

# Prudential LGIM Ethical UK Equity Index Fund

Climate Report as at 31 December 2023

## Why are we producing this report and what does it show?

A glossary of terms used in this document can be found here – [Task force on Climate-related Financial Disclosures Glossary](#)

The report is based on the recommendations from the Task force on Climate-related Financial Disclosures (TCFD). The report provides information that can be used to assess the fund's climate-related risks and opportunities.

We recognise that the investments within the fund could have an impact on climate change and, equally, climate change could influence the performance of investments in the fund. To understand how we manage the risks and opportunities related to climate change, please refer to the [Prudential Entity TCFD Report](#) for this report.

The investment strategy of Prudential LGIM Ethical UK Equity Index Fund is to purchase units in L&G Ethical UK Equity Index Fund - the underlying fund.

The climate metrics are sourced directly from the underlying fund manager. While we've taken every care in producing this report, due to the reliance on the fund manager, Prudential does not guarantee the accuracy, adequacy or completeness of the metrics.

In some instances the underlying fund manager has not made the metric available and we do not have reliable proxies. We aim to address this gap going forward.

### Changes to this year's report

This report should show last year's emissions (the first year of reporting) and this year's, but in some instances the fund manager did not make 2022 metrics available to us and we do not have reliable proxies so there is a gap.

Due to the reliance on the fund manager, the potential factors contributing to changes in the data from last year cannot be explained in the report. In some cases scope 3 emissions have not been provided by the fund manager which has also led to a gap.

Scope 3 emissions are indirect emissions that occur up and down the value chain, eg, from purchased goods and services.

## Definition of climate metrics

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

**Data coverage** How much of the fund for which we have data available, either reported or estimated.

**Assets Under Management (AUM)** This is the total market value of the assets we manage on behalf of clients.

**tCO<sub>2</sub>e** Refers to tonnes of carbon dioxide (CO<sub>2</sub>) equivalent. There are a number of greenhouse gases which warm the earth with different intensity levels. Rather than providing metrics for each gas they are converted into tCO<sub>2</sub>e.

**Scope 1 emissions** Direct emissions associated with the business operations eg a utility company's emissions from combusting fuel.

**Scope 2 emissions** Indirect emissions associated with the business' heating/power requirements eg a software company's emissions from buying electricity.

**Scope 3 emissions** Indirect emissions that occur up and down the value chain, eg 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.

## Climate metrics for the fund investments



Assets Under Management  
as at 31 December 2023  
£7,050,000



Assets Under Management  
as at 31 December 2022  
£nil

CO <sub>2</sub>	Financed Carbon Emissions (annualised figures)	2023		2022	
		Fund	Data coverage	Fund	Data coverage


Company shares and/or bonds (tCO <sub>2</sub> e)				
Scope 1+2	607	N/A*	N/A*	–
Scope 3	7,929	N/A*	–	–

\*This metric is not provided as the underlying fund manager does not make it available and we do not have reliable proxies.

# Definition of climate metrics

**Carbon Footprint (CF)** Refers to Financed Carbon Emissions divided by the fund's market value (AUM), expressed in tCO<sub>2</sub>e/£m invested. The larger the number, the more it is contributing to the effects of climate change. CF can be used to compare across different funds.

## Carbon Footprint

	Carbon Footprint (annualised figures)	2023		2022	
		Fund	Data coverage	Fund	Data coverage
Company shares and/or bonds (tCO <sub>2</sub> e/£m invested)					
Scope 1+2		86	99%	N/A*	–
Scope 3		1,125	99%	–	–


\*This metric is not provided as the underlying fund manager does not make it available and we do not have reliable proxies.

# Definition of climate metrics

## Weighted Average Carbon Intensity (WACI) Investments

Is the fund's exposure to carbon-intensive issuers, expressed in tCO<sub>2</sub>e/£m sales. The larger the number, the more carbon intensive the investments currently are. WACI allows comparison across different funds.

## Weighted Average Carbon Intensity


	WACI (annualised figures)	2023		2022	
		Fund	Data coverage	Fund	Data coverage
Company shares and/or bonds (tCO <sub>2</sub> e/£m sales)					
Scope 1+2		144	99%	N/A*	–
Scope 3		1,771	100%	–	–

\*This metric is not provided as the underlying fund manager does not make it available and we do not have reliable proxies.

## Definition of climate metrics

**High impact sectors** High impact sectors, such as utilities, construction, real estate, and transportation, are industrial sectors that have a significant influence on global carbon emissions. For instance, a renewables company that aim to reduce global carbon emissions and an oil extraction firm that contribute largely to carbon emissions would both be categorised as high impact sectors. There are various ways to classify sectors into the high impact categories, we use the Target Setting Protocol (TSP) definitions.

## High impact sectors

	Fund exposure to high impact sectors	2023		2022	
		Fund	Data coverage	Fund	Data coverage
Exposure level		22%	N/A*	N/A*	–

\*This metric is not provided as the underlying fund manager does not make it available and we do not have reliable proxies.

## Performance

The fund’s exposure to industry sectors that exert significant influence on global emissions is material. To define materiality, we have purposely set a relatively low threshold equal to 20% which permits us to better monitor how emissions evolve over time. High impact sectors could include companies that have either a positive or negative climate impact.

In order to inform climate-related decisions, this percentage needs to be read alongside other climate metrics as a high exposure to high impact sectors could relate to sectors that have a positive or negative climate impact.

## Definition of climate metrics

**Climate adjusted value** This metric is the change in the value of the fund's assets (what it holds) as a result of the climate scenario. A negative number denotes that under the scenario, there will be a devaluation for the fund's investments or underlying assets. Scenario model outputs are expressed as a range of outcomes, reflecting the inherent uncertainty of the underlying assumptions. We have provided the average model output of that range of results.

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

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

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

## Scenario analysis


As well as looking backwards, using the climate metrics for the fund's investments, we are also interested in looking forward – to assess how the fund is transitioning to a low-carbon economy and the fund's exposure to climate risk over a longer time horizon. We do this using a range of climate scenarios.

To help us understand the climate impact of the fund we use climate scenario models. These are complex computer simulations that use historical data, current observations, and forward-looking assumptions to generate plausible scenarios of future climate conditions. Climate models are inherently uncertain because of the long-term nature of their projections. Given the uncertainty and long time

horizons, the model outputs presented here should be considered with caution as they are estimates of projections, not forecasts. Future conditions may differ substantially from these projections.

Whilst scenario analysis is in its infancy, the outputs are the most relevant models we can use currently to assess long-term impacts. The key forward-looking metrics that we monitor are outlined below.

The scenario model we have used is provided by an external vendor, it is called Aladdin climate model version 2.0.

	Company shares and/or bonds and government bonds	Climate adjusted value at 2050	Coverage
	Orderly transition	-25.02%	85%
	Disorderly transition	N/A*	N/A*
	Hot house world	N/A*	N/A*

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

- Under an orderly transition scenario, there is a material negative impact on the value of the assets, reflecting the cost of transition on the underlying issuers' profit and loss statements.
- \*The Disorderly transition metric is not provided as the underlying fund manager does not make it available and we do not have reliable proxies.
- \*The Hot house world metric is not provided as the underlying fund manager does not make it available and we do not have reliable proxies.

Further information on climate adjusted value outputs can be found here - [TCFD Frequently Asked Questions](#).

## Definition of climate metrics

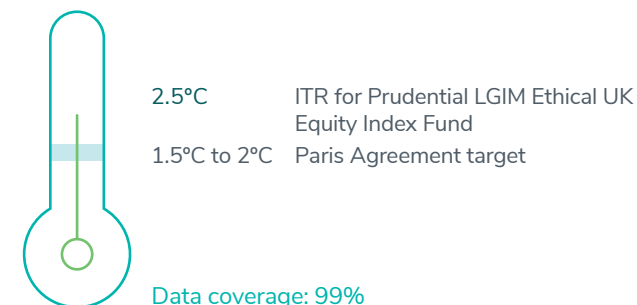
**Implied Temperature Rise** This metric allows a user to quickly gauge if a portfolio and issuer's greenhouse gas (GHG) emissions' trajectory is aligned with the Paris Agreement through sub-industry and regional benchmark comparisons.

**Paris Agreement target** The Paris Agreement resulted from the Paris Climate Conference (COP 21) in December 2015 and brought together all COP member nations in an agreement to undertake ambitious efforts to tackle climate change and limit the rise of global temperatures (from pre-industrial levels) to below 2°C, and ideally below 1.5°C.

## Implied Temperature Rise

As part of our modelling, we have calculated the Implied Temperature Rise (ITR) where data is available. The ITR shows the temperature alignment of the fund to the Paris agreement target. This analysis enables us to identify funds that are high and low carbon emitters via a simple metric, which aids comparison and can provide an input into investment research and decision-making.

We acknowledge limitations such as lack of a commonly accepted calculation approach for Implied Temperature Alignment and sensitivity to sector and geographical emission assumptions but believe it provides useful indications of alignment when viewed in conjunction with other information – for example, it can be considered a guide to identifying sector leaders during portfolio construction, and inform engagement with laggards to encourage greater transition ambition. For more details on ITR limitations, please refer to [M&G plc Annual Report and Accounts 2023 page 86](#).



The climate model results are presented for year 2030 which permit us to better monitor medium-term alignment of funds ahead of the 2050 target. The results suggest that the fund's current underlying issuers' emissions projection is unaligned with the Paris Agreement.

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

We have sourced the data in this report directly from the underlying fund manager. While Prudential have taken every care in producing this report, due to the reliance on the fund manager, Prudential cannot guarantee the accuracy, adequacy or completeness of this information or make any warranties from its use. Furthermore, the data presented is for a specific point in time and likely to change in the future and therefore should not be relied on as such.

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