting
Head of Corporate Finance and Stewardship

Stewardship overview

We believe that the long-term success of a company is supported by effective investor stewardship, the integration of sustainability into its strategy and high standards of corporate governance. We believe that if a company is run well, and sustainably, it is more likely to be successful in the long run.

As an active fund manager, we meet with investee companies to add value to the investment process, to increase our understanding, or provide feedback to a company. We also undertake ESG engagements, which are focussed on achieving positive real-world outcomes. We focus on the underlying substance of our engagement, delivery of our engagement objectives and the relevance for our investments when assessing the quality and effectiveness of these activities.

We engage as both equity holders and fixed income investors to protect our clients' interests before and during the course of our investment. For ESG engagements, our aim is to influence company behaviour or disclosure. As investors in private or illiquid asset classes, or where there is an intention to hold the asset to maturity, we undertake extensive due diligence and engagement prior to, and throughout our investment.

Active and informed voting is an integral part of our responsibility as stewards of our clients' assets. In using our votes, we seek to add value and protect the interests of our clients as shareholders. Our starting point as an active, long-term fund manager is to support the long-term value creation of our investee companies. There will be occasions when we need to vote against management-proposed resolutions or support shareholder resolutions which are not recommended by the board, if we believe this is in the best interest of our clients and the company. In these cases, where it is practical, we seek to engage prior to voting.

We see growing legislative, regulatory and client expectations as stewards of client assets, beyond listed equities. This includes increased reporting and disclosure requirements, particularly concerning the quantity and quality of company engagements and significant votes.

We operate a centralised engagement tool to record and evidence ESG engagements. The validation of these engagements rests with our Stewardship & Sustainability (S&S) team, who assess each engagement within the proprietary engagement tool before approving it. Voting results, meanwhile, are published on our website on a quarterly basis.

As mentioned in the introduction to this report, climate change is a central focus of our top-down engagement programme for investee companies, both bilaterally and through collective engagement programmes such as Climate Action 100+. We outline some of these engagements in the following pages of this report. We have also stepped up our engagement programme on natural capital and biodiversity by widening our lens on climate to incorporate these areas. During 2023 we developed our engagement approach to natural capital and have created an initial pipeline of 19 companies that are seen as priorities for engagement. Like climate, these engagements are both bilateral and collective, the latter through Nature Action 100.

Importantly, engagement work on topics such as climate has increasingly expanded across asset classes, away from a sole equity focus. All of our investment teams have access to a range of external ESG data providers, as well as a suite of internally-developed proprietary tools. These help ensure that the teams have sufficient ESG data and research that can be used by both portfolio managers and analysts when engaging with companies on the issues that are material to them.

The S&S team supports our investment teams on a range of issues that can affect our investments over the long term, acting as a dedicated central ESG resource for the whole of M&G Investments. For an overview of the team, please see page 74 of this report.

Our approach across asset classes continued to develop in 2023, as we continue to make use of our broad cross-asset capabilities, often as a holder of both a company's equity and debt, to increase the significance of our engagement activities. Across asset classes, the end goal of all of our stewardship activities is to best serve our clients by achieving positive outcomes; with respect to sustainability, as a global investor, we attempt to share our knowledge and insight to support investee companies around the world, reflecting our responsibilities as a long-term investor. This should help to support our investee companies in effectively dealing with all of the material risks affecting them, both financial and non-financial.

Continued engagement is required to bring about positive change or, where this does not prove possible, voting against board members or ultimately divesting from a company. We outline below how our stewardship responsibilities are discharged across asset classes.

Stewardship across equities and fixed income

Across all of our asset classes, we believe that ESG factors can have a material impact on long-term investment outcomes. Our goal is to achieve the best possible risk-adjusted returns for our clients, taking into account all factors that influence investment performance. Consequently, material ESG issues are systematically integrated into investment decisions. We apply this approach to ESG analysis across our equity, fixed income and property strategies. We also consider investments through the lens of 'double materiality' – that is, how material ESG issues affect a company, but also a company's effect on people and the planet, both positive and negative.

Please see our ESG Investment Policy on our **website**.

Equities

As mentioned above, we believe that the long-term success of companies is supported by effective investor stewardship and high standards of corporate governance. We believe that if a company is run well and sustainably, it is more likely to be successful in the long run. We therefore look at how companies address both the risks and opportunities that ESG issues represent when we analyse them, and address these risks and opportunities in our engagement work.

Our Stewardship & Sustainability (S&S) team are advocates of responsible share ownership and oversee our stewardship of the companies in which we invest. Regular meetings with our investment teams and company directors allow us to identify whether a company's strategy is aligned with our interests as long-term shareholders. Our active interactions with companies help us to understand the issues affecting them and, through both bilateral and collective ESG engagement, to encourage positive change.

Company directors are the cornerstone of governance, and it is important to recognise that shareholders appoint boards of directors to allocate capital and manage assets on their behalf, and to preserve and enhance shareholder value. Therefore, we actively engage with the boards of our investee companies on a number of issues, and believe that full accountability to shareholders is best achieved by the annual re-election of all directors.

We seek to add value for our clients by pursuing an active investment policy through portfolio management decisions, by maintaining a continuing dialogue with company management and by voting on resolutions at investee company general meetings. This enables us to monitor company development over time and assess progress against objectives. As a general policy, our starting point as an active fund manager is to support the long-term success of our investee companies; when companies consistently fail to achieve our reasonable expectations, we will actively promote changes, either individually or, where more appropriate, by collaborating with other investors through vehicles such as the Investor Forum or Climate Action 100+.

Over the course of 2023, we undertook a number of such engagements, many of which focused on the environmental and social factors affecting our investee companies, alongside more traditional governance issues. Please see the ESG engagement section of this report for further details.

Fixed income

Within fixed income, we are continually innovating our approach to ESG risks and opportunities. In 2023, we continued to see acceleration of ESG integration within fixed income, including widening the scope of engagement reviews of our portfolios, expanded coverage of our proprietary ESG scorecards, and the ongoing development of analytical tools to provide an enhanced ESG overview within credit analysis. We have long understood the value of considering both financial and non-financial elements within our analysis; we believe it is a contributing factor to our performance across fixed income strategies as it provides portfolio managers with a more complete picture of the creditworthiness of issuers.

Given the limited upside and potential significant downside of fixed income investments, the focus of our ESG analysis is on understanding downside risks.

Since ESG risks often develop over the longer term, and given our long-term investment approach, we believe it is essential to integrate ESG issues into our investment process. Our integrated approach to ESG is applied across all forms of fixed income including corporate bonds, government bonds, securitised debt, real estate debt, infrastructure debt, leveraged finance, direct lending and private placements, although flexibility in the implementation of ESG integration is often required to allow for differences across markets, sectors and instrument types.

Engagement with issuers is usually undertaken by our credit analyst teams, with support, when needed, from the S&S team, since our analysts have a clear and detailed understanding of the ESG issues affecting the credit quality of the issuers they cover. Although bond holders normally have less influence than equity holders when engaging with companies, we still consider it important to engage with fixed income issuers regarding material ESG issues to encourage improved practices. The additional insight often gained through ESG engagement also better informs our credit views and investment decisions. We prefer to engage on ESG issues directly with an issuer's senior management, and our significant scale in fixed income markets provides us with the necessary access to senior management in order to do so. In our private debt business, we are often one of the primary sources of finance for the borrower, which can give us significant access and the ability to influence change.

Please note, not all of M&G Investments' fixed income offerings are suitable for retail clients. Please visit our direct client website for further details.

ESG engagement

In 2023, our equities team attended 1,770 investment company meetings, of which 561 were with the management of UK companies (including 417 meetings with companies in the FTSE 350) and 1,177 with international companies. There were also 10 IPO-specific meetings, and 22 other meetings, including with private companies.

1,770 company meetings attended

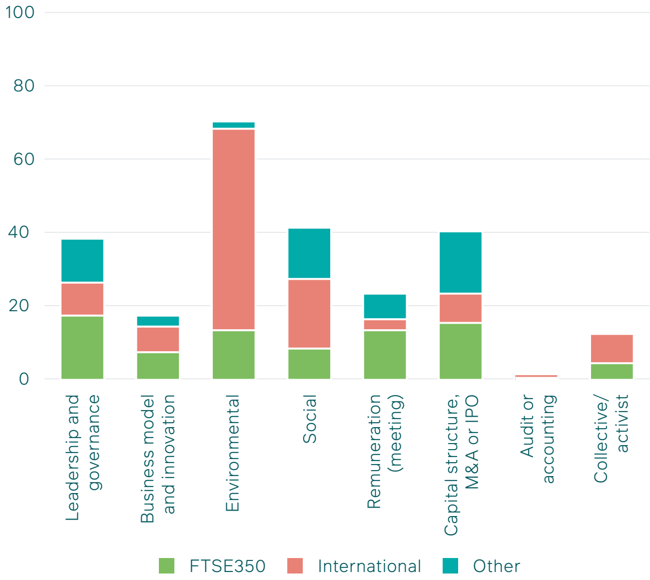
417 FTSE350 meetings

1,177 international meetings

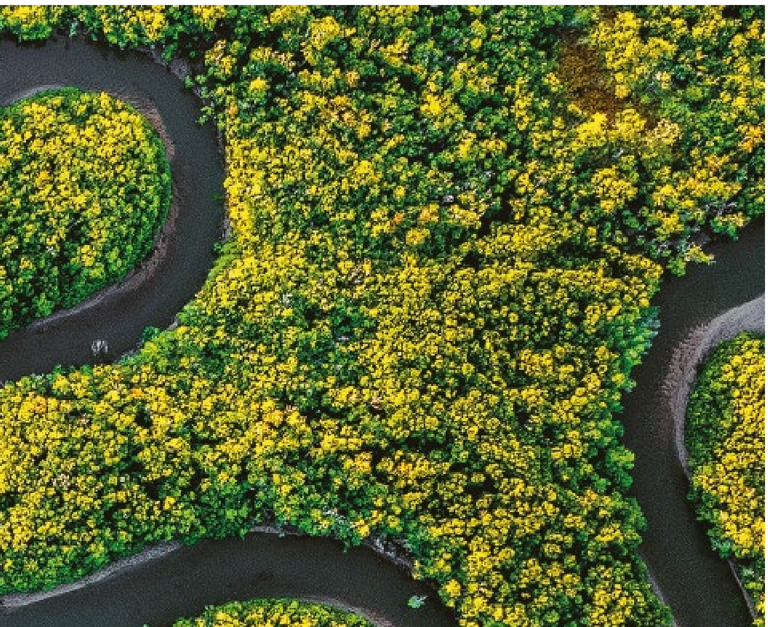
For our fixed income team, with the introduction of a new RMS (research management system) across equities and fixed income, going forward we will now be able to better track meetings with issuers, including ESG interactions. We have highlighted some of these interactions in this report.

The Stewardship & Sustainability team participated in 224 of the above meetings, including 56 with FTSE 350 companies and 126 with international companies, with meeting topics highlighted in the table below.

Stewardship & Sustainability meetings by issue covered

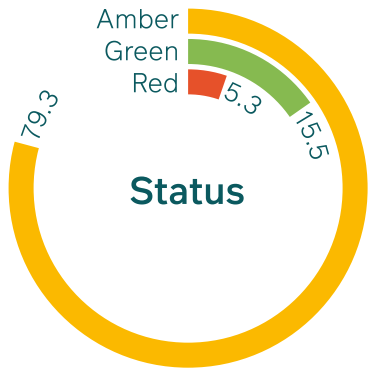


In 2022, we developed an in-house system to more effectively track ESG engagements. By this, we mean an interaction with a company which primarily seeks a change in company behaviour or improved disclosures, rather than to increase understanding. Over the course of the year, we recorded 304 ESG engagements with 222 companies, broken down in the tables below. The full list of recorded engagements can be found in Appendix 1 at the end of this report.

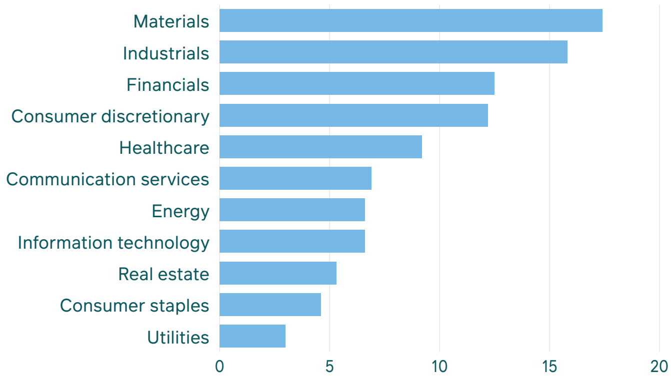


Recorded ESG engagements by broad pillar (%)

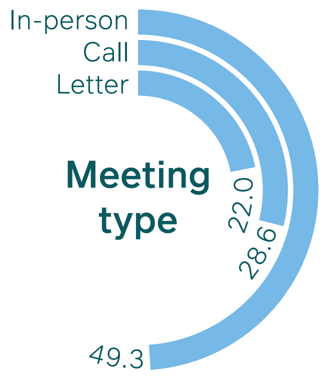
Recorded ESG engagements by outcome (%)



Recorded ESG engagements by sector (%)



Recorded ESG engagements by meeting type (%)



Recorded ESG engagements by market

Source: M&G

Engagement framework

Our engagement approach has been developed to provide a systematic process around engagements in which we have a specific objective and seek particular outcomes. Prior to commencing an engagement, that objective is clearly set out, with actions and outcomes recorded through the life of the engagement. Examples of some of these engagements over the year are outlined below, including a selection from both equities and fixed income.

We use a 'traffic light' system within our reporting to highlight if an engagement's objective has been achieved or not, or if the engagement is ongoing.

- The objective has been achieved
- The engagement is ongoing
- The objective has not been achieved

Thematic engagement

While we engage with companies on a 'bottom-up' basis (reactive, company-specific engagements), we also undertake 'top-down' thematic engagements on a number of issues.

Over the course of 2023, we engaged on an array of specific, systemically important environmental and social themes. These included the continuation of our top-down climate engagement programme (explained below) which began in 2020, engagement relating to our Thermal Coal Investment Policy, which became effective in April 2022, and engagement related to board diversity at our investee companies. We also continued our activities with Climate Action 100+, also highlighted below, while 2023 saw us advancing our engagement activity in relation to natural capital and biodiversity.

Examples of successful and unsuccessful outcomes

US medical technology and analytical equipment business Thermo Fisher Scientific extends its Xinjiang policy to include Tibet

US energy infrastructure company TC Energy to align with SBTi when the framework becomes available for its industry

German chemicals company BASF announces 15% reduction target for scope 3 by 2030: 60% of emissions now covered by a target

Korean hardware producer Samsung Electronics now has two female directors on the board

NRG Energy not phasing out thermal coal in line with our policy

CTS Eventim is not publishing its emissions data by end of 2023

Hot 100

Climate change is among the most significant challenges of the 21st century and is continuing to accelerate. Our analysis suggests that an orderly transition to net zero will reduce risk levels for the issuers and assets we own. As a business, we therefore committed to support the goal of net zero greenhouse gas emissions by 2050, and a 50% reduction in carbon intensity by 2030, in line with global efforts to limit warming to 1.5°C. In 2021, we formalised this commitment by signing on to the Net Zero Asset Managers initiative (NZAMi).

Climate is one of our top-down engagement programmes for investee companies, alongside coal, diversity and natural capital, in both developed and developing markets. Our climate engagements focus on strategy, disclosure, goals and targets to achieve decarbonisation.

Stewardship is one of the key levers we have identified that we can use to play our role. By requesting that those representing the highest scope 1 and 2 Financed Carbon Emissions (FCE) in our portfolio adopt credible targets and transition plans, we can support the acceleration of decarbonisation efforts and reduce our own FCE.

As mentioned earlier in this report, in 2020 we established and launched our internal ‘Hot 100’ Climate Engagement Programme. We mapped our holdings to develop a focused engagement list covering the 100 companies that account for a majority of our FCE, and set an engagement threshold target to engage or assess at least 70% of our FCE. We have periodically updated our focus list to reflect changes in our holdings.

For each company to be engaged, we devised a specific engagement strategy with a clear objective, key performance indicators to determine progress to delivery, and a timetable for engagement. Overall, we expect companies to commit to reaching net zero in line with the Paris Agreement, and to provide credible science-based targets and transition plans for how they will do so.

We have carried out engagements with companies on our focus list bilaterally and through our participation in collaborative initiatives. We have been an active member of the Climate Action 100+ (CA100+) initiative since 2017. We joined a broader initiative, the Net Zero Engagement Initiative (NZEI), in 2023 to increase engagement with some of the highest emitters we hold that do not feature within CA100+.

In total for 2023, we initiated engagements with 33 Hot 100 companies, representing 49% of Hot 100 FCE, and have assessed a further 28 companies representing 24% of Hot 100 FCE. Of the 28 assessments, 13 have been determined to have credible transition plans.

This means that since the beginning of the engagement programme, of the Hot 100 companies (as at January 2023), we have initiated engagements with 57 companies (68% FCE) and assessed a further 13 companies as having credible transition plans (17% FCE) – in total 70 of the Hot 100 companies representing 85% of Hot 100 FCE as at January 2023.

In addition, we have engaged with a further 15 companies which dropped out of our Hot 100 prior to 2023.

The Hot 100 list represents 76% of FCE for listed equity and fixed income, which means that as part of our NZAMi commitment, we are now engaging with, or have assessed as having credible transition plans, 64% of our listed equity and fixed income emissions (excluding assets managed by MGSA) as at January 2023.

The Hot 100 list will include our assets managed by MGSA going forward, meaning a number of new names will join the list, which previously had not been included.

Summary of Hot 100 engagements

	No. of companies	M&G FCEs	% Hot 100 FCEs
Total engagements prior to 2023	24	1,298,028	18%
Total engagements in 2023	33	3,549,643	49%
Total engagements so far	57	4,847,671	68%
Total assessed as having a credible transition plan	13	1,222,879	17%
Total engaged or assessed so far	70	6,070,549	85%

Source: M&G.

Our focus for 2024 will be to review the progress of each of the companies we have engaged with, and also to identify companies further down our focus list that require engagement. Following this review, we will launch a second phase of engagement with companies where previous engagement has occurred, but whose targets fall short of the standards set by the Science-Based Targets initiative or whose transition plans require additional clarity.

- The objective has been achieved
- The engagement is ongoing
- The objective has not been achieved

Examples of bilateral engagement:

Methanex

Objective: To ask Methanex, a US based global methanol producer, to set net zero targets for scope 1, 2 and 3 emissions.

Action: We met with the company's chair, the board member responsible for governance, the head of finance and the head of investor relations.

Outcome: The company does not announce targets without board approval. In 2022, the board approved US$15m of capex for decarbonisation, of which the majority was spent in 2023 on a project at the New Zealand site. The company is looking at carbon reduction opportunities, plus US$2m on a feasibility study. It believes the best opportunity is in carbon capture and storage (CCS), which is likely in the next 10 years, particularly in Louisiana, where the company is based. In Louisiana, it has the right infrastructure and geography to sequester carbon, but the timing is unknown. CCS would require customers to pay a premium for the blue methanol in order to fund the investments in CCS. As a leading methanol producer it will continue to work on reducing its carbon intensity – its new G3 plant will have a much lower carbon intensity than the group, but there is no intention to set net zero targets. In terms of carbon pricing, the company is already paying a carbon price in Canada and New Zealand.

Euronav

Objective: To encourage Belgian shipping company Euronav to set 2025 and 2030 absolute emission reduction targets for all material scope 1, 2 and 3 emissions and align to a 1.5°C global warming trajectory; commit to a 1.5°C SBTi target; provide greater disclosure on how it is working to decarbonise its capital expenditure; to link executive pay to the delivery of climate targets and goals to strengthen the link between remuneration and decarbonisation targets; and to commit to implementing the recommendations of the Task Force on Climate related Financial Disclosures (TCFD).

Action: We met with the company's investor relations to make our expectations known.

Outcome: The company is in the business of ocean transportation and storage of crude oil. While it recognised the world will require fewer tankers in 10 years' time, its view was that oil will still be needed. As a result, the company is planning for 30-40% less, rather than 80-90%.

With regards to absolute emissions targets, the company said that it was looking at this. It confirmed that all of its finance agreements contain built-in trajectories to cut emissions year on year, and took away an action to provide more clarity in its disclosures going forward. The company confirmed that its targets between now and 2030 would be quite easy to achieve by focusing on existing operations. However, the company is reliant on new fuel technologies to take it to the next stage of its net zero journey.

The company is active in this space, citing its involvement in a number of joint ventures to develop ammonia powered vessels. Through its joint ventures, it has secured four separate funding awards from the EU to support R&D into alternative fuel sources, including ammonia and methanol. It remains committed to developing fuel technologies in terms of personnel and dollars. Its view is that, as an industry, it should be supporting investment in future technologies rather than distributing 100% of its income.

The company confirmed that it was keen to develop science-based targets. However, transportation of fossil fuels via shipping is not included in the SBTi at this time. The company has made various representations to the SBTi to progress this, and believes that SBTi should award the accreditation to good actors in this space, as there are few. The company confirmed it would provide more detailed capex disclosure at the next Investor Day in Q3 2023, and that the new supervisory board and remuneration committee intended to link executive pay to climate targets in summer 2023 for disclosure in the next annual report. The company also confirmed that it partly discloses to TCFD at present and took away an action to comply fully for the 2023 reporting year.

We will continue to monitor and review following the outcome of the next Investor Day.

Resonac

Objective: To request that Japanese chemical company Resonac have its carbon reduction targets verified by an independent third party, such as the SBTi.

Action: We met with the company's chief executive officer and investor relations.

Outcome: Resonac (formerly Showa Denko) is aiming for 30% reduction in scope 1 and 2 emissions versus 2013, and has a net zero target for 2050. We encouraged the company to have these targets verified by an independent third party, such as the SBTi. Additionally, Resonac recently hired a new general manager, sustainability department, who is implementing best practice processes. Previously, she was tasked with ensuring data integrity in target setting; the focus now is to finalise the roadmap to achieve these targets. Resonac also noted that the Japanese government will enforce financial penalties on institutions that do not achieve their 2030 emissions reduction targets. In terms of SBTi, this is something the company is working on, but is somewhat challenging given the diversified/complex nature of its business. Our next step is a meeting with the company's recently hired sustainability person.

The objective has been achieved

The engagement is ongoing

The objective has not been achieved

Aperam

Objective: To request that Aperam, a global specialist in the stainless, electrical and speciality steel markets, discloses more granularity regarding its stated decarbonisation levers and obtains SBTi verification for its targets.

Action: We met with the company to make our expectations known.

Outcome: Aperam is aiming to have its targets verified by the SBTi in Q1 2024. The delays in SBTi verification are due to the need for reliable scope 3 data, and the company is currently in the final round of negotiations with the SBTi. Aperam has set a goal for achieving carbon neutrality by 2050 and a 2030 target to reduce scope 1 and 2 emissions by 30% compared to 2015 levels. It plans to spend approximately €20m per year to meet its 2030 targets. The company is highly focused on shifting from natural gas to electricity, aiming for a shift of over 1TWh, and prioritising energy efficiency by using furnaces more intelligently. Aperam is utilising five decarbonisation levers, including scrap recycling (elg), dust and residues recycling (recyco), renewable energy (BioEnergia), plants to extract nickel (Botanickel), and ferro alloys sourcing. While scrap is the primary contributor, the company is looking to utilise all five levers as it cannot account for everything. Forestry absorbs eight million tonnes of carbon annually, which is only partially included in its yearly calculation. Aperam offsets the difference in intensity between what it uses and what is absorbed by planting trees, which are based on set standards. We look forward to seeing progress on target verification in Q1 2024 and will continue to monitor the situation.

CA 100+

Through the course of 2023, we continued to contribute to Climate Action 100+ (CA100+) collective engagement groups, participating in six CA100+ working groups and acting as co-leads on three companies.

We remain co-leads on miner Rio Tinto, chemicals company BASF and cement maker Holcim Group. We are active working group members, including energy company Petrobras, chemicals companies LyondellBasell and Air Liquide, pipeline operator Kinder Morgan, miner Anglo American and steel maker ArcelorMittal. In addition, we sit on the IIGCC's Corporate Programme Advisory Group, which helps set future CA100+ priorities, and the Net Zero Stewardship Working Group.

As referred to in the Hot 100 section of this report, the IIGCC also announced its Net Zero Engagement Initiative (NZEI) to extend the list of 167 focus companies to encompass more carbon emitters on the demand side. We joined the working groups of Buzzi, Yara, Linde and UPM.

CA100+ Co-leads

Rio Tinto

We met with the company a number of times through the year and discussed, inter alia, the new IIGCC mining standard, financial accounting for Paris alignment and the delivery of the 2025 scope 1 and 2 emission reduction targets. We asked how Rio can future proof its iron ore supply, raising concerns over the use of nature-based solutions (NBS) and offsets and requested that Rio set a scope 3 target for its carbon emissions. On scope 1 and 2 reduction, Rio continues to experience delays in planning and procurement of electrical equipment such as boilers. In terms of iron ore, new higher grade iron ore sites in Pilbara and Guinea are being developed. Rio reassured us that it prioritises emissions reductions at its operations and also invests in nature-based solutions to complement these abatement projects and support compliance with carbon pricing regulation. On scope 3, the company has published projections of iron ore and bauxite customers' emissions, based on national and corporate pledges, which do not show a significant reduction in emissions until after 2040. However, Rio is still not ready to commit to a scope 3 target. We will continue to press Rio on this.

BASF

As co-lead for BASF, we organised a meeting with the company and climate lobbying thinktank InfluenceMap to discuss how BASF could improve its low score on lobbying, as assigned by InfluenceMap. BASF agreed to update its lobbying review at the end of 2023, but disagreed with InfluenceMap's methodology for scoring on public comments on policy. This conversation needs to continue. In other meetings, we pressed BASF to add scope 3 to the existing scope 1 and 2 carbon emission reduction targets, add climate KPIs to management remuneration and publish an updated lobbying report by the year end. In December, BASF announced a 15% specific reduction target for relevant scope 3 upstream emissions by 2030.

This means that 60% of BASF emissions are now covered by targets. BASF has been working with the SBTi to develop a sector-specific methodology for reducing emissions, but it is taking time and there are difficulties in tracking products to end of life. Remuneration KPIs cover scope 1 and 2; the company might consider including scope 3 in the future. Subsequent to the meeting, BASF published its latest lobbying report.

Holcim

We became co-lead for Holcim in Q2 2024. We met with the company in August to meet the new chief sustainability and innovation officer following the departure of their predecessor. The company confirmed that there is no change in terms of strategic direction following this change and that the key focus continues to be on the execution of Holcim's climate strategy. We encouraged the company to improve disclosure around its absolute scope 3 GHG emissions targets and to provide more transparency around its buyer due diligence process for C02-intensive company disposals. The company confirmed that it had set a target to reduce absolute scope 3 GHG emissions by 90% by 2050 from a 2018 base year. We encouraged it to disclose more detail in its 2024 climate transition plan as to how this will be achieved; the company was receptive to this suggestion. In terms of next steps, we will review the 2024 climate transition plan upon release and press for improved transparency and disclosure where required.

- The objective has been achieved
- The engagement is ongoing
- The objective has not been achieved

Collective engagement on climate – NZEI

The Net Zero Engagement Initiative (NZEI) formally launched in March 2023 when the initial 107 focus companies received letters from more than 90 participating investors. NZEI was set up to build on and extend the reach of investor engagement beyond the Climate Action 100+ focus list, including more companies that are heavy users of fossil fuels, contributing to demand for their products.

The central ask of investor engagement via NZEI is a corporate net zero transition plan. 107 focus companies have been sent letters from a total of 93 investors outlining their expectations for a net zero transition plan. In line with the Net Zero Investment Framework (NZIF) corporate criteria, the key transition plan recommendations set out in the letter are: 1) a comprehensive net zero commitment; 2) aligned GHG targets; 3) emissions performance tracked; and 4) credible decarbonisation strategy.

We are in four working groups including Italian cement maker Buzzi, Norwegian chemicals company Yara, German industrial gases firm Linde, and Finnish pulp and energy group UPM.

Engagement started with an introductory letter to make our expectations known: for the companies to make a comprehensive commitment to reducing emissions to net zero by 2050 or sooner; to set GHG targets aligned with the relevant emission pathway and consistent with limiting the global temperature increase to 1.5°C; and to disclose GHG emissions which will enable investors to track underlying decarbonisation progress. The introductory letters were then followed up by meetings later in the year.

UPM

Objective: To ask wood product manufacturer UPM to provide clarity around updates to target setting, further disclosure around its decarbonisation strategy (especially regarding coal and peat), and to ensure carbon accounting and any disclosure of negative emissions from forestry is aligned with sector best practice.

Action: We met with the company to make our expectations known, as a part of the NZEI collective engagement.

Outcome: In June, we engaged with UPM and requested that the company set a net zero 2050 target. While UPM has committed to net zero 2040 as part of the Amazon Pledge, this is not an official net zero target for UPM. However, the company has committed to setting an official target in the next few years, and has a near-term target for 2030 which is SBTi validated. Delays in setting the target have been caused by the SBTi FLAG sector guidance, which is currently being drafted. UPM has acknowledged the complexities and challenges around collecting scope 3 data, as it has over 20,000 suppliers.

Regarding carbon accounting, UPM's carbon sink figure of 2.3m tonnes is the average for the last five years on all UPM-owned land, including tree growth and soil carbon, using a globally accepted methodology. However, the company also owns one million hectares of private land, which is not accounted for in the figures. UPM has set a target of 65% CO_2 emissions reduction by 2030 and has linked executive remuneration to this metric. It has also set a target of no coal and peat by 2030, taking into account that China is still using coal, which accounts for one million tonnes of emissions, and Finland is still using peat.

Overall, we were pleased with the progress that UPM is making and will continue to monitor progress as FLAG guidance develops, to ensure that the company is on track to set a credible net zero target.

Yara

Objective: To request that chemical company Yara discloses more granularity regarding its decarbonisation levers beyond its 2030 roadmap, including metrics to measure progress towards its targets. In addition, we requested that Yara publishes a verified scope 3 target through the SBTi.

Action: As part of a collective engagement with NZEI, we met with the company to make our expectations known.

Outcome: Yara currently has a target of achieving a 30% absolute reduction in scopes 1 and 2 by 2030, as well as an 11.1% reduction in scope 3 category 11 (use of product sold) by the same year. While Yara presented some information on its decarbonisation strategy during its capital markets day presentation, it has not published much further information beyond this. One challenge for new ammonia projects is that they are dependent on the emergence of new ammonia demand, although Yara has itself as a customer, which makes it less dependent on this. Fertiliser use is a key focus of Yara's decarbonisation strategy, and it is looking to work with farmers to reduce nitrogen use and move towards a more regenerative agriculture model.

Yara has confirmed that it will explore ways to report more on its milestones, metrics, and abatement levers, although some information may be sensitive due to its position as a large player in renewable energy. In terms of capex, the company has identified this as an area for improvement for its next round of disclosures, as it is unsure of the readiness of the data at present. The company is planning to produce a transition plan at the end of 2024, and suggestions will be provided throughout this process. Currently, 8.3% of the company's remuneration for climate is linked to the short-term incentive plan, and climate weight for KPIs is diluted as other facets of sustainability, such as social, are also included. It was suggested that Yara should only use a few relevant and meaningful metrics. Ongoing dialogue with the company will continue as it produces its transition plan.

Buzzi

Objective: To encourage Italian cement company Buzzi to commit to a 1.5°C SBTi target, as well as disclosing short and medium targets supporting its achievement. In addition, to include detailed capex allocation and visibility on the breakdown of the allocation for the coming five years and to encourage the company to phase out coal by 2030.

Action: As with the other NZEI companies above, we met with the company to make our expectations known.

Outcome: The company confirmed that its current commitment to a well below 2°C target was verified by the SBTi in March 2023, and that it was currently working towards 1.5°C. The company explained that the current barrier to achieving 1.5°C was the joint venture in Brazil. However, it expects this situation to be resolved by 2026, if not sooner. The company took on board our request for improved disclosure and commented that it intended to include more detail in its next sustainability report. It confirmed that it had committed €750m to CO_2 reduction efforts up to 2030. The company also confirmed that there was no plan to phase out coal at this point in time, as it is still required. Coal currently accounts for circa 40% of the fuel mix, reducing to below 15% by 2030. The company is trying to transition away from coal to natural gas and confirmed that the level of capex required to achieve this was circa €50m. The reduction in coal is factored into the decarbonisation roadmap and is contained within the 6% reduction in clinker production emissions. In terms of next steps, we will continue to monitor progress and await the next sustainability report.

- The objective has been achieved
- The engagement is ongoing
- The objective has not been achieved

Coal

M&G Investments' Thermal Coal Investment Policy came into effect in 2022 and commits us to phasing out our exposure to unabated thermal coal by 2030 in OECD countries, and by 2040 across the rest of the world. This policy applies to public assets actively managed by M&G Investments on behalf of its clients, including the internal asset owner but excludes the public assets managed by MGSA. The M&G Climate Committee identified a number of companies for time-bound engagement over 2023, where phase-out plans for coal were either unclear or misaligned with the timescales and parameters set out in the Thermal Coal Investment Policy. This resulted in a small number of companies being divested where the engagement objective was not met within the engagement timelines. Below are some examples of coal-specific engagements.

AES Andes

Objective: By April 2024, to clarify how the 2025 phase out statement by AES Corp, the holding company of the Chilean utility company AES Andes, affects the Norgener and Chochrane power plants, and disclose a phase-out plan for both plants to exit coal in accordance with our phase-out requirement.

Action: We wrote to AES Andes to make our expectations known.

Outcome: AES Andes announced its intention to exit all coal by the end of 2025, in line with the AES Corporation announcement last year. The announcement was made publicly via its corporate website in May 2023.

The company confirmed that it had announced plans to shut down Norgener's coal fired units on 31 December 2025 and that it had informed the Chilean energy authorities of this decision.

With regards to Cochrane, the company is currently weighing up the options available to it in order to achieve zero coal exposure by end 2025 (shut down, convert to non-carbon technologies or sell equity stake).

In terms of next steps, we believe the company has provided sufficient credible evidence to show that it has met the engagement objective.

Other climate

ALK-Abelló – targets and strategy

Objective: As part of a wider discussion concerning the Danish allergy immunotherapy specialist's progress on its sustainability programme, to ensure it was on track to have its near-term climate targets validated by the SBTi, to request the publication of the strategy and milestones for achieving those targets, and for variable remuneration to be tied into those milestones.

Action: We met with the company's sustainability director and its investor relations.

Outcome: ALK confirmed that it was at the final stage of finalising its updated 2030 target, which would go to the board in early autumn for approval before submission to the SBTi. This was welcomed, and ahead of previous target dates discussed with the company last year. ALK currently publishes milestones for other areas of its sustainability programme, and was receptive to extending those milestones for its 2030 target. It is currently looking to simplify its non-financial remuneration KPIs to ensure they are meaningful, and consideration would be given to tying climate targets into this. After the meeting we followed up in writing to also request disclosure of capex alignment with achieving targets. Subsequent to this, the SBTi confirmed that it had validated ALK's targets.

DSV – remuneration and disclosures

Objective: As part of a wider discussion on the key elements of Danish transport and logistics company DSV's carbon reduction plans, including its internal carbon pricing programme, we encouraged remuneration to be tied to its climate strategy. We also asked for a number of disclosures to be included in the company's regular reporting:

- to publish a scope 1 and 2 reduction pathway with milestones/KPIs so we can track progress;
- the same for scope 3;
- disclosure of capex/expenditure aligned to the decarbonisation strategy;
- to understand demand for the range of green logistics services, current percentage of revenue, expected growth and tie-in to scope 3 targets. We encouraged regular disclosure of this alongside other, standard revenue breakdowns;
- to consider calculation and publication of scope 4 – through logistics efficiencies and green services;
- to publish a statement on lobbying ie that it ensures its membership associations are lobbying in line with DSV's strategy to decarbonise, and are not pushing in the opposite direction.

Action: We met with the company's vice president, group operational sustainability and a member of the investor relations team.

Outcome: DSV provided a good overview of its strategy to achieving its targets – which include a near-term SBTi approved target and net zero commitment – including its engagement programme to address scope 3 emissions. The company said it was working hard on the roadmap for 2030 and 2050, including the consideration of new technologies and getting its carriers on board. In terms of remuneration ties, different areas of the business will be undertaking local roadmaps to achieve targets, and this will be tied to pay – that programme started this year. For our other requests, DSV was very receptive to our input, and will look to include metrics in its next sustainability report – we will follow up in due course.

The objective has been achieved

The engagement is ongoing

The objective has not been achieved

HDFC and HDFC Bank – pledges and disclosure

Objective: Indian mortgage provider HDFC was set to merge with HDFC Bank imminently, and we wanted reassurance that the newly formed group would continue with existing climate pledges and disclosures. We separately met with both organisations, and asked for clear disclosure of the combined group's climate commitments, clarity on the group's strategy, and ideally a commitment to publishing science-based targets. We also asked for disclosure around lending policies for different sectors, with an explanation of the nuances, as well as compensation targets for non-financial metrics.

Action: We met with HDFC's head of investor relations, and HDFC Bank's head of ESG, head of CSR and members of its investor relations team.

Outcome: Both organisations were receptive to our requests. HDFC ensured us that it would be working with HDFC Bank to 'lift and shift' it's current policies and disclosure, combining the two as a best of both worlds. The bank, meanwhile, has a carbon neutrality by 2032 target, which it said would be extrapolated and combined for the new entity after the merger. The new entity will also be working towards net zero, with targets currently under discussion and portfolios being tagged, allowing it to engage with clients and be in a better position to set targets. In terms of science-based targets, there are no concrete plans yet, but it will follow through on this after net zero target setting. It is worth highlighting that the bank's financed emissions on a pilot basis are being calculated using external agencies, with ongoing portfolio analysis in terms of emissions. With respect to sectoral approaches, and in particular high-polluting industries, the bank confirmed that it would have a strategy for how to deal with these and reiterated that there was no concentration of such exposures. It plans to spend the next two years working out the strategy, with a policy in place by 2025/26. Overall, we were impressed with the level of thought and attention both organisations had put into their climate plans, and post-merger plans. We will continue to engage with the company as it progresses.

UnitedHealth

Objective: As part of our ongoing engagement with US diversified managed healthcare company UnitedHealth, to ensure that the company was on track to submit its decarbonisation targets to the SBTi and that it was making progress on scope 3, to request that it publishes a roadmap with key milestones to achieving targets, and to consider linking executive remuneration with specific climate metrics.

Action: We met with the company's vice president, sustainability, its director of enterprise compensation, and its senior associate general counsel (we also met with the chief DE&I officer to discuss senior level diversity).

Outcome: In terms of the SBTi, the company confirmed that targets were going to the board in early 2024 for final approval, with submission to follow. And in terms of a roadmap, the company said it was happy to explore including this in the next sustainability report, published in June.

For scope 3, the company has been developing ESG scorecards for its suppliers, which currently cover 222 suppliers, representing 80% of supply chain emissions. It is encouraging key suppliers to report to CDP, of which 80-85% now do, and will offer support on CDP submission to those additional suppliers that require it. UnitedHealth also convened a 'suppliers summit for sustainability' in August, where it laid out its sustainability expectations for its suppliers (to track, report and commit to reducing their carbon footprint); it anticipates repeating this annually.

Finally, related to climate metrics within remuneration, while UnitedHealth has made very positive strides over the past couple years, it is relatively early in its climate planning. As it thoroughly develops and embeds its climate transition plan over the next year or two, it can then start adding relevant remuneration metrics. As it stands, there is robust board and committee oversight of climate issues. We will continue to monitor progress, and follow up in due course.

Oil majors

During the voting season there were a number of climate-related shareholder resolutions at the oil majors, including from NGO Follow This, which asked for companies to publish a scope 3 emission target that is Paris aligned. As a result we engaged with Follow This and each of the three European companies Shell, BP and TotalEnergies, following which we ended up voting against the Follow This resolutions. The rationale for these decisions was that we decided to give each company one more year to set an absolute scope 3 target and in the meantime keep up the pressure through engagement. These engagements are set out below. We did support the Follow This resolutions at Chevron and Exxon, reflecting the lack of progress at these two companies on climate.

Shell

Objective: To ask Shell, the global oil and gas producer, to set an absolute scope 3 target for all emissions by the next AGM in 2024. In other hard-to-abate sectors, such as mining and chemicals, we can see evidence that companies are engaging with their customers and trying to help reduce their customers' scope 1 and 2 emissions. We would like to see some evidence of this from Shell ie that Shell is helping its customers to accelerate their own transition.

Action: We met with the company's head of investor relations.

Outcome: Shell currently discloses its scope 1 and 2 emissions (82mT) and scope 3 emissions (1,174mT – which are down 28% from 2018). It has a net zero target for 2050 and intensity targets for 2030. Shell is currently contemplating continuing with just intensity targets, or setting absolute targets (as requested) or a bottom-up approach of setting targets conditional on sector demand. No decision has been made yet. In terms of helping customers reduce their carbon emissions, Shell is committing US$10-15bn over the next three years on low carbon energy solutions, such as hydrogen, CCS and EV charging, with some investment in wind and solar, but this will not be a main focus. Shell said it may consider the customer engagement approach in other sectors, but made no promise or guarantee. We will monitor Shell's disclosures before making any voting decisions in 2024.

BP

Objective: As a result of not supporting the Follow This shareholder resolution at the 2023 AGM, we undertook to engage with BP about its scope 3 emissions. The objective was to ask BP for evidence of progress in getting production scope 3 targets to a 20-30% reduction and evidence that BP was engaging with its customers, trying to help reduce its customers' scope 1 and 2 emissions and therefore BP's scope 3 emissions.

Action: We met with the company's chair.

Outcome: Subsequent to our meeting, BP said that it could provide some evidence of engaging with customers. The company is working with the broader transport system. We will monitor the 2024 disclosures before making any voting decision.

TotalEnergies

Objective: To ask global oil and gas producer TotalEnergies to set an absolute scope 3 target for all emissions by the next AGM in 2024. As mentioned in the Shell example above, in other hard-to-abate sectors, we can see evidence that companies are engaging with their customers and trying to help reduce their customers' scope 1 and 2 emissions.

Action: We met with the company's investor relations.

Outcome: The company has a net zero target for 2050 and a global absolute scope 3 emissions reduction target of 40%. However, this covers oil only. With the exception of the oil scope 3 target, the company plans to continue with just intensity targets for wider scope 3 emissions. In terms of helping customers with their decarbonisation efforts, the company has created an entity for this purpose and is investing heavily in R&D. A third of capex is allocated to green energy projects, and this figure is expected to remain stable over the coming cycle. The company confirmed that it was one of the most active companies lobbying policymakers on renewables in Europe. It already has 80GW of renewables projects in the pipeline. We will monitor the 2024 disclosures before making any voting decision.

- The objective has been achieved
- The engagement is ongoing
- The objective has not been achieved

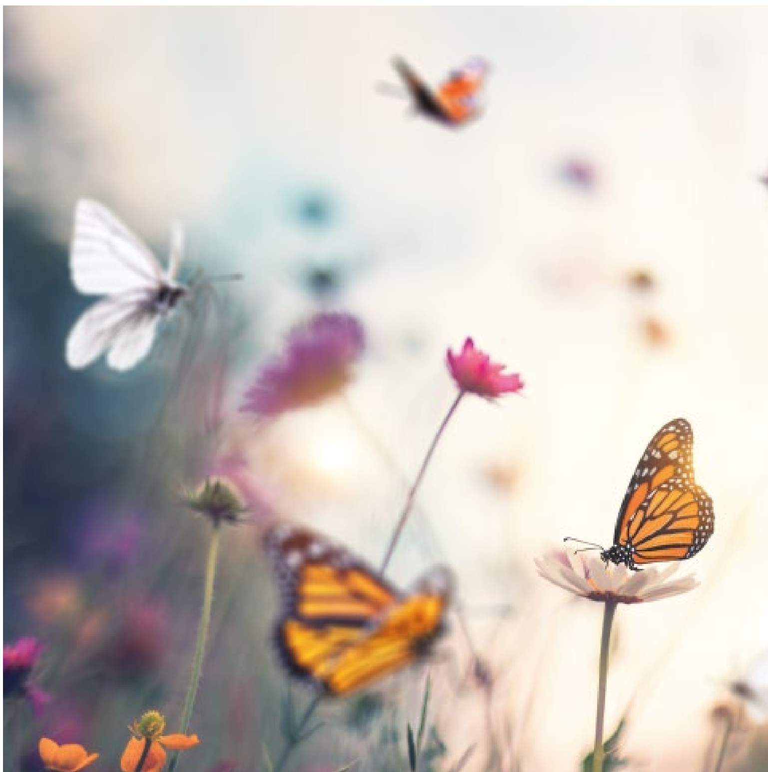
Midstream engagements

In the fourth quarter of 2023, we initiated a new sub-sector engagement project with oil and gas midstream companies who are engaged in the transportation of oil and gas via pipelines and other transmission mechanisms. Six midstream companies feature within the Hot 100 focus list and so represent a key focus for our engagement work. Prior to commencing engagement, we identified that to develop robust transition plans, a number of sector-wide challenges and questions require resolution. These challenges include the absence of science-based pathways for companies to follow, and a corresponding lack of science-based target setting methodologies, as well as guidance on how to measure and incorporate scope 3 emissions into such targets. We initiated a process to first understand the issues and then identify ways to resolve them. We first engaged with Keyera, Enbridge and TC Energy to understand how they are trying to address the challenges. We identified that industry collaboration would help to pool resources and establish a standardised approach to target setting that would help everyone. Accordingly, we next requested the establishment of an industry working group to establish capacity and a process to develop effective target setting methodologies. We are pleased to report that this request was received positively and that a working group has now commenced work. We will continue to monitor progress.

Natural capital and biodiversity

Biodiversity is a topic that is clearly gaining momentum for investors. We made a start on engaging on this important area in 2022, and in 2023 aimed to extend our climate engagements to include biodiversity where it was relevant. We developed our engagement approach to natural capital during the year and created an initial pipeline of 19 companies that are seen as priorities for engagement. Our approach is a widening of our lens on climate to incorporate natural capital and biodiversity. In the same way that we built our climate Hot 100 focus list, we have developed a list that comprises our largest holdings that have the greatest impact on nature.

As mentioned earlier in this report, we used the TNFD priority sectors, Forest 500 and Nature Action 100 to identify the most material sectors and companies exposed to biodiversity risk. We have undertaken company assessments, leveraging tools such as ENCORE to identify material impacts and dependencies, which will only be enhanced as useful data for investment decisions and investee company disclosure on this topic improves; we have started to engage bilaterally on key issues. We are co-leads on five companies in Nature Action 100, three of which are complementing our work on CA100+. Examples of some of our nature- and biodiversity-related engagements are outlined below.



IndoAgri

Objective: To ensure that the allegations relating to deforestation and labour rights at Indonesian agribusiness IndoAgri have been remediated and that the company is actively working with the supply chain to ensure transparency and traceability.

Action: We met with the company's chief executive to relay our expectations.

Outcome: We discussed the ongoing dispute regarding the media coverage and rating providers issues dating back to 2018, which revolved around concerns about human rights and deforestation within the supply chain. This is an issue about which IndoAgri has attempted to engage extensively with Sustainalytics and Roundtable on Sustainable Palm Oil (RSPO). The company pointed to concerns about misrepresentation in the media, which stated that Nestlé has stopped sourcing from it, although Nestlé never had done. During the RSPO Complaint Panel's investigation into these allegations, IndoAgri conducted 23 independent audits of its supply chain and labour conditions using RSPO certified auditors and passed each one.

In addition, in 2019, IndoAgri engaged Herbert Smith Freehills (HSF), an internationally recognised legal firm, to independently investigate the RSPO allegations that its subsidiary Lonsum broke 11 Indonesian labour laws, an allegation which IndoAgri strenuously denies. HSF's report confirms IndoAgri's position that Lonsum did not violate the Indonesian labour laws, as alleged by the RSPO Complaints Panel, and to ensure transparency IndoAgri published the report on its website: **here.**

IndoAgri advised that it has tried to engage with ratings providers and RSPO extensively, and the company sent the HSF report to the RSPO for its response, but RSPO declined to respond. Therefore, IndoAgri does not plan to recertify, but it continues to adhere to certain requirements, such as preserving high conservation value and high carbon stock areas and prohibiting planting on peat or burning. The company also highlighted that currently 19% of the global production of palm oil is RSPO certified, while 40% is certified under ISPO.

Although IndoAgri already has a sustainable agriculture policy, which commits to zero deforestation, we emphasised that while this was a good starting point, we wanted to ensure that there was supply chain traceability and progress reporting, to evidence that these commitments were implemented and fulfilled. Regarding traceability, all palm oil can be traced back to the plantation, but not all of it is yet certified under ISPO. IndoAgri anticipates achieving 100% ISPO certification by 2025. Its own estate is already 85% certified, with a goal of reaching 100% by next year.

IndoAgri is prioritising replanting over expansion, as palm oil does not yield a good return when considering the DCF. Currently, only 500ha a year is allocated to new plantations. In terms of pesticide use, the company is committed to using 100% organic fertiliser and is collaborating with smallholders to help it mitigate pests without resorting to harmful chemicals. Overall, it was helpful to hear the company's perspective regarding the dispute and the steps that it has taken to provide evidence that counters these claims. Regarding traceability, we look forward to 2025 when the full value chain will be ISPO certified.

The objective has been achieved
The engagement is ongoing
The objective has not been achieved

Seven & i

Objective: To ask Japanese diversified retailer Seven & i to produce a deforestation free policy and increase disclosure around its supply chain traceability to achieve this, and to improve disclosure in line with CDP forests.

Action: We held a virtual meeting with the company's investor relations and a senior sustainability officer to make our expectations known.

Outcome: Seven & i is a Japanese holding company with approximately 83,000 stores worldwide, as of February 2023. Its main subsidiary is the convenience store 7-Eleven, which in 2015 ranked among the top franchises in the world. In addition to 7-Eleven, the company has subsidiaries operating in the fields of superstores, supermarkets, speciality stores, food services, financial services and IT/ services. As a leading retailer with a diversified product portfolio, Seven & i is exposed to forest risk commodities including palm oil, soy, beef and paper.

Seven & i's sustainability team is fully aware of the TNFD recommendations, which were published in September 2023. The team has been busy analysing internal data to better understand how the recommendations can be implemented. Additionally, the corporation has joined multiple global initiatives relating to the protection of biodiversity, such as SBTN, TNFD forum and 30by30 Alliance for Biodiversity. The company has supply chain traceability through to Tier 3 suppliers, but stresses it cannot be 100% sure when it comes to raw material sourcing.

The company is also busy assessing additional requirements as per the Deforestation Prevention Act, launched by the EU in June 2023; traceability is a key point.

Seven & i took on board our request to respond to the CDP forests survey, in addition to the climate survey; we are optimistic that by 2024 (2025 at the very latest) this will be achieved.

Seven & i's sustainability team was receptive to our requests for improved disclosure. The company has not yet set targets relating to deforestation. It noted that it was working on a biodiversity and deforestation policy in the first instance, and then will look at potentially setting targets in the future. We expect to see improved disclosure in FY 2024, ie the next reporting period.

Carrefour

Objective: To ask French, Spanish and South American based retailer Carrefour to disclose its ambition and targets, and explain the governance, in relation to natural capital.

By way of background, best practice in this area includes – Ambition: publicly commit to minimise contributions to key drivers of nature loss and to conserve and restore ecosystems at the operational level and throughout value chains by 2030. Targets: set time-bound, context-specific, science-based targets informed by risk assessments on nature-related dependencies, impacts, risks and opportunities for palm oil, soy, paper and beef. Governance: establish board oversight and disclose management's role in assessing and managing nature-related dependencies, impacts, risks, and opportunities.

Action: We met with members of the investor relations and sustainability teams.

Outcome: Carrefour is developing an ambition by talking to key stakeholders and is in a working group with the Science-Based Targets Network and other companies. It is looking to come up with something in relation to nature similar to climate's net zero. Its main focus areas for nature are sustainable agriculture (reducing pesticides) and fishing, deforestation and plastics. Certification targets have been set for palm oil, soy, paper and beef, and updates will continue. In terms of governance, the group executive committee defines the CSR strategy, policies and objectives, and measures CSR performance, while the CSR committee, with five members of the board, approves the strategy.

JBS

Objective: As part of a wider climate engagement, to ask Brazilian beef producer JBS for increased disclosure on its strategy to meet deforestation targets and to ensure that suppliers are being sufficiently monitored and audited. We also wanted to understand the company's views and remediation efforts in relation to UNGC flags – involving deforestation and health and safety issues relating to ammonia leaks in some processing plants.

Action: We met with the company's head of sustainability.

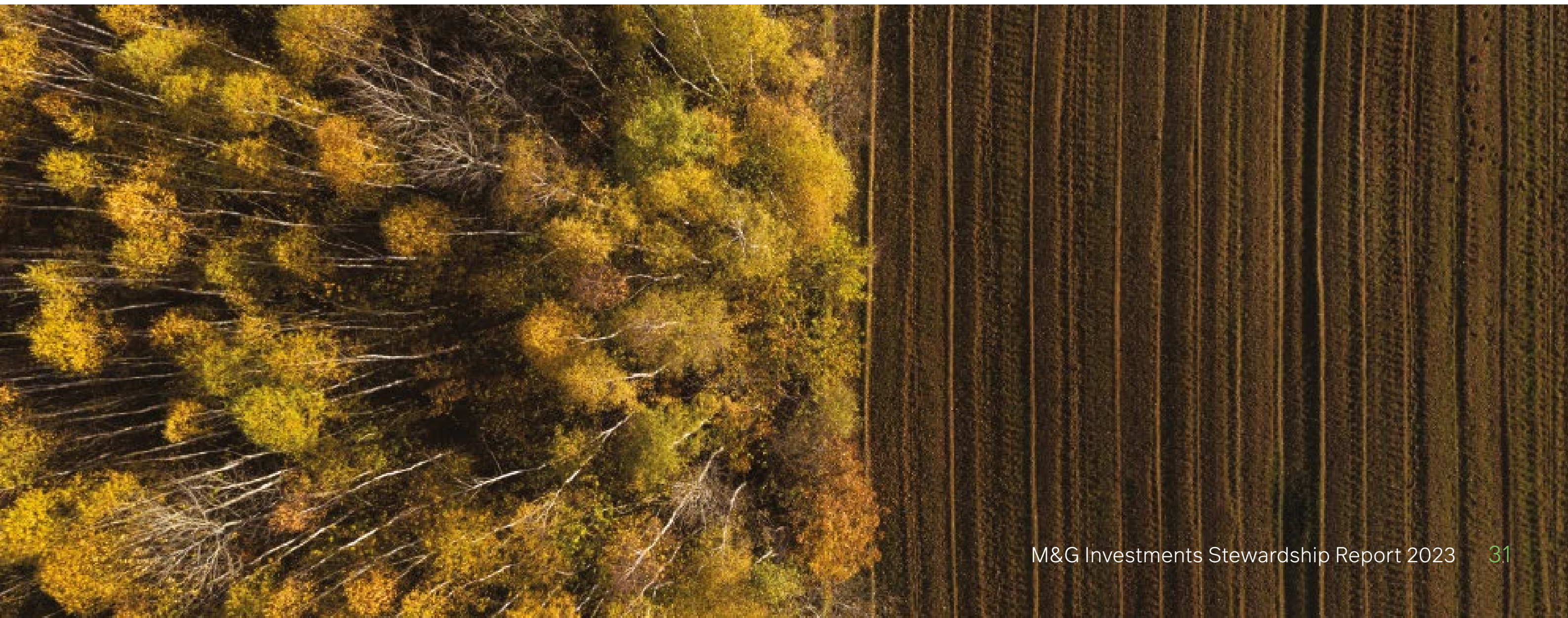
Outcome: JBS has moved its target for zero deforestation of direct suppliers to 2023, and to 2025 for indirect suppliers. The company set a commitment at COP27, alongside 12 other companies in the sector, noting that there needs to be sector-wide change (JBS represents around 25% of the market). Legal restrictions in Brazil prevent the company from accessing indirect supply chain data without permission. JBS is monitoring 85,000 farms, which includes all tiers of suppliers, via satellite, screened on a daily basis. Suppliers that are found to be contributing to deforestation are immediately blocked. Suppliers that have been blocked for non-compliance are placed on an engagement and education programme, which includes reforestation initiatives and gives guidance on how to reform practices. JBS has been working with other meat companies on this to ensure that there is a sector-wide transformation.

Currently, responsibility for the climate strategy lies with the executives but is company-wide, and JBS is working with the SBTi to establish the best methodology to include this into remuneration. As above, we will continue to monitor the situation and ensure that targets are being met.

Regarding the UNGC cases, JBS outlined how seriously the issues relating to ammonia are being taken. It believes sufficient remediation efforts, including increased compulsory training in facilities, are enough to manage any further issues. The company informed us that it was currently in communication with ISS, which has indicated that an update is due to take place and the flag may be removed. According to JBS, some of the information related to the flags was factually inaccurate. We will continue to monitor the situation and follow up with ISS to hear its view on the case, but we were reassured that action was being taken.

With regards to the flags from data providers and our own internal concerns around deforestation, this engagement was a first step in understanding the company's strategy for managing biodiversity risk, but we intend to monitor progress closely. We are mindful of the complexities that accompany dealing with such an issue at this scale.

We note subsequent to this engagement JBS has been removed from the SBTi due to its commitment having expired on 31 January 2024.



Social

Our social engagements cover a number of topics, with the two larger ones being diversity & inclusion and modern slavery. This section is split into three sections: diversity & inclusion; modern slavery; and other social engagements.

Diversity & inclusion

With the end of the five-year review by Hampton Alexander in 2020, and diversity and inclusion (D&I) being one of M&G Investments' primary ESG priorities, in 2021 the S&S team analysed our equity portfolios for laggards in D&I, using tools available through data provider ISS. Laggards are defined as those not meeting the diversity requirements as set out in our voting policy – for example, for the UK (FTSE 350), Europe, North America and Australia, the minimum expectation is for boards to have 33% or more female representation, progressing towards 40% and have a pathway on how to achieve gender equality by 2027. We then discussed the output with individual investment teams to compile an aggregate engagement list of companies, totalling 202. In 2022, we undertook a large mail-out, writing to over 1,000 UK and international names, outlining our board diversity expectations. Since then, there has been discernible improvement in the list of 202 laggards, with 113 companies having increased their level of female representation. Moreover, 79 companies among these not only improved but fully met our expectations on gender diversity.

During 2023, we engaged with 73 companies on diversity. The vast majority of these engagements were part of our top-down diversity engagement programme. Engagements within the scope of the programme generally have two main objectives: firstly, to convey our expectations on board gender diversity and subsequently discuss board refreshment and any targets that might be in place to facilitate a more balanced gender distribution. Secondly, to have a broader discussion around gender and ethnic diversity at the enterprise level including, but not limited to, identifying obstacles to success, gaps in relevant disclosures, employee engagement and target setting.

While we have thus far focused on improving the representation of women at the board and executive level, diversity extends beyond gender. Our minimum expectation for FTSE 100 companies is to have at least one director from a minority ethnic background already on the board and for FTSE 250 companies it is to have at least one director from a minority ethnic background by December 2024, in line with the Parker Review. We aim to communicate our expectations on ethnic diversity representation to our investee companies in the FTSE 250 during 2024.

To fully utilise our stewardship tools we regularly vote against board elections where we believe insufficient progress has been made. During the year we opposed directors at 46 of the previously mentioned laggard companies.

- The objective has been achieved
- The engagement is ongoing
- The objective has not been achieved

Dongfang Electric

Objective: To encourage Chinese state-owned manufacturer of power generators and equipment Dongfang Electric Corporation to increase board-level gender diversity.

Action: We met with representatives of the company to make our requirements known.

Outcome: At the time of this engagement, Dongfang Electric Corporation had an all-male board. The company stated that it was committed to improving board diversity. It confirmed that it had a number of female candidates in the candidate pool. However, it was unable to confirm the timing of any changes to board composition. One of the challenges it faces to improving diversity, not only on the board but also in the wider workforce, is the current composition of the talent pool within the sector. The sector in which the company operates is manufacturing-heavy and continues to be male dominated, which has resulted in there being a limited pool of senior females. With this in mind, the company confirmed that it was looking to other sectors, such as finance and the legal profession, to identify diverse candidates with the appropriate level of seniority and the right skillset. The company explained that it was also taking measures to nurture and develop existing female talent, with a focus on the development of female managers and the female board members within its subsidiaries.

While Dongfang Electric Corporation does not currently meet our minimum expectations on board diversity, we felt there was sufficient evidence to suggest that the company was taking positive steps with regards to workplace diversity. Next steps are to monitor upcoming announcements for news of the appointment of additional board member/s.

Novartis

Objective: To encourage Swiss multinational pharmaceutical company Novartis to aim to have at least 33% of women on the board, aiming for gender parity by 2027.

Action: We met with representatives of Novartis to make our requirements known.

Outcome: Novartis is a Swiss multinational pharmaceutical company. At the time of writing, the company had four female board members, which accounted for 31% of the board. In addition, the company had one board member that identifies as racially/ethnically diverse.

The company confirmed that diversity and inclusion is part of the corporate strategy. It has publicly committed to achieving gender balance in management and ensuring pay equity and transparency for all of its associates globally.

Novartis currently has a global median pay gap of –3.0% and a global mean pay gap of 3.1%. The company moved to eliminate the use of historical salary data when promoting internally and implemented full transparency around internal and external pay benchmarking. Additional steps the company is taking include the use of balanced slates and interview panels in the recruitment process. The company has also implemented a gender-neutral parental leave benefit of 14 weeks, which is available to all employees globally.

With regards to board level diversity, the company confirmed that there was an ambition to increase this. It is expecting to replace at least three board members over the next couple of years as they reach full tenure, and diversity, in terms of background, experience and gender, is a key consideration in terms of succession planning.

While we acknowledge the company's commitments and that it demonstrates positive intent, we will continue to monitor as progress is made towards our voting policy expectations. Next steps are to monitor future announcements regarding the appointment of the new board members.

The objective has been achieved

The engagement is ongoing

The objective has not been achieved

Modern slavery

Modern slavery refers to some of the most extreme forms of human exploitation and includes practices or situations such as forced labour, debt bondage, human trafficking, forced marriage and forced prostitution.

Given the global nature of M&G Investments' holdings, managing modern slavery risk systematically across all holdings is a significant undertaking and requires some prioritisation. We know that the risks of modern slavery are higher in certain regions and industries, as well as for some business models and operating contexts.

The screening methodology to identify holdings considered to be at highest risk of modern slavery is summarised in the diagram below:

STEP 1
Industries known for high risk of modern slavery

STEP 2
Insufficient evidence of steps taken by the company to manage modern slavery risks

STEP 3
Refining the list based on fund manager input and any other considerations

The companies selected for targeted engagement were selected on the basis that:

- we have an active position in the company;
- it operates in an industry known for high risks of modern slavery; and
- it does not demonstrate taking the necessary steps to manage this risk appropriately, based on available data from the Corporate Human Rights Benchmark, Know the Chain and/or MSCI.

Over 2023, we engaged with six companies on the topic of modern slavery.

Loungers – modern slavery

Objective: To encourage UK hospitality provider Loungers to disclose its approach to managing modern slavery risk in its supply chain.

Action: We met with senior management to make our requirements known.

Outcome: Loungers' chief operating officer explained that there had been significant progress over the previous six months with regards to supply chain reviews. This is both from the perspective of policies and people management. Loungers confirmed that it had not found any incidence of modern slavery in its supply chain to date.

The recently appointed head of risk and compliance was tasked with ensuring that supply chain assurance was up to a high standard. Loungers uses external platform provider Sedex to supplement its own supply chain due diligence and monitoring. Loungers confirmed that 80% of its supply chain is Sedex certified, and it is working with the remaining 20%, predominantly smaller local suppliers, to increase this by helping them to become Sedex-certified.

Loungers confirmed that its use of agency staff is the exception rather than the norm. The majority of Loungers' staff are on the company's payroll, including the building staff who build and kit out the sites. Loungers confirmed that it had stringent right-to-work checks and that workers travel to work under their own steam, ie workers are not dropped off and collected en masse by mini bus or similar. Loungers confirmed that it had a grievance process in place – 'The Voice', which is open to all workers and can be anonymous if requested. The chief operating officer confirmed that she was the executive member responsible for supply chain and ultimately, management of modern slavery risks.

We plan to follow up with the company in 2024, as well as speaking with Sedex to learn more about its offering and how its clients, such as Loungers, are utilising the platform to support their supply chain management processes.

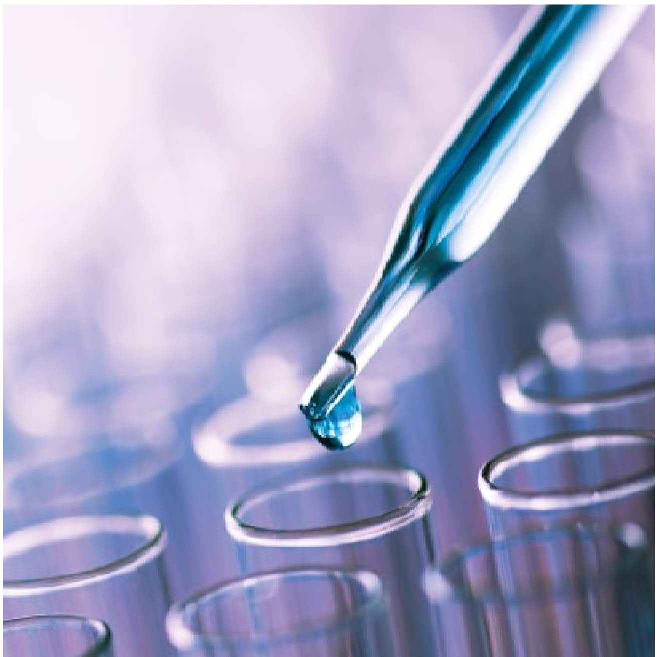
Other Social

Novo Nordisk – weight-loss drug

Objective: To determine if Danish pharma company Novo Nordisk had appropriate processes, procedures and checks in place to avoid the misuse of its obesity drug, Wegovy.

Action: We met with the company's investor relations.

Outcome: Novo Nordisk has little control over what physicians are prescribing. The company has to focus on its first-line framework, and believes it has good systemic processes in place ie sales rep training, audits, online courses, and the Veeva system, among others. Overall it is a tricky situation. Novo must educate doctors (and other healthcare professionals) on the nature of obesity and available treatments, as thinking around obesity has changed dramatically since many were in medical school – ie it is no longer just a measure of 'calories in – calories out'. On the other hand, Novo needs to educate obese patients that a therapy is available. The company must do all of this without appearing to have a conflict of interest. We encouraged Novo to be seen and to act as good actors within the space. Novo reiterated that it had spent 25 years on this, and that it wanted Wegovy to be used by people with obesity, not 'someone going on holiday'. The company said it would be more proactive talking to authorities, and that it could monitor prescriptions in the US down to the physician, meaning it had some capability to look for potential misuse of the drug.



Thermo Fisher Scientific – bioethics

Objective: To ensure US medical technology and analytical equipment business Thermo Fisher Scientific had effective policies and procedures in place to help avoid the misuse of its equipment. This was a continuation of our engagement with the company the previous year.

By way of background, following public reports regarding human rights violations against the Uyghur people in China's Xinjiang region, coupled with speculation that Thermo Fisher's STR (Short Tandem Repeat) DNA products were being potentially used in a manner inconsistent with human rights principles, the company ceased any new sales of human identification (HID) products to Xinjiang Public Security Bureaus in March of 2019. This equipment is usually used in, for example, forensics – to match DNA to an established database – and cannot, in and of itself, be used to identify or profile ethnic minority populations. This is not to say, however, that the equipment cannot be used in conjunction with other technologies/practices, ie coerced DNA sampling, to do so. Having met with Thermo to discuss these issues in June 2022, we met again in March 2023 following further allegations that the company's equipment was being misused by police in Tibet.

Action: We met with the company's senior director of corporate social responsibility and its investor relations to discuss the issue.

Outcome: Following our initial engagement, we were satisfied that Thermo Fisher had taken the issue in Xinjiang seriously, and responded by improving its policies and procedures. The company has a Code of Business Conduct and Ethics, applicable to all directors, officers and employees, who receive annual training on the code.

However, in relation to Tibet, a similar policy of not selling into the region had not been established. Having examined the share of equipment sold into the region, the company had determined that it was very unlikely that the capacity existed to misuse its equipment in the manner highlighted in the allegations. While the company said it was very aware of sales in Tibet, we encouraged it to consider a similar policy to that which it operates in Xinjiang. Subsequent to our meeting, and outside the reporting period for this report, Thermo Fisher announced that it had indeed extended its policy to Tibet.

- The objective has been achieved
- The engagement is ongoing
- The objective has not been achieved

Strategy and governance

We engage with our investee companies on a wide variety of strategy and governance topics, as much of what we try to accomplish through our ESG engagement programmes requires a base of good governance behaviour.
Our engagements on strategy and governance are both initiated by us, when we wish to discuss a particular issue, and also by companies requesting meetings because they have a specific issue they wish to raise, or as a result of, for example, shareholder/governance consultation.
An example is below.

Edwards Lifesciences – bribery

Objective: As part of a wider company update, to ensure that allegations of bribery in Japan by US medical device company Edwards Lifesciences had been effectively dealt with, and that processes had been put in place to help ensure this did not happen in future.

Action: We met with the company's chief financial officer and its treasurer.

Outcome: The company confirmed that this was to do with Foreign Corrupt Practices Act (FCPA) violations in Japan concerning dealings with healthcare professionals. This had been discovered by Edwards, and was not the result of a whistleblower. Edwards informed the government it was investigating, and docked bonuses across the group to demonstrate that such behaviour was unacceptable at the company. While it does not believe this is a pervasive problem, the company took an 'if it affects one it affects all' approach. After further discussion, we were satisfied that the company had taken the issue in hand.

Impact engagement programme

In the second half of 2023, M&G Investments' Sustain & Impact team began a new programme of company engagement, specifically seeking to improve impact measurability, to develop KPIs directly related to the impacts a company is producing, and to tie executive remuneration to those KPIs, helping align management incentives with impact delivery. An initial group of 14 companies was identified, and subsequently engaged, with a selection of those companies highlighted below.

As part of a wider discussion with Kenyan telecommunications company Safaricom, primarily concerning its expansion into Ethiopia, we encouraged the development of enhanced metrics to help us better measure the positive societal impacts the company is delivering; ie quantification of how use of products leads to better life outcomes for customers. The company was very receptive to the idea of enhanced metrics, and confirmed that there were additional areas it could consider quantifying that had not yet gone into its own impact reporting (its current impact metrics are externally certified by KPMG). We subsequently had a separate meeting with the company's head of sustainability to discuss the potential here, and encouraged annually updated social return figures, to which the company was receptive.

We made a similar request to Indonesian financial institution Bank Rakyat Indonesia, particularly considering a social inclusion metric (related to, for example, micro loan provision), and for that measurement to form a specific KPI against which remuneration can be linked. The company confirmed that it was currently undertaking research to fully understand the social impacts it was delivering, and planned to publish this in a report in 2024 (we encouraged it to make this an annual occurrence that could be measured over time). To support this, the company asked us to share best practice on impact reporting and minimum standards; we subsequently sent through examples, including examples of best practice in linking impact KPIs to remuneration, which it could take under consideration. We will be back in touch on this topic once the initial report is published.

We met with Swedish organ transplant specialist Xvivo Perfusion, asking the company to improve its sustainability reporting, in particular disclosure of carbon emissions, especially in light of increased aviation agreements for organ recovery and transport. We also asked for better disclosure on remuneration KPIs, and for a degree of remuneration to be tied to impact delivery. The company was very receptive to our request for improved sustainability reporting, and understood the need for better disclosures. It now has an ESG team in place, and has hired a consultancy to help improve its disclosures. In terms of impact KPIs, Xvivo said it had struggled for the past year to identify the best KPI to capture the societal benefits it is delivering. We offered to meet with the company again to talk through the possibilities here, and to provide additional feedback on sustainability reporting improvements. The company was enthusiastic about this, and welcomed our additional input. We will follow up in due course.

US-based industrial IoT company Trimble provides guidance, sensor and surveying equipment, and software, to improve the efficiency of the construction, agriculture and distribution sectors. We wanted the company to work out the carbon savings that it allows its customers to achieve, and to publish this number on an annual basis. This was to improve our ability to measure and track the overall environmental impact the company was enabling. Trimble has previously disclosed customer carbon savings as case studies, where it worked with individual customers to undertake the calculation. This was more at a project level, which is different to avoided emissions at a machine level. One issue is that the company sells to dealers, who in turn sell to customers, and it loses visibility as to how the solution is actually being used by that individual user. With software it can see that a software licence is being used, but not what is actually being designed. The company was cautious about not overstating the carbon benefits of its products, and took a conservative stance on reporting savings. However, it was willing to investigate how savings numbers could be aggregated, and suggested we spoke with its head of impact to further progress this, which we plan to do in 2024.

Horiba is a Japanese precision measurement and analysis instrument maker. Here we wanted the company to provide metrics that would better enable us to measure the societal impacts it was delivering, as we currently rely on case studies to demonstrate this. The company's products produce impact across segments in different ways, and these all add up. Aggregating them into a single meaningful metric, however, is challenging. The company said it was trying to find a way to do this, or at least put some meaningful numbers around it, understanding the increasing importance of being able to quantify impact. The company said it would welcome our help in this process, which we are happy to provide.

As a final example, we asked Australian sustainable logistics business Brambles to more explicitly link remuneration KPIs to sustainability targets, reflecting the company's role as a promoter of, and practitioner in, the circular economy. We also encouraged the company to commit to achieving net-zero emissions through the Science-Based targets initiative (SBTi), and to consider reporting on specific milestones on its decarbonisation strategy, also with specific ties to remuneration. Brambles was receptive to our requests, and explained that its relatively long list of reported personal objectives, linked to 30% of short-term incentives, were tailored to individual roles. The company would look to provide a clearer picture on a role-by-role basis. Brambles also suggested a follow-on call with the company’s head of sustainability to discuss more granular milestones connected to its decarbonisation strategy, which we will follow up on. Once we have the breakdown of objectives by role, depending on that outcome, we will write to the chair of the remuneration committee to outline our suggestions. We are also sending the company examples of remuneration best practice to help guide the outcome.

Private engagements

S&S recorded 18 engagements across eight private companies over the course of 2023, with each engagement usually having several objectives, including climate, diversity and inclusion, cybersecurity, and health and safety. In most cases, we saw that these companies were doing considerable ESG work behind the scenes, but were not reporting it externally, as they are not held to the same reporting standards as publicly-listed companies. In all cases we emphasised the importance of publicly disclosing the work they were doing.

Climate

In terms of climate engagement examples, we encouraged Dutch hospitality solutions company, Vermaat, to disclose scope 1, 2 and 3 carbon emissions and increase disclosure on its decarbonisation strategy. Given that its current ESG report is published in Dutch, the company is working on producing an English report for carbon emissions, which is expected to be available next year. Vermaat is already measuring its scope 1, 2 and 3 carbon emissions, and it agreed to publicly disclose this information. To meet its net zero by 2045 target, Vermaat is, for example, working with procurement, which tracks and monitors carbon data for over 30,000 products. From here, the company can make swaps to lower carbon alternatives. The biggest area of impact here is swapping towards plant-based products. We look forward to seeing this information publicly disclosed in the company's next report.

As another example, we met with life sciences tools company LGC to discuss its plans to strengthen its existing 2050 carbon net zero target by 1) disclosing greater detail on its decarbonisation strategy and 2) for the target to become SBTi accredited. Further information on this engagement can be found in the Leverage Loan Strategy section on page 41.

Social

From a social perspective, we met with Beauparc, owner and operator of waste management and logistics brands across the UK and Ireland, requesting that it increased board level gender diversity. Currently, Beauparc has only one female member on its board, which consists of five or six members (with ongoing changes to the board composition). During our discussion, we emphasised the importance of increasing female representation on the board to align with best practices, aiming for an initial target of 33%. Beauparc acknowledged our request and expressed its commitment to enhancing diversity at both the board and senior management levels. It also highlighted the challenges it faced in attracting individuals to pursue careers in waste management, and shared that it had implemented a graduate programme to promote diversity at entry level. We will continue to monitor progress in line with our expectations.

In addition, we met with business management consultancy Efficio, to ensure that it was effectively managing and mitigating cybersecurity risks. Efficio has been ISO27001 accredited for a number of years and conducts external audits and penetration testing as a result of this. The company has an internal team who set management and procedures around cybersecurity, is currently doing work on backups and has invested capital to mitigate against ransom attacks. Staff members also have regular phishing training. Overall, we were pleased to see the steps that Efficio is taking to manage cyber risks.

Leverage loan strategy

We believe a robust engagement programme with investee companies represents a meaningful way to help manage ESG risks. This is true of the assets in which the Leveraged Loan team invests; given their asymmetric return profile, coupled with our long-term buy and hold approach, an effective stewardship policy is needed to protect value over time.

The Private Credit team conducts engagements with both borrowers and sponsors to attest to governance models and environmental and social operating guidelines, and to probe on key issues such as climate (with a growing emphasis on net zero), diversity & inclusion, cybersecurity and lobbying for greater disclosure. This activity is undertaken jointly by fund managers and analysts, and in consultation with M&G Investments' S&S team. Over the course of 2023, 41 engagements were conducted across 20 issuers within M&G's Private Credit strategies. Engagements are recorded in a tracking system to enable holistic views of themes and topics that are material within certain sectors, and across multiple asset classes. The benefit of this is that we can bring M&G Investments' full influence to bear when investing across the capital structure of the same issuer.

Set out below are examples of engagements undertaken by the Private Credit team.

IVCE – Antimicrobial resistance, supply chain, consumer pricing and cybersecurity

Objective: 1: To encourage broadening IVCE's scope of antibiotic usage data disclosure and target for the whole group; 2: to encourage disclosure of the percentage of suppliers audited/engaged by IVCE to reduce GHG emissions and ensure objectives of its supplier code of conduct were being met; 3: to encourage disclosure of pricing oversight at IVCE; and 4: to encourage improved cybersecurity disclosure and possible implementation of ISO 27001/appointment of a CISO.

Action: We met with the sustainability and ESG director at the company to set out our expectations.

Outcome: In terms of processes that are currently in place regarding AMR, IVCE is collecting data on a monthly basis and reporting to the board. Data collection, however, is the main challenge, and is key to measuring and reducing antibiotic use. The barrier is the speed of rollout of a common platform management system, particularly across new regions and recently acquired clinics and hospitals.

On cybersecurity, the intention is to obtain ISO27001 certification in 2024 in the UK market as it is a central location for critical business functions. The cyber strategy has been agreed at board and executive level and runs from 2022-2025. This strategy is aligned to the NIST cybersecurity framework and, following this approach, the company conducts external audits through PWC, which will be repeated in the next 12 months. Currently 10% of IT spend is on cybersecurity. Staff are trained annually on cyber risks, with regular phishing campaigns and bespoke training for high-risk areas.

The company launched its supplier code of conduct in late 2021 and, as of now, 80% of suppliers by spend have signed up. The company undertakes due diligence by assessing compliance with human rights, carbon emissions, and anti-money laundering regulations. An audit review of due diligence identifies high-risk suppliers, leading to supplier engagement to tackle the issues identified. The company has set a target of reducing scope 3 emissions by 30% by 2030. To achieve this target, it has incorporated obligations in procurement contracts to ensure that suppliers comply with expectations. The ESG team is working closely with the procurement team to ensure that tenders incorporate the terms to drive this target. At present, IVCE is not disclosing GHG emissions to CDP, but the company is considering doing so next year. Overall we were pleased with progress, but will continue to monitor the company to ensure positive direction of travel.

Xsys – Climate disclosure, D&I disclosure and cybersecurity

Objective: 1: To encourage Xsys to report emissions and set reduction targets; 2: to encourage the company to increase disclosure of female workforce representation, as well as set specific targets in this regard; and 3: to encourage the company to provide more detailed disclosure on IT policies and procedures, and become ISO certified.

Action: We met with the borrower to make our expectations known.

Outcome: The company advised that it would soon submit the climate change questionnaire to CDP, which would also involve target setting. The company stressed that it continuously strives for sustainability across its operations and products and, while not currently in the position to further comment on specific improvement projects, it confirmed that sustainability remains a key focus. One example included indirectly supporting the deforestation initiatives of its customer base by helping them reduce their substrate waste.

The company does not currently disclose the gender statistics requested and did not say whether these would be disclosed in the future.

The company's current IT infrastructure and systems are managed by its previous owner, with a system carve-out to be completed at the beginning of 2024. The current systems are not ISO-certified and will not be ISO-certified in the near term. The company will decide after the completion of its IT carve-out whether to seek an ISO certification or to instead only follow ISO standards.

We will continue to monitor on all three topics and re-engage with the company post-systems carve-out.

TDR – Climate disclosure, D&I disclosure, cybersecurity and modern slavery

Objectives: 1: To push the firm to commit to SBTi-approved targets for carbon reduction at a company and investee level; 2: to encourage the company to publish a D&I policy and D&I targets at investee level; 3: to ensure that sufficient cybersecurity measures are in place to mitigate risks and that these are disclosed; and 4: to encourage the firm to improve modern slavery assessment and conduct independent audits of investee company suppliers.

Action: We met with the head of ESG and sustainability to make our expectations known across the spectrum of objectives.

Outcome: There has been a significant improvement over the last few years in carbon reporting. TDR reports and calculates its own scope 1, 2 and 3 carbon emissions and all of its portfolio companies calculate scope 1 and 2 carbon emissions. Currently, the company does not mandate SBTi, albeit a few of its investee companies are already validated or are working towards it. Its focus has been on obtaining robust data for scope 1 and 2 in the first instance. TDR will report against TCFD next year.

TDR has developed a diversity & inclusion policy, which is expected to be published shortly. While it does not set specific targets for investee companies, the company is working alongside them to ensure D&I is integrated across the business through policy and strategy, as opposed to just target setting. We reiterated that setting targets helps companies stay accountable and ensures a positive direction of travel.

On cybersecurity, TDR works with a provider that shows a number of risk ratings and also tests its portfolio companies' IT infrastructure for any vulnerabilities, producing a report on areas of weakness. Going forward, each investee company will have a rating, which TDR is happy to disclose to us.

TDR already publishes a modern slavery statement, which it updates annually. The company is working with the suppliers of its investee companies, all of which are classified as low risk, and has currently found no incidences of modern slavery within the supply chains. TDR produces a separate report on the number of supply audits that have taken place, as well as if any have been blacklisted. The company has also signed up to Rep Risk to help monitor this.

Overall, we were pleased with the steps the company is taking to mitigate these ESG risks and will monitor to ensure that these continue to be managed effectively.

LGC – Climate disclosure

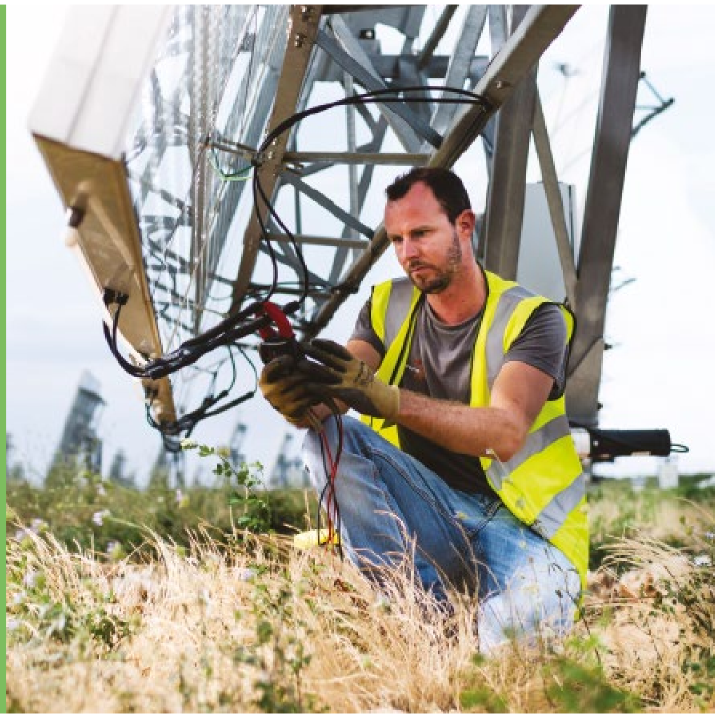
Objective: To encourage the firm to strengthen its existing 2050 net zero target by disclosing greater detail on its decarbonisation strategy and committing to SBTi accreditation.

Action: We met with the company to make our expectations known.

Outcome: In 2021, the company made a commitment to achieving net zero emissions by 2050 across scope 1, 2 and 3. The company obtains external assurance on its scope 1 and 2 carbon emissions data and collaborates with third-party entities for scope 3 assessment. LGC recognises the importance of verification and is actively working towards SBTi accreditation. Scopes 1 and 2 are already aligned with the SBTi, and the company is currently working on scope 3 mapping and engaging with suppliers to establish a framework for a science-based targets. This is something that LGC is prioritising and in the process of developing. Depending on the outcome of this process, LGC may submit an application in 2024. The company's latest ESG report provides further details on its decarbonisation strategy, which includes the target of 80% of electricity coming from renewable sources by 2025. We discussed with LGC setting an interim carbon reduction target to ensure progress towards its net zero goal

Overall, we were pleased with LGC's progress and steps towards sustainability and look forward to their future ESG reports. We will continue to monitor SBTi accreditation progress to ensure continued positive direction.

Infracapital



Infracapital, the private infrastructure equity arm of M&G Investments, has raised and managed over €9bn investing in, building and managing European infrastructure in the mid-market. As a long-term investor providing essential infrastructure services to society, Infracapital recognise the long-term value that can be achieved through sustainable growth, and the distinct opportunity it has to make economic growth more sustainable and inclusive. As such, Infracapital consider responsible investing across its investment activities. As part of its investment strategy, the team takes an active role to ensure Infracapital's investments are adaptable and resilient to the changing world, in addition to having the potential to deliver stronger-risk adjusted returns and environmental and social benefits.

Infracapital's Responsible Investment Committee oversees the implementation of its ESG commitments. All managing director members of the Responsible Investment Committee sit on the Investment Committee, ensuring that ESG considerations are considered in the investment decision-making process. In addition to the committee, Infracapital ensure all of its team attend monthly training sessions held with external advisers. These are designed to improve the knowledge and experience of the team in all matters related to investment activities, including ESG risks and opportunities. Often these will relate to specific ESG factors, such as director duties, health and safety, net zero and biodiversity. Infracapital also run ESG-focused workshops, bringing together key executives from across its portfolio companies to share learnings, leverage best practice and ensure prioritisation of ESG-related matters.

Infracapital further recognise the importance of ESG factors across its investor community and work to support the delivery of their ESG objectives. Infracapital commit to being transparent with its investors on its ESG performance, and have integrated an ESG update into its quarterly fund reports, in addition to more comprehensive reporting on an annual basis via a dedicated ESG report.

Please note, Infracapital's portfolio range is not suitable for retail customers.

Infracapital investee companies: case studies

Project Marble

In December 2023, Infracapital partnered with Rock Rail, an independent developer, owner and asset manager of rolling stock and other rail infrastructure. Infracapital and Rock Rail have established a platform that will finance a new electric fleet comprising 18 four-car Siemens Mireo trains. The new trains will provide a number of environmental and social outcomes including a step-change in passenger experience, with optimised train layout, increased capacity per train and a higher operating frequency compared to existing rolling stock operating in the Central German region. Additionally, the fleet will be lighter weight and more energy efficient than its predecessors. The fleet will enter into service in December 2026.

Private infrastructure capital is expected to play a key role in supporting rolling stock growth, replacing ageing fleets, and developing the country's sustainable rail market. Infracapital's investment will play an important role in supporting Germany's rolling stock provision in an expanding market supported by high, underlying demand, and a growing emphasis on decarbonising transportation to support the transition to net zero.

Zenobē

In September 2023, Infracapital successfully closed its largest ever co-investment process into Infracapital Greenfield Partners II investment Zenobē. Zenobē provides innovative battery solutions and capturing renewable energy, balancing its supply on the grid and transporting it to electric fleets across the country.

Since our initial investment in 2020, Zenobē has grown to establish itself as being at the forefront of two increasingly important industries. It currently supports more than 1,000 electric vehicles worldwide and has worked with operators to deploy vehicles in over 75 depots. By 2026, Zenobē aims to support 4,000 electric buses, trucks and commercial vehicles on the road.

The company also has 430MW of contracted grid-scale battery storage in the UK in operation or under construction, including its landmark 100MW battery storage asset at Capenhurst, Cheshire. This is critical for facilitating the growth of renewable energy to the national grid.

Gridserve

In August 2022, Infracapital acquired Gridserve, one of the UK's largest charge point operators offering rapid and high-powered EV charging. During 2023, Gridserve launched an Electric Forecourt® at London Gatwick, which is the first EV charging facility of its kind at an international airport. The Electric Forecourt® is home to 30 EV charging bays supplied by 100% net zero energy, and will help London Gatwick on its journey to reach net zero by 2030, with 32.9 million passengers visiting in 2022.

Gridserve has over 175 locations with more than 1,200 charging bays, mostly with 350kW+ high power chargers at electric super hubs serving motorway service areas.

Recharge

During 2023, Infracapital successfully closed a co-investment process in Recharge, the largest public charging point operator (CPO) for electric vehicles (EV) in the Nordics with over 4,000 connectors across Norway, Sweden and Finland. The co-investment will allow the company to accelerate its expansion plans and further solidify its market-leading position.

Since 2012, Recharge has been at the forefront of one of the fastest-growing and mature electric car markets in the world. Over the past three years, the company has increased its number of chargers threefold and expects continued growth.

Real estate

We recognise that as one of the world's largest real estate fund managers, our business activities have wide-ranging social, environmental and economic impacts.

We take a long-term, active approach to investing in property. Responsible investing is a key aspect of this, and we aspire to create and manage exceptional places that enrich the lives of people and communities to deliver long-term value for our investors, society and the environment.

Environmental and social issues are already influencing real estate market fundamentals, including obsolescence, rate of depreciation, voids, operational costs and liquidity. By being at the forefront of identifying and influencing the drivers of change, and shaping our investment strategies accordingly, we aim to continue delivering strong returns to our investors in the long term and support creation of positive environmental and social outcomes.

Full details of our approach to ESG governance and integration into the real estate investment process is detailed in M&G Investments' Real Estate ESG Investment Policy, which is published on our website and reviewed annually. This policy sets out how we consider ESG within our investment processes and how we will implement our ESG strategy.

Please note, not all of M&G Investments' real estate offerings are suitable for retail customers.
Please visit M&G Investments' website for further details.

Net zero and climate resilience

The impact of climate change on the built environment is becoming increasingly apparent, and this will continue unless substantial action is taken to cut emissions. Understanding and managing physical and transition climate risks is becoming increasingly important. Building these considerations into our strategies is key to protecting the value of our clients' assets.

Further to M&G plc's commitments to address climate change, M&G Real Estate made a commitment in late 2019 to achieve net zero carbon emissions by 2050 across our global real estate portfolio. It was one of the founding signatories of the Better Buildings Partnership (BBP) Climate Change Commitment.

In 2021, we published our net zero carbon pathway, which outlines the actions to reach net zero across our real estate operations, refurbishments and acquisitions. In the past year, significant steps have been taken to inform our delivery plans with the completion of further asset-level net zero carbon audits, enabling integration of decarbonisation costs within asset plans.

Considering that the vast majority of our carbon emissions are linked to the energy consumed by our tenants, measuring and making progress towards our energy and carbon targets is dependent on acquiring high-quality energy data across our portfolios. For this reason, in the last year, we continued to deploy solutions to collect occupier energy data automatically across our largest portfolios. We also continue to explore opportunities to deploy on-site renewable energy systems in cooperation with tenants.

As well as driving forward with the decarbonisation of our buildings, we are also putting steps in place to actively mitigate climate-related risk. For example, all assets have been recently assessed for their physical climate risk exposure, looking ahead to the 2100 timeframe under the RCP 8.5 scenario. We also produce TCFD-aligned disclosure for our real estate business and funds.

Acquisition

Governance of ESG-related risks is embedded from the earliest stage of our investment lifecycle. As part of the acquisition due diligence process, we assess current performance and improvement opportunities through our ESG due diligence requirements. This includes net zero audits, which identify any technical barriers to net zero and enable the financial cost to transition assets to be underwritten and managed.

Developments

M&G Real Estate's Sustainable Development & Refurbishment Framework outlines how sustainability is integrated throughout the design and construction process in the UK and Europe. It prescribes minimum standards and aspirational targets for a range of ESG issues, including net zero carbon and physical climate related-risk in the development of residential and commercial assets, as well as refurbishment to existing.

Portfolio management

Once we acquire an asset, we put in place a Sustainability Asset Plan to drive further asset-level improvements. An important part of this is engaging with our customers to work together to improve the performance of the building. As such we continue to introduce 'green lease' requirements within leases to facilitate greater collaboration and sharing of data.

Case study:

Capturing data on energy performance

In 2021, we entered into a collaboration with Hello Energy, a tech solution focused on creating information-rich buildings via tenant engagement. Since then, we have automated the collection of energy data across 77 buildings in 11 countries, providing performance insights in some buildings and targeting stakeholder engagement in others. Notably, at our 7even building in Amsterdam, Hello Energy's smart software supports residents in all 90 apartments, providing individual logins so they can monitor their electricity usage. It also showcases the impact of key sustainable initiatives at the site, such as solar panel-generated energy, on a screen in the lobby. This not only encourages residents to live sustainably but also facilitates comprehensive ESG reporting with 100% electricity data collected in a highly automated way.

Case study:

Sustainable workspaces that enhance wellbeing

40 Leadenhall is one of the biggest schemes to ever receive planning permission in the City of London. Located in the City's insurance district, it will accommodate up to 10,000 people upon completion in 2024, and aims to be a champion of sustainability and wellbeing within the central London office market. The building is targeting BREEAM 'Excellent', NABERS 5 Star, and 'Platinum' WELL, WiredScore and SmartScore ratings.

40 Leadenhall will capitalise on the demand for best-in-class office buildings that meet key sustainability and employee wellbeing demands. Occupiers will benefit from light-filled workspaces as well as extensive amenity space including multiple outdoor terraces, restaurants, a library, state-of-the-art fitness studio, wellness lounges, a central square with trees and bike storage. Operational carbon emissions will be minimised through the use of air source heat pumps and by capturing waste heat from the cooling towers. It is among the UK's first offices to achieve the Nabers certification. It also employs RESET technology to monitor and maintain interior air quality.

Case study:

Sustainable logistics and warehousing

In 2023, we completed a full refurbishment of a 55,597 sq ft industrial and logistics unit in Hertfordshire. The previous EPC rating was D. The complete refurbishment resulted in the following ESG outcomes:

- EPC rating is now A+
- Four electric vehicle chargers installed
- 110 kWp solar PV panels
- The unit is now 'net zero'

Case study:

Low carbon living

Earlier this year we launched a new fund, which seeks to invest in high-quality properties with strong sustainability standards in Europe's most desired residential markets. The fund has already made a €75 million maiden investment in Finland – a landmark Art Nouveau building home to 124 premium serviced apartments in central Helsinki. A mix of retail outlets at ground level is a direct result of a survey carried out with local residents and includes restaurants, grocery stores, and health and beauty outlets. Recently refurbished to a high standard, it has achieved the highest LEED Platinum score in its class in Europe and the second highest in the world in the same category.

Voting

Introduction

The M&G Investments Voting Policy is published on our website and is reviewed annually in consultation with our investment teams.

Given the increasing number of shareholder and management resolutions on climate and biodiversity in the 2022 voting season, we updated our voting policy in 2023 to set out our expectations for climate and biodiversity disclosures and explain our approach to shareholder resolutions.

In terms of climate, in 2023 we expected all companies to disclose in line with TCFD and for our largest emitters to set NZ2050 targets along with near- and long-term emission reduction targets, a decarbonisation strategy with a clear capital expenditure plan and details of a 'just transition'.

In terms of biodiversity, we encouraged all companies to minimise their negative impact on nature and those with a high negative impact to develop an action plan in line with best practice.

In terms of shareholder resolutions, we will look at each on a case by case, typically supporting resolutions requesting better disclosure but being less supportive of resolutions requiring prescriptive measures. We listed a number of topics where we are typically supportive in our voting policy.

As shareholder meetings arise, we use research from ISS (and voting information service IVIS for UK companies) to highlight any contentious issues that we were not aware of from previous consultations with investee companies. Voting is undertaken through the ISS platform.

Our starting point as an active fund manager is to support the long-term value creation of our investee companies, and there will be occasions when we need to vote against management-proposed resolutions or support shareholder resolutions which are not recommended by the board, if we believe this is in the best interest of our clients and the company. In the UK, we will, where possible, try to inform the company in advance if we are voting against. In many circumstances, especially on remuneration-related issues, there will have been a previous dialogue with the company.

Voting analysis and execution is carried out in-house by our central Stewardship Team. Portfolio Managers will make voting decisions in consultation with the Stewardship team and Research Analysts. Decisions will reflect our voting policies and also insights from our engagements, research and knowledge of the investee companies.

To read M&G Investments' voting policy, visit: **https://www.mandg.com/~/media/Files/M/MandG-Plc/documents/responsible-investing/stewardship/voting-policy-2023.pdf**

To see our voting history, updated quarterly, visit: **https://www.mandg.com/who-we-are/mandg-investments/responsible-investing-at-mandg-investments/voting-history**

In 2023, we voted at 3,157 meetings, comprising 663 UK meetings and 2,494 international meetings[4]. Below we highlight some of our voting decisions taken during the year. For 1,383 meetings, at least one management voting recommendation was not supported. In future the number of meetings we vote at should reduce materially as we have subcontracted a number of index portfolios to an external manager, along with the majority of voting associated with these funds. Overall, we voted at 97.11% of eligible meetings.

[4] Note: bondholder meetings, 'do not vote' instructions and court meetings have been removed from these statistics

Meetings where at least one management recommendation was not supported

Source: M&G.

Votes cast as 'against' 'abstain' or 'withhold' by category and region

	UK	Europe	North America	Japan	Asia Pacific	Rest of world
Board-related	38%	38%	38%	89%	43%	55%
Remuneration	25%	15%	6%	0%	9%	14%
Capital-related	10%	13%	1%	0%	17%	12%
Governance & audit	10%	29%	29%	2%	23%	18%
Strategic transactions & takeover-related	6%	1%	1%	1%	3%	2%
Environmental & social	1%	3%	0%	0%	0%	0%
Other	1%	0%	0%	0%	1%	0%
Shareholder: governance	8%	0%	10%	5%	4%	0%
Shareholder: environmental/social	1%	0%	15%	3%	0%	0%
	100%	100%	100%	100%	100%	100%

Source: M&G.

United Kingdom

Pre-emption rights

The largest proportion of our votes against management resolutions in the UK have traditionally related to our voting policy that larger companies should not seek to disapply pre-emption rights beyond certain thresholds, which we believe would otherwise risk excessive dilution for existing shareholders. Towards the end of 2022, we updated our policy in line with the new pre-emption guidelines, which increased the threshold from 10% to 20% (being 10% for cash and 10% for an identified acquisition or capital investment). Consequently, our voting against resolutions on issuance without pre-emption has declined.

Remuneration

Three remuneration report votes and one remuneration policy vote failed to pass during the year, with the companies concerned being automotive retailer Pendragon, consumer goods giant Unilever, fintech Plus 500 and specialist aircraft investment firm DP Aircraft; we opposed the last two over disclosure and structure concerns.

A significant shareholder revolt occurred at furniture retailer DFS Furniture, given shareholder unhappiness at the 10% salary increase awarded to the chief executive, in light of shareholder experience. Our votes were included in the 29.5% of the vote against approving the remuneration report.

Our expectation that the interests of executives and shareholders should be aligned and that this should be reflected in remuneration outcomes was an important factor in our decision not to support the remuneration report resolutions at retail and commercial bank Metro Bank, automotive fluid specialist TI Fluid Systems and silver and gold miner Hochschild Mining.

Bonuses

At hospitality operator Mitchells & Butlers we voted against the company's remuneration report, alongside 21.5% of other shareholders, due to concerns around the amendment of in-flight bonuses. At the AGM for asset manager Impax Asset Management, we abstained on the remuneration report due to concerns around lack of disclosure on the chief executive's bonus performance metrics. We wrote to the company to request increased disclosure in the future.

Transaction-related bonuses in our view are not appropriate, and we voted against the remuneration report at mortgage intermediary Mortgage Advice Bureau on the matter.

ESG/non-financial

While we are supportive of the inclusion of ESG metrics within executive remuneration targets, we would prefer for non-financial metrics to make up no more than 30% of the bonus and long-term incentive award. As such, we voted against the remuneration report at global lending platform Funding Circle, where ESG and strategic measures comprised 40% of the bonus.

Long-term incentives

As in 2022, changes to performance targets during the performance period were a concern at a number of companies, and we opposed the remuneration report at several companies including life and pensions consolidator Chesnara, house builder Vistry and hospitality operator InterContinental Hotels.

We voted against the remuneration report of industrial and electronic products and solutions company RS Group. This was due to the continued concerns regarding the one-off 'journey to greatness' award (J2G) proposed under the 2022 policy. We voted against the remuneration policy last year, alongside 39% of other shareholders, as we had concerns over the one-off J2G award with the maximum pay-out being 750% of salary. Generally we are not supportive of one-off grants, especially at this level, as it can incentivise the wrong behaviour for the long-term success of a business.

Despite a high level of dissent at the 2022 AGM, the company has not moved to address shareholders' concerns and we, therefore, decided to oppose the remuneration report this year. Another one-off award, this time at luxury car group Aston Martin Lagonda, was also opposed. The structure of the incentive, in terms of performance assessment, performance period and re-testing was not acceptable to us.

We voted against the remuneration policy at technology and publishing company Pearson as we were concerned that the LTIP targets were not stretching enough to warrant a full incentive pay-out. Other remuneration policies that we declined to support included precious metals group Fresnillo, restaurant chain Domino's Pizza and telecoms company Airtel Africa. We voted against the remuneration report at online grocery retailer Ocado due to concerns regarding the operation of its value creation plan, in light of shareholder experience.

Low-cost airline Jet2 did not seek shareholder approval for directors' remuneration, so we abstained on the resolution to approve the annual report over concerns about the performance of the company's incentive plan.

Pensions

A continuing engagement area for us is the alignment of all executive director pensions with the general workforce, in line with guidance provided by the Investment Association. Soft drinks manufacturer A.G. BARR received significant dissent on its remuneration policy resolution from 33.5% of investors, including us, over concern regarding executive director pensions being misaligned with the wider workforce. We also voted against the remuneration report at vending machine operator ME Group International due to concerns over misalignment of directors' pensions with the wider workforce and overall poor disclosure throughout the report. We engaged with shipping services provider Clarkson and asked it to consider aligning current directors' pensions with that of the wider workforce.

Diversity

As discussed earlier in this report, under diversity engagements, we have taken voting action where we have not felt enough was being done in regard to boardroom gender diversity.

While boardroom gender diversity appears to be improving, we continued through 2023 to oppose, primarily, nomination committee chairs where our expectations in relation to diversity were not met. Consequently, we voted against a number of UK companies including:

- Airtel Africa
- Alfa Financial Software
- Alpha Group International
- Anglo-Eastern Plantations
- AO World
- Aston Martin Lagonda
- C&C Group
- Card Factory
- Frasers
- Georgia Capital
- Inspecs
- ITM Power
- Jet2
- Loungers
- Mid-Wynd International
- Mitchells & Butlers
- Ocado
- Pendragon
- Playtech
- Riverstone Energy
- Trainline
- TruFin
- Unbound
- VinaCapital Vietnam Opportunity Fund
- Wickes

Wilmington was also identified as a concern but following an engagement with the company we decided to vote in favour. The company highlighted that it intends to meet the listing rule requirements by 2025.

Ethnic diversity

Taking into consideration the Parker Review recommendations for FTSE 100 companies, we also voted against the nomination committee chair at both student accommodation provider The Unite Group and investment trust F&C Investment Trust where ethnic representation did not meet our minimum expectations.

Climate

A handful of companies put their climate plans to vote. We supported the majority of climate plans and deemed they were appropriately stretching. We did vote against miner Glencore's climate plan, given concern around thermal coal activities, the legitimacy of the glide path proposed and overall ambitiousness of the transition plan.

Follow This, a Netherlands-based interest group, filed shareholder resolutions at oil majors BP and Shell asking them to align their existing 2030 scope 3 carbon reduction targets with that of the Paris Agreement. We voted against the resolution at BP on the basis that the resolution would have restricted BP's flexibility in providing real-world solutions (scope 3 emissions could rise in the short-term before falling); the explanatory notes to BP's resolutions were legally binding; our intention to engage with BP over the next year on Scope 3 targets; and evidence it is helping customers in hard-to-abate sectors to accelerate their transition. We also voted against the Shell resolution for similar reasons. See the section above on Oil Majors.

Directors

Boardroom

Concentration of decision-making power is an important corporate governance issue for shareholders, and this drew our attention to eyewear company Inspecs. Recent board changes saw the departure of the non-executive chair and the appointment of chief executive (and company founder) as executive chair. A non-executive director became the new chief executive. Although a relatively small company, we felt strongly enough to oppose the executive chair election.

At pub operator JD Wetherspoon, the executive chair, in his annual report statement to shareholders, expressed concern over the 'nine-year rule' for non-executive directors and the consequence of short-tenure directors with limited experience of the company. This subject was probably raised because one of the board's directors has a 17-year tenure and received a significant 14% oppose vote last year. The board comprises nine directors, but only two are considered independent and this is a concern, particularly when the chair is executive, the company's founder and a significant shareholder.

We therefore decided to oppose the reappointment of the long-tenured non-executive, and we note that opposition increased to 20% from last year. It is worth noting that the company is unusual in its appointment of employee directors to the board. We supported their elections.

As well as considering independence on boards, we also consider the independence of board committees. In the UK, we opposed or abstained at a number of company's AGMs on non-independent directors due to their committee membership including investment manager Premier Miton, hospitality operator Mitchells & Butlers, building materials company SIG and E&P firm Tullow Oil where we have a significant holding.

Cybersecurity company Darktrace saw one of its directors voted off the board and two others receiving significant oppose votes. The director removed by shareholders was the representative of one of company's founders, who is fighting a legal battle in the US.

Property developer Hammerson's largest shareholder nominated two new directors to the board, whom the board recommended shareholders oppose at the annual general meeting. The dissident shareholder had expressed concerns with the company's operation and strategy. We voted to support the board and, in the event, the two nominee directors failed to be elected. However, two resolutions relating to capital issuance did not pass.

Over-boarding

At the AGM for exhibitions and conferences organiser Hyve Group, we abstained on the chair's re-election due to concern that he is over-boarded and has insufficient time to devote to the positions held. He currently sits on four boards, and is chair at three of these companies.

Virtual-only shareholder meetings

In line with our 2022 voting, we continued to vote against a number of new articles of association proposals over concerns regarding virtual-only meetings. While there has been a need for virtual meetings since the pandemic struck as companies have been unable to hold in-person AGMs and GMs, we do not support companies changing articles to make this a permanent feature.

Where changes have been proposed, we have supported those that incorporate hybrid meetings (in-person and virtual) and those that have confirmed they will annually seek shareholder approval for virtual-only meetings. This is considerably less common now as many companies return to hybrid or in-person meetings. However, we still voted against new articles of association proposals providing for virtual-only meetings at:

- Aston Martin Lagonda
- Baillie Gifford Shin Nippon
- Entain
- Gateley
- Lowland Investment
- Prudential
- Schroders Capital Global Innovation Trust
- Whitbread

Other

Other significant votes included the takeover of hospitality provider Restaurant Group in November, which we supported and the continuation vote at music IP investment and song management company Hipgnosis Songs Fund, which was not supported by shareholders. The continuation vote followed a proposal by the board to shareholders at an EGM to sell assets, which was rejected.

Materials retailer Topps Tiles stands out during the year for the level of dissenting votes, with one management resolution failing to pass. This negative voting was primarily due to the company's largest shareholder, who also proposed three resolutions of its own, including removal of the chair, although these failed to pass.

We voted against a number of shareholder resolutions filed at banking and financial services company HSBC, due to concerns that the proposals were not in the best interests of the company or shareholders.

North America

Climate

North America has retained its position as the focal point for voting-related shareholder activism, and climate change remains at the heart of this stakeholder advocacy, with resolutions now actively looking to align company operations and strategy with 1.5°C scenarios. We have been supportive of resolutions asking companies for enhanced disclosure around decarbonisation, transition plans and emissions target setting. However, we have been wary of supporting resolutions we consider to be overly prescriptive, too narrowly focused or otherwise potentially harmful to shareholders. While we encourage the adoption of net zero strategies with robust interim targets, we do not wish to unduly restrict our investee companies' ability to realise their strategic objectives.

We have consistently supported shareholder resolutions requesting enhanced disclosures on climate lobbying, as it could assist shareholders in assessing whether lobbying activities align with the companies' policy positions and investors' interests.

To promote more ambitious transition plans, we supported shareholder proposals at healthcare company Quest Diagnostics and manufacturing company Martin Marietta Materials, asking for the adoption of science-based emissions reduction targets. The proposals received considerable support, 48% and 33% respectively.

Unsurprisingly, oil and gas majors Exxon Mobil and Chevron were targeted by concerned shareholders regarding the companies' climate and environmental risk management. We supported the shareholders' request for the companies to set medium-term scope 3 targets in order to promote more ambitious transition targets.

Environmental

We also focused our attention on other environmental issues. We supported several shareholder proposals asking companies to report on efforts to reduce plastic waste, including at fast food corporations Restaurant Brands International and Yum! Brands. We also backed a shareholder proposal asking conglomerate Honeywell to produce a report on environmental justice.

Meanwhile, at poultry processor and marketer Tyson Foods and fast food chain McDonald's Corporation we supported shareholder proposals requesting the company to comply with World Health Organization guidelines on antimicrobial use throughout its supply chains, in order to promote improved antibiotics stewardship.

Board diversity

After solidifying our voting policy stance on gender diversity last year, we continue to oppose nomination committee chairs over concerns related to gender diversity at board level. At apparel company VF Corporation and buildings materials producer Eagle Materials we opposed members of the respective boards due to concerns over lack of female board representation. We followed up our votes with engagements at the respective companies.

Remuneration

Concerns over excessive pay, discretionary adjustments and limited board responsiveness to shareholder dissent led us to oppose the 'Say on pay' votes at tech company Apple and aerospace manufacturing company TransDigm Group, among others. To help shareholders better assess the issue of pay inequality, we supported shareholder resolutions at Toronto-Dominion Bank and Royal Bank of Canada asking to disclose the chief executive pay ratio. At heavy-equipment manufacturer Cummins and shipping company UPS, we were supportive of shareholder resolutions asking for a stronger link between remuneration and ESG-related performance metrics.

Social

At multinational coffeehouse chain Starbucks, we voted for a proposal asking for a third-party assessment on the company's commitment to freedom of association and collective bargaining, as we believe it could help shareholders identify areas of improvement and associated risks.

At apparel company NIKE and food manufacturer Kellogg Company, we supported shareholder proposals requesting a report on the median pay gap broken down by ethnicity and gender, as we believe such a report could help identify if there are potential bottlenecks in terms of career progression and recruitment. At the NIKE meeting we also supported a shareholder proposal asking the company to report on its supply chain management in relation to human rights commitments. Given tech giant Microsoft's expansion of data centres throughout the world, we supported a shareholder proposal requesting additional disclosures around human rights risks in relation to company operations in high-risk countries. At transport company FedEx, we supported a report on the just transition in order to promote enhanced disclosures. For similar reasons, we supported a resolution asking the company to disclose its sick leave policies.

Governance

At Apple we supported a resolution to adopt a policy for establishing an engagement process with shareholders, as we believe the board should make themselves available to proponents of a successful shareholder proposal campaign.

On two occasions this year we had to consider competing ballot items, known as proxy contests. They were launched at biotechnology company Illumina and medical technology company Masimo Corporation. In both cases, the dissidents were looking to replace members of the board due to concerns regarding its management of recent acquisitions and strategy. We voted for one of the dissident nominees at Illumina and two at Masimo. All three candidates received majority support.

During the year, we also voted against directors over independence concerns due to time on the board, over-boarding and inappropriate governance provisions, such as at semiconductor manufacturer Vishay Intertechnology and at battery manufacturer Energizer Holdings.

At consumer packaged goods company Conagra Brands, we supported a shareholder proposal to provide for shareholders to call a special meeting. The resolution passed, with almost 79% of shareholders voting in favour.

Mergers and acquisitions

During the year we supported water technology company Xylem's acquisition of Evoqua Water Technologies and pharmaceutical company Pfizer's acquisition of biotech company Seagen. We also supported the merger between natural gas midstream company ONEOK and Magellan Midstream Partners and the acquisition of Newcrest Mining by gold mining company Newmont Corporation.

Other issues

An emerging trend in the last few years has been the rise of so called 'anti-ESG' proposals. The proponents are questioning the validity of ESG ambitions in light of fiduciary duties, arguing that ESG might harm shareholder returns and is politically motivated. One such proposal, which we opposed, filed at conglomerate General Electric, asked for an audited report on the fiduciary relevance of the company's decarbonisation goals. The proposal received meagre support with only 1.1% of shareholders casting their vote in favour.

At technology companies Microsoft and Cisco, we abstained on shareholder resolutions requesting the companies to issue a tax transparency report prepared in consideration of the guidelines set forth in the Global Reporting Initiative. While we appreciate that the direction of travel is increased tax transparency, we were nonetheless concerned about potential unforeseen consequences of reporting in line with a different tax standard, especially considering the global reach of the companies in question.

Europe

Governance

Swiss luxury goods company Compagnie Financiere Richemont attracted a number of oppose votes from us at its AGM. Concerns included the independence of directors and the auditors; remuneration amounts and disclosure; and proposed changes to the articles that would make it harder for shareholders to submit proposals and would allow virtual only shareholder meetings.

Typically we oppose resolutions to allow virtual-only meetings. However, we supported such a resolution at German DIY retailer HORNBACH, as the authority was time-limited to two years.

At Enel, the Italian power company, shareholders are required to vote for slates of directors. In previous years a slate has been proposed by the Italian Government as a major shareholder with a 23% holding, and a smaller slate by Assogestioni, an Italian shareholder association. However this year a small shareholder, Covalis, proposed a slate to compete with the government slate for board seats due to concerns about the government's boardroom control and the appropriateness of shareholders appointing the chief executive. Covalis also proposed a candidate for the position of board chair. We decided to support the Covalis slate and its proposed board chair. However, none of these candidates gained seats. We have subsequently had a call with Assogestioni to discuss the merits of changing the slate system and this dialogue is ongoing.

Both luxury goods company LVMH and international airport operator Aeroports de Paris proposed resolutions to appoint censors. Due to numerous concerns about their role and unaccountable influence, we opposed these proposals.

At Irish medical technology company Medtronic, we opposed an election over independence concerns where one director had a 23-year tenure and chaired the audit committee.

Dutch multinational conglomerate Philips failed to pass its resolution on discharging the management board, which we also did not support. This follows the dismissal of the former chief executive and the product recall-related troubles the company has been experiencing. At Swiss automation company ABB, we opposed the resolution to discharge the directors in light of fines for bribery. German meal kit company HelloFresh failed to persuade shareholders to back a governance motion seeking to increase the appointment term of directors from two to four years. In our view, directors should seek annual re-election, and we duly opposed along with the majority of other shareholders.

Diversity

During the year, we identified a number of European companies whose boards did not meet our expectations in respect of gender diversity. At Irish drinks manufacturer C&C Group and Swiss chemicals company EMS-Chemie, we opposed respectively chairs of the companies' nomination committee and board over the low level of gender diversity on both boards. At Danish shipping company A.P. Møller – Mærsk, we abstained on the vice-chair of the board as oppose was not an option on the proxy card. Other companies to receive negative votes from us due to diversity concerns included:

- ABB
- Eaton Corporation
- FBD Holdings
- Flow Traders
- Garmin
- Kuehne + Nagel
- Migros Ticaret
- Sagax

Remuneration

Remuneration was a concern at a number of companies across Europe. Typically we voted against the board recommendation due to inadequate disclosure as we did at Finnish engineering firm Kone, Swedish security business Securitas and German civil engineering company Bilfinger, as well as many others.

Dutch-American record label company Universal Music Group sought shareholder approval for additional remuneration in the form of a transition award, valued at US$100m, for its chief executive. We opposed the award, along with the majority of other shareholders, especially as it was not performance related and its need was not explained. The award resolution failed to pass. Swiss aircraft parts manufacturer Montana Aerospace reduced the exercise price of executive options and for this reason, we declined to support the resolution to approve the remuneration report.

There were many other instances where we declined to support management proposals on remuneration across a range of issues. For example, we opposed at German dialysis specialist Fresenius Medical Care and Italian multinational biotechnology company DiaSorin over severance; at Portuguese food distributor Jeronimo Martins over pensions; at Swiss chemical industry firm EMS-Chemie and Spanish renewable energy company Acciona Energias Renovables over structure, and at Swiss luxury goods business Richemont over quantum.

Climate

A number of European companies proposed and faced climate-related proposals on a range of issues, including corporate plans, policies, targets and business activities. At French energy company TotalEnergies, we opposed a shareholder resolution from Follow This for the company to incorporate scope 3 emissions into its climate targets. This was on the basis that we would engage with TotalEnergies over the next year with objectives similar to Shell and BP as described earlier in this report, but in addition for the company to publish a clear decarbonisation plan; remove the inconsistencies that exist between the company's website, annual report and the Sustainable Development and Energy Transition Plan; and ask Total to disclose their downstream scope 3 emissions to align them with their peers. See also section above on Oil Majors.

Shareholders of French utility Engie requested changes to its articles to incorporate provisions on shareholders' voting on climate strategy into the company's bylaws. Concern that the resolution was not justified in light of the company's commitments led some of our funds to oppose the resolution and some to vote in favour, where differing opinions were expressed. Shareholder proposals at, respectively, Danish and Swedish banks Danske Bank, SEB and Swedbank, which we opposed, sought to end the banks' financing of fossil fuel companies. We considered the resolutions to be too prescriptive and not in shareholders' interests. Several companies put forward resolutions on sustainability reports and climate transition plans and strategies that we supported.

In France, a requirement for companies to produce a climate and sustainability strategy that would be voted on by shareholders every three years was proposed by legislators. The proposal would have also required directors each year to prepare a report on its implementation and these would also be subject to an advisory shareholder vote. However, in October, the requirement was removed from the legislation.

Capital

Share issuance without pre-emption rights remains an issue in Europe and this is most noticeable in France where companies often propose multiple issuance resolutions. Although dissent levels can be quite significant the resolutions we opposed all passed. Examples of companies where we opposed capital-related resolutions include Belgian bank KBC Ancora, French airline Air France-KLM, Swiss aircraft parts manufacturer Montana Aerospace and French contract logistics group ID Logistics Group.

Shareholder resolutions

Belgian shipping company Euronav's two largest shareholders both sought to change the composition of the board. One proposed to remove existing members of the supervisory board and have its own nominees appointed. We opposed these resolutions, including two supported by the board, as we did not consider them to be in the company's interests. However, we did support the resolutions proposed by the other major shareholder in line with the board's recommendations.

During the year, shareholders in Danish companies A.P. Møller–Mærsk, brewer Carlsberg and equipment maker FL Smidth & Co. were asked to consider human rights-related disclosure resolutions. While we supported one, we opposed the others, as the companies' disclosures were considered adequate.

French telecom Orange faced a number of shareholder resolutions concerning share incentives and the number of directorships that may be held by the company's directors. We considered that the resolutions were not in shareholders' interests and opposed them.

A more unusual shareholder resolution was proposed at Swedish fast-fashion retailer H&M on animal slaughter methods. We supported the request for greater disclosure.

Other

Danish stone wool insulation maker Rockwool proposed a resolution for making substantial donations to Ukraine. Our concerns over the purpose, governance and transparency of the donations were not allayed by the company, and consequently we were unable to support the resolution.

Japan

Governance

The majority of our voting not in support of the board's recommendation relates to concerns over independence. For this reason, we voted against directors and statutory auditors at machine industry company Nippon Thompson, private railway operator Keisei Electric Railway, textile industry company Toray Industries and media company TBS to name a few.

Convenience store operator Seven & i was under pressure from a dissident shareholder who proposed four new directors to the board and who vocally opposed several of the board's nominees, including the president, over strategy and other concerns. We decided to oppose the president and support all the other candidates seeking election.

Shareholder activism was also at work at drug store chain TSURUHA. We decided not to support the election of a number of existing board members over governance concerns and to support directors nominated by the dissident shareholder. However, other shareholder resolutions on remuneration, capital and article amendments, were not supported.

The majority of companies in Japan are governed under the traditional two-tier board structure. The railway technology company Nippon Signal proposed a move to the board with audit committee structure; we considered this preferable and were therefore supportive.

We opposed directors at drug store operator Ain and vacuum technology developer ULVAC over independence concerns, and at drinks maker Sapporo due to the level of assets held in cross-shareholdings.

A shareholder resolution at construction company Obayashi Corp to distribute an additional dividend received our support. However, we opposed a shareholder resolution to undertake a share-repurchase program at security firm SECOM.

Diversity

We recently amended our voting policy in respect of board gender diversity to include Japan. Consequently, we voted against a director at a number of company AGMs including:

- Brother Industries
- Capital
- Dai Nippon Printing
- ITO EN
- Sumitomo Electric Industries
- Sumitomo Rubber Industries
- Yamazaki Baking

Poison pills

Sealing specialist Nippon Pillar Packing and machine industry company Nippon Thompson both sought shareholder approval for the adoption of poison pills. We generally believe that these are not in shareholders' interests and that was the case for these proposals, leading us to oppose.

Virtual

Semiconductor inspection and measurement equipment maker Lasertec, proposed amending the articles to allow virtual-only meetings. Following our policy stance, we voted against as we did for others making similar amendments, including optical technology company Olympus, beverage producer Kirin and video-game maker Sega Sammy Holdings.

Climate

There were a number climate-related proposals from shareholders. In Japan, the ability of shareholders to put forward resolutions is restricted to a few permissible issues and so a shareholder must propose amendments to a company's articles as a way of circumventing the restrictions. At financial companies Mizuho Financial Group, Sumitomo Mitsui Financial Group and Mitsubishi UFJ Financial Group, there were resolutions to align lending to the Paris Agreement. We voted against these either in light of progress that has been made and/or because the companies are due to provide further disclosures on targets. Other shareholder resolutions asked for climate-related disclosure, which we typically supported. Notable was a resolution that we supported at utility Electric Power Development on how executive remuneration relates to emission targets.

Asia Pacific

China and Hong Kong SAR

We voted on 282 meetings covering 2,345 proposals. The majority of resolutions related to director elections, capitalisation and routine business. We voted against management on 11% of the total votable proposals with most of these relating to capitalisation, followed by director elections and amendments to companies' articles.

A regular cause of negative voting concerns are resolutions that seek shareholder approval for the issuance of shares without pre-emption rights. Outside of the UK, we oppose such issuance when it exceeds 10% of issued share capital. One example is personal computer manufacturer Lenovo Group, which passed its resolution on issuance of equity without pre-emption rights which exceeded 10%, although 38% voted against, including us. In the Asia Pacific region these resolutions most frequently occur in Hong Kong and China.

Concerns over dilution and excessive remuneration occasionally cause us to oppose incentive schemes when the potential level of related share issuance exceeds 5%. Inadequate disclosure in relation to key elements of schemes is also a common reason for us to not be supportive, as in the cases of Techtronic Industries and Oneness Biotech.

We voted in opposition to the restricted stock plan of Wuxi Lead Intelligent Equipment due to concerns regarding the disclosure of performance criteria in the latter half of the year. We also opposed a proposal at Weichai Power, in which we hold a significant stake, to authorise the board to handle matters related to the incentive scheme. Our opposition reflects our stance that remuneration should be independently administered.

Chinese transportation company Zhejiang Expressway proposed removing the right of class shareholders to have share class general meetings. Notwithstanding the amendments being in line with changes to local regulations, we opposed, as they are a significant reduction in shareholder rights, protections and accountability. We voted against a similar proposal at SINOPEC Engineering.

A number of Chinese companies, including China International Capital and COSCO SHIPPING Holdings, proposed amending their articles to enshrine the role of a Party Committee within their governance structures. Where these took precedence over the board, we opposed, otherwise we abstained.

Another significant oppose vote was seen at electronic learning products company VTech where amendments to articles included provision for virtual-only meetings.

At Jiangsu Zhongtian Technology and China Construction Bank Corporation, we chose to abstain on resolutions for amending company articles relating to shareholder meetings. Insufficient information was available, which prevented us from making an informed voting decision.

Chinese companies often seek approval for holding companies to provide financial guarantees to subsidiaries, often when the subsidiaries are not wholly owned. We supported those guarantees that were proportional to the level of ownership.

We voted against two directors at Hong Kong logistics company Sinotrans and EV manufacturer BYD Company where independence was a concern.

PICC Property and Casualty Company, the non-life insurer, disappointed us with its recent board appointments. Despite having only one female director, none of the six new appointees were female. We registered our concern by opposing the chair of the board.

India

July to September is the proxy voting season in India. We opposed several proposals due to concerns regarding lack of independence, gender diversity, competence and multiple directorships in public listed companies.

Independent oversight was the issue that drew most of our negative voting. Companies where we opposed a director over independence included Maruti Suzuki India, Adani Ports & Special Economic Zone and Max Healthcare Institute; a 22% oppose vote was recorded for the latter.

Concerns over multiple board memberships at Bajaj Finserv and Eicher Motors, led us to vote against the election of a director at each company. Additionally, at Bajaj Finserv, we were concerned by the board's overall level of independence. We firmly believe that the board should maintain an adequate level of independence, and directors should be able to allocate sufficient time to fulfil their responsibilities.

Gender diversity is a concern at LIC Housing Finance, the residential home loan provider, but only two of the 12 board members were seeking election. We decided to oppose a non-executive director who is a member of the nomination committee and also chairs the board's governance committee. Similarly at IFDC First Bank, an Indian private sector bank, we were concerned about the lack of representation of women on the board; we consequently opposed the re-election of two directors that are members of the nomination committee.

At Reliance Industries, an Indian conglomerate, we opposed the appointment of a new nominee due to concerns that his limited experience was insufficient to adequately contribute to the board's deliberations. In our view, board members should clearly possess the necessary expertise and abilities to fulfil their role.

At the ICT services provider Bharti Airtel Limited, we opposed a remuneration resolution relating to the chair over structure and disclosure concerns.

We opposed a related party transaction proposal at Adani Green Energy due to the company's failure to provide sufficient information for us to evaluate the fairness of the transaction.

Australia

A shareholder resolution was presented at Woodside Energy Group, requesting the company to report on how it is deploying capital in line with achieving global net zero in 2050. We chose to oppose this resolution, as we have done in previous years on similar resolutions.

National Australia Bank faced a shareholder resolution on the subject of climate transition plans for its clients. Through discussions with the company, and after careful deliberation, we decided to oppose the resolution as we have confidence in the approach being taken by the company. A second shareholder resolution, this time to appoint a new director who has concerns over the process for electing directors, was opposed.

We voted against the remuneration report at the Dexus annual general meeting due to our concerns about the remuneration structure, specifically the targets set.

Singapore, South Korea and Thailand

South Korea's KB Financial Group faced two shareholder resolutions. The first sought to prevent government employees from being appointed as chief executive within a three-year cooling off period. In the second, a union of employee shareholders sought to have a nominee elected. In our view, neither resolution was justified, and we supported the board's recommendation to oppose.

Singapore Airport servicing company SATS held a meeting for shareholders to approve the acquisition of Promontoria, but we considered the terms were not in shareholders' interests and opposed. Our reservations over the dividend policy of NBN Trust, the operator of Singapore's fibre network infrastructure, led us to vote against two directors at the company's annual general meeting, which included the chair of the board.

We again opposed the founder of Bangkok Dusit Medical Services who was previously sanctioned for market share price manipulation by the Securities and Exchange Commission of Thailand.

Rest of world

The board of Brazilian infrastructure company CCR still lacks independence in our view and remuneration disclosures are insufficient. Given these concerns, we declined to support the re-election of the chair and resolution to approve remuneration.

Similarly, Mexican airport operator Grupo Aeroportuario del Sureste has a board that is insufficiently independent and consequently we opposed a number of directors. Another Mexican company, real estate investment trust Fibra Uno Administracion, has a board dominated by shareholder representatives and, like last year, we voted against a number of directors due to concerns over board independence.

We opposed seven resolutions at South African ecommerce company Naspers due to a range of concerns over director independence, remuneration and share capital. We also opposed three director elections at the AGM of Israeli cybersecurity specialist Check Point Software and two at the AGM of Latin American bank Banco do Brasil due to independence concerns.

At Mexican vehicle parts company Nemak we opposed the resolution to approve the annual dividend as we were concerned about efforts to reduce debt. For the same reason, we opposed the dividend resolution at Mexican conglomerate Alfa; we also opposed the proposal for electing directors to the audit committee as we had concerns over independence.

Voting at Russian shareholder meetings is affected in a number of ways by international sanctions, and we cautiously voted on individual resolutions for the small number of holdings that we have when permissible.

UK Remuneration

During the year we received consultations on 60 new proposals from remuneration chairs, with subsequent follow-up letters and emails. We had a total of 15 remuneration-specific meetings during the year, in direct response to company proposals. Of note, we are members of the Investment Association's (IA) Remuneration and Share Schemes committees, where specific concerns are discussed.

Throughout the year, in line with IA guidance, we continued to keep a close eye on executive pension arrangements to ensure that they are in line with the wider workforce. Generally, most companies are compliant with this guideline. Companies were also generally sensible when it came to salary increases for executives, aligning these with the wider workforce and recognising the cost of living crisis.

Windfall gains

2023 was the third anniversary of the first Long Term Incentive Plan (LTIP) shares issued during the first year of COVID-19. Concerned with the potential for windfall gains, the overall view was that remuneration committees applied appropriate discretion where necessary. More broadly, there were limited issues with remuneration outcomes during the year. Where we did take issue largely related to either the target metrics retrospectively disclosed not being stretching enough; some inflight changes to how the remuneration policy was applied; and a lack of disclosure around parts of the remuneration structure. On some occasions, we did vote against the remuneration report, such as in the case of life and pensions consolidator Chesnara, while in others we supported but followed up with the companies to seek improvement for the following year, such as pharmaceutical company Hutchmed (China) Limited.

Hybrid plans

In terms of the proposals we received during the year, the vast majority involved retaining the existing structure from the current policy, namely annual bonus and LTIP. Within these policy renewals, the main changes related to a combination of the quantum and metrics. We considered each on a case-by-case basis and responded appropriately. Interestingly, we have started to receive new proposals involving hybrid plans for long-term incentivisation – typically the combination of LTIP and restricted shares (that do not carry performance conditions but are subject to an underpin). The rationale for those that have been received so far relate to companies whose operations and executives are predominantly in the US and the companies are competing with US-style remuneration packages to both retain and hire talent (also see commentary below). While hybrid plans add a layer of complexity where we prefer simplicity, like all policy consultations, we will evaluate the rationale for each case on its merits.

Non-financial metrics

Within more traditional proposals, we continue to see either an uptick in or introduction of non-financial metrics being included. Over recent years, the percentage that these non-financial targets contribute to the overall remuneration structure has increased. Despite being supportive of the inclusion of these metrics, we remain cognisant of striking the correct balance between financial and non-financial metrics in incentive schemes. As such, we were very clear when consulting on proposals that we did not expect to see these non-financial metrics total more than 30% of the remuneration opportunity and preferably less. We do welcome boards giving consideration to ESG metrics as part of incentivisation, as long as they are material to the company and its strategy. However, while we value the importance of personal, strategic and other non-financial metrics, we have concern around the measurability and use of discretion when deciding on the vesting outcomes of these particular metrics, and which should simply be part of the 'day job'.

UK competitiveness

Discussions around the competitiveness of the UK as a listing venue, both for new companies and those already listed and which may consider moving their listing, gathered traction during 2023. While executive remuneration is not the only factor when choosing the listing venue, it is an important one and companies continue to highlight the challenge of trying to compete, particularly with the US and private equity, in regard to executive remuneration and the retention of employees. Attracting talent becomes very difficult when competing with US and private equity remuneration structures and the larger packages that are available to many executives. We, of course, want companies to hire the best management teams and for executives to be sufficiently motivated, and will engage with companies on this topic to understand their individual circumstances. However, we do not think remuneration should be the only reason why UK companies can compete for US or private equity talent. We also remained mindful of excessive executive pay increases in relation to the remuneration of the wider workforce, in the context of the ongoing cost-of-living crisis.

Other engagement activities

We are willing to act collectively with other UK and overseas investors where it is in the interests of our clients to do so, and we are supportive of collaborative engagements organised by representative bodies such as the Investor Forum and Climate Action 100+. Members of the Stewardship & Sustainability team participate on a range of external committees related to shareholder issues, while also taking part in conferences, conventions and roundtables, among others. It is in the interest of our clients and society as a whole to have well-functioning financial markets. It is also important for us to engage with regulators, government officials and other important stakeholders to ensure the best outcomes for clients.

We are members of the Investment Association (IA) and sit on a number of its committees, including the Board; Investment Committee; Sustainability and Responsible Investment Committee; Stewardship Committee; Corporate Reporting and Audit Group; and Remuneration and Share Scheme Committee.

We are co-chairs of the International Corporate Governance Network (ICGN) Natural Capital Committee, which met at the beginning of the year and agreed to produce a biodiversity action toolkit within the first quarter. As a follow up to the toolkit, we chaired a webinar in May with a panel of speakers from different asset managers to discuss a number of tools that investors can use when analysing biodiversity risks in their portfolios. The committee discussed a number of ideas for its next paper and settled on linking natural capital to climate with the governance of deforestation, providing case studies to demonstrate this.

During the year we signed up to IIGCC's Nature Action 100 initiative, a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss. As mentioned earlier in this report, as part of this engagement initiative we are co-leads on five companies.

In addition, we have inputted into various responses and attended a number of roundtables relating to UK-focused consultations. The first of these related to changes to the UK Listing Rules, which are ultimately aimed at trying to make the UK-listed equities market more competitive against a backdrop of few IPOs and a number of companies either having moved or discussing moving their listing away from London.

The second related to changes being made to the UK Corporate Governance Code led by the FRC, but on the back of a consultation led by government around changes to audit. Having got through the consultation, the majority of the proposed changes were ultimately dropped against the backdrop of concerns over the competitiveness of the UK's capital markets.

The final consultation of note came from the Vote Reporting Group, which was established in 2022 to develop detailed proposals to enhance shareholder vote reporting by asset managers operating in the UK, through the design of a comprehensive and standardised vote reporting framework. The consultation focused on the format and content of a vote reporting template. As part of the consultation we attended a roundtable hosted by UK Sustainable Investment and Finance Association.

Investor Forum

We are active members of the Investor Forum, a collective engagement association. The forum runs a number of engagements and organises company meetings for its members, and also arranges regular forums for educational purposes. In early 2023, the forum published an updated Collective Engagement Framework, which provides practical guidance to investors. The full framework is available to members and a summary version is publicly available. The forum's engagement activities remain confidential while ongoing and many of the interactions do not always become public.

However, two engagements that we were involved in during the year are detailed below.

HSBC

As part of its AGM, global bank HSBC had received three shareholder resolutions, two of which were from significant shareholder Ping-An, a Chinese insurer. Ping-An was seeking HSBC to spin off its Asian operations into a separately listed company in Hong Kong and also to change its dividend policy. We, through the Investor Forum, engaged with the chair, chief executive and chief financial officer to understand their arguments as to why shareholders should vote against these resolutions. We ended up voting against the resolutions (in favour of the board's view) and the resolutions did not get the requisite shareholder support.

Vistry

We were part of the forum's engagement with housebuilder Vistry. The company had passed through a period of volatility with a number of non-executive directors resigning, a shareholder representative joining the board and a significant vote against the remuneration report. We provided our input on this engagement, which was focused on executive remuneration and strategy around capital allocation.

Forums

In terms of forums arranged during the year, these included:

- the UK Water Landscape with Water UK
- the risks and opportunities of reducing emissions from natural gas flaring and venting, with EnergyCC
- nature and biodiversity with EY
- insights, risks and improving the policy response around modern slavery, with Unseen
- a legal masterclass on 'regulatory developments in competition law, US regulation and ESG' with Gibson Dunn
- a roundtable discussion on 'rescuing ESG from the culture wars' with Professor Bob Eccles
- a legal masterclass on 'investor engagement around active transactions' with Skadden Arps and Gibson Dunn
- a series of Four O'clock Forums, one-hour discussions on topics including: 'the breakthrough effect – triggering positive tipping points', 'responsible climate lobbying', 'investor expectations on workforce directors', 'assessing the effectiveness of adaption action across the UK, 'no miracles needed: how today's technology can save our climate and clean our air' and 'investment trust corporate governance'
- a roundtable with UK Finance on the back of its report on UK Capital Markets
- a forum addressing how investors can engage with companies on modern slavery

The Investor Forum ran a number of other roundtable discussions which we participated in. The first of these was in conjunction with the IR Society and attended by a mix of investors and company IR. The purpose was to look at ways to improve dialogue between companies and investors and what both sides of the discussion can do to help facilitate this. The second, attended by a mix of investors and companies, was around sustainability and was looking at addressing the key challenges around measurement, materiality and the reporting of sustainability metrics, as well as the growing demand for broader information and assurance around sustainability. The final roundtable, in conjunction with the Audit Committee Chairs Independent Forum (ACCIF) and attended by investors and members of ACCIF, discussed how investors interacted with audit committee chairs, whether there was enough interaction, why this would be useful for both sides and ways to improve and promote these interactions.

Institutional Investor Group on Climate Change (IIGCC)

IIGCC AGM

We attended the IIGCC AGM. The highlights were a speech by the chief executive of IIGCC and the chair of the Intergovernmental Panel on Climate Change (IPCC).

IIGCC explained how 2023 had been about launching NA100 and phase 2 of CA100+ and the development of bondholder stewardship. 2024 is going to see the new Net Zero Investor Framework 2.0, a focus on emerging markets, integrating nature into climate and expanded IIGCC resources for engagement and stewardship.

The chair of IPCC spoke about the world's carbon budget – 500 GT of GHG emissions for a 1.5°C scenario and 1,300 GT for a 2.0°C scenario. The world is currently emitting 55GT of GHG annually (of which CO_2 is under 40GT). 20% of emissions are now covered by pricing and 50% by some form of regulation. Sectors all have different pathways: land use needs to be NZ by 2030, energy NZ by 2040 but transport will still have 25% of current emissions by 2050.

IIGCC accounting teach-in

This was a teach-in hosted by IIGCC on financial accounting for companies in the industrial sector in relation to climate change. The main point was that investors should look out for equipment or fixed assets which may need to be impaired or require higher capex going forward to enable their climate transition plan to decarbonise their processes.

IIGCC workshop

This workshop talked through a number of topics, starting with the IIGCC's Net Zero Engagement Initiative, which will focus on large emitters on the energy demand side, exploring, among others, what a good transition plan looks like. It then went through some sector specifics, including steel (where buyers of steel should be encouraged to switch to green steel) and chemicals, looking at the key decarbonisation levers of feedstock and energy consumption. Other topics included adapting the CA100+ benchmark, the Net Zero Stewardship Toolkit, which includes a NZ voting policy, and phase two of CA100+.

IIGCC Advisory Group

As part of the Net Zero Engagement Initiative, 107 new companies were added to the list for baseline engagement, with the hope to focus on around 20 companies. This number will depend on company responses and co-leads.

30% Club

Diversity & inclusion is one of our primary ESG priorities. As part of our efforts to progress the D&I agenda, we are active members of the 30% Club, a campaign group seeking to increase gender diversity on boards and senior management teams. Over the course of the year we attended quarterly meetings and strategy sessions with the group to discuss progress and areas in need of attention.

As part of our involvement in the Race Equity Working Group, we have actively engaged with the chairs of 52 FTSE 250 companies over the past two years. Our primary objective was to encourage these companies to appoint at least one director from an ethnic minority background to their boards to be in line with the Parker Review requirements. As of December 2023, we are pleased to report that 22 companies have successfully achieved compliance with this request. Additionally, 12 companies have made commitments to address this issue, while 16 companies are still lagging behind in their efforts. Unfortunately, two companies have been delisted.

At a wider group level, the 30% Club has updated its targets for UK companies to include:

- no all-male executive committees across the FTSE 100 by 2030
- beyond 30% female chairs in the FTSE 100 by 2030
- at least one woman in the chair, CEO, CFO or SID role by the end of 2026 (as per the FTSE Women Leaders Review)
- beyond 30% women at executive committee level by 2030
- set a percentage target for senior management positions occupied by ethnic minority executives

Impact Investing-related activities

It was another active year in impact investing at M&G Investments, with regulation and policy developments in the UK and Europe continuing to support progress on our impact investing practices. The finalisation of the UK regulations on Sustainable Disclosure Requirements and Investment Labels brought clarity to existing market views on how to measure and manage impact for UK domiciled funds, as well as creating guidelines for broader 'sustainable focus' and 'sustainable improver' categories.

During the consultation period, ahead of the announcement of the regulations, we worked closely with numerous peers and clients – as well as industry associations such as the UK Investment Association, the Impact Investing Institute and the Global Impact Investment Network (GIIN) – to input an impact practitioner voice into the discussion. Our key messages were to support the need for high standards for what constitutes impact (including core impact characteristics such as intention, measurability and additionality), while enabling the inclusion of funds that would be available to a broad range of investors, including retail clients. The consultation process was open and engaged, and we are encouraged by the improved clarity that the regulation will bring, as well as the ambitious standards that UK-based impact funds will need to align with.

Another important responsibility of impact investors is clarity in reporting and disclosures, and we spent time considering how to align our impact-oriented funds around high-quality reporting standards and practices. We contributed to external discussions with organisations such as Impact Frontiers and the GIIN on how to upgrade impact reporting towards the standards of traditional financial disclosures, while recognising the challenges posed by the fact that impact investing deals inherently with intangibles and subjectivity. The challenge is to gather sufficient data to ensure rigour and concepts, such as impact-weighted accounting – both across our organisation and in the broader market.

As a member of the GIIN's listed equity working group, we published the findings of the guidance for managing impact strategies in listed equities. Public markets are increasingly considered an important avenue for growing the scale of capital available to invest in line with the principles of impact investing. Key to the GIIN's guidance – and aligned with the expectations in the SDR's 'Impact label' – is the importance of 'investor contribution', ie the contribution made by the investor to achieving the desired positive impact. This ties in well to the topic of stewardship and engagement which, for listed equity investors, is the primary driver of investor contribution. During the year we conducted numerous engagements for our impact holdings, with some of these highlighted in the Impact Engagement section of this report.

We participated in a number of conferences and roundtables during the year, including the GIIN Impact Forum where, as part of the Acceleration Leadership Committee, we considered effective ways to further the mobilisation of impact-oriented capital, including communications, partnerships and innovative financing mechanisms. We held our second M&G Investments Impact Forum in London on World Environment Day, which aligned with the 2023 theme of 'solutions to the plastic problem', showcasing varied approaches at M&G Investments, across both public and private assets, to address this issue and other crucial sustainability challenges.

We also hosted one of the days of the UK Climate Finance Accelerator, a four-day event including two days of in-depth dialogue between investors and EM-based climate projects, focused on technical assistance and capacity building. The projects, which included EV charging infrastructure, off-grid solar solutions and sustainable food innovators among others, received feedback from the investors with a view to understanding how to make their projects more bankable. The highly interactive workshops and networking sessions enabled an excellent multi-disciplinary dialogue across the four days of the overall event, as well as ongoing dialogue and follow-ups.

Global Investor Strategy and Corporate Governance Forum

As a part of the Race Equity working group for the 30% Club, we were invited to attend this conference, which featured insights, guidance and case studies on data collection, analysis and disclosure, plus ethnicity pay gap (EPG) reporting. The purpose was to dispel the myths regarding barriers to EPG reporting, agree workable solutions for greater transparency and tackle the issues that perpetuate 'the gap' to begin with. With data and reporting on ethnicity still being in nascent stages for many companies, the overarching message was for companies to just start collecting data rather than waiting and allowing 'perfection to be the enemy of progress'.

With regards to collecting data on ethnicity, gender, sexual orientation and disability, the importance of transparency with employees was highlighted, as often people are hesitant to disclose being unsure about how this personal information will be used. If companies can be clear about the 'why' and create a culture of trust, informing colleagues that this data will be used to help ensure that they are being fairly promoted, paid and invested in, then the issues around data collection can be minimised, as more people will be willing to disclose. While companies reporting on both their ethnicity and gender pay gaps is useful in itself, we risk it becoming a reporting tool if companies do not link the data into their strategy. Often the data shows us what we already know – that there is a gender and ethnicity pay gap – so from here we should encourage companies to use this to set time bound objectives and targets on how they intend to close this gap.

Other organisations and activities

Biodiversity

In TNFD clinic

This was an overview of the TNFD's Locate, Evaluate, Assess, Prepare (LEAP) approach to biodiversity risk and opportunities and applying the draft TNFD framework to supply chains. LEAP is an integrated assessment approach that allows businesses to consider four core stages of analytic activity; LOCATE your interface with nature, EVALUATE your dependencies and impacts, ASSESS your risks and opportunities, and PREPARE to respond to nature-related risks and opportunities.

EY Biodiversity workshop

This workshop explored a number of organisations and their approach to biodiversity in the investment process. This included an overview of Finance for Biodiversity, outcomes from COP 15, Global Canopy and Forest 500, deforestation commitments and the current state of the Taskforce on Nature-Related Financial Disclosures.

ISS biodiversity webinar

ISS provided an update on regulations, its latest biodiversity tool and its ISS engagement service.

In terms of regulations, France has introduced Article 29 new biodiversity rules; SFDR requires Principal Adverse Impacts affecting land and protected species and under the Kunming-Montreal agreement in December 2022, as part of COP 15, 30% of land will be conserved.

The key metrics that the ISS BIAT tool (biodiversity impact assessment tool) uses are PDF (potentially disappeared species per km) and MSA (mean species abundance). It analyses economic activity and geographic location using data from Ecoinvent.

The thematic engagement service is engaging with 30 companies, mainly in the food products and mining sectors, with 43% based in Asia.

PRI reporting – stewardship

This was a webinar on what the PRI considers best practice in investor stewardship, which aligned with our current stewardship activities. The PRI plans to publish guidelines for collaboration, acting in concert and more general competition law, to give clarity on what is acceptable in collaborative engagement activities. The PRI's priority area is the addressing of systemic risks and issues.

UK Endorsement Board Advisory Group

Meetings during the year involved: gaining feedback from a number of investors on IAS 1 – categorising liabilities as current or over one year; intangibles – should they be disclosed and better defined; IFRS9 expected credit losses; IAS 12 deferred tax exceptions; and supplier finance. Meetings also covered what the ISSB should be concentrating on, IFRS 15 revenue, IFRS 9 – recognition of liabilities, and IAS 12 – income tax and deferred tax.

We also held an engagement with the UKEB (acting on behalf of ISAB) to provide feedback from an investor point of view on climate-related risks on financial statements. There was a discussion on why there may be differences between front-end disclosures and what is disclosed in the (back end) financial statements. We also discussed that our focus was more on the impact of a company on the environment, rather than climate-related risks to the company itself and/or its supply chain. We felt it was hard for companies to reflect climate-related risks in the financial statements because, for the most part, they simply do not know how best to. We also pointed out many companies have already written down significant parts of their existing projects, which are unlikely to be materially impacted. However, we do recognise the importance for sustainability-related risks and their financial impacts to be appropriately accounted for in companies' financial statements, and that this is a space that we continue to monitor. We agreed with the comment from UKEB about retaining a principles-based approach to accounting standards for this topic.

ICGN Conference – Toronto

We attended the IGCN Conference, which provided key insights into best practice and highlighted future priorities for companies, investors and stakeholders across a range of environmental, social and governance topics. Highlights included a discussion on the disconnect between proxy advisors, shareholders and management. A session on net zero engagement emphasised that by communicating net-zero expectations and holding companies accountable, either through engagement or proxy voting, investors can push climate laggards to eventually catch up to net-zero leaders. Strong governance practices can have a significant impact on how – and how effectively – investors engage with climate laggards to push for better net-zero alignment. In a plenary on the just transition, questions were raised around 'who' exactly we are ensuring that it is just for, and explored the role of litigation, fines, credits, taxes. The discussion also related to other innovative options that can close the financing gap and hold large emitting companies and countries accountable for the environmental, social and economic impact they have on developing economies. In the context of discussions around climate, and particularly biodiversity, the importance of the inclusion of indigenous voices within decision making was highlighted, with a failure to account for indigenous rights being an unmitigated investment risk.

ICGN Conference – London

We attended the ICGN Policy Forum and Proxy Season Review Conference in London, which covered a range of governance topics in small format panels. Topics ranged from governance in private equity and controlled companies through to the importance of constructive shareholder engagement and what this looks like, as well as a review of the UK proxy season, which was generally viewed as uncontentious. With a number of new reporting regulations coming into force around sustainability, there was also a focus on how assurance of the reporting will look and develop in the coming years.

Public policy advocacy

We recognise the critical importance of economy-wide transformation to tackle the climate crisis and that this requires stronger policy and regulatory signals, as well as collaboration with peers to promote best practice and support practical implementation across the financial services industry.

We continue to engage constructively with UK and EU policymakers on a wide range of ESG public policy topics. We do this individually and through a variety of membership bodies. Throughout 2023, our climate advocacy involved contributing to the UK government's green finance strategy, the work of the Transition Plans Taskforce to set out a best-in-class template for corporate disclosure on climate, the FCA's Sustainability Disclosure Regime and the European Commission's proposals to review SFDR. We also co-chaired the FCA-convened Working Group to develop a Code of Conduct for ESG data and ratings providers.

We have called for a comprehensive policy framework that sets out a reliable forward look for investors and market participants. Such a framework would contain, among others: ambitious, and mandatory, high-quality disclosure requirements from both public and private companies, creating long-term clarity for investors' decision-making; proper incentivisation of climate solutions (ensuring critical technologies reach competitive commercialisation quicker); support for credible transition activities; meaningful prudential regulation reform and broader policy action to capture nature and biodiversity loss.

We recognise that closing the climate financing gap requires direct deployment of capital towards solutions, and we have worked with UK policymakers on ways to increase institutional investors' allocation to private assets. M&G plc was a co-founding member of the government's Mansion House Compact, putting patient capital to work to the benefit of both innovative businesses and individual savers.

All Party Parliamentary Corporate Governance Group (APPCGG)

We attended a number of meetings hosted by the APPCGG which covered a range of topics.

- A discussion on the need to curb government expenditure and for government to think more longer term.
- A discussion on current proposals regarding cyber, which included an update to the National Cyber Security Centre's risk management toolkit and discussions with the FRC on how cyber can be better incorporated into the governance code.
- A discussion on Labour's approach to financing longer-term infrastructure projects in the UK.

All Parliamentary Group

This conference was focused on economic crime and corporate transparency. Danske Bank allowed US$160 billion to be laundered and was fined US$2 billion. London has a reputation for money laundering. It is proposing to formulate a deterrent-based approach, focused on a company's responsibility to prevent this, which will identify individuals within the company to help keep people accountable. The FRC highlighted the issues with passing further reporting requirements for UK companies, as annual reports and accounts have increased in size by 50-75% in the last few years. They noted that it is important to be cognisant of wanting to ease the burden on businesses and keep regulations meaningful and minimal.

Capital Markets Industry Taskforce

We attended this conference on the importance of the London capital markets in the provision of capital to growth businesses. We heard from a venture capital investor that most private rounds of equity finance are led by international investors, and from a UK software company that went to the US west coast to raise equity capital instead of in the UK. This was because he thought investors tend to be more aggressive and have a different playbook to European investors, who are more risk averse. We heard from insurance companies who were keen to divert more capital away from investing in government bonds into equity. Workshops were then held on how to fill the financing gap between EIS and VCT funding and venture capital, and what improvements we could make to corporate governance to make London more attractive as a destination to raise capital in public markets.

ISS

We engaged with ISS, provider of corporate governance and responsible investment solutions, who we use as one of our service providers for voting. There has been much discussion on the competitiveness of the UK capital markets, which includes the approach to executive remuneration. As part of that, we have been asking ISS to amend its benchmark pay policy to reflect international peers for companies where this would be relevant e.g. UK listed companies that operate globally or have significant exposure to markets such as the US. This included a roundtable with other institutions where there was general agreement this approach made sense, although there was a difference of opinion on how wide the criteria should be set as to which companies this would be applicable to.

ShareAction

In early 2023, ShareAction sent out 13 letters to chemical companies, which we co-signed, requesting the companies set out and disclose a plan over the short-, medium- and long-term, with intermediate targets, to phase in electrified chemical production processes. Following on from this, we attended a group investor meeting with chemicals company BASF, organised by ShareAction, which covered setting scope 3 targets, understanding how BASF will reduce fossil fuel from the feedstock, increase electrification and the blockers to making faster progress. In the second half of the year, we met with ShareAction for an update on their Healthy Markets Initiative and joined their webinar on Addressing Income Inequality. In terms of company-focused sessions, we attended an update meeting with ShareAction and other investors following their engagement with Nestlé on health targets.

In addition to the meetings and collaborative engagement initiatives, we contributed to the ShareAction 2023 global benchmark on asset managers, titled 'Point of No Returns' and held an in-person meeting with them to discuss our approach and the report findings.

Corporate finance

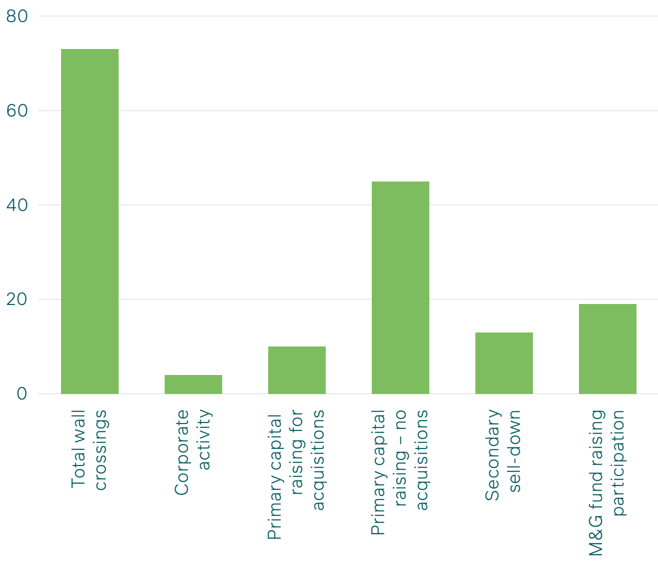
As part of our role as long-term investors, we play an important part in providing capital through the equity markets for the benefit of our investee companies and, therefore, our investors.

We are involved with companies at all stages of their evolution in the public markets, from the initial public offering (IPO), through periods of capital raising and expansion, to those companies being sold. In this way, we can provide equity capital to our investee companies to help fund their growth phases, and then recycle that capital back again into the market when we receive the proceeds for companies that are sold, often at a significant premium to the market price.

In order to effect these processes, we are prepared to be made 'insiders' and receive price-sensitive information by investee companies for short periods of time ahead of the information being made public. Typically, this is in relation to a transaction such as an equity capital fund raising, a takeover offer or a significant management change, where it is useful for the company and its advisers to try to seek support from major shareholders – whether to finance a transaction or get feedback ahead of a management change.

The Corporate Finance and Stewardship team acts as the primary contact point for the flow of this type of information into the equity investment team. The process of receiving price-sensitive information is known as 'wall crossing'. For the year in full, we were wall-crossed in respect of 73 companies in relation to proposed transactions or board changes prior to them being made public. Of these, 55 were related to equity capital fund raising with 10 of those specifically funding acquisitions. There were 13 related to secondary placings. We participated in 18 of the primary issues and one of the secondary placings.

2023 wall crossings



Mergers and acquisitions (M&A) and fund-raising case studies

Devro

UK edible films and coatings maker Devro announced a recommended cash offer of 316p per share in November 2022. As the voting date approached for the scheme of arrangement in February 2023, we became aware that two other shareholders were unhappy with the level of the bid. We approached the Investor Forum to see if other members were also unhappy with the level of the bid and, as a result, sent a letter from the Investor Forum to the board of Devro. The bidder subsequently revised the level of the offer to 330p (320p cash plus a 10p dividend on completion), which was then accepted by the dissenting shareholders.

Hyve

The board of international events and conferences organiser Hyve announced a recommended cash offer for the company at 108p. We owned just over 2% and fed back to the company and its advisers that, in our opinion, the level of the offer was derisory, given the company is cash generative, was trading well and that we had no desire to sell at that stage. Two other shareholders went public with the view that the offer was too low and, subsequently, we made our view public. Through a number of different channels, including the Investor Forum and making its views known publicly, the offer for Hyve was increased to 121p per share.

TruFin

Trufin is a holding company for a number of businesses in invoice finance, dynamic discounting, IFA succession planning and mobile games publishing. The fundraising was primarily being used to help its mobile games publishing business, Playstack, fund the development and licensing of the second and third versions of the successful Mortal Shell gaming franchise, having had strong success with the original release. We followed our pro rata share of the fundraising.

Wandisco

Wandisco (now renamed Cirata) is an AIM-listed tech company that allows for digital transformation at scale – companies can, for example, move unstructured data to make it available wherever it is needed without interrupting existing use. The company had its shares suspended in March 2023 due to financial misstatements, potentially as a result of fraud. Following an investigation and having resolved the issues that had led to the suspension, the company needed to raise $30m to get the report and accounts approved as a going concern. As an existing shareholder we engaged with the company and its advisors regarding the issues to understand the background and the strategy for the company moving forward. The outcome was that we supported the fundraise and, as a result, the company successfully raised the US$30 million. The shares were subsequently unsuspended.

Synthomer

Synthomer, the chemicals company, launched a £276m rights issue aimed at reducing the group's leverage, from 5.5x net debt to EBITDA to 3.8x, to provide a stronger balance sheet to support the growth strategy. We voted in favour of the rights issue and followed our rights.

Severn Trent

Severn Trent, the UK water utility company, announced an equity placing for £1bn to support the submission of its business plan for the regulatory period 1 April 2025 to 31 March 2030. As part of the fundraising, the Qatar Investment Authority, an existing shareholder, was providing a £500m commitment, leaving the balance of £500m to come from existing and new shareholders. We were not a shareholder, but had supported the last fundraising by the company and so were wall-crossed. We ended up participating.

Videndum

Videndum, the provider of branded hardware products and software solutions to the content creation market, raised £125m by way of a firm placing and placing and open offer. On the back of a number of impacts on Videndum's markets, not least of which the prolonged actors and writers strikes in the US, Videndum needed to refinance its balance sheet to reduce its significant debts. We were a relatively small holder at the time of the raise, but put in a significant level of demand in the fundraising.

The Stewardship and Sustainability team

Our Stewardship and Sustainability (S&S) team acts as a dedicated central sustainability resource for the whole of M&G Investments, working collaboratively with investment teams across our wholesale and institutional business.

The Corporate Finance and Stewardship (CF&S) team coordinates our stewardship activities, engaging with companies on a number of issues from corporate governance to environmental sustainability, alongside the investment teams. Closely linked to this engagement work, the team undertakes our voting responsibilities at shareholder meetings, which we see as one of our central responsibilities as long-term shareholders. The team votes in line with our Voting Policy, which has evolved to reflect our increased engagement focus on both climate and diversity.

The CF&S team is responsible for coordinating our participation in various external initiatives and investor collaborations, including the UK's Investment Association, the Investor Forum and the Institutional Investors Group on Climate Change, among others.

The CF&S team also maintains our relationships with responsible investment-oriented organisations, including the UN-backed Principles for Responsible Investment (UNPRI) and the Global Impact Investing Network (GIIN).

The S&S team does not force action onto managers, but rather collaborates both directly and via our analysts to equip managers to make better-informed decisions, knowing the full spectrum of ESG risks that could impact their portfolios, as well as where these risks may be concentrated within certain issuers or holdings. By working in conjunction with the credit and equity analysts on ESG, the S&S team is able to ensure that ESG risks and opportunities are considered throughout the full investment process, as well as in the monitoring of companies.

During 2023, Michael van der Meer joined as the new head of sustainability investment within M&G Investments. Michael has a wealth of experience in sustainability having previously been head of sustainable investment analysts at Credit Suisse, and prior to that as head of sustainable research at Robeco.

At the end of 2022, there were 24 full-time members of the S&S team, which by the end of 2023 had risen to 35.

The team is now structured into Stewardship, Research, Quant & Systems, Climate, Investment Frameworks and Impact to help further embed sustainability considerations in the investment process.

Sustainable Investment Frameworks (SIF)

Nina Reid
Caitlin Joss
Guy Rolfe
Charlotte Peace

Corporate Finance & Stewardship (CF&S)

Rupert Krefting
Laura O'Shea
Daniel Adams
Chris Andrews
Lee Kinsville
Victor Winberg
Sophie Rumble
Vineethchandran Nair

Climate Investment & Net Zero (CINZ)

Oliver Grayer
Callum Deans

Sustainable Quant & Systems (SQS)

John Vercoe
Peter Babkevich
Giorgis Hadzilacos
Matt Johnston
Max Stocker
Will Epps
Hamish Duthie
Raman Amansokah
Abigail Pearlman

Head Impact Strategist / Equity Impact Lead

Ben Constable Maxwell

Sustainable Investment Research (SIR)

Michael vd Meer
Francesco Mazzeo
Tim Oehmigen
Nishita Karad
James Smyth
Kushal Patel
Matteo Novelli
Sarah Cobley
Peter Babkevich
Caitlin Joss
Callum Deans

Examples of Policy Maker Engagements and Other Initiatives

Appendix 1: Companies

Recorded engagements in 2023

Company	Country	Sector	ESG pillar	Outcome*
A2A	ITA	Utilities	Environment	🟨
Adevinta	NOR	Communication services	Environment	🟨
AES	USA	Utilities	Environment	🟩 🟨
AGC	JPN	Industrials	Environment	🟩
Air Liquide	FRA	Materials	Environment	🟨
Air Products and Chemicals	USA	Materials	Environment	🟨
Akzo Nobel	NLD	Materials	Environment	🟩
ALK Abello	DNK	Healthcare	Environment	🟨
Ansys	USA	IT	Environment	🟨
Aperam	LUX	Materials	Environment	🟨
ArcelorMittal	LUX	Materials	Environment	🟨 🟨
Banco do Brasil	BRA	Financials	Environment	🟨
Bank Rakyat Indonesia	IDN	Financials	Environment	🟩
BASF	DEU	Materials	Environment	🟩
Becton Dickinson	USA	Healthcare	Environment	🟨
Befesa	LUX	Industrials	Environment	🟨
Bluescope Steel	AUS	Materials	Environment	🟨 🟨
BP	UK	Energy	Environment	🟨
Buzzi	ITA	Materials	Environment	🟨 🟥
Bytes Technology	UK	IT	Environment	🟨
Carrefour	FRA	Consumer staples	Environment	🟩
Celanese	USA	Materials	Environment	🟨
Cemex	MEX	Materials	Environment	🟨
Cenovus Energy	CAN	Energy	Environment	🟨
Chevron	USA	Energy	Environment	🟥
Christian Action Enfield	UK	Real estate	Environment	🟨
Clarkson	UK	Industrials	Environment	🟨
Covestro	DEU	Materials	Environment	🟨
Croda International	UK	Materials	Environment	🟨
CTS Eventim	DEU	Communication services	Environment	🟨 🟥
Dellner Couplers	SWE	Industrials	Environment	🟨
Discover Financial Services	USA	Financials	Environment	🟨
Dongfang Electric	CHN	Industrials	Environment	🟩
DS Smith	UK	Materials	Environment	🟨
DSV	DNK	Industrials	Environment	🟩

🟩 The objective has been achieved
🟨 The engagement is ongoing
🟥 The objective has not been achieved

Company	Country	Sector	ESG pillar	Outcome*
Duke Energy	USA	Utilities	Environment	🟨
eBay	USA	Consumer discretionary	Environment	🟨
Efficio	UK	Industrials	Environment	🟨
EMS-CHEMIE	CHE	Materials	Environment	🟨
Enbridge	CAN	Energy	Environment	🟨
Euronav	BEL	Energy	Environment	🟨
Evonik	DEU	Materials	Environment	🟨
First Pacific	HKG	Consumer staples	Environment	🟨 🟨
Franco-Nevada	CAN	Materials	Environment	🟩
Games Workshop	UK	Consumer discretionary	Environment	🟩
Gatwick Funding	JEY	Real estate	Environment	🟩
Givaudan	CHE	Materials	Environment	🟨
Graco	USA	Industrials	Environment	🟨
GSK	UK	Healthcare	Environment	🟨
HDFC Bank	IND	Financials	Environment	🟩
Hollywood Bowl	UK	Consumer discretionary	Environment	🟨
Horiba	JPN	IT	Environment	🟨
Infineon Technologies	DEU	IT	Environment	🟨
Infinity Bidco 1	UK	Industrials	Environment	🟩
ING	NLD	Financials	Environment	🟨
Intertek	UK	Industrials	Environment	🟨
IP Group	UK	Financials	Environment	🟩
IQE	UK	IT	Environment	🟨
ISS	DNK	Industrials	Environment	🟨
IVC	UK	Consumer discretionary	Environment	🟩
JBS	BRA	Consumer staples	Environment	🟨
Katitas	JPN	Real estate	Environment	🟨
Keyera	CAN	Energy	Environment	🟨 🟨
Koc	TUR	Industrials	Environment	🟨 🟨
Kuehne+Nagel	CHE	Industrials	Environment	🟨
Lanxess	DEU	Materials	Environment	🟨
Linde	IRL	Materials	Environment	🟨 🟨 🟨
Loire Finco	LUX	Healthcare	Environment	🟨
Lyondellbasell	NLD	Materials	Environment	🟨
Mesoblast	AUS	Healthcare	Environment	🟨

🟩 The objective has been achieved
🟨 The engagement is ongoing
🟥 The objective has not been achieved

Company	Country	Sector	ESG pillar	Outcome*
Methanex	CAN	Materials	Environment	🟨
Mortgage Advice Bureau	UK	Financials	Environment	🟨
Nestle	CHE	Consumer staples	Environment	🟩
Nouryon	NLD	Materials	Environment	🟨
Novafives	FRA	Industrials	Environment	🟨
NRG Energy	USA	Utilities	Environment	🟥
Oneok	USA	Energy	Environment	🟥
Reckitt Benckiser	UK	Consumer staples	Environment	🟨
Resonac	JPN	Materials	Environment	🟨
Rio Tinto	UK	Materials	Environment	🟨
Safaricom	KEN	Communication services	Environment	🟨
Samsung Electronics	KOR	IT	Environment	🟨
Sappi	ZAF	Materials	Environment	🟨
Seven & I	JPN	Consumer staples	Environment	🟨
Shell	NLD	Energy	Environment	🟨
Solvay	BEL	Materials	Environment	🟨
Southern Company	USA	Utilities	Environment	🟨
Stada Arzneimittel	DEU	Healthcare	Environment	🟨
Standard Chartered	UK	Financials	Environment	🟨
Survitec	UK	Industrials	Environment	🟨
Suzuki Motor	JPN	Consumer discretionary	Environment	🟨
Symrise	DEU	Materials	Environment	🟨
TC Energy	CAN	Energy	Environment	🟨
TDR Capital	UK	Financials	Environment	🟨
Tenaris	LUX	Energy	Environment	🟥
Tennessee Valley Authority	USA	Utilities	Environment	🟨
Tokio Marine	JPN	Financials	Environment	🟨
TotalEnergies	FRA	Energy	Environment	🟨
Trimble	USA	IT	Environment	🟨
Unifirst	USA	Industrials	Environment	🟥
Unitedhealth	USA	Healthcare	Environment	🟨
UPM	FIN	Materials	Environment	🟨 🟨 🟨
Vincent Bidco	NLD	Industrials	Environment	🟨
VTech	HKG	IT	Environment	🟨
Westlake Corp	USA	Materials	Environment	🟥

Company	Country	Sector	ESG pillar	Outcome*
WH Smith	UK	Consumer discretionary	Environment	🟩
Xvivo Perfusion	SWE	Healthcare	Environment	🟨
Yara International	NOR	Materials	Environment	🟨 🟨
Zephyr Bidco	UK	Communication services	Environment	🟨
AGC	JPN	Industrials	Governance	🟨
Amerisafe	USA	Financials	Governance	🟨
Ascential	UK	Communication services	Governance	🟨
ASOS	UK	Consumer discretionary	Governance	🟨 🟨
AstraZeneca	UK	Healthcare	Governance	🟨
Autohome	CHN	Communication services	Governance	🟨
Baidu	CHN	Communication services	Governance	🟨
Banco Bradesco	BRA	Financials	Governance	🟩
Bangkok Bank	THA	Financials	Governance	🟨
Bank of Georgia	GEO	Financials	Governance	🟩
BOC Hong Kong	HKG	Financials	Governance	🟨
Brambles	AUS	Industrials	Governance	🟨
Bright Horizons	USA	Consumer discretionary	Governance	🟨
Brilliance China Automotive	HKG	Consumer discretionary	Governance	🟩
Britvic	UK	Consumer staples	Governance	🟩
Cenovus Energy	CAN	Energy	Governance	🟨
Chesnara	UK	Financials	Governance	🟨 🟨
Christian Action Enfield	UK	Real estate	Governance	🟨 🟨
CK Hutchison	HKG	Industrials	Governance	🟨
Computacenter	UK	IT	Governance	🟩
Cranswick	UK	Consumer staples	Governance	🟨
Dongfang Electric	CHN	Industrials	Governance	🟨
Dongyue	CHN	Materials	Governance	🟨
East End Homes	UK	Real estate	Governance	🟨
eBay	USA	Consumer discretionary	Governance	🟨
Efficio	UK	Industrials	Governance	🟩
Far East Horizon	HKG	Financials	Governance	🟩
First Pacific	HKG	Consumer staples	Governance	🟨 🟨
Fjord1	NOR	Industrials	Governance	🟩
Grifols	ESP	Healthcare	Governance	🟩
GSK	UK	Healthcare	Governance	🟩

- The objective has been achieved
- The engagement is ongoing
- The objective has not been achieved

Company	Country	Sector	ESG pillar	Outcome*
Hargreaves Lansdown	UK	Financials	Governance	Ongoing
Hollysys Automation Technologies	CHN	IT	Governance	Ongoing
Home REIT	UK	Real estate	Governance	Ongoing
Hunting	UK	Energy	Governance	Ongoing
Hutchmed China	HKG	Healthcare	Governance	Ongoing, Ongoing
Iliad	FRA	Communication services	Governance	Achieved
Informa	UK	Communication services	Governance	Achieved
IQE	UK	IT	Governance	Ongoing
IVC Evidensia	UK	Consumer discretionary	Governance	Achieved
JD.Com	CHN	Consumer discretionary	Governance	Ongoing
Jupiter Fund Management	UK	Financials	Governance	Ongoing
Kenbourne Invest	LUX	Communications	Governance	Ongoing
Kenmare Resources	IRL	Materials	Governance	Ongoing, Ongoing
Keyence	JPN	IT	Governance	Ongoing
Kier Group	UK	Industrials	Governance	Achieved
Manulife	CAN	Financials	Governance	Ongoing
Mastercard	USA	Financials	Governance	Ongoing
Mediatek	TWN	IT	Governance	Ongoing
Mesoblast	AUS	Healthcare	Governance	Ongoing
Mirriad Advertising	UK	Communication services	Governance	Achieved
Mortgage Advice Bureau	UK	Financials	Governance	Ongoing
Mothercare	UK	Consumer discretionary	Governance	Achieved
MSA Safety	USA	Industrials	Governance	Achieved
Nextera Energy	USA	Utilities	Governance	Ongoing
Novafives	FRA	Industrials	Governance	Ongoing
Oxford Biomedica	UK	Healthcare	Governance	Ongoing
Oxford Nanopore Technologies	UK	Healthcare	Governance	Ongoing, Not achieved
Pacific Basin Shipping	HKG	Industrials	Governance	Ongoing, Achieved
Paragon Banking	UK	Financials	Governance	Achieved
Ping An Insurance	CHN	Financials	Governance	Ongoing
Reach	UK	Communication services	Governance	Ongoing
Resonac	JPN	Materials	Governance	Ongoing
Restaurant Group	UK	Consumer discretionary	Governance	Ongoing
Samsung Electronics	KOR	IT	Governance	Achieved
Segro	UK	Real estate	Governance	Ongoing

Company	Country	Sector	ESG pillar	Outcome*
Shimano	JPN	Consumer discretionary	Governance	🟨 🟨
Shin-Etsu Chemical	JPN	Materials	Governance	🟨
Skan Group	CHE	Healthcare	Governance	🟨
State Bank of India	IND	Financials	Governance	🟨
Suzuki Motor	JPN	Consumer discretionary	Governance	🟨
Synthomer	UK	Materials	Governance	🟨
T&D Holdings	JPN	Financials	Governance	🟨
Tbs Holdings	JPN	Communication services	Governance	🟨
Telkom Indonesia	IDN	Communication services	Governance	🟨
Toray Industries	JPN	Materials	Governance	🟨
Toyota Industries	JPN	Industrials	Governance	🟨 🟨
Toyota Motor	JPN	Consumer discretionary	Governance	🟨
Trafford Centre Finance	CYM	Real estate	Governance	🟩
Travelsky Technology	CHN	Consumer discretionary	Governance	🟨
Tullow Oil	UK	Energy	Governance	🟨 🟨 🟨
Victrex	UK	Materials	Governance	🟨
Vincent Bidco	NLD	Industrials	Governance	🟨
Vistry	UK	Consumer discretionary	Governance	🟨 🟨
VTech	HKG	IT	Governance	🟨
Watkin Jones	UK	Real estate	Governance	🟨
Whitbread	UK	Consumer discretionary	Governance	🟨
XPS Pensions	UK	Financials	Governance	🟨
Yuanta Financial	TWN	Financials	Governance	🟨
Zambeef Products	ZMB	Consumer staples	Governance	🟨
Zayo Group	USA	Communication services	Governance	🟨
Zephyr Bidco	UK	Communication services	Governance	🟩
Adevinta	NOR	Communication services	Social	🟨
Air Products and Chemicals	USA	Materials	Social	🟩
Alpha Group	CHN	Consumer discretionary	Social	🟥
Analog Devices	USA	IT	Social	🟨
ArcelorMittal	LUX	Materials	Social	🟨
Atmos Energy	USA	Utilities	Social	🟥
Bank of Georgia	GEO	Financials	Social	🟨
Bank Rakyat Indonesia	IDN	Financials	Social	🟩
Befesa	LUX	Industrials	Social	🟨

🟩 The objective has been achieved
🟨 The engagement is ongoing
🟥 The objective has not been achieved

Company	Country	Sector	ESG pillar	Outcome*
BlackRock	USA	Financials	Social	🟨 🟨
Breitling	LUX	Consumer discretionary	Social	🟥
Bytes Technology	UK	IT	Social	🟨
Central Asia Metals	UK	Materials	Social	🟩
Creo Medical	UK	Healthcare	Social	🟨
CVS Group	UK	Healthcare	Social	🟨
Dellner Couplers	SWE	Industrials	Social	🟥
Dongfang Electric	CHN	Industrials	Social	🟨
DSV	DNK	Industrials	Social	🟨
Eagle Materials	USA	Materials	Social	🟥
Edwards Lifesciences	USA	Healthcare	Social	🟩
Efficio	UK	Industrials	Social	🟨
Fibra Uno Administracion	MEX	Real estate	Social	🟨
Garmin	CHE	Consumer discretionary	Social	🟥
Gym Group	UK	Consumer discretionary	Social	🟨
Highwoods Properties	USA	Real estate	Social	🟨
Hollywood Bowl	UK	Consumer discretionary	Social	🟨
Hummingbird Resources	UK	Materials	Social	🟨
Infinity Bidco 1	UK	Industrials	Social	🟨
IPD 3	NLD	Real estate	Social	🟨
IQE	UK	IT	Social	🟨
IVC	UK	Consumer discretionary	Social	🟨
Jet2	UK	Industrials	Social	🟨
Keyence	JPN	IT	Social	🟨
Kuehne+Nagel	CHE	Industrials	Social	🟨
Loungers	UK	Consumer discretionary	Social	🟨
Marsh & Mclennan	USA	Financials	Social	🟨
Mesoblast	AUS	Healthcare	Social	🟨
Midwich	UK	IT	Social	🟨
Mortgage Advice Bureau	UK	Financials	Social	🟨
NewRiver REIT	UK	Real estate	Social	🟨
Norcros	UK	Industrials	Social	🟨
Novartis	CHE	Healthcare	Social	🟨
Novo Nordisk	DNK	Healthcare	Social	🟨
Oneok	USA	Energy	Social	🟨 🟨

Company	Country	Sector	ESG pillar	Outcome*
Owens Corning	USA	Industrials	Social	
Oxford Nanopore Technologies	UK	Healthcare	Social	
Plus500	ISR	Financials	Social	
Queens Cross Housing Association	UK	Real estate	Social	
Reckitt Benckiser	UK	Consumer staples	Social	
Safaricom	KEN	Communication services	Social	
Segro	UK	Real estate	Social	
Shimano	JPN	Consumer discretionary	Social	
Sigmaroc	UK	Materials	Social	
Sitel Worldwide	USA	Industrials	Social	
Steel Dynamics	USA	Materials	Social	
Stellantis	FRA	Consumer discretionary	Social	
Survitec	UK	Industrials	Social	
Suzuki Motor	JPN	Consumer discretionary	Social	
TDR Capital	UK	Financials	Social	
Tenaris	LUX	Energy	Social	
Tetra Tech	USA	Industrials	Social	
Teva	ISR	Healthcare	Social	
Thermo Fisher	USA	Healthcare	Social	
Trufin	UK	Financials	Social	
Unilever	UK	Consumer staples	Social	
VF Corp	USA	Consumer discretionary	Social	
Victoria Plumbing	UK	Consumer discretionary	Social	
Vincent Bidco	NLD	Industrials	Social	
Webhelp	FRA	Communication services	Social	
WH Smith	UK	Consumer discretionary	Social	
Whitbread	UK	Consumer discretionary	Social	
Wilmington	UK	Industrials	Social	
Zayo Group	USA	Communication services	Social	

*Where there is more than one outcome showing this reflects multiple company engagements.

Appendix 2: M&G Investments and the UK Stewardship Code 2020

2023 submission

Contents

Introduction

UK Stewardship Code 2020

The UK Stewardship Code 2020 sets high stewardship standards for both asset owners and asset managers. The Code comprises a set of 'apply and explain' principles, but does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy.

The 2020 code reflects the fact that the investment market has changed considerably since the publication of the first UK Stewardship Code in 2010, with significant growth in assets other than listed equity, including fixed income, real estate and infrastructure. These investments have different terms, investment periods, rights and responsibilities, and signatories to the 2020 Code need to consider how to exercise stewardship effectively, and report accordingly, across asset classes.

Of note, environmental, particularly climate change, and increasingly biodiversity, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship.

About M&G plc

M&G plc is a leading international savings and investments business, managing money for more than 4.6 million retail clients and more than 900 institutional clients in 26 markets. As at 31 December 2023, we had £343.5 billion of assets under management and administration. With a heritage dating back more than 170 years, M&G plc has a long history of innovation in savings and investments, combining asset management and insurance expertise to offer a wide range of solutions.

Our purpose is to give everyone real confidence to put their money to work. Our new structure combines Asset Management, Life and Wealth, with all three segments working together to offer balanced long term investment and insurance advice. This is how we create financial products and solutions that give our clients real confidence.

The relationship between the asset owner and the asset manager

For the purposes of stewardship, M&G plc can be thought of as comprising two businesses within the same group, the asset owner and the asset manager, mentioned above. The asset owner broadly corresponds to the Prudential UK and European life business, while the asset manager corresponds to M&G Investment Management (herein referred to as 'M&G Investments')[5].

The asset owner and the asset manager function independently, but are aligned to a common business purpose, values and commitments, and operate under a group governance framework, all defined at the level of M&G plc.

The asset owner's main responsibilities include the sale of savings and investment products and has a direct relationship with the policyholder. The asset owner also leads on designing, sourcing and distributing financial products to a number of different types of clients, including retail clients, institutional investors such as pension schemes, and investment platforms. These products include with-profits policies, annuities, and unit-linked funds. The investment strategies for these products vary since each strategy has been tailored to the requirements of each product but may include multiple asset classes and regions/geographies spread across a number of mandates or investment vehicles.

The asset owner is also responsible for appointing skilled asset managers in order to manage diversified investment portfolios, which better suit the client's needs, for an appropriate fee. The asset owner may appoint the internal asset manager or there is also an option to appoint external asset managers; we look to appoint asset managers that have expertise in generating sustainable risk-adjusted returns, net of fees, over the long-term, for a particular asset class or investment strategy.

M&G Investments, the internal asset manager, in turn can, and does, manage assets for third-party clients that are not the internal asset owner. Indeed, while the internal asset owner is an anchor investor in many of the internal asset manager's investment strategies, it does not make use of every investment strategy that the internal asset manager offers.

The relationship between the internal asset manager and the internal asset owner is carefully managed to ensure that clients receive the best possible outcome. The asset owner endeavours to treat the internal asset manager as it would an external manager. Where the internal asset manager has been appointed to manage a portfolio, it has met the same criteria and reached the same standards as any external asset manager.

As both asset manager and asset owner, we report our stewardship activities in line with the 2020 Code. In relation to M&G Investments as asset manager, we are doing this in two ways:

- In the main body of this report, which highlights key activities as an asset manager from the previous year across Equities, Fixed Income, Real Estate and Infrastructure; and
- In this appendix, reviewed annually, that provides an overview of our stewardship approach at the asset manager level, and specifically outlines how we adhere to the Code. This is also framed against M&G plc at a corporate level.

2020 principles for asset owners and asset managers	
Purpose and governance	
1	Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
2	Signatories' governance, resources and incentives support stewardship.
3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.
4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.
Investment approach	
6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8	Signatories monitor and hold to account managers and/or service providers.
Engagement	
9	Signatories engage with issuers to maintain or enhance the value of assets.
10	Signatories, where necessary, participate in collaborative engagement to influence issuers.
11	Signatories, where necessary, escalate stewardship activities to influence issuers.
Exercising rights and responsibilities	
12	Signatories actively exercise their rights and responsibilities.

[5] Please note, responsAbility and M&G Investments Southern Africa are not in the scope of this report.

Principle 1:

‘Signatories’ purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society’

M&G plc

Purpose

M&G plc’s purpose is to give everyone real confidence to put their money to work.

Culture and values

M&G plc’s business is built on core values of care and integrity.

M&G plc has a clear ambition of what it wants its culture to be, which includes ensuring that we build a safe, inclusive and diverse culture.

Its culture and core values underpin everything it does. ‘Culture’ is the values, beliefs and attitudes that the organisation shares, defining how people work together and what is expected from everyone on a day-to-day basis. Above all:

- **we act with care** – treating clients and colleagues with the same level of respect we would expect for ourselves, and investing with care, making choices for the long term; and
- **we act with integrity** – empowering colleagues to do the right thing, to honour their commitments to others and act with conviction. The business is built on trust and it does not take that lightly.

This culture of care and integrity is central to how the business operates. It defines how everyone behaves towards each other, how they interact with our stakeholders, and above all, how we will deliver on our purpose.

ESG, sustainability and stewardship priorities

M&G plc believes that a well governed business, run in a sustainable way, delivers stronger, more resilient investment returns in the long-term for clients and shareholders, and better outcomes for society.

To enable our sustainability-driven ambitions, M&G plc continues to prioritise diversity & inclusion, along with climate change:

- **Climate change** – committed to a near term carbon emissions reduction of 46% across its operations (scope 1, 2 and scope 3 travel) by 2030 at the latest, and to achieve net zero carbon emissions across its investment portfolios by 2050 in aggregate to align with the Paris Agreement on climate change.
- **Diversity & inclusion** – committing to achieving greater representation of gender and ethnicity in senior leadership (Executive Committee and their direct reports) with goals of achieving 40% female representation and 20% representation from Black, Asian and minority ethnic backgrounds by 2025.

As an organisation, to continue to meet our external benchmarks, including the National Equality Standard and LGBT Great Equality Index.

Strategy

M&G plc offers a broad and distinctive set of savings and investments propositions across Asset Management, Life and Wealth. The three pillars of our strategy are centred on our new purpose: to give everyone real confidence to put their money to work.

Maintain our financial strength: ensuring our clients can depend on us, while rewarding shareholders.

Simplify our business: becoming more nimble and efficient in how we work to best serve our clients.

Deliver profitable growth: building on our strengths to better anticipate and address our clients' needs.

To read M&G plc's Annual Reports and Accounts visit: **https://www.mandg.com/investors/annual-report**

Business model

As stated previously, M&G plc is an international savings and investment business with three business segments: Asset Management, Life and Wealth, which reflect the range of propositions and services we offer to our clients. The three businesses work together on our strategic objectives to deliver attractive financial outcomes for our clients, and superior shareholder returns.

Our Asset Management business is an international active asset manager with differentiated, high-value investment capabilities. We are recognised for our expertise in private assets, public fixed income and multi-asset solutions and our growing range of sustainability-driven thematic equities products. Our Asset Management business powers the investment solutions we offer to clients.

Our Life business creates distinctive risk and investment solutions alongside integrated insurance propositions. We have a long track record of successfully managing a scaled balance sheet to provide security to our clients, and it also allows us to leverage expertise in our Asset Management business to build new propositions to enhance financial outcomes.

Our Wealth business provides holistic and accessible advice to individual clients in the UK and access to our Asset Management and Life products through strong intermediary relationships. This in turn gives individuals in the UK access to our multi-asset solutions, including the market-leading PruFund range. PruFund provides an insurance-based smoothing solution, with a distinctive blend of public and private investments.

Understanding our clients

M&G plc interacts with our clients in a number of ways. To understand the needs of our institutional clients, which represent both pooled and segregated mandates, our client teams maintain ongoing relationships to understand their needs, offer solutions and provide regular feedback through reporting. Our sales teams regularly arrange roundtable discussions and interactive seminars with the advisory community, which allow us to understand their requirements and for them to understand the solutions we can provide to meet those requirements. Our Client Insights team is also tasked with understanding the needs of clients across the spectrum.

In order to better understand our retail clients, M&G plc uses the research platform 'MyView'. This includes a number of panels, dedicated to the asset manager's clients, as well as clients of the asset owner side of the business. This provides a ready group of clients and advisers who have elected to take part in research, providing access to their views and feedback, and allowing us to be flexible in our research. MyView includes monthly engagement activities, such as polls and forums, as well as the capacity to host communities for larger projects, meaning there are always new insights being generated. These insights are shared with relevant business areas to improve company performance in line with our clients' needs.

M&G Investments

Investment philosophy

Our active management approach aims to deliver outperformance regardless of market conditions. We believe that this is underpinned by fundamental analysis and our fund managers' ability to act with conviction.

At M&G Investments, our portfolios are managed within a robust framework of construction and risk management, helping us to achieve the right balance between risk and return.

Over many years we have developed a strong investment culture, and are considered a trusted partner by delivering investment strategies that are client centric. Trusted relationships are the cornerstone of our valuation-based, long-term investment approach, which we achieve through our expertise and innovative investment thinking.

All of our funds have separate Investment Mandate Agreements, which clearly set out for our clients the investment strategy and fees of the funds in which they invest. Increasingly, we are creating new products to provide solutions that meet the evolving needs of our clients. This includes launching new strategies that provide, for example, sustainable investments, impact investments and climate solutions.

Our ESG Investment Policy sets out the ESG Investment Principles that we use to inform and guide all investments made as an asset manager. These principles are aligned with M&G plc's sustainability principles and reflect the firm's purpose and corporate values of Care and Integrity.
It sets out our principles-based approach to addressing ESG matters in investing, and provides policies for specific ESG matters that must be applied by the asset manager across all asset classes.
To read the full ESG Investment Policy, please visit: **https://www.mandg.com/~/media/Files/M/MandG-Plc/documents/mandg-investments/2024/mg-investments-esg-investment-policy-w1188801.pdf**

Equities

Our Equities team has a conviction-led and long-term approach to investing. The team is driven by a fundamental belief that we can generate performance through active, unconstrained management. We believe that the stock market is often mispriced and that its tendency to be swayed by short-term noise creates opportunities for long-term investors. Experience tells us that company fundamentals drive share prices over the long run, not the vagaries of economic cycles or the fickleness of market sentiment. All of our active holdings are voted.

Our passive funds have now been sub-contracted to an external manager who undertakes stewardship on our behalf, and we have selected one of their voting policies. We have the ability to manually override the external voting policy if a voting decision is not aligned with our voting policy.

Fixed income

Our investment philosophy is based on our belief that markets are routinely driven away from fair value by such factors as greed, panic, investing restrictions and forced selling. As a result, a patient investor with a good understanding of fundamental value can take advantage of these situations to acquire assets when they are attractively valued, and avoid those that appear expensive. We believe that assets tend to move toward fair value over the medium term, as the impact of short-term technical factors recedes. The heart of our investment approach is our ability to assess, in real depth, the fundamental creditworthiness of issuers.

Multi-asset

Our investment approach seeks to identify 'episodes', or periods of time during which, in the opinion of the fund managers, assets become under- or over-priced as a result of investors reacting emotionally to events rather than considering normal fundamental investment principles, such as inflation or interest rates. These episodes could be short-lived or last several years.

Real Estate

M&G Real Estate is a specialist investor in all major real estate sectors across the globe. We focus on generating long-term, income-driven returns through active management and offer institutional investors exposure to real estate through both pooled vehicles and segregated mandates, as well as providing real estate investment access to retail clients.

Private Infrastructure

Infracapital, the private infrastructure equity arm of M&G Investments, is a long-term investor providing essential infrastructure services to society, with many stakeholders. As part of Infracapital's investment strategy, the team takes an active role in all investments to ensure they are adaptable and resilient to the changing world. As a result, we believe this drives value for investors and aids environmental and social cohesion for the communities in which we operate.

Approach

We are, first and foremost, stewards of our clients' assets, and we take seriously the responsibilities that come with this role. With that in mind, our company framework – the principles, values and behaviours that underpin everything we do – are designed around a clear goal: to give everyone real confidence to put their money to work.

At a time when the typical holding period of an investment can be measured in months rather than years for some investors, our approach is different, and we are willing to support good companies throughout their business and market cycles. This long-term approach means that there is a wide spectrum of both financial and non-financial factors that we need to understand when considering the long-term prospects for a business.

This includes traditional governance issues, like remuneration and board composition, as well as environmental factors, in particular climate change and natural capital, and social factors, including modern slavery, stakeholder engagement, and diversity & inclusion.

Environmental matters and social issues are often important aspects of assessing an investment, and our subsequent stewardship activities; our approach is to integrate environmental, social and governance (ESG) factors into our investment decision-making process. Investment teams share an acute awareness of their duties as stewards of our clients' assets, and this perspective informs all of our investment decisions.

We endeavour to extend the principles outlined in this document to both our UK and overseas investments as widely as possible, taking into consideration relevant local differences, including regulations and legal frameworks, company structures and market practice.

Process

We seek to add value for our clients by pursuing an active investment policy, through portfolio management decisions, by maintaining a constructive dialogue with company management and by voting on resolutions at general meetings. Decisions on initial investment, ongoing ownership and, ultimately, divestment are made on an informed basis and following extensive research, which continues throughout the period in which we are invested. Meetings with companies occur on a regular basis, enabling us to monitor company developments over time and assess progress against objectives.

Monitoring

Stewardship activities, including monitoring and engaging with investee companies, as well as voting at shareholder meetings and reporting to clients, are undertaken by the investment teams, analysts and members of our Stewardship & Sustainability team on an integrated basis. To ensure an integrated approach, regular investment meetings are held with investee companies (and meetings with potential investee companies), with representation from each team where relevant. More information on our processes can be found in the principles below.

Our policies are formally reviewed annually to ensure they are still effective and applicable. When assessing how effective our stewardship activities in aggregate have been, a number of factors can affect the outcome and make measurement difficult. There may be influence from many stakeholders, we may be a relatively small holder of a security, or an engagement may be collective, for example. Likewise, some engagements may take years to resolve, making a short-term account of their effectiveness problematic. However, we attempt to track our successes and failures on a best endeavours basis, and report on these outcomes. The main body of this report provides examples of our engagement and voting activities from the previous year, including the relevant outcomes from those activities.

Over the previous year, we believe that our overall stewardship activities have been effective in serving the long-term interests of our clients and beneficiaries. Please refer to the main body of this report for specific examples, including the ESG engagement section from page 13 and the voting section from page 47.

Value assessment

Our purpose is to give everyone real confidence to put their money to work.

The annual assessment of the value provided to investors in each of our UK-based funds is designed to help clients understand whether our charges are justified in the context of the overall service we deliver.

Our regulator, the Financial Conduct Authority (FCA), has published rules and guidance to improve the quality of the information available to consumers about the funds they invest in.

As part of its duty to act in the best interests of investors, the board of M&G Securities Limited (MGSL), publishes an annual assessment of the value provided to our clients.

The Board of MGSL objectively evaluates the value delivered to our clients, according to seven criteria set out by the FCA. These are:

Quality of services

They consider the quality of each service delivered to investors. Key services include not only those directly supporting investors, but also those vital to the good running of our funds.

Investment performance

They measure investment performance against all the stated objectives of a fund, and against its comparator, to evaluate whether value has been delivered over an appropriate time period.

Costs of the Authorised Fund Manager (AFM)

They assess the overall costs of the AFM, in relation to the overall charges paid by clients, for the full range of our UK-based funds.

Economies of scale

They assess the extent to which any savings arising from the scale of a fund are reflected in value for clients.

Comparable market rates

They compare the charges for each of our funds to those of competitors in the same sector, to find whether relative value is being offered to investors.

Comparable internal services

They compare the charges for each of our funds to those of similar funds and mandates that we manage, to find whether relative value is being offered to investors.

Share classes

They analyse who invests in the share classes of each fund, and evaluate whether clients are in the most appropriate share class.

The Board awards an overall value rating to each share class of all of our UK-based funds. Their conclusions for each share class, and according to each of the seven value criteria, are presented on a five-point scale, ranging from ‘outstanding’ to ‘unsatisfactory’.

Current, and previous, value assessment reports are available on our website: **https://www.mandg.com/investments/private-investor/en-gb/investing-with-mandg/investment-options/annual-value-assessment**

Principle 2

‘Signatories governance, resources and incentives support stewardship’

M&G plc

Governance structure

M&G plc, a company incorporated in the United Kingdom, is the ultimate parent company of M&G Investments (the asset manager) and the Prudential Assurance Company Limited (the asset owner).

M&G plc’s governance structure is designed to support the delivery of its strategy. The Board has responsibility for the oversight, governance, direction, long-term sustainability and success of the business and affairs of M&G plc, and is responsible to shareholders for creating and delivering sustainable shareholder value.

The Board is specifically responsible for a range of matters, which include:

- Approving the Group’s strategic aims and objectives
- Setting our purpose, standards, and culture
- Approving the annual Group financial budgets
- Approval of effective risk management and internal control processes
- Taking strategic decisions
- The approval of specific matters

The matters that require Board approval are contained in a Schedule of Matters Reserved for the Board.

In discharging its responsibilities, the Board is supported by management and ensures a clear division of responsibilities between the chair, the group chief executive officer, the senior independent director and the non-executive directors.

The Board delegates certain responsibilities to its committees and, in compliance with the UK Corporate Governance Code, has established an Audit Committee, a Nomination and Governance Committee and a Remuneration Committee. M&G plc has also established a separate Risk Committee. The Terms of Reference for each Board Committee are reviewed and approved annually by the Board and are available to view on M&G plc’s website.

Sustainability governance

M&G plc's Board has responsibility for the oversight of the long-term sustainability and success of the business, and is responsible for creating and delivering sustainable shareholder value. This includes setting the Group’s sustainability strategy and its values and principles. The Board delegates specific duties to sub-committees as follows:

- Reporting in the Annual Report and Accounts and any other material public documents in respect of climate change and sustainability matters (for compliance with relevant regulations, legislation and standards) is included in the Audit Committee’s terms of reference; and
- Assessment of sustainability and ESG risk within the Group Risk Management Framework, including climate-related stress and scenario testing, the reporting of climate-related risk disclosures and provision of advice to the Board in setting M&G plc’s sustainability strategy, is included in the Risk Committee’s terms of reference.

Regular Risk and Compliance reporting is provided to both the M&G plc Risk Committee and the Board through the chief risk and compliance officer’s report – setting out current risk issues, events in the period and an assessment of key risks against appetite. This includes consideration of sustainability and ESG risks. The Risk Committee also undertook a number of assessments relating to sustainability-related risk during 2023.

In discharging its responsibilities, including setting M&G plc’s sustainability strategy, the Board ensures a clear division of responsibilities between the chair, the group chief executive officer, the senior independent director and the non-executive directors through their membership of the sub-committees. The Board is also supported by executive management.

Management's role

Executive management, as members of the Group Executive Committee, report directly into the group chief executive officer, allowing material climate and other sustainability issues and policy decisions to be escalated to the Board.

In discharging their responsibilities, executive management attends various committees, such as the Executive Sustainability Committee and the Executive Risk Committee, to enable information sharing between business units and to monitor sustainability related issues.

Responsibility for sustainability strategy, policy, commitments, resourcing and governance model is assigned to our chief financial officer (CFO). As our CFO is a member of both the Board and Group Executive Committee, she facilitates communication between the Board and management.

During 2023, the CFO presented sustainability-related updates to the Board. These included the importance of sustainability when considering our strategic initiatives, enhancing our approach to sustainability through formation of the Central Sustainability Office, and assessment of sustainability focus areas and risks across M&G plc.

In November 2023, our first chief sustainability officer (CSO), Kathy Ryan, joined us, and she will lead M&G plc's Group Sustainability Strategy. Our CFO has delegated responsibility for leading the M&G plc Sustainability Programme to the CSO. This covers overall responsibility for Group sustainability strategy, policy, commitments, resourcing and governance model. It also includes communicating to relevant senior managers their direct responsibilities for defining and managing their own sustainability strategies, policy, commitments and accountabilities in alignment with our approach.

The Central Sustainability Office, created in 2022 and now overseen by the CSO, has taken a number of actions during the year to advance our Group-wide sustainability governance. These include:

- Promoting and driving a collaborative sustainability approach across the firm
- Evolving sustainability governance, including working groups to support execution of sustainability strategy with local expertise
- Developing and implementing a Sustainability Communications Control Model and engaging with key internal stakeholders on material sustainability topics to increase awareness across M&G plc

Over 2023, we have continued to embed our recently formed Executive Sustainability Committee, which is chaired by our CSO. This cross functional committee supports the oversight of sustainability-related risks and opportunities across the Group and recommends to the Group Executive Committee and/or Board as needed, supporting the successful execution of the firm's sustainability strategy, policy, public sustainability commitments, material communications and disclosures.

The CEOs of our Asset Management, Life and Wealth divisions all attend the ESC and are responsible for its implementation in their respective business units.

To ensure visibility across all our business segments, the ESC receives reports from various bodies across the Group, including the Sustainability Steering Committee (SSC) and Commitments Working Group.

Sustainability disclosures and reporting considered material to the Group are presented to the Management Disclosure Committee (MDC), which has responsibility for external reporting and disclosure, before submission to the Audit Committee. The MDC is chaired by the CFO.

Consideration of sustainability-related investment decisions is managed at executive management level within each of our operating segments

Risk management

Sustainability and ESG have been identified as principal risks to our business.

Across M&G plc and its subsidiaries, we have integrated sustainability risk through our ESG Risk Management Framework across the three lines of defence (business, risk and compliance and internal audit). Overall responsibility for assessing ESG risk is designated to the Risk Committee.

Consideration of sustainability risk is built into our decision-making, with sustainability themes and risk factors being incorporated into our general investment and risk management processes.

Policy

M&G plc's Group Governance Framework defines its approach to governance and internal controls, and includes policies covering sustainability-related topics. Each policy is owned and sponsored by a member of the Executive Committee.

Training

In line with our sustainability ambitions and principles, it is key that all staff have an understanding and appreciation of what sustainability means for the company, and hence that everyone is encouraged and supported to keep abreast of developments in stewardship, ESG and ESG investing, as well as having a wider understanding of sustainability subjects.

ESG-related panel discussions and forums were scheduled firm-wide on key ESG topics, including ESG risks. Sustainability topics are included in formal, all-staff training modules, delivered in multiple parts throughout the year.

The company also actively sponsors professional qualifications for employees, such as the CFA accreditation and the CFA Institute's Certificate in ESG Investing, and external personal development courses such as the University of Edinburgh Climate Change Risk in Finance course. ESG-related panel discussions and forums were also scheduled firm-wide on key ESG topics, including on ESG risks.

Anti-Greenwashing Mandatory Training

In September 2023, M&G plc launched an all-staff mandatory training on Anti-Greenwashing to be completed by Q3 2023. One of the Group's key areas of focus has been to embed effective controls so that our sustainability-related content reflects the actions that we are taking to meet the needs of our clients, and to help drive real-world positive change.

In addition to this, M&G plc launched two follow up anti-greenwashing deep dive training modules, which were mandatory for certain teams across the business (who were automatically enrolled). This training was also available to all colleagues, who could enrol manually.

Some topics that have been covered include:

- Governance and risk framework
- Communications and disclosure: understanding the types of communications, disclosures and statements from which greenwashing risk can arise
- Product design and investment process: understanding the regulatory landscape surrounding product classification and labelling, and why this is important to M&G plc

Incentives

Our Executive Committee's reward structure is linked to core performance management scorecards, which include sustainability-related metrics. For our executive LTIP arrangements for 2023, the overall weighting for sustainability-related targets has increased from 15% to 25%, evenly divided between: our organisation's operation emissions reductions, and our gender and ethnicity diversity targets. We review annually our objectives and remuneration structures, including any sustainability-related targets.

M&G Investments

Governance

The asset manager of the M&G plc group is called M&G Investment Management Limited and is known as M&G Investments. M&G Investments is a separate legal entity, has its own board and is regulated by the FCA. The investment management business is governed by M&G Group Limited (MGG), one of the two main subsidiaries of M&G plc. The business is overseen by the MGG board, whose responsibilities include approving and overseeing the implementation of the strategy for the Asset Management business, as well as ensuring high standards of governance are maintained.

The MGG Board is chaired by Massimo Tosato (who is also a member of the M&G plc Board), three non-executive directors and two executive directors (including the chief executive officer of M&G Investments).

The two chief investment officers (CIO) of our investment teams (equity, multi-asset & sustainability and public fixed income) and heads of private and alternative assets, inter alia report into the chief executive officer of M&G Investments, who reports into the chief executive of M&G plc.

The head of sustainable investment reports to the CIO of Equities, Multi-asset and Sustainability, and the Stewardship & Sustainability team reports to the Head of Sustainable Investment.

While the overall Stewardship & Sustainability team is responsible for the asset manager, select members sit across both the asset manager and asset owner.

The Stewardship & Sustainability team grew out of our Corporate Finance & Stewardship team in 2020, to help meet increased client demand for ESG-integrated, sustainable and impact products and develop the roadmap to meet M&G plc's commitment to achieve net zero carbon emissions across its investment portfolios by 2050. The team further builds our capability in sustainable research, climate and the use of data and quantitative tools in our ESG integration. It also leverages M&G plc's scale and influence as a global asset manager and asset owner to engage with investee companies to encourage transition to sustainable business models. This includes a climate engagement programme, focused on companies with high carbon exposure, and programmes on natural capital and diversity & inclusion. The team is widely integrated across all of our other research and investment teams, indicative of the importance of sustainability to the group across all of its businesses.

The Stewardship & Sustainability team supports and works closely with the equity, multi-asset and fixed income teams on a day-to-day basis, attending relevant meetings with the investment teams and their investee companies. In this way, engagement with companies and voting is fully integrated into the investment process. Ultimately, all investment and voting decisions will be made by the investment teams in consultation with the Stewardship team and the Research Analysts. In addition, the team also supports private asset engagements.

Sustainable Investing Standards Committee

In order to manage the complexities of our evolving ESG, sustainability and impact strategies, the Sustainable Investing Standards Committee (SISCo) was created, which has delegated authority from the Investment Leadership Team and is chaired by the head of sustainable investment. The purpose of this committee is to maintain standards in our sustainable investing approach, through the oversight of day-to-day investment matters pertaining to the application of sustainability regulation, frameworks, policies and restrictions. Membership is made up of sustainability stakeholders from across the asset management business – including Stewardship & Sustainability, ESG Product/Product Governance, ESG Risk, Investment Teams & ESG Compliance.

MGG Climate Committee

The M&G Investments Climate Committee (MGGCC) is responsible for overseeing and implementing M&G Investments Thermal Coal Investment Policy (TCIP). It is specifically recognised that the committee has explicit responsibilities to maintain implementation of the policy in order to meet commitments and to avoid greenwashing risks. The MGGCC serves to manage, maintain and implement the TCIP for M&G Investments and applies to all in scope financial products and mandates where clients have either opted in or are operating within the Target Investment Model (TIM) framework. The Committee annually reviews and seeks to improve the TCIP, considers potential exception cases raised by the business which align with the spirit of the policy, and reviews the progress and completion of TCIP controls, processes and implementation.

Global Norms Committee

Our Global Norms Committee is tasked with deciding the outcome of individual global norms cases, providing oversight of our Exclusion, Engagement and Monitoring Lists and ensuring that our approach to global norms remains rigorous and credible. The Global Norms Committee is responsible for considering cases in line with the United Nations Global Compact Principles, the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, the International Labour Organisation's Fundamental Conventions, relevant global and jurisdictional restrictions on controversial weapons, and other applicable norms frameworks. The committee operates across both the Asset Owner and Asset Manager, ensuring consistency in M&G plc's approach to global norms.

Policies

In 2022 (and reviewed in 2023), we published our ESG Investment Policy, setting out our principles-based approach to addressing ESG matters in investing, and policies for specific ESG matters that must be applied by the asset manager across all asset classes. In 2021, M&G plc published a position paper on thermal coal, and M&G Investments' Thermal Coal Investment Policy, which operationalises the Plc position on thermal coal, came into effect in April 2022. We aim to use our influence as a global investor to drive positive change, to help decarbonise the energy system and increase energy and resource efficiency. We have committed to phase-out our exposure to unabated thermal coal by 2030 in OECD countries and the EU, and by 2040 across the rest of the world. By adopting a forward-looking approach, as an active investor we can support companies as they transition their businesses towards net zero and phase out thermal coal from the energy system, in line with the Intergovernmental Panel on Climate Change (IPCC). The policy is applied across public listed equities, public bonds listed by a single corporate entity and single name derivatives thereof, including credit default swaps (CDS) and equity warrants, as well as convertibles.

Processes

Our processes across the business are designed to support our clients in the most effective way; this applies to our stewardship processes. For us, the Stewardship & Sustainability team has regular meetings with fund managers to monitor and identify potential issues and provide support.

We prefer the use of proprietary ESG research in the investment decision-making process, and have developed a number of tools and processes to assist these processes. A selection of these is included below:

- Centrali: a third-party system, acting as a platform to host our proprietary tools to provide ease of access to the full range of internally developed ESG-related tools.
- ESG Scorecard (E-Valuate): proprietary, issuer-level ESG research framework, acknowledging the qualitative nature of many ESG considerations. Allows analysts to express their views in primarily qualitative terms, within the context of a structured and disciplined framework.
- E-Luminate: proprietary, multi-sector and multi-issuer level ESG research tool to enable comparison between issuer level ESG Scorecards which considers our own internal ESG Scorecard and external ESG vendor assessments.
- Portfolio Analysis Tool: a Tibco Spotfire tool providing targeted analysis for portfolios in the following areas: portfolio analysis; company analysis; and net-zero. Outputs include, but are not limited to, SFDR PAIs and KSIs, ESG metrics, both internal and external, ESG IQ, and Net-Zero Frameworks.
- Engagements App & Dashboard: records engagements (as defined by the PRI) conducted by the Stewardship & Sustainability team and the investment teams across asset classes. The tool records both private and public engagements to help ensure we can consistently and accurately report our engagement activities to clients.
- ESG Securitisation Scorecard: follows the approach of the Corporate ESG Scorecard in taking a qualitative approach to ESG considerations, and assesses securitised products in the context of Transactions, Assets and Counterparties (TAC).
- Aladdin Climate: a externally provided platform within the Aladdin system, with bespoke climate modelling to enable forward looking scenario analysis including implied temperature rise (ITR), and physical and transition risk at issuer and portfolio levels.
- RadX: an application used for uploading data aggregated from financial statements, balance sheets, Intex, ESG data sources and other reports. The tool uses a flexible data model, allowing users to onboard new data instantly, regardless of shape and structure. RadX provides users with a Web UI, API and Excel add-in for ad-hoc queries and reporting.
- Carbonator: a tool using Artificial Intelligence (AI) to estimate emissions for private companies. This allows users to understand and manage climate risk in our investment portfolios, and help drive transition towards Net-Zero.
- Climate Dashboard: a PowerBI dashboard surfacing curated climate data and visualisations on an issuer level, with sector and benchmark comparisons.

- ESG IQ: a core ESG screening engine with a web-based UI, the primary function of which is to compliment Aladdin pre/post trade ESG workflows by providing what-if/idea generation capabilities.
- UNGC: a PowerBI dashboard providing users with information on company exclusions and engagements based on the United Nations Global Compact. This allows users to screen issuer and parent issuers for UNGC compliance, and view M&G Investments' UNGC monitoring list.
- Alternatives ESG Questionnaire: a tool providing insights on underlying managers' ESG credentials by scoring responses to the M&G Investments Alternatives ESG Questionnaire. The tool calculates scores across the following five categories: investment process, intention & philosophy, governance, climate disclosure and social.
- External data: our analysts and investment teams also make use of external ESG content for a range of purposes. We have portal and data access with a number of ESG vendors, including MSCI, Bloomberg, ISS, Sustainalytics and other specialist advisers. In addition, we obtain ESG data through authorised aggregators or channels, including Bloomberg, Factset, Refinitiv Eikon, Dasseti and Aladdin. Our ESG Data Strategy records preferred vendors for particular coverage and subject matter requirements.

The use of these vendors seeks to meet the following requirements:

- Data quality and accuracy – whether the vendor's products deliver accurate, actionable information in the context of the envisaged use case
- Breadth of coverage for particular asset classes

Resources

We believe effective stewardship is part of our duty to our clients and improves the long-term returns of our investments. As such, it is ultimately the responsibility of our investment teams, supported by the Stewardship & Sustainability team, to ensure effective stewardship is undertaken.

Investment teams

Equities: The equities investment team comprises 33 fund managers, 21 embedded analysts and 11 sector research analysts.

Fixed Income: The fixed income team comprises 76 fund managers and 128 research analysts.

Multi-asset: The multi-asset team comprises 15 fund managers and four analysts.

Real estate: The real estate team globally comprises 43 fund managers and 11 research analysts.

Infracapital: The Infracapital team comprises 52 investment professionals, nine investor relations / co-investment professionals and seven finance professionals.

Stewardship & Sustainability team

At 31 December 2022 there were 24 full-time members of the S&S team, which by 31 December 2023 had risen to 35.

The team is now structured into Stewardship, Research, Quant & Systems, Climate, Investment Frameworks and Impact to help further embed sustainability considerations in the investment process.

Corporate governance is a key underpinning factor in our investment decisions, as are environmental and social factors where material to risk or return. Our Stewardship & Sustainability team is integrated into the investment team to support and co-ordinate stewardship activities. Third-party research providers are also used as a resource for ESG data. Further information on how we utilise these can be found in Principle 8.

The Stewardship & Sustainability team is focused on company engagement, voting activities, sustainability research, climate, data and quantitative tools. Members of the team will discuss issues with the investment team on an ongoing basis, and will routinely attend company meetings hosted by the investment teams, as well as initiating meetings with companies on specific areas of engagement (which will normally also be attended by the investment teams).

For further details of the Stewardship & Sustainability team, see the main body of this report on page 74.

Performance management or reward programmes

Compensation decisions are based on a holistic appraisal process with appropriate objectives set according to role.

All investment professionals have a clear ESG Integration objective, requiring them to consider non-financial factors within the context of research output, idea generation and investment decision-making.

Outcome

Overall, the combination of sustainability governance, together with the current experience and diversity of teams ensures sufficient oversight and subject matter expertise in all areas of stewardship and sustainability activities. This is further supported by ongoing company-wide training and incentive programmes, input from industry-recognised third-party service providers, and streamlined processes for the management of our ESG strategy. We aim to look for ways to improve our delivery of stewardship, such as reviewing the terms of reference of the relevant governance forums to enable effective responsibility and oversight.

Principle 3:

‘Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first’

M&G plc

M&G plc is committed to managing conflicts of interest in order to protect its clients and employees. This is in line with its fiduciary duty as a financial services firm to act in the best interests of its clients and beneficiaries.

A conflict of interest is defined as ‘a situation, decision, or arrangement where competing obligations or motivations may damage the interests of a client’.

We recognise the importance of having appropriate controls and systems in place to effectively identify and manage potential and actual conflicts of interest.

Management of conflicts of interest

M&G takes reasonable steps to prevent conflicts of interest arising, to protect the interests of all M&G plc’s customers, clients and end investors. The business manages this risk effectively by providing all staff and colleagues with sufficient training to ensure awareness and an understanding of how conflicts could arise and to enable staff to identify, report and adequately manage such conflicts.

The Policy Governance Framework (PGF) is a core component to the overall system of risk management and internal control. In addition, the expectations for managing conflicts of interest are denoted within M&G plc Code of Conduct.

The M&G plc Conflicts of Interest Policy is applied to all aspects of the business and is implemented by all areas across the business at a group and material subsidiary level (asset manager and asset owner). The Policy sets out the group-wide approach and requirements of how conflicts should be escalated, recorded and managed and to ensure compliance with regulatory requirements. Under the Policy, if any employee has the knowledge of a potential or actual breach of the Policy, the employee must report the breach

A number of additional resources are made available to all employees to familiarise themselves with their personal responsibility for managing risks and internal controls. A network of Conflict Representatives is established from every business function to provide a first point of contact for any employee who wishes to report and escalate an identified conflict of interest. In support of this, the Conflicts of Interest Intranet Site allows employees to find details of the Conflicts Representative where a range of material and useful information is also available.

The M&G plc Conflicts of Interest Policy is reviewed at least annually or where there is a material update that requires addressing, which ensures this remains effective for the ongoing management of conflicts of interest. Relevant governance committees review and approve any changes made to the policy and all business areas are expected to comply with the policy. In particular, each M&G plc executive member is specifically accountable for ensuring that all areas under their remit appropriately adhere to the policy requirements.

M&G Investments

The M&G Investments conflicts of interest disclosure statement can be found on our website.

A conflict of interest may arise where competing obligations or motivations may damage the interests of clients.

In identifying the conflicts of interest that may arise when providing services to clients, we will consider the following:

- A client is disadvantaged or makes a loss when simultaneously an employee makes a personal gain or other advantage (individual versus client conflict);
- A client is disadvantaged or makes a loss when simultaneously we are then advantaged or make a gain (firm versus client conflict);
- A client makes a gain or avoids a loss when simultaneously another client thereby makes a loss or is disadvantaged (client versus client conflict); and
- An M&G plc entity and its clients benefits at the expense of another group entity and its respective clients (intra-group conflict)

We are required to maintain and operate effective organisational and administrative arrangements with a view to taking all appropriate steps to prevent conflicts of interest from adversely affecting the interests of clients.

We have a strong culture of managing conflicts of interests, supported by a wide range of processes and policies. All staff are provided with training to ensure awareness and understanding of how conflicts could arise and to enable staff to identify, report and adequately manage such conflicts.

Steps taken to manage actual and potential conflicts can include, but are not limited to, the following:

- Effective procedures to prevent or control the exchange of information between relevant persons engaged in activities involving a risk of a conflict of interest where the exchange of that information may harm the interests of one or more clients
- The separate supervision of relevant persons whose principal functions involve carrying out activities on behalf of, or providing services to, clients whose interests may conflict, or who otherwise represent different interests that may conflict
- The removal of any direct link between the remuneration of relevant persons principally engaged in one activity and the remuneration of, or revenues generated by, different relevant persons principally engaged in another activity, where a conflict of interest may arise in relation to those activities
- Measures to prevent or control the simultaneous or sequential involvement of a relevant person in separate investment or ancillary services or activities where such involvement may impair the proper management of conflicts of interest
- Reporting lines which limit or prevent any person from exercising inappropriate influence over the way in which a relevant person carries out investment or ancillary services or activities
- As required by our Personal Conflicts Standard, all employees are required to identify and disclose any personal associations that may give rise to an actual or perceived conflict of interest
- Internal guidance and training on how to identify, prevent and/or manage potential and actual conflicts of interest
- Processes to ensure that issues identified are referred to and considered at the appropriate level within the company.

Conflicts that arise from personal activities of employees (for example, outside appointments, involvement in public affairs, personal political donations and personal investments) are also closely monitored and managed.

On occasion, we may encounter conflicts of interest related to our stewardship activities. It is incumbent on all investment professionals and members of the Stewardship & Sustainability team to identify and manage such conflicts, in line with the wider M&G plc Conflicts of Interest Policy. In all such instances, our objective is to ensure that these conflicts are identified and managed appropriately, to ensure our clients' best interests are served.

Examples of conflicts that may arise in relation to stewardship activities are provided below. The potential conflicts arise both in the way the investee company monitoring and engagement is managed, and in relation to voting activities where we are voting on resolutions.

Overall responsibility for the oversight of our conflicts of interest framework resides with the M&G Investments Conflicts of Interest Committee, a sub-committee of the Board of M&G Group Limited. The committee assists the Board in discharging its responsibility for embedding an appropriate culture and ensuring we act consistently with our duty to deliver fair outcomes to clients. The highest standards of integrity and ethical conduct are expected always from our employees.

Conflicts arising from M&G plc's dual role as asset owner and asset manager

To manage these conflicts, both parties ensure that operations and investment decisions are kept separate and independent, with the flow of information between the asset owner and asset manager functions of M&G plc being carefully controlled.

The investment activities of the asset owner and asset manager are run as two separate businesses; however, select members of the Stewardship & Sustainability team work for both businesses. Back-office functions, such as HR, legal, accounting and marketing, are a shared function. The investment teams do not have access to each other's IT systems and the asset manager treats the asset owner just as it treats external wholesale and institutional clients. There is an Investment Mandate Agreement in place for each fund that sets out the strategy and fees for the fund. The funds are overseen by the asset owner just like any other external client for the asset manager, and the asset manager reports to the asset owner in the same way as any other client.

Our decisions, and whether or how to vote in relation to company shares, will always be solely made in the interest of our clients. In light of the latter, the rationale for voting against a management resolution is recorded and made public to ensure transparency on any voting decision.

Examples of other potential conflicts

Other conflicts of interest potentially arise where:

- An employee or director of any M&G plc company is also a director of a company in which M&G Investments invests
- M&G Investments invests in a company that is also a client; or
- M&G Investments invests in a company that is a significant distributor of our products

In such instances, we may be conflicted, for example, in the way we deal with the directors and/or company management, votes on their election, and votes on remuneration policies that might apply to them.

Where a potential conflict arises, the conflict is reported in line with the wider M&G plc Conflicts of Interest Policy and an appropriate plan for mitigating the conflict is agreed. In determining the appropriate mitigation, a number of factors will be considered. These include the nature of the relationship with individuals and the extent to which the relationship could be managed by individuals who are not conflicted, the materiality of any contracts, and the risks of the potential conflict to client interests.

Activity and Outcome

We aim to continuously manage conflicts of interest by putting the best interests of client first. Conflicts of interest are identified, managed and reported in line with the conflicts of interest policy. There are a number of potential conflicts of interests related to stewardship that may occur, which we would manage accordingly.

Interests of clients diverge on issues being voted on

On occasion, the interests of clients may diverge on issues on which we are voting. For example, where segregated mandates are being managed alongside a wholesale fund, or where clients within the same fund have different views.

We are able to vote shares differentially and will assess the voting of shares against each client mandate. Where client interests diverge, then we will vote accordingly, but this is a rare event.

Generally, we vote by proxy at general meetings on all equity holdings held in both active and passive funds. On occasion, we will attend a general meeting where our clients' interests are best served by us doing so. For additional information, please see the Voting section in the main body of this report.

Asset classes

Conflicts may also arise where fixed income or equity investors have differing viewpoints on the strategy of an investee company. These may arise over differences in strategy, for example over capital allocation (increase investment or return surplus capital to shareholders) and on distributions (debt reduction vs buybacks or dividends). We always act in the best interest of our clients, and where a conflict of this nature may arise, the fixed income and equity teams would act separately as appropriate for their clients.

Difference between stewardship policies of managers and their clients

We publish our approach to responsible investing, including, inter alia, our remuneration and voting policies. We publish the results of our voting on a quarterly basis, which is also summarised in the main body of this report.

We manage funds for institutional clients, retail clients and on behalf of the asset owner function of M&G plc. Only occasionally does our stewardship policy differ from an institutional client who wants to apply its own stewardship policy. Where this occurs, we compare policies – to date, where this has happened, our clients have preferred our policy.

ESG-related reputational risk and client outcomes

Conflicts between reputational risk and investment/client outcomes are managed by the Sustainable Investment Standards Committee (Sisco) – please see Principle 2 for more on this. Our ESG Investment Policy states that fiduciary duty prevails over other actual or perceived priorities, including our reputation. Conflicts are recognised, reported and disclosed where required.

Sustainability-related policy implementation

Generally, sustainability-related policy implementation will follow a control/mitigation framework considering:

- Advance engagement with clients, corporate issuers and all internal stakeholders: prior conflicts are intended to be dealt with in advance through securing client preference/guidance as a mitigating measure.
- External disclosure: where deemed appropriate, disclosures can be made to stakeholders informing them of the strategy.
- Trading restrictions and monitoring mechanisms: various monitoring mechanisms help to oversee trading activity and trends, including, but not limited to: side-by-side monitoring; fair allocation; order inflation.
- Training and awareness: all staff training helps to ensure that staff, including fund managers, are aware of conflicts and the responsibility to identify, manage and report. In addition, the content of the training is reviewed annually and refreshed as required.
- General information barriers: these include restricted access to sensitive information, segregation in governance between the asset manager and asset owner, information classification guidelines, and committee meeting membership/attendance.
- Divestment and potential losses, or a change of exclusion, ie exclusion to inclusion.

As a case in point, and as mentioned elsewhere in this report, our Thermal Coal Investment Policy came into force in 2022, with the Climate Committee responsible for governance and oversight. Within the Climate Committee fund managers have to identify if they are potentially conflicted on an issuer if it is held within the fund(s) they manage when decisions are made on exceptions to the policy.

Principle 4

'Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system'

M&G plc

Market-wide and systemic risks are recognised as the possibility that an event, internal or external, to the company could trigger instability or collapse in an industry or economic environment. M&G plc recognises that these risks have the potential to adversely impact clients' funds and investment processes, and have therefore implemented a variety of frameworks and processes to manage these accordingly, in line with the business's fiduciary requirements. Overall, this enables the business to meet its commitments to its clients and comply with legislation and regulation, while appropriately managing and mitigating key systemic risks, including ESG-related risks such as climate change, biodiversity loss and social inequality.

Risk Governance

The M&G plc Board has ultimate responsibility for managing risks across M&G plc, including establishing effective internal controls and taking into account the current and prospective macroeconomics and financial environment. M&G plc recognises that all employees will encounter risks relevant to the activities they undertake. For this reason, the board also has the responsibility for instilling an appropriate corporate risk culture within the company. This risk culture is centred around the organisation-wide programme of 'I Am Managing Risk' which requires colleagues to take personal responsibility and accountability for Identifying, Assessing, Managing and Reporting risk, and working together to do the right thing for clients, wider stakeholders and the business. The M&G plc Operational Risk Framework standardises the requirements for Risk & Controls and processes for the 'I Am Managing Risk' culture across business functions.

The M&G plc Risk Committee supports the Board in its risk activities, providing leadership, direction and oversight, and the M&G plc Audit Committee assists the Board in meeting its responsibilities for the integrity of financial reporting, including obligations for the effectiveness of the internal control and risk management systems. The M&G plc Remuneration Committee ensures that compensation structures place appropriate weight on all individuals adopting the required risk culture and behaviours.

Risk Management Framework

Underpinned by this is the Risk Management Framework (RMF), which sets out our tailored approach to managing risks within agreed appetite levels, and which is further supported by a suite of risk policies and standards. This provides a disciplined and structured process for the taking and managing of risk, enabling the business to make better decisions for its clients and shareholders.

In alignment with the RMF, M&G plc operates an effective risk management cycle in maintaining an ongoing process of identifying, measuring, assessing, managing, monitoring and reporting current and emerging risks:

- Risk Identification: regular, bottom-up risk identification processes are undertaken to identify risks to which M&G plc is currently exposed, or could be exposed to in the future.
- Risk Assessment: risks are first measured using appropriated metrics. Risk monitoring is also an ongoing process to track the status of risks and is undertaken by both risk owners and through oversight and assurance activities undertaken by Risk, Compliance and Internal Audit.
- Risk Management: risks are evaluated, treated and managed against the defined risk limits, triggers and indicators in order to establish whether the business is operating within risk appetite.
- Risk Reporting: to ensure timely and appropriate decision making, both the asset manager and asset owner are provided with accurate and timely risk reports.

ESG risk management

To help mitigate emerging ESG risks, which include greenwashing, climate impact, diversity & inclusion and corporate governance issues, M&G plc has put in place a tailored framework for the identification, assessment and management of ESG risks to be embedded in line with the M&G plc ESG Risk Management Framework, set out in the earlier section.

The framework is supported by the M&G plc ESG Risk Policy, which articulates the company's ESG risk appetite and sets out key requirements, applicable to all business areas, for the management of ESG risk in a manner consistent with the risk appetite.

ESG risks are escalated within risk reporting provided to the Executive and Board Risk Committees, with further escalation to the Board as required.

The framework is intended to help inform, educate and communicate the importance of ESG risk across the business, and consists of five core components: ESG risk culture; identifying and assessing ESG risk; managing and reporting effectively on ESG risk; embedding risk governance; and protecting reputation.

In 2023, we carried out structured activity to assess the effectiveness of greenwashing risk mitigation controls and strengthen these where appropriate. This has included the rollout of mandatory greenwashing training across the business.

Working with other stakeholders to improve functioning of financial markets

Membership of and engagement with various industry initiatives allows us to gain understanding of the wider industry's thoughts on current relevant events.

M&G plc, the asset manager and the asset owner, engages with, participates in, and in some instances chairs, a number of associations and initiatives. For M&G plc, this includes, but is not limited to:

- GFANZ – for climate-related initiatives, we participated in the GFANZ Geneva Group, a cross-industry panel of experts working together to develop a methodology and approach to net zero as part of the portfolio alignment working group.
- M&G plc chaired the ESG Committee of the International Regulatory Strategy Group (IRSG), which provides extensive opportunities to engage directly with – and to influence – both industry peers and regulators/policymakers (including HM Treasury, the European Commission, the FCA, the ISSB, ESMA, the Bank of England).
- IFOA – Through the IFOA (Institute and Faculty of Actuaries) Sustainability Board, we have led collaboration between IFOA and leading scientists on a series of climate papers that cover topics such as tipping points and climate change scenario analysis.
- CRO – We are part of the CRO Forum and participated in CRO Forum activity on managing greenwashing risk.
- M&G plc co-chaired the FCA-convened working group on creating a Code of Conduct for ESG ratings and data providers.
- We have worked with UK Ministers and government officials to increase institutional investors' commitments to private assets. This can increase capital available to scale-up businesses and encourage investment in the life sciences. We also engaged on live policy regulatory issues, including transition plans, green taxonomies, disclosure regimes and ESG ratings providers.

Further asset manager-specific activities are outlined below.

M&G Investments

Working with other stakeholders to improve the functioning of financial markets

As a large investor, we recognise that we have responsibilities to the wider market, industry and society. Where there are systemic risks, we recognise the need to act collectively to solve issues, while continuing to meet our responsibilities for our clients.

We actively engage with trade bodies, policymakers and NGOs, including, but not limited to:

- The Department for Business, Energy and Industrial Strategy (BEIS)
- The Financial Conduct Authority (FCA)
- The Financial Reporting Council (FRC)
- The Investment Association (IA)
- The United Nations Principles for Responsible Investment (UN PRI)
- The Institutional Investors Group on Climate Change (IIGCC)
- Climate Action 100+
- UK Sustainable Investment and Finance Association (UKSIF)
- The European Fund and Asset Management Association (EFAMA)
- The Investor Forum
- The International Corporate Governance Network (ICGN)
- All Party Parliamentary Corporate Governance Group (APPCGG)
- UK Endorsement Board Advisory Group (UKEB Advisory Group)

Examples of this over the last 12 months can be found in the main body of this report.

Market-wide risks

With regards to market-wide risks, at a fund level it is the responsibility of every portfolio manager to manage these risks. Market-wide risk is a key element of investment analysis as we look to maximise our clients' risk-adjusted returns. For instance, within emerging markets a premium would be applied to account for the increased geopolitical risk.

We then have a centralised second-line risk function that looks across our assets. The independent risk team approaches risk management pragmatically through a combination of quantitative and qualitative measures.

This team remains in constant dialogue with the portfolio managers and performs regular independent oversight/challenge of fund positioning. In order to identify risks, we perform stress testing on our portfolios for a variety of market-wide risks and take appropriate action, such as enforcing liquidity limits and monitoring sensitivity to currency or interest rate movements. This team has now taken over ESG risk oversight as previously mentioned in principle 2.

At a firmwide level, our risk function sets and monitors limits within our risk appetite for areas including, but not limited to, liquidity, market and credit risk. As mentioned above, we engage with regulators and industry bodies to help develop effective regulation and to promote well-functioning markets.

In the UK, political instability in 2022 led to a spike in market volatility, requiring central bank intervention, a significant increase in borrowing costs and a weakening of Sterling. This added to existing pressures on households and businesses. To effectively manage our business and our clients' assets through this volatile period, we brought together colleagues from across the company to provide an enhanced monitoring and decision-making capability. Actions we have taken include adjustments to risk limits and hedging portfolios to reduce the risk of unexpected collateral calls.

Systemic risk

As highlighted previously, we are also in contact with stakeholders, including industry organisations and regulatory authorities. This is to ensure we are fulfilling our duties as responsible investors and supporting industry initiatives and regulation that is in the best long-term interests of our clients, as well as the financial system more generally. This includes global issues such as climate change, governance issues such as audit and remuneration committees through the Investment Association, and sector-specific issues such as safety standards.

M&G plc has prioritised two key ESG issues as both a business and an investor: climate change and diversity and inclusion. As mentioned previously in this document, M&G plc aims to achieve carbon net zero investment portfolios by 2050, across the group's total assets under management, to align with the Paris Agreement. This was a focus for engagement in 2021, 2022 and 2023, and will continue being so, as will diversity & inclusion. We have published our net zero and diversity & inclusion commitments and targets, as well as our Thermal Coal Investment Policy.

For both us and the asset owner, the climate emergency is one of the most important environmental issues facing the world today. We believe that climate change will have a material impact on our clients' investment returns. With this being the case, identifying the specific risks of climate change is crucial to minimise or mitigate the impacts.

Effectiveness

We believe that we continue to effectively identify and respond to market-wide and systemic risk, at both a fund level, through the ongoing monitoring and investment activities by our fund managers, and at a company level, through the establishment of effective risk governance measures. In addition, our active involvement in a wide range of market initiatives ultimately aids in the improved functioning of financial markets, through collaborative action, regulatory development and innovation in the provision of services. For examples, please see the main body of this report, particularly the 'other engagements and activities' section from page 64.

Outcome

With the ESG landscape ever evolving it will always remain a priority to keep abreast of the risks and challenges that our industry and organisation face. While this remains an industry-wide challenge, our ongoing monitoring of risks in our own and other areas of responsibility, in combination with our expertise and ongoing dialogue with regulatory and industry bodies, allows us to meet our responsibilities, with appropriate integration of such risks and factors within our investment activities.

Principle 5

‘Signatories review their policies, assure their processes and assess the effectiveness of their activities’

M&G plc

The M&G plc Group Governance Framework (GGF) defines the Group’s approach to governance and internal controls to ensure the business meets internal and external requirements and standards. The GGF includes policies and information to ensure a consistent approach to decision-making. A core component of the GGF is the M&G plc Policy Governance Framework (PGF), which sets out the roles and responsibilities across the group in relation to policy development, maintenance, implementation and compliance. Group-wide policies such as the M&G plc ESG Risk Policy are part of the PGF, which supports the overall system of risk management and internal control.

The establishment of a strong governance structure across the business is also key to ensure the effective review and challenge of processes and policies. During 2023, this was further enhanced with the development of the M&G plc Executive Sustainability Committee, which was established to act as a dedicated committee to review and approve group-wide sustainability and ESG matters (see Principle 2).

Internal and External Assurance

In alignment with the Risk Management Framework (RMF) (see Principle 4), M&G plc’s management of risks is underpinned by the ‘three lines of defence’ model to risk governance, supporting the board, and its underlying committee. This model provides an effective way to clearly illustrate how responsibilities to managing risks (including in the process of assurance) are separated:

First Line of Defence (1LOD)

The first line of defence business areas seek to identify and manage risks and are overseen by the second line of defence Risk and Compliance functions.

Second Line of Defence (2LOD)

The second line is structurally independent of the first line. 2LOD functions facilitate and monitor the implementation of effective risk management practices by the first line. This includes providing proactive and reactive advice and challenge to the first line.

Third Line of Defence (3LOD)

The third line, Internal Audit, is empowered by the Audit Committee to audit the design and operating effectiveness of the internal controls, including the risk management system.

The 1LOD responsibilities are carried out by the Product/Proposition, Marketing, Client & Distribution and Investment teams, Operations, Finance, Technology and other Central functions which also have ultimate accountability for the business’s systems of internal control and risk management. Specifically, 1LOD functions develop processes and procedures to integrate risk management principles into day-to-day violation of compliance or risk management policies, mandates or instructions.

The 2LOD responsibilities are carried out by the Risk and Compliance teams. Aside from contributing advice and guidance, second line functions provide independent oversight and challenge of first line activities. The second line function also monitors risk and compliance and assurance activities, and reports on risk and compliance.

An aggregate view of M&G plc's risk profile is provided additionally to the Board with support in identifying and assessing emerging risks which could potentially threaten the successful achievement of M&G plc's objectives.

The 3LOD is provided by Internal Audit. The primary objective of Internal Audit is to provide independent and objective assurance to the M&G plc Board Audit Committee (BAC) and Executive Management on the adequacy of the design and effectiveness of the organisation's systems of internal control, thereby helping them to protect the assets, reputation and future sustainability of the group. This is achieved by assessing whether all significant risks are identified and appropriately reported by management to the BAC and executive management, assessing whether they are adequately managed, and by challenging executive management to improve the effectiveness of governance, risk management and internal controls.

External assurance

In 2022, PwC provided limited assurance on the total community investment spend and selected operational emission metrics outlined in the 2022 M&G plc Annual Reports and Accounts. This year, PwC has continued to provide assurance on our Annual Report and Accounts, and extended to include limited assurance on selected financed emissions metrics in the 2023 M&G plc Annual Reports and Accounts. For more information please visit: **https://www.mandg.com/investors/annual-report**

Board of directors

Risk and audit committees

Three lines of defence

1 Risk identification and management

- identify, own, manage and report risks
- execute business plan and strategy
- establish and maintain controls
- stress/scenario modelling
- operate within systems and controls
- ongoing self-assessment of control environment effectiveness

2 Oversight, advice and challenge

- oversight, advice and challenge
- owner of Risk and Compliance Framework
- stress/scenario setting and oversight
- regulatory liaison
- proactive and reactive advice and guidance
- risk and compliance monitoring and assurance activities
- risk and compliance reporting

3 Assurance

- independent assurance of first line of defence and second line of defence
- independent thematic reviews and risk and controls assessment

M&G Investments

Review of policies and assurance of processes

We have formal reviews of all our policies annually to ensure they are still appropriate and effective. Both our second and third lines of defence have conducted independent internal assurance of our sustainability strategy, including a greenwashing risk review, and on processes covering TCFD reporting and implementation of SFDR. This supports the business in identifying where processes, policy and controls can be continually strengthened.

Our first line controls and assurance team partner with business heads and investment professionals in order to close assurance actions on time and provide support in documenting, enhancing and testing key controls where required. There are dedicated governance structures in place that oversee ESG risks internally, which consist of senior executive management and ESG SMEs.

In addition to this internal assurance, our controls and processes in place receive annual assurance through an external auditor. In order to invest in and improve our ongoing capabilities around ESG data governance and data quality, we recently collaborated with an expert team from Deloitte. This involved an independent and detailed assessment commissioned in 2022 and has led to a series of strategic recommendations for improving ESG data processes, which we continued to invest in throughout 2023.

A climate-specific external assurance example is the use of an independent party to undertake limited assurance for selected climate metrics methodologies that are presented as part of the M&G plc TCFD disclosures.

Through our interactions with NGOs, completing external surveys, such as CDP and the UN PRI, attendance of Investment Association committees and IIGCC meetings, our work with the International Corporate Governance Network, as well as working with clients and external stakeholders, we are helping to develop best practice, and consider how this best practice can be incorporated into our policies. This allows us to stay up to date across asset classes on the range of issues which are important to investors and the wider market.

Examples include the publication of our ESG Investment Policy, updates to our voting policy to take account of diversity & inclusion and climate, and the M&G plc position papers on thermal coal and the just transition. As mentioned above, our controls and processes in place receive annual assurance through an external auditor, in particular in relation to our voting process, while our internal audit function assures the controls and processes involved in producing this report, with the potential for external audit in future.

Effectiveness of our activities

We report annually, externally, and quarterly, internally to a number of internal boards (where internal money is managed) and other stakeholders, on how we discharge our stewardship responsibilities. For instance, our quarterly internal stewardship report not only goes to all relevant senior management, but to a wide range of interested internal parties, while we report to clients on stewardship activities on request. We have also begun including stewardship information in standard wholesale client reporting, including if a given fund actively engages and votes, whether it is ESG integrated, sustainable or impact-focused, and any exclusions it has in place as part of the investment mandate. For our labelled ESG range of funds, we also provide fund-specific engagement case studies on a quarterly basis, while across funds we report climate metrics on a monthly basis as well.

Through dialogue with our clients and continuous internal review, we ensure not only that our policies are fair, balanced and understandable, but also that they lead to effective stewardship. This report allows us to collate and reflect at a holistic level where we could strengthen and develop in future.

The report has been reviewed by M&G plc's ESG Disclosure Panel, in order to help ensure it meets the aforementioned requirements of being fair, balanced and understandable.

This report has been approved by the M&G plc Management Disclosure Committee and the Board of M&G Investment Management Limited, reviewed by the M&G plc Executive Sustainability Committee, and signed off by the Chief Executive Officer of M&G Investments.

Outcome

An internal audit covering the control framework in place over the preparation and submission of our 2021 Stewardship Report was completed in December 2022. The objective, approach and outcome of this audit are outlined in the case study below. As noted above, external assurance has also been obtained to provide substantive assurance over certain key reportable metrics.

In addition, both our proxy voting process and stewardship report process are being mapped by a central team as part of a wider review of ESG-related controls in the investment business, ensuring that the relevant processes and controls are clearly documented.

We deem these combined forms of assurance to be necessary in order to ensure that we are accurately reflecting the stewardship activities that we undertake, with full and ongoing documentation of those activities. This also includes public disclosure of our voting, and the aforementioned new system to both track and disclose our engagement activities.

Case study:

Internal Audit Review of the FRC Stewardship Report

M&G Investments is a signatory to the FRC UK Stewardship Code 2020 ('the Code') and reports against the Code's 12 'apply and explain' Principles via the annual Stewardship Report. As part of a 2022 audit of 'External ESG Reporting', Internal Audit included the Stewardship Reporting in scope.

Objective

The objective of this audit review was to provide independent assurance over the design and operating effectiveness of the control framework in place around the preparation and submission of accurate, complete and timely FRC Stewardship reports on behalf of M&G Investments.

Approach

The audit was performed through review of relevant documentation and management information; performing walk-through of relevant processes; conducting sample testing of key and/or mitigating controls within the processes in place around the preparation and submission of the Stewardship Report.

Outcome

A report detailing any issues identified was reported to relevant Senior Management, Executive Management and the Board Audit Committee with issues added to the internal audit system for tracking to completion.

Principle 6

‘Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them’

M&G plc

The assets under management and administration for M&G plc as both asset owner and manager, as at 31 December 2023, were £344 billion.

M&G Investments

In terms of M&G Investments, as asset manager, this was broken down as:

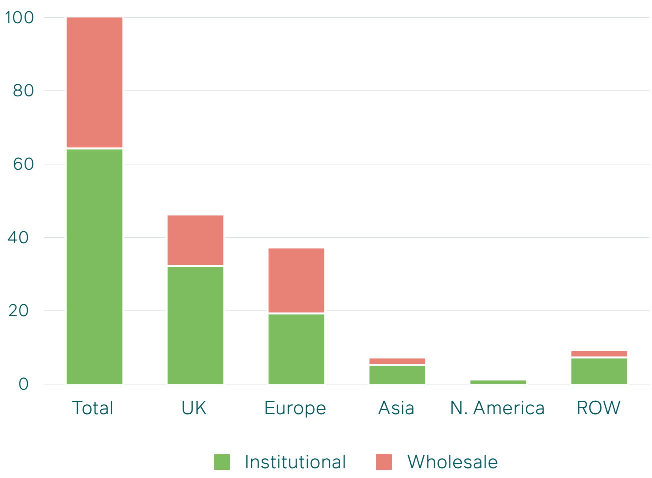
External	£153.2bn
Internal	£160.3bn
Total	£313.5bn

For M&G’s externally managed AUM, this was broken down as:

Total equities	£42.1bn
Total fixed income	£91.3bn
Total property	£14.5bn
Other/Cash	£5.3bn

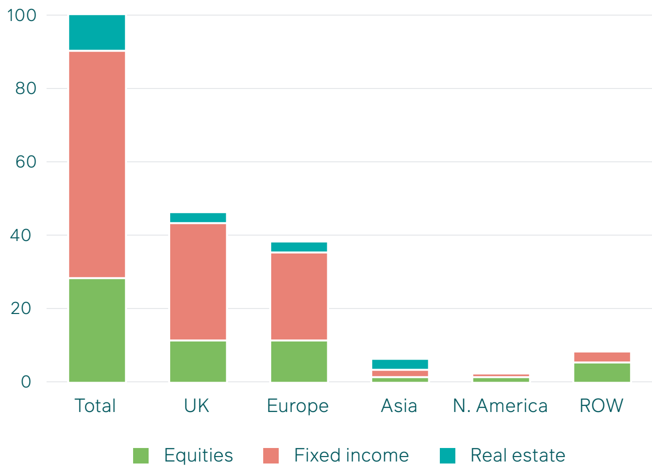
Source: M&G, as at 31 December 2022.

% External AUM by client type and geography



Source: M&G, as at 31 December 2023.

% External AUM by asset class and geography



Source: M&G, as at 31 December 2023.

Note: Fixed Income includes ‘cash and cash equivalents’

We run a range of investment strategies, the majority of which are long term in nature, meaning we take a long-term view of the investments we make on our clients’ behalf. When we buy shares in companies, for example, we typically hold these shares for three to five years as a minimum. The timeframe for fixed income, real estate or infrastructure investments may be even longer.

We have a diverse range of clients, from institutional investors and pension schemes, who may require very granular detail around our voting and engagement activities to satisfy their own reporting requirements, to retail investors who often take a more hands-off approach. Across the needs of all our clients, though, we acknowledge that as an asset manager we have to be accountable for our actions and demonstrate that we vote and act in a consistent manner, based on our principles.

Client policies

We listen carefully to our clients' views and requirements in respect of stewardship, at both the institutional and retail level. For the latter, this includes our interactions with the adviser community, as well as with individual investors through organisations like the Wisdom Council. For the former, this involves ongoing interactions between clients and our client relationship teams, as well as meetings with our sales and investment teams.

Ensuring that we are meeting our clients' needs is an ongoing process of discovery, planning and implementation. We are cognisant of various industry policies and standards – including industry-wide voting and engagement reporting templates – and are often involved in their development. As one example, we were part of the PLSA's Voting and Implementation Statements Working Group (VISWG), to develop standardised templates to allow pension schemes to meet their regulatory stewardship reporting requirements.

We have clear stewardship policies with which all fund managers are expected to comply, although the policies contain appropriate flexibility to allow fund managers to express their individual investment views and styles to achieve our clients' investment objectives; it is to be expected that stewardship activities and approaches will differ across funds.

The requirements of our clients are kept under regular review. There are legal, regulatory and operational requirements and challenges for both investment managers and clients in relation to pooled investment client voting, for example. We recognise that clients often have strong views on voting. In our experience, clients take a close interest in our voting policy and how it is implemented, and for the moment we believe that clients are satisfied that our policy fulfils their requirements and objectives, but we are not complacent and keep this under constant review.

To date, our clients have not requested that we implement their own particular voting or stewardship policies. We can offer segregated account arrangements should this meet clients' needs better than a pooled investment. We have, though, been reviewing tools that allow clients to express their voting preference, and we remain open minded as the debate on this topic continues.

Transparent communications

Much of our engagement with companies is confidential, but we publish case studies of our interaction with companies on less-sensitive issues. We also publish this report within the sustainability section of the M&G plc website, providing an overview of the full range of stewardship activities undertaken over the previous year.

We provide transparency on our voting activity on our website, including our rationale when voting against management or abstaining from a vote. A summary can be found in this report and our full voting record online.

All of our voting is also processed and recorded through an external voting service, on which a full record of all voting activity is retained, along with voting rationale.

Again, we report annually, externally, and quarterly, internally on how we discharge our stewardship responsibilities, and regularly report to clients on stewardship activities for bespoke requests.

We maintain records of interactions with companies, with a system for recording general monitoring activities for equity holdings, the development of an enhanced system for fixed income holdings, research platforms for both equity and fixed income where research and meeting notes are recorded, as well as a system specifically designed to record ESG engagements, as defined by the PRI. Records of specific stewardship activities are also retained within the Stewardship & Sustainability team.

Outcome

We take into account feedback from clients on our reporting and look to make improvements. This has included more stewardship information in regular monthly and quarterly fund reports, more granular information on engagement and voting activity for institutional clients, and the publication of climate metrics across our range of funds. We are always open to feedback on our approach from clients, whether institutional, wholesale through IFAs or retail through our call centres and Client Insights team.

To ensure we are meeting client needs, every manager invests in line with the mandate of their fund, which has been clearly articulated to clients. We provide a variety of fund-specific reporting for wholesale clients, including monthly, quarterly and annually, while reporting on a bespoke basis for different institutional mandates.

Principle 7

'Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities'

M&G Investments

As noted previously, we run a range of investment strategies, the majority of which are long term in nature, meaning we take a long-term view of the investments we make on our clients' behalf. To read the ESG Investment Policy which we use to inform and guide all investments made as an asset manager, please visit **https://www.mandg.com/~/media/Files/M/MandG-Plc/documents/mandg-investments/2024/mg-investments-esg-investment-policy-w1188801.pdf**

Integration of stewardship

As long-term investors, we take great care with our clients' savings and work closely with the management of those companies and assets we invest in to help ensure they are delivering the best possible risk-adjusted returns. This includes challenging the environmental, social and corporate governance practices of these companies, particularly if we think these pose a risk to long-term performance.

We believe that ESG factors can have a material impact on long-term investment outcomes. Our goal is to achieve the best possible risk-adjusted returns for our clients, taking into account all factors that influence investment performance. Consequently, ESG issues are integrated within investment decisions wherever they have a meaningful impact on risk or return.

Within our analysis, we typically look at capital allocation, financials, strategy and performance, as well as non-financial matters (such as environmental, social and governance factors; capital structures; board performance and understanding how boards are fulfilling their responsibilities; succession planning; remuneration; and culture).

While we consider it essential to include ESG factors in our investment analysis, we do not take investment decisions based solely on our ESG views. Rather, investment decisions are made after giving appropriate consideration to all factors that influence an investment's risk or return. We are long-term investors, and since ESG issues tend to evolve over the longer term, we consider such factors as a fundamental component of our investment process. We regard it as part of our fiduciary responsibility to include ESG issues in our investment views, as we do for all factors that influence long-term investment results for our clients.

For examples of how our integration of ESG has progressed over the last year, please see the main body of this report.

Stewardship activities, such as monitoring and engaging with investee companies, as well as voting at shareholder meetings and reporting to clients, are undertaken by the investment teams, research analysts and members of our Stewardship & Sustainability team on an integrated basis. To ensure an integrated approach, regular investment meetings are held with investee companies (and meetings with potential investee companies), with representation from each team. This is then fed back into our internal view of the company. Examples can be seen in the ESG Engagement and Voting sections of this report.

How we monitor and engage with companies is described in more detail in Principle 9.

Activity

Principles of ESG integration

We subscribe to the UN PRI-endorsed definition of ESG integration, as being the explicit and systematic inclusion of ESG factors in investment analysis and investment decisions. Our implementation of these principles rests on three pillars:

- integration of ESG issues into investment research
- integration of ESG issues into investment decision making and portfolio construction
- periodic ESG portfolio reviews

In recognition of our role as stewards of our clients' assets, we are fully committed to the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, society and the environment.

For active funds, we seek to add value for our clients by pursuing an active investment policy: through portfolio management decisions; by maintaining a constructive dialogue with investee company management; by voting on resolutions at company general meetings; and by negotiations on covenants, engagements and voting on waivers and amendments.

We systematically include consideration of material ESG factors into our investment analysis and decision making in all asset classes on an iterative and continuous basis

Integration across asset classes, geographies and funds

ESG integration varies more between sectors than between asset classes, as underlying ESG issues typically vary depending on a business or asset's profile.

Across company types and geographies, one significant variance is the level of disclosure and ease of access to information and data; larger listed companies generally produce the best levels of disclosure, while companies in developed markets generally provide better disclosure than those in developing markets.

Within certain fixed income asset classes, such as asset backed securities (ABS) and leveraged finance, the integration of ESG can involve multiple parties, such as the originator/sponsor/servicer, along with the underlying company or asset pool.

For some funds, namely those that invest primarily in sovereigns, ESG integration and engagement is more limited.

Framework for ESG integration

In order to provide an overarching taxonomy for the consideration of ESG issues, we make use of the Sustainable Accounting Standards Board (SASB) framework. This framework is used to gather and record evidence of the prevalence of ESG issues within the investment process. The SASB Materiality Map is used to inform the M&G Investments ESG Scorecard, which is used to analyse and expose the impact of ESG issues on a particular company. The SASB framework may be supplemented by additional ESG factors as we deem appropriate.

The following structure applies globally to listed equity and fixed income funds, as well as to private assets, where the formalisation of ESG integration began in 2021.

Integration into investment research

The Stewardship & Sustainability team, and domain subject matter experts, undertake and produce thematic research providing thought leadership and working examples that explore and describe 'lateral' ESG factors.

The Research teams comprise career analysts with deep knowledge and insight into their sectors. They have access to internal proprietary ESG thematic research, as well as relevant data from other sources. They evaluate the impact and materiality of these ESG themes within the context of the industries and companies that they cover, with assistance from the Stewardship & Sustainability team.

In collaboration, these teams deliver actionable investment research that includes ESG issues, insights and recommendations to fund managers for use within the investment decision-making and portfolio construction process. For single stock and sectoral research, the research analysts are accountable for determining the materiality of ESG factors, which are incorporated into such investment decisions.

Integration into investment decision making

Investment decisions are taken following the consideration of a wide range of investment drivers. Such drivers will include, but are not limited to: mandate restrictions, market liquidity, valuations and investment research. Where ESG factors are material within such drivers, they will be incorporated into decision making. Examples of how such information is included in the investment process includes: written research that integrates ESG factors; Stewardship & Sustainability team publications on thematic ESG issues; face-to-face discussions; sector and ranking reviews; proprietary tools; and the consumption of external sources, including ESG data. Again, we use a variety of external data providers to help inform our decisions, including those that specifically provide ESG data to support the integration of stewardship and investment.

Integration of ESG issues into investment decision-making and portfolio construction, for listed equity and fixed income funds, is overseen through periodic ESG portfolio reviews.

Outcome

Evidence of ESG integration

Hashtags for investment research: where ESG factors are incorporated within written research they should be highlighted by the addition of a specific hashtag representing the ESG issue. The list of hashtags is derived from the SASB materiality map and supplemented by additional hashtags for factors that are agreed between the Stewardship & Sustainability and analyst teams.

Central ESG engagement log: where ESG engagement with companies, issuers or policy makers is undertaken, this is recorded in the central ESG engagement log, including the objective, action and outcome of the engagement, the broad ESG pillar under discussion, and the relative state of the engagement ie successful, ongoing or unsuccessful. The Stewardship & Sustainability team approves engagements entered into the log, to ensure they are compliant with the PRI ESG engagement definition.

Principle 8

‘Signatories monitor and hold to account managers and/or service providers’

M&G Investments

Service providers

Activity

We use the ISS voting platform to vote and we have built, with ISS, a custom voting service that reflects our public voting policy. As company meetings arise, we use research from ISS (and voting information service IVIS for UK companies) to highlight any contentious issues that we were not aware of from previous consultations with investee companies.

Before deciding to abstain or vote against a resolution that has been flagged by ISS or IVIS, we will either discuss straightforward issues within the Stewardship & Sustainability team or involve the relevant fund managers for more contentious issues, allowing them to make the ultimate decision in conjunction with the Stewardship Team and Research Analysts. We will, where possible, try to inform the company in advance if we are voting against management. In most circumstances, especially on remuneration-related issues, there will have been a previous dialogue with the company.

We feel that the ISS platform, in conjunction with our custom voting service, has adequately met our needs, allowing us to effectively vote at 3,157 meetings in 2023.

There were no actions taken during the year in response to our expectations not being met, although we do have meetings with ISS to discuss areas of potential improvement.

Outcome

Our Stewardship & Sustainability team meets with ISS to discuss operational and contractual issues, such as technical updates, policy changes and new products related to voting. We also interact with ISS on an ad-hoc basis when we have queries, often related to operational performance or research. We also use this opportunity to develop our custom voting service.

Research providers

Activity

Research providers are monitored and scrutinised for accuracy, and while the data from these providers feeds into our analysis, they are not the sole input.

We currently primarily use ISS, MSCI and Sustainalytics, which is delivered through dedicated data portals to our Investment, Research and Stewardship & Sustainability teams, among others.

Other research sources include, but are not limited to, Bloomberg, Refinitiv, Aladdin Climate, Morningstar and CDP.

We hold regular meetings with research providers to understand new functionality or to suggest areas we think can be improved. We also meet with providers when we feel, for example, a company ESG rating is not accurately reflecting the activities that company is undertaking, or to understand remediation efforts a company can undertake to improve its rating or to, for example, remove a UN Global Compact-related flag.

Outcome

We have regular dialogue with our research providers to query any issues which arise during the year. Typically, this is where we consider the research provider to have made a factual error.

We also have a central team to act as a formal point of contact and monitoring for our service and information providers.

Monitoring of service and research providers

The M&G plc Market Data team is responsible for managing the ongoing relationship with our service and research providers and for reviewing the overall quality of service provided. Any issues raised by the business will be followed up by the Market Data team, and until an appropriate resolution has been achieved. We have divided providers into strategic and non-strategic partners. Those that are strategic and of high value are monitored with regular service reviews on a monthly (and soon quarterly) basis. Those that are not considered strategic, due to low monetary value and low impact, are not monitored on a monthly basis. However, Market Data continues to oversee the relationship and is the point of escalation for the business should any questions or issues with the service or data arise. Our strategic partners include MSCI, ISS, Morningstar, Refintiiv and Bloomberg.

Market Data holds monthly meetings with Bloomberg, Refinitiv and others and meets quarterly with our strategic partners. These meetings are often characterised by constructive feedback and provide an opportunity to determine whether corrective actions or improvements are necessary, as well as a chance to gather information on new products and services that may be of interest to the business.

An agenda is produced ahead of the meeting and minutes are taken and circulated after the meeting. Where we have multiple services provided by one provider, ie Bloomberg and Refinitiv, we produce monthly 'packs' which log all the engagements and issues raised during the month and go through the pack during our meeting.

We are satisfied with the services provided by our service providers. We recognise that improvements could be made with our ongoing engagement and communication with third-party service providers and will endeavour to find ways to enhance our monitoring processes in respect to the wider consideration of ESG and stewardship.

To this effect we will be introducing formal quarterly service reviews with our ESG vendors, where we will produce a pack detailing discussion points, engagement with us throughout the previous quarter, review any technical challenges and discuss key strategic updates from both us and the vendor. Our Data Assurance team is also working to produce data quality metrics to enable us to understand data coverage and gaps from our vendors, so we can use these metrics to further hold our vendors to account.

Outcome case study

Vendor Partnership

Objective: We wanted to purchase a biodiversity dataset to facilitate research and analysis within our Climate team. However, given some of the current challenges around the utility of existing nature-related datasets for investment decisions, there were few options to choose from.

Approach: Bloomberg approached us to ask if we would like to participate in their Biodiversity Beta programme, which gives select asset managers the opportunity to use and review its data at no cost. In turn, we can provide valuable feedback to Bloomberg on the quality and usability of its data so that, in joint partnership, a better product can be released to the market later in the year. This is an example of the strong relationship we have with Bloomberg and the ongoing commitment to continue that partnership.

Outcome: This trial is currently progressing, with weekly calls between us and Bloomberg discussing the data in detail. Bloomberg will develop the dataset based on feedback over the coming months.

Principle 9

'Signatories engage with issuers to maintain or enhance the value of assets'

We believe that the long-term success of companies is supported by effective investor stewardship and high standards of corporate governance. We think that if a company is run well, and sustainably, it is more likely to be successful in the long run.

M&G Investments

Prioritisation

Our resources are generally applied based on a range of factors, including the materiality of the issue and the size of our holding. Our focus will be on issues that are likely to be material to the value of the company's assets and are in the long-term interests of our clients. This includes challenging the environmental, social and governance practices of companies, particularly if we think these pose a risk to long-term performance.

As a general rule, where our holding is a small fraction of the company's total capital, and a small fraction by value of a fund, there will be proportionately less resource applied to engagement (reflecting the reality that our influence is less significant).

Our engagement priorities stem from both a bottom-up approach, for example from individual portfolio reviews, and also top down, where the house often has a large exposure. For the latter, as mentioned in the engagement section in the main body of this report, a major area of focus is on climate change, including engagement with companies with thermal coal exposure, diversity & inclusion and natural capital.

Develop objectives

Before engaging, we identify a specific target for our engagement based on our desired outcome, tempered by realistic expectations based on the amount we hold and in which asset class. Fixed income assets, for instance, have fewer routes for direct engagement and escalation, but where there is overlap between equity and fixed income, we try to work together.

Regular and proactive monitoring, including open and purposeful dialogue with investee companies, enables us to determine whether the board is fulfilling its mandate to shareholders and if engagement is required, and ultimately whether an investment remains appropriate. This monitoring process typically includes:

- Arranging regular meetings with executive management, the chair and/ or other non-executive directors
- Daily monitoring of company announcements
- Reviewing company results (annual and interim)
- Reviewing external research materials (eg broker research reports)
- Attending company capital markets days for investors and undertaking site visits
- Attending broker meetings to discuss investment recommendations
- Engaging in specific discussions with companies on material topics, including: strategy, performance and non-financial matters (such as environmental, social and corporate governance factors; capital structures; board performance and understanding how boards are fulfilling their responsibilities; succession planning; remuneration; and culture, among others)

- Attending company engagement/corporate governance meetings (arranged by companies to enhance the engagement process and provide a forum for governance and responsible investment subjects to be discussed)
- Meetings with remuneration committee chairs (in particular where the company is reviewing its remuneration policy, or prior to general meetings where sensitive or contentious resolutions are being put to shareholders to vote on)
- Corresponding with non-executive directors in instances where issues have been raised with management, but where progress on these issues is inadequate
- Maintaining a record of all interactions with companies
- Attending shareholder meetings

Details of how we escalate issues can be found in Principle 11 below.

As an active fund manager, we interact with companies to add value to the investment process (ie reinforcing a buy/sell/hold decision), to increase our understanding, or provide feedback to a company. We may also engage as fixed income investors where we seek to protect our clients' interests, through seeking amendments to the documentation that underpins the investment. If this is an ESG engagement, our aim is to influence company behaviour or disclosure.

Active and informed voting is an integral part of our responsibility as stewards of our clients' assets. In using our votes, we seek both to add value and protect the interests of our clients as shareholders. Our starting point as an active fund manager is to support the long-term value creation of our investee companies, and there will be occasions when we need to vote against management-proposed resolutions or support shareholder resolutions which are not recommended by the board, if we believe this is in the best interest of our clients and the company. In these cases, where it is practical, we try to engage with the company beforehand. Indeed, voting against resolutions may be seen as a failure of engagement.

We will consider shareholder resolutions on a case-by-case basis and will typically support those that request additional disclosure which, in our view, will add long-term value to our investment.

Our stewardship activities are overseen by the Financial Reporting Council, with engagement and voting seen as fundamental parts of stewardship. Both evolving legislation and client expectations have also raised the bar of what asset managers should be doing as stewards of client assets. This includes increased reporting requirements, particularly concerning company engagements and significant votes.

Categories of company interaction

We categorise company interactions into three types:

- Company meetings: as part of company monitoring, updates on trading strategy, capital allocation etc.
- ESG informed meetings: in company monitoring meetings we may ask questions relating to ESG. This could include remuneration and more general governance meetings, or understanding a company's environmental and social policies and procedures, for example.
- ESG engagements: these must have a specific objective, action and outcome which is measurable, and will in longer-term engagements be tracked over time. An ESG objective seeks to influence a company's behaviour or disclosures, and cannot be merely to increase understanding. Each engagement is assessed for its effectiveness and is designated a red, green or amber traffic light colour coding. Amber suggests further monitoring or engagement is required, green that the engagement was successful and red that it was not.

These three levels of engagement can be conducted through both meetings with companies and/or correspondence. The engagements can be bilateral or through collective engagement vehicles, such as Climate Action 100+ or the Investor Forum.

Engagement framework

We have two approaches to our engagement programme – top-down and bottom-up.

Top-down, proactive ESG engagement programmes are thematic, such as our climate engagement programme, diversity & inclusion, engagement on nature or controversies, including UNGC red flags and modern slavery within operations or supply chains. These engagements are conducted across all investment teams.

Bottom-up programmes create individual engagements, with proactive targets arising from: company monitoring; ESG portfolio reviews; annual governance meetings; remuneration reviews; controversial resolutions at shareholder meetings et al. We also undertake reactive engagements in light of company news, including on trading, changes to the board, M&A etc.

ESG engagements are recorded in a central log, maintained by the Stewardship & Sustainability team, for use by the different investment, client and marketing teams within M&G Investments.

Engagement across asset classes and geographies

Our approach across asset classes continued to develop in 2023, as we increasingly make use of our broad cross-asset capabilities, often as a holder of both a company's equity and debt, to increase the significance of our engagement activities. During the year, our Stewardship & Sustainability team began working more closely with our private assets team, and an overview of resultant engagement activity can be found in the main body of this report, in the ESG Engagement section. Across asset classes, the end goal of all of our stewardship activities is to best serve our clients by achieving positive outcomes, and helping ensure our investee companies are effectively dealing with all of the material risks affecting them, both financial and non-financial.

Public equities: engagement with investee companies is generally undertaken by fund managers, analysts and the Stewardship & Sustainability team on an integrated basis.

Regular meetings with executives, company directors and other members of management allow us to identify whether a company's strategy is aligned with our interests as long-term shareholders. Our active interactions with companies help us to understand the issues affecting them and, through both bilateral and collective ESG engagement, to encourage positive change. This could require continued engagement to bring about such change or, where this does not prove possible, voting against board members or ultimately divesting from a company.

Public fixed income: engagement with issuers is usually undertaken by our credit analyst teams, with support when needed from the Stewardship & Sustainability team, since our analysts have a clear and detailed understanding of the ESG issues affecting the credit quality of the issuers that they cover. Although bond holders normally have less influence than equity holders when engaging with companies, we consider it still important to engage with fixed income issuers regarding material ESG issues to encourage improved ESG practices.

Private assets: as investors in private or illiquid asset classes, or where there is an intention to hold the asset to maturity, we undertake extensive due diligence and engagement prior to, and throughout, investment on the basis that the ability to add value occurs during the investment decision-making process and that engagement is a more constructive decision than divestment.

Our equity and fixed income strategies provide both regional and global propositions, and in both instances we engage with management despite the country in which the company operates. As noted previously, different regions will have different levels of disclosure, different local norms in terms of, for example, board diversity, and different expectations for the level of investor access. We take account of such norms when undertaking engagement activity in the various regions and countries around the globe where we invest. For instance, under our D&I voting policy we have different expectations according to geography.

Outcome

A sample of significant ESG engagement case studies is published in the main body of this report.

Principle 10

'Signatories, where necessary, participate in collaborative engagement to influence issuers'

M&G Investments

We are willing to act collectively with other UK and overseas investors where it is in the interests of our clients to do so. We endeavour to maintain good relationships with other institutional investors and support collaborative engagements organised by representative bodies, including through the Investor Forum, Institutional Investor Group on Climate Change (IIGCC), Climate Action 100+ (CA100+), Nature Action 100, through NGOs such as ShareAction, and informal collective groups such as Find it, Fix it, Prevent it looking at modern slavery.

CA100+ is an investor-led initiative that exists to help ensure that the world's 167 largest corporate greenhouse gas emitters take necessary action on climate change. It is made up, at the time of writing, of over 700 global investors who are responsible for more than US$68 trillion in assets under management across 33 markets.

At the time of writing, within CA100+, we were co-leads on miner Rio Tinto, chemicals company BASF and cement maker Holcim Group. We are active working group members, including on energy company Petrobras, chemicals companies LyondellBasell and Air Liquide, pipeline operator Kinder Morgan, miner Anglo American and steel maker ArcelorMittal.

In addition, we sit on the IIGCC's Corporate Programme Advisory Group, which helps set future CA100+ priorities, and the Net Zero Stewardship Working Group.

A range of factors are considered in deciding whether or not to collectively act with other shareholders, including, but not limited to:

- Whether we can be more effective in our engagement unilaterally or collectively
- The extent to which the objectives of other investors are aligned with our own
- The potential sensitivity of the issue and the extent to which conversations with the company are confidential

We will also speak to other minority investors on a case-by-case basis in takeover offers (either reactively or proactively) and are prepared to go public by speaking to the press when we have a strong view that we think the Board is not taking account of. On a case-by-case basis we will also talk to activist shareholders if approached.

In addition, members of the Stewardship & Sustainability team participate on a range of external formal and informal committees related to broader shareholder issues.

Outcome

As highlighted under Principle 4, we are a member of a number of other associations and initiatives designed to improve collaborative efforts. For details of our collaborations over the past year, please see the main body of this report.

Companies wishing to initiate a discussion on collective engagement should contact Rupert Krefting, Head of Corporate Finance & Stewardship at **rupert.krefting@mandg.co.uk**

Principle 11

'Signatories, where necessary, escalate stewardship activities to influence issuers'

M&G Investments

As a general approach, as active fund managers, we are supportive of the management of the companies in which we invest. However, when companies consistently fail to achieve our reasonable expectations, we will actively promote change. These changes might range from the formation of a new strategy to the appointment of new directors or supporting shareholder resolutions.

We seek close dialogue with investee companies and are prepared to be wall-crossed in order to facilitate dialogue on price sensitive matters such as transactions, capital raisings, takeovers and changes in management before they are announced to the market. Appropriate procedures are in place to manage such information.

For further details, please see the main body of this report, in the Corporate Finance section.

We will engage on any issue that may potentially affect a company's ability to deliver long-term sustainable performance and value to our clients. Issues may include, but are not limited to:

- Acquisitions and disposals
- Biodiversity
- Business strategy
- Climate change
- Culture
- Diversity & inclusion
- Environmental and social responsibility
- Financing and capital allocation
- Governance
- Internal controls
- Management and employees
- Membership and organisation of governing structures and committees
- Modern Slavery
- Operations
- Performance
- Remuneration policy, structures and outcomes
- Quality of disclosure
- Risk
- Shareholder resolutions
- Sustainability
- Thermal coal exposure

These issues can manifest as a reaction to events or result proactively from our in-house analysis or issues raised by other shareholders.

The approach taken by our investment team and Stewardship & Sustainability team will be issue specific. Wherever possible, we seek to achieve our objectives by agreement and in a confidential manner, but may be prepared to support the requisition of a meeting, or requisition a meeting ourselves, to enable shareholders as a whole to vote on matters in dispute or make a public statement to the press.

As previously mentioned, our resources are generally applied based on a range of factors, including the materiality of the issue and the size of our holding. As a general rule, where our holding is a small fraction of the company's total capital, and a small fraction by value of a fund, there will be proportionately less resource applied to engagement (reflecting the reality that our influence is less significant) unless we can act collectively through organisations such as the Investor Forum or Climate Action 100+.

In terms of voting, we would always seek to discuss any contentious issues before casting our vote, in order to ensure that our objectives are understood. We monitor progress of engagements against identified objectives on a periodic basis. To us, confrontation with boards at shareholder meetings represents a failure of corporate governance.

Escalation is normally conducted by the investment team alongside the Stewardship & Sustainability team, and may involve meeting with the company's chair and/or senior independent director, the executive team, other shareholders and/or company advisers. In a limited number of cases, it may be appropriate for the chief executive officer of M&G plc, or the chief investment officer, to be involved.

We believe company boards must consistently satisfy clients, shareholders and the reasonable expectations of employees, as well as acting responsibly towards society as a whole, in order to ensure success over the long term. Focused intervention will generally begin with a process of enhancing our understanding of the company's position and communicating our position to the company. This might include initiating discussions with the chair and/or the company's advisers. We may also speak to senior independent directors or other non-executive directors and other shareholders. The extent to which we might expect change will vary, depending on the nature of the issue. In any event, we expect companies to respond to our enquiries directly and in a timely manner.

We expect the boards of our UK investee companies to comply with the Corporate Governance Code and the spirit of it. It is incumbent on a company to explain the rationale for diverging from the Code's principles and, subject to this explanation, we will determine the appropriateness of the divergence on a case-by-case basis. On occasion, we may support resolutions that are not compliant with the Code – which we believe are the right courses of action for the given circumstances or which progress towards compliance – after discussion with the company on the specifics.

In the case of board appointments, remuneration and corporate activity, shareholders are likely to be given the opportunity to vote on the company's approach. Where we remain unhappy with the proposed outcome of an intervention, or where the rationale is unconvincing, we will vote against relevant resolutions and, potentially, the reappointment of those directors responsible for the proposals with whom we have engaged. This is assessed on a case-by-case basis.

In the case of takeover offers, if we are unhappy with the level of a cash bid we will seek to speak to the Board, the Investor Forum (if it is a UK listed company) other minority shareholders and, if necessary, make our views public to the press.

Ultimately, as an active investor, where the outcome of our engagement is unsatisfactory, we have the option to dispose of an investment. This might be for a variety of reasons, including that the company is no longer suitable for the fund mandate, the outcome of engagement is unsatisfactory or as a result of the investment team's valuation assessment. Investment decision-making is undertaken by our fund managers.

In relation specifically to our Thermal Coal Investment Policy, examples of escalation include our thermal coal appeals process – where a fund manager may instigate an appeal for an issuer to be treated as an exception to or exemption from the policy, where there is credible evidence that the issuer complies with the material features of the Policy – and time-bound engagement plans, which had been agreed ahead of the policy going live in 2022.

As mentioned in Principle 9, our equity and fixed income strategies provide both regional and global propositions, and in both instances we engage with company management despite the country in which it operates.

As noted previously, different regions will have different levels of disclosure, different local norms in terms of, for example, board diversity, and different expectations for the level of investor access. We take account of such norms when undertaking engagement activity in the various regions and countries around the globe where we invest. Our approach to escalation is similar across geographies, although our fixed income strategies do not have the additional lever of voting against management when our expectations are not being met.

Outcome

For details of our escalations over the past year, please see the main body of this report, specifically the ESG Engagement and Voting sections. As a prime example of top-down escalation, please see our approach to Board diversity in both sections. To highlight:

In Q1 2022 we undertook a large mail-out, writing to over 1,000 UK and international names, outlining our board diversity expectations. Since then, there has been discernible improvement in the list of 202 laggards, of which 113 companies have increased their level of female representation. Moreover, 79 companies among these not only improved but fully met our expectations on gender diversity.

During 2023, we engaged with 73 companies on diversity. A vast majority of these engagements were part of our top-down diversity engagement programme. Engagements within the scope of the programme generally have two main objectives: firstly, to convey our expectations on board gender diversity and subsequently discuss board refreshment and any targets that might be in place to facilitate a more balanced gender distribution. Secondly, to have a broader discussion around gender and ethnic diversity at the enterprise level including, but not limited to, identifying obstacles to success, gaps in relevant disclosures, employee engagement and target setting.

To fully utilise our stewardship escalation tools, we regularly vote against board elections where we believe insufficient progress has been made. During the year we opposed directors at 46 of the previously mentioned laggard companies.

Principle 12

'Signatories actively exercise their rights and responsibilities'

M&G Investments

Voting

An active and informed voting policy is an integral part of our investment philosophy. Voting should never be divorced from the underlying investment management activity.
By exercising our votes, we seek both to add value to our clients and to protect our interests as shareholders. We consider the issues, meet management if necessary, and vote accordingly.

The M&G Investments' Voting Policy is published on our website and is regularly reviewed in consultation with our investment teams. Based on this policy we have constructed with ISS a detailed custom voting policy which helps to refer potential votes against management resolutions. In addition, as company meetings arise, we use research from ISS (and voting information service IVIS for UK companies) to highlight any contentious issues that we were not aware of from previous consultations with investee companies.

Before deciding to abstain or vote against a resolution that has been flagged by our custom voting policy, ISS or IVIS, we will either discuss straightforward issues within the Stewardship & Sustainability team or involve the relevant fund managers for more contentious issues, allowing them to make a voting decision in conjunction with the Stewardship Team and Research Analysts.

We will, where possible, try to inform the company in advance if we are voting against. In most circumstances, especially on remuneration-related issues, there will have been a previous dialogue with the company.

Our starting point as an active fund manager is to support the long-term value creation of our investee companies, and there will be occasions when we need to vote against management-proposed resolutions or support shareholder resolutions which are not recommended by the board, if we believe this is in the best interest of our clients and the company.

Individual funds do not have their own voting policies – they all share one house policy. However, where a vote is contentious, for example a shareholder resolution which the board has not supported, then the voting decision is made by the individual fund manager concerned in conjunction with the Stewardship Team and Research Analysts. When changes are made to the voting policy, for instance on climate change or diversity, then we try to represent the consensus of opinion for all fund managers, as well as leading on best practice.

We do not currently have clients in segregated mandates or pooled accounts whose interests diverge, but if this were to happen we would be pragmatic, discuss their voting preferences and conclude how we could accommodate their requirements. We do not currently have clients who expect us to implement their voting policy. We either vote on our clients' behalf, using our voting policy, or, in the past, some of our clients have done their own voting.

We strongly believe that we can be more effective as a steward of our clients' assets as a whole if we can act as one voice, rather than voting in different ways for different clients.

Our passive funds have now been sub-contracted to an external manager who undertakes stewardship on our behalf, and we have selected one of their voting policies. We have the ability to manually override the external voting policy if a voting decision is not aligned with our voting policy.

Summary of voting policy

In determining our vote, a number of factors will be taken into consideration, including our voting guidelines (which are reviewed regularly), company-specific information and the extent to which we have been able to obtain any additional information required to make an informed decision.

A responsible board should consult significant shareholders in advance of a company meeting, rather than risk putting forward resolutions which may be voted down. We are generally supportive of management and we aim to be pragmatic, but we will abstain or vote against the company if a resolution conflicts with our voting guidelines. We would always seek to discuss any contentious resolutions before casting our votes in order to ensure that our objectives are understood. Confrontation with boards at shareholder meetings represents a failure of corporate governance.

The annual general meeting serves a useful purpose by reinforcing the board's accountability to shareholders. Where accountability is lacking we will use these meetings to remind the board of its obligations to shareholders.

We seek to vote on all resolutions at shareholder meetings. We may not vote in favour of resolutions where we are not able to make an informed decision on the resolution because of poor-quality disclosure, or due to an unsatisfactory response to questions raised on specific issues. We endeavour to discuss our concerns with the company in advance of voting against a resolution.

Stock lending

Any shares on loan are recalled whenever there is a vote on any issue affecting the value of shares held, or any issue deemed to be material to the interests of our clients.

Transparency

We provide transparency on our voting activity on our website, including our rationale when voting against management or abstaining from a vote. This is updated on a quarterly basis.

All voting is processed and recorded through an external voting service on which a full record of all voting activity is retained, along with voting rationale.

Fixed income

With regard to fixed income, we carry out extensive pre-investment analysis of issuers including their structures and covenants. Our analysts engage with companies pre- and post-investment, and where it is appropriate we engage as both an equity and bond holder.

As part of this process, we regularly provide feedback to issuers or proposed issuers on what our preferred transaction structure would be. Our investment is dependent on the outcome of this feedback.

Activity

In 2023, we voted at 3,157 meetings, comprising 663 UK meetings and 2,494 international meetings Overall, we voted at 97.11 of eligible meetings; at 1,383 meetings, at least one management voting recommendation was not supported.

There may be occasions when we choose not to vote because share blocking is in place (the practice under which shares when voted on are temporarily blocked from trading), while bondholder meetings, 'do not vote' instructions and court meetings have been removed from these statistics. We also do not vote if there is a conflict of interest on M&G Investments funds. For example, we do not vote our shares in M&G plc.

We use the ISS voting platform to vote and we have built, with ISS, a custom voting service that reflects our public voting policy. Our systems link the holdings of our strategies to the ISS platform, and a central data function of M&G Investments ensures that new funds are subsequently linked into the system – through the system we generate reports of upcoming votes and prepare accordingly.

While our voting policy does not vote in line with ISS recommendations, it is linked to recommendations in some areas. For example, if ISS recommends opposing a remuneration report, we receive a referral, and will subsequently make our own voting decision. These referrals are not in reference to ISS's policy, but according to either our own instructions or according to management.

Typically, we vote by proxy at general meetings, but on occasion we will attend a general meeting where our clients' interests are best served by us doing so. Again, our full voting record, updated quarterly, can be found on our website.

Within Fixed Income, investment analysts seek to engage with companies prior to investment to enhance covenant packages where possible, in the context of market norms. The analyst is responsible for reviewing the prospectus and transaction documents at the time of the investment. Amendments are typically sought by the borrower, not the investor, but we will typically engage with the issuer to determine whether these are appropriate and, where necessary, to secure changes to the proposal and/or compensation for investors for agreeing to the waivers. The work on amendments is undertaken on a case-by-case basis, and is based on the merits of the request in hand.

Impairment rights

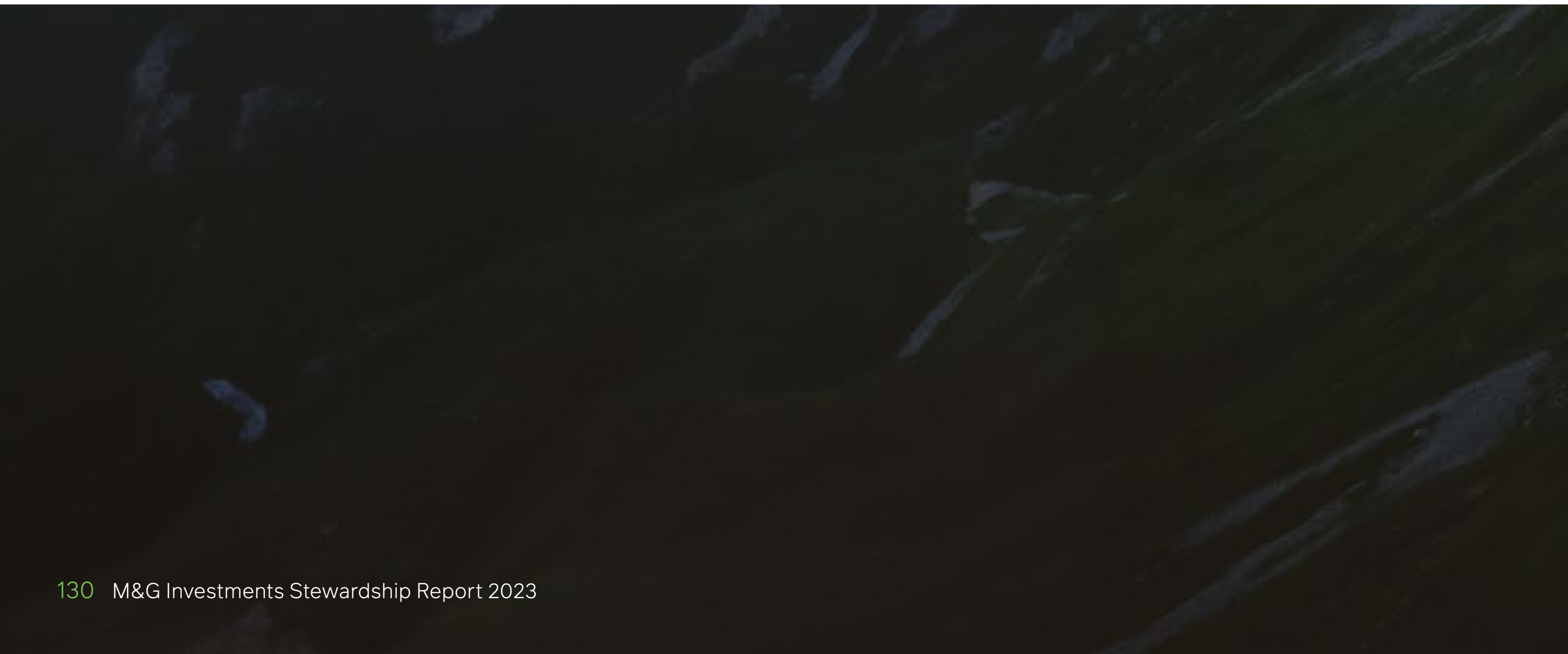
We note, however, that many developed market financial sector borrowers are covered by legislative resolution regimes and regulatory requirements, which limit our ability to amend contract terms and conditions here. Financial sector analysts, therefore, seek a deep understanding of the laws and regulations in the borrower's host country, in order to assess the impairment risk for a particular investment. In some cases, analysts are able to engage with and/or provide feedback to a particular jurisdiction's regulators and/or resolution authorities, in order to play a part in informing their policy stance.

Trust deeds

Other than as summarised or replicated in the disclosure documents, access to trust deeds will generally only be undertaken by our legal representatives at the time of an amendment request or specific stressed scenario. On occasion trust deeds have formed part of the original suite of disclosed transaction documents, but this is unusual.

Outcomes

For examples of how we exercise our rights and responsibilities, please see the main body of this report.



Glossary

Climate Action 100+ (CA100+) CA100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

ESG ESG stands for Environmental, Social, and Governance. ESG is a framework that helps stakeholders understand how an organisation is managing risks and opportunities related to environments, social, and governance criteria.

Financed carbon emissions (FCE) the greenhouse gas emissions linked to the investment and lending activities of financial institutions.

Financial Conduct Authority (FCA) The body responsible for supervising the conduct of all financial services firms and for the prudential regulation of those financial services firms not supervised by the Prudential Regulation Authority (PRA), such as asset managers and independent financial advisers.

FRC Stewardship Code The UK Stewardship Code 2020 sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. It comprises a set of 12 'apply and explain' principles for asset managers and asset owners, and a separate set of six principles for service providers.

Global Impact Investing Network (GIIN) A global network of organisations across asset owners, asset managers and service providers dedicated to increasing the scale and effectiveness of impact investing.

Impact Investing Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

Institutional Investor Group on Climate Change (IIGCC) Works with business, policy makers and fellow investors to help define the investment practices, policies and corporate behaviours required to address climate change.

Institutional Shareholder Services (ISS) A provider of corporate governance and responsible investment solutions including research on shareholder meetings. M&G votes through ISS's voting platform.

Institutional Voting Information Service (IVIS) A provider of corporate governance research on UK companies.

International Accounting Standards Board (IASB) An independent group responsible for the development and publication of IFRS Accounting Standards.

International Corporate Governance Network (ICGN) Led by investors, ICGN works to advance corporate governance and investor stewardship worldwide.

International Financial Reporting Standards (IFRS) Are accounting standards issued by the IASB.

Intergovernmental Panel on Climate Change (IPCC) Created to provide policymakers with regular scientific assessments on climate change, its implications and potential future risks, as well as to put forward adaptation and mitigation options.

International Sustainability Standards Board (ISSB) The IFRS Foundation announced the formation of the ISSB in November 2021 at COP26; the intention is for the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.

Investor Association (IA) The IA is the trade body and industry voice for UK investment managers.

Investor Forum (IF) A practitioner-led membership organisation, set up by institutional investors in UK Equities, whose purpose is to position stewardship at the heart of investment decision-making by facilitating dialogue.

Long-Term Incentive Plan (LTIP) The part of an executive's remuneration designed to incentivise long-term value for shareholders through an award of shares, with vesting typically contingent on employment and the satisfaction of performance conditions linked to a Company's strategy.

Nature based solutions (NBS) Nature-based solutions involve working with nature, as part of nature, to address societal challenges, supporting human well-being and biodiversity locally. They include the protection, restoration or management of natural and semi-natural ecosystems; the sustainable management of aquatic systems and working lands; and integration of nature in and around our cities. They are actions that are underpinned by biodiversity and designed and implemented in a way that respects the rights, values and knowledges of local communities and indigenous peoples.

Net Zero Asset Managers initiative (NZAMi) The initiative established to support the asset management industry to commit to a goal of net zero emissions.

Net Zero Engagement Initiative (NZEI) An extension of the CA100+ to broaden the focus list of companies.

Net Zero Investment Framework (NZIF) An investment framework to assist investors to set targets and produce related net zero strategies and transition plans for their portfolios.

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.

Paris aligned Your organisation's greenhouse gas emissions strategy is aligned to meeting the requirements of the Paris Agreement.

Sustainability Accounting Standards Board (SASB) Is a framework that sets standards for the disclosure of financially material sustainability information by companies to their investors.

Science Based Targets initiative (SBTi) The SBTi defines and promotes best practice in science-based target setting. Targets are considered 'science-based' if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to well-below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C. Science-based targets show organisations how much and how quickly they need to reduce their greenhouse gas (GHG) emissions to prevent the worst effects of climate change.

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.

Sustainable Finance Disclosure Regulation (SFDR) The EU's SFDR is a regulation designed to make it easier for investors to distinguish and compare between the many sustainable investment strategies that are now available within the European Union; the framework classifies asset managers' funds as either an article 6, 8, or 9 funds depending on their level of sustainability, and regardless if they are promoting their fund as an ESG investment.

Taskforce on Nature-Related Financial Disclosures (TNFD) Is an international initiative that builds on a model developed by the TCFD. Its mission is to provide a framework for how organisations can address nature-related risks and opportunities with the ultimate goal of channelling capital flows into positive action.

Task Force on Climate-Related Financial Disclosures (TCFD) Created by the Financial Stability Board (FSB) to develop consistent climate-related financial risk disclosures. The FCA require all premium listed companies to disclose, on a comply or explain basis, against the recommendations of the TCFD. The TCFD has now been disbanded with the IFRS Foundation (ISSB) taking over the monitoring of companies climate-related disclosures from the FSB.

Thermal Coal Investment Policy (TCIP) M&G's policy, which came into effect in April 2022, to phase out thermal coal in OECD and EU countries by 2030 and by 2040 in the rest of the world.

UK Corporate Governance Code (The Code) Corporate Governance is the system of rules, practices and processes that are put in place to manage and control a company. It is underpinned by the UK Corporate Governance Code issued in 2018.

UK Sustainable Investment and Finance Association (UKSIF) The UKSIF exists to bring together the UK's sustainable finance and investment community and support members to expand, enhance and promote this key sector. UKSIF represents a diverse range of financial services firms committed to these aims and aims to drive growth and new opportunities for members as global leaders in the sustainable finance industry.

UNPRI The PRI is a proponent of responsible investment through its six principles of responsible investment.