

M&G's approach to responsible investment

Introduction

M&G is Prudential's UK and European fund management business, with total assets under management of £246 billion (as at December 2015).

We have been investing money for individual and institutional clients for over 80 years. Today M&G is one of Europe's largest active investment managers.

M&G is an investment-led business whose aim is to generate superior long-term returns for its third-party investors and the internal funds of Prudential plc. It has investment expertise in the three main asset classes – equities, fixed income and property – and makes these capabilities available to both retail and institutional investors via segregated funds and pooled vehicles.

M&G takes its responsibilities as an investor seriously. Investment teams share an acute awareness of their duties as stewards of our clients' assets and this perspective informs all investment decisions.

Across the asset classes, M&G's investment teams are given a high degree of autonomy in the design and implementation of their respective investment processes. Rigorous fundamental analysis of individual investment opportunities is, however, universally preferred to the imposition of top-down 'house' views.

Environmental, social and governance (ESG) factors

M&G believes 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 incorporated into investment decisions wherever they have a meaningful impact on risk or return. We apply this approach to ESG analysis across all asset classes and sectors in which we invest.

While we consider it essential to include ESG issues in our investment analysis, we do not make 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.

M&G is a long-term investor, 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.

United Nations Principles for Responsible Investment

M&G is a signatory to the United Nations Principles for Responsible Investment (UNPRI) and has committed to adhere to the Principles where they are consistent with M&G's fiduciary responsibilities. We believe the Principles are consistent with both M&G's longstanding values and the independence of the various teams' investment processes.

Signatory of:



The M&G Responsible Investment Advisory Committee oversees the governance and management of responsible investment activities as part of M&G's UNPRI signatory status. Co-chaired by two main board directors of M&G, the committee's members include a representative for each business unit involved in investment management as well as from the distribution teams.

Cluster munitions

In response to the UN Convention on Cluster Munitions, and to ensure adherence with country-specific legislation on such munitions, M&G does not invest in securities issued by companies directly involved in the manufacture of cluster munitions for the actively managed M&G OEIC, SICAV, FCP and Guernsey property unit trust fund range.¹

M&G uses an exclusion list based on a combination of the list endorsed by the Belgian Asset Managers Association (BEAMA) and the list used by the Authority for the Financial Markets (AFM) in the Netherlands.

For direct real estate investments, M&G will not make any new lettings to companies on the exclusion list, and we will not acquire any buildings where companies on the exclusion list are already in occupation. For indirect (including fund of funds or multi-manager) mandates, we will make the other fund managers aware of our policy but we cannot guarantee full compliance as the underlying fund managers will have responsibility for acquisitions and lettings.² If companies are added to the exclusion list, we cannot apply the policy retrospectively but will apply to future lettings.

M&G business operations

We believe we should both implement responsible investment principles in the funds we manage and apply the spirit of those principles in our business operations. By driving environmental enhancements in our own offices we can reduce our own impact and operating costs. Through engagement with our staff we can improve satisfaction, and attract and retain employees.

In the following sections, we cover our approach to responsible investment with specific reference to the equities, fixed income and real estate business units of M&G.

Equities

As long-term investors, our equity fund managers focus on identifying investments with characteristics likely to result in sustained success and hence superior long-term performance for our clients. A holistic view is taken of the factors that can have an impact on prospective or existing holdings, through integrating both traditional financial and 'extra-financial' factors into investment decision-making.

Our fund managers believe that the long-term success of companies is supported by effective corporate stewardship and good governance. We maintain a constructive dialogue with the management of investee companies through regular meetings with executive and non-executive directors. Such meetings are central to our approach and are focused on identifying whether a company's strategy is aligned with our interests as long-term shareholders.

We have long been advocates of responsible share ownership and our Corporate Finance team oversees our stewardship of investee companies. An active voting policy is integral to our investment approach. By exercising our votes we seek both to add value to the investment process and to protect our interests as shareholders.

Social and environmental issues can also have an important impact on company performance. Well-managed companies should take these issues into consideration as part of their successful development. The consideration of such issues therefore also forms a key element of company analysis at M&G, taking its place within the comprehensive assessment of all factors influencing a company's long-term prospects.

Fixed income

We believe we will do our best for our fixed income clients if we give all the factors influencing investment performance appropriate consideration. Our fixed income fund managers recognise that environmental, social and governance (ESG) issues can have an influence on investment outcomes and hence ESG factors play a key role in investment decision-making.

Given the limited upside and significant possible downside of fixed income investment, the focus of our ESG analysis is on understanding downside risk; in particular understanding the tail-risk of significant loss due to ESG concerns. M&G is a long-term investor with substantial holdings of private and illiquid debt. Since ESG issues often develop over the longer term and, given the long-term and illiquid nature of many of our investments, we believe it is essential for M&G to integrate ESG issues into our investment process.

The scale of M&G's resources and our participation in European debt markets enable us to recognise that we are well placed to influence ESG initiatives.

This influence can range from responding to public consultations to acting as a sounding board for, and consulting with, government departments and supra-governmental entities. M&G also engages directly with corporates to encourage better practices that enhance value for our investors. We are very aware of the responsibility that comes with our market position and always seek to represent the best interests of our clients.

As an example of our practical commitment, M&G is a significant lender to the social housing sector, where we have continued to provide much-needed long-term financing, at a time when banks have withdrawn their support. In addition, M&G has provided financing for a range of socially or environmentally beneficial investments in areas including affordable housing, education, green property developments and renewable energy. All investments in these areas must meet our usual requirements for providing appropriate risk-adjusted returns for our clients.

Real estate

We believe by adopting a sector-leading approach to responsible property investment we can manage and respond to the growing range of environmental and social issues that can impact property values, helping us protect and enhance fund and asset performance for our clients.

Our responsible property investment strategy focuses on three key areas:

Ensuring portfolio resilience through stock selection and risk management

- Systematically identifying and managing environmental, social and economic risks in the stock we buy and hold ensures that funds have resilience to growing regulation, as well as physical and societal changes. By integrating these considerations into stock selection and asset management, we can protect long-term returns.

Driving improvements in the environmental performance of held assets

- Driving environmental improvements in our assets reduces operating costs, carbon emissions and the use of natural resources. This helps to attract and retain tenants, and to ensure that we appropriately manage environmental risks.

Actively develop relationships with occupiers, visitors and communities

- By developing proactive relationships with our occupiers, we can better understand their business needs and property requirements, helping to maximise occupancy rates and enhance returns. Local support is important to the long-term success of buildings and development projects, and to ensure this, we must develop good relationships with visitors and communities.

We ensure our business conduct exceeds legislative requirements and other standards and, where feasible, we seek to achieve best practice standards. We will continually seek to improve our performance against these issues, which we consider to be most significant to the funds under management and our own business operations. We have put in place indicators and targets to monitor our performance and to enable us to improve over time. Full details of how we are managing and responding to these issues can be found within our Responsible Property Investment Report, which we publish on an annual basis.

¹ This policy does not apply to the M&G European Index Tracker Fund or M&G Index Tracker Fund.

² We will apply this policy as far as we are able within the context of national and local regulations regarding landlord and tenant relations. For example, in the UK, the Landlord and Tenant Act requires landlords to grant new leases on expiry and restricts our ability to prevent leases being reassigned to companies on the exclusion list.