M&G Investments

# Stewardship Report 2021
# Responsible Investing

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# Foreword

**John Foley**
Chief Executive Officer

Last year M&G plc committed to embedding sustainability across everything we do in our business, to help us deliver better long-term outcomes for our customers and clients, and stronger more resilient returns to shareholders.

In May 2021, we published our 10-point Sustainability Plan, which sets out how we intend to achieve this, covering everything from how we are aligning our people behind our ambition, our commitments to diversity and inclusion – which includes minimum expectations for board diversity in our investee companies – and our targets to be carbon net-zero by 2030 as a business and by 2050 as an investor.

On that latter point, urgent global action is required by us all to change the way we produce and consume to ensure a more viable long-term future for people today and for the generations to come. From the perspective of M&G plc, as an asset manager, asset owner and a leading business, we can see the large and complex risks emerging from a transition to a more sustainable planet. Our job is to help manage and mitigate these for our customers, shareholders, and wider society by supporting a just transition and identifying new opportunities to change things for the better.

As more companies, cities, regions and nations have committed to ambitious carbon reduction targets in 2021, more attention is now turning towards how these will be delivered. In our stewardship engagements with investee companies, particularly the high-intensity carbon emitters, we're looking at the credibility and accountability of their net-zero plans, not just their ambition; and we hope and expect our own shareholders and customers to do the same for our own plans.

Meanwhile, we aim to use our influence as a global investor and asset owner to help drive positive change, to decarbonise the energy system and increase energy and resource efficiency. In light of this, we have committed to phasing out unabated 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 coal from the energy system.

Making the scale of change necessary to tackle global systemic issues like global warming, pollution and a just transition will require significant patient capital investment to fund technological innovation and new infrastructure. With our scale, expertise, and long-term outlook, we are well positioned to help even early-stage companies develop the transformational solutions of the future.

We have been serving individual savers since 1848 and continue to help millions of people to manage and grow their savings. We also work with financial partners around the world to help their clients build and manage their investments. We serve more than 800 institutional clients, such as pension funds and insurance companies.

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 customers as shareholders.

This report provides an overview of the stewardship activities M&G Investments ('M&G') has carried out over the past year, and demonstrates how we use our position as long-term, active investors to promote good practices at our investee companies.

# 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' ('M&G') 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, 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 social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship.

M&G was among the first tranche of signatories to the new Code in 2021, having reported in line with the Code in both 2020 and 2021. In both these years we have demonstrated that our stewardship activities are in line with the Code. We've done this in two ways:

- Through this annual Stewardship Report, which highlights key activities from the previous year across Equities, Fixed Income, Property and Infrastructure; and
- Through a static 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

**Rupert Krefting**
Head of Corporate
Finance and Stewardship

Welcome to M&G's Annual Stewardship Report for the year ended 31 December 2021.

Our main areas of focus this year have been on climate, particularly in light of preparing for the implementation of M&G's coal policy, diversity and inclusion, and developing our thinking on biodiversity.

## Climate

Climate is one of our top-down engagement programmes for investee companies, in both developed and developing markets. In 2020 we mapped our holdings to determine a targeted engagement list, based on highest emissions and largest M&G-wide exposure. This list was updated in the second quarter of 2021 to represent a more current account of holdings, and to include M&G's new Asia Pacific strategies for the first time. This resulted in 24 new names joining the list. For each company we devise 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 targets and metrics for how they will do so. From our top 100 identified exposures, we have now started the engagement process with 34 companies, and planning is underway for the remaining companies. Examples of our engagements are set out in this report.

We have also stepped up our engagement activity externally through the Institutional Investors Group on Climate Change (IIGCC) and collective engagement initiative Climate Action 100+ (CA100+).

M&G is a member of the IIGCC Corporate Programme Advisory Group, as well as a number of working groups on the CA100+ focus list. We started as co-leads on auto manufacturer VW and energy company TotalEnergies, in addition to miner Rio Tinto and chemicals company BASF, representing the 600 plus members of CA100+.

In terms of voting, we are focusing on M&G's largest exposures, the CA100+ focus list of 167 companies, and the companies we perceive as laggards in our active portfolios. Where we have an opportunity we will be engaging with management beforehand, but if a company is, in our opinion, inadequately reporting in line with TCFD (Task Force on Climate-related Financial Disclosures) or has no credible plan for carbon reduction, then we will look to vote against the re-election of the chair.

## Coal

In the first quarter of 2021, M&G plc published a position paper on coal, available on the corporate website, which comes into effect in April 2022. M&G has been analysing its holdings to understand which coal-related positions are exempt from the exclusion policy, or alternatively will fall foul of the policy. In the second quarter we identified a number of companies for engagement, where the phase-out plans for coal either need a timeline (by 2030 for OECD countries and 2040 for the rest of the world) or the wording needs to be clarified. Please see examples of coal-related engagements carried out in 2021 later in this report.

## Diversity and inclusion (D&I)

In terms of diversity, with the end of the five-year review by Hampton and Alexander in 2020, and Diversity and inclusion (D&I) being one of M&G's primary Environmental, Social and Governance (ESG) priorities, earlier this year M&G's Stewardship and Sustainability team analysed our equity portfolios for laggards in D&I, using tools available through data provider ISS. We then compiled an aggregate engagement list of companies. Further details of this are within both the engagement and voting section of this report.

## Biodiversity

Finally, in terms of biodiversity, in the third quarter of the year M&G plc was successful in its bid to join the invitation-only Taskforce on Nature-related Financial Disclosures (TNFD) Forum. M&G plc also published its Biodiversity and Just Transition position statements during the quarter, explaining how climate action is not limited to carbon reduction. As we grow our knowledge and understanding, we will build on this position on biodiversity within our Sustainability Plan. M&G was also asked to co-chair the new Natural Capital Committee for the International Corporate Governance Network (ICGN), the main responsibility of which is to set an agenda of work for 2022.

While climate change and D&I are still our main sustainability priorities, it's important to bear in mind that both are closely connected to biodiversity protection and the preservation of natural capital such as plants, animals, soils, minerals and ecosystems. We expect to see more developments in this area over the coming year.

In this report we detail some of the actions and initiatives that M&G has been involved in over the past year, offer case studies of our voting and engagement activities and provide examples of our interactions with external parties. I hope that it gives you a better insight into M&G's activities as a responsible investor.

Rupert Krefting

# Stewardship overview

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.

As an active fund manager, M&G meets with investee companies to add value to the investment process, to increase our understanding, or provide feedback to a company. We also undertake ESG engagement, which is focussed on achieving 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 an instrument's life. 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, 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 be supportive of our investee company boards. There will be occasions when we need to vote against management-proposed resolutions or support shareholder resolutions which are not recommended by the board. In these cases, where it is practical, M&G seeks to engage prior to voting.

As signatories to the UK Stewardship Code 2020 we see growing legislative 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.
M&G operates a centralised Engagement Tool to evidence and record ESG engagements. The validation of engagements rests with M&G's Stewardship and Sustainability (S&S) team, who assess each engagement within the proprietary engagement tool, before approving them. 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.

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 M&G-developed tools, which helps 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.

M&G's Stewardship and Sustainability team supports our investment team 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. For an overview of the team, please see **page 53** of this report.

Our approach across asset classes continued to develop in 2021, 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. Across asset classes, the end goal of all of our stewardship activities is to best serve our customers 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. This could require continued engagement 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, 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 systematically integrated into investment decisions. We apply this approach to ESG analysis across our equity, fixed income and property strategies.

## 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 think 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.

M&G's Stewardship and 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, 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 changes, either individually or, where more appropriate, as part of a collaboration with other investors through vehicles such as the Investor Forum or Climate Action 100+.

Over the course of 2021, 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 in our approach to ESG risks and opportunities. In 2021 we saw a continued acceleration of ESG integration within fixed income, including widening the scope of quarterly ESG 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. M&G has long understood the value of considering both financial and non-financial elements within our analysis, and believe it is a contributing factor to our performance across fixed income strategies; providing 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 that they cover. Although bond holders normally have less influence than equity holders when engaging with companies, M&G considers it still important to engage with fixed income issuers regarding material ESG issues to encourage improved ESG 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 M&G's significant scale in fixed income markets provides us with the necessary access to an issuer's 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 influence to engage.

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

# ESG engagement

In 2021, M&G's Equities team attended 2,071 company meetings, of which 716 were with the management of UK companies (including 442 meetings with companies in the FTSE350) and 1,290 international companies.

Over the course of the year, M&G's Fixed Income team recorded interactions with 568 companies where ESG matters were discussed. Topics covered are highlighted through a hashtag system within analyst meeting notes, which are then reflected in our company interactions tracking dashboard. While these hashtags are granular in nature, Figure 1 highlights the broad pillars that they fall under. Please note, in most meetings multiple topics were discussed.

The M&G Stewardship and Sustainability team participated in 313 of the above meetings, including 127 with FTSE350 companies and 84 with international companies, as highlighted in Figure 2.

In 2021, M&G developed a system to more effectively track ESG engagements. By this we mean an interaction with a company which seeks a change in company behaviour or improved disclosures, rather than to increase understanding. Over the course of the year, we recorded 199 ESG engagements, broken down by 'environment', 'social' and 'governance' in Figure 3.

Figure 1 Fixed Income ESG-related activity by issue covered

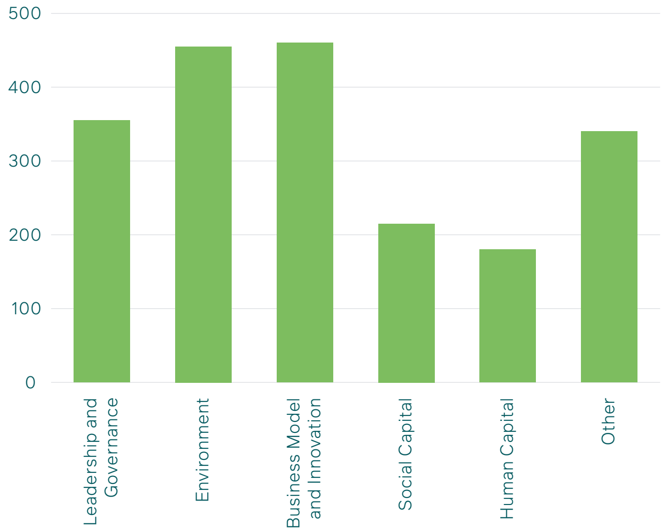



Figure 2 Stewardship and Sustainability meetings by issue covered

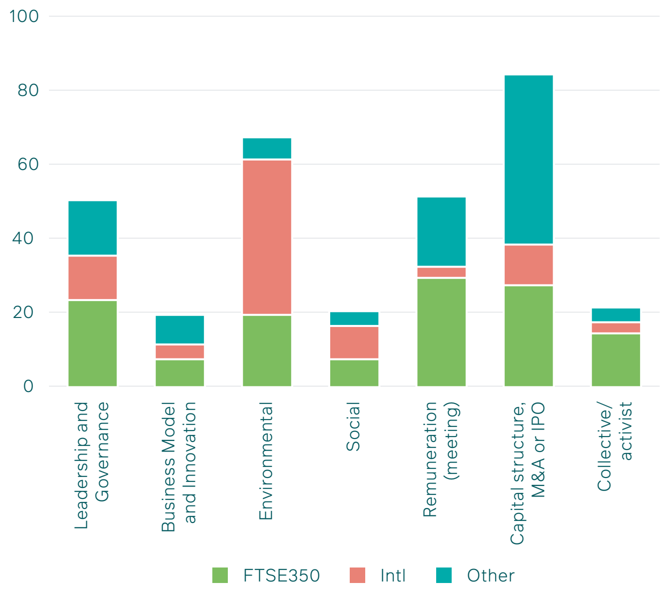
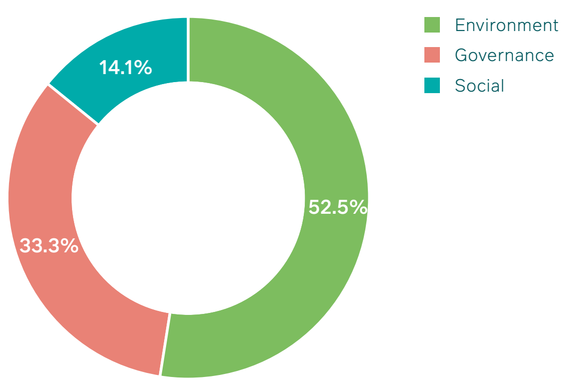



Figure 3 ESG engagements by broad pillar




Please note, the number of engagements was likely to have been higher than the reported number, as not all engagements would have been logged, particularly in the early days of the system.

## 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, that is, reactive, company-specific engagements, we also undertake 'top-down' thematic engagements on a number of issues.

Over the course of 2021, 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 coal policy, which is effective from April 2022, and engagement related to board diversity at our investee companies. We also increased our activities with Climate Action 100+, also highlighted below.

## Top-down climate engagement

Climate is a central focus of our top-down engagement programme for investee companies in both developed and developing markets, focusing on strategy, disclosure, goals and targets to achieve decarbonisation.

As highlighted in the introduction to this report, in 2020 we mapped our holdings to determine a targeted engagement list, based on highest emissions and largest M&G-wide exposure. This list was updated in the second quarter of 2021 to represent a more current account of holdings, and to include the new Asia Pacific strategies for the first time. This resulted in 24 new names joining the list. For each company we devise a specific engagement strategy with clear objectives, 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 targets and metrics for how they will do so.

From our top 100 identified exposures, we created a priority list of companies, and began the engagement process near the end of 2020. This includes engaging both bilaterally and collectively as part of Climate Action 100+ (CA100+). This process continued through 2021, and will continue in 2022. The following are examples of some of these engagements.

| | |
|---|---|
| Scope 1 | Emissions from: fuel combustion; company vehicles; fugitive emissions |
| Scope 2 | Emissions from: purchased electricity, heat and steam |
| Scope 3 | 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 |

## Yara – decarbonisation strategy

Objective: To assess whether Norwegian chemicals company Yara's strategy of decarbonisation would be financed by raising prices for its customers, or rely on government subsidies, and to encourage the company to disclose more detail on how it will reach its carbon reduction targets. Yara has stated those targets as 30% reduction in scope 1 and 2 emissions by 2030, and a net-zero ambition for 2050.

Action: M&G spoke with the head of sustainability to discuss the economic model behind its decarbonisation strategy, and encourage more disclosure on the detail of how the company would reach its carbon reduction targets.

Outcome: Yara explained how it was working with customers to pay a premium for carbon-neutral products, meaning its investment plans could proceed without reliance on a structural change in industry pricing, or material government assistance. The company also explained that it was looking at options to use more renewable power, biogas and blend up to 10% green hydrogen in gas. It will disclose its carbon reduction targets under the Science Based Targets initiative (SBTi) in 2022, and in 2023 will disclose more details of its carbon reduction pathway to 2030.

## Eskom – targets and disclosure

Objective: Eskom is a South African state-owned electricity utility. We asked the company to publicly disclose an ambition to achieve net-zero greenhouse gas (GHG) emissions by 2050 (or sooner) and set clear short, medium and long-term GHG reduction targets or goals. We expect these to cover all material scope 1, 2 and 3 emissions and be aligned to a 1.5°C global warming trajectory.

Action: M&G met with the head of investor relations and head of sustainability to explain our expectations.

Outcome: The President of South Africa has verbally announced a net-zero target, but this is not in writing on the company's website or any reports as yet. Eskom talked through its coal phase-out plan. The outcome will be to shut nine plants (22GW) leaving six units open (10GW) by 2030, and replacing the lost coal capacity with 50-60GW of renewables. The government is due to publish a new report in the next couple of years with more detail. We will continue to monitor Eskom's commitments and disclosures.

## Linde – targets and disclosure

Objective: To ask German industrial gases producer Linde to publicly disclose an ambition to achieve net-zero GHG emissions by 2050 (or sooner) and set clear short, medium and long-term GHG reduction targets or goals. We expect these to cover all material scope 1, 2 and 3 emissions and be aligned to a 1.5°C global warming trajectory; to disclose a robust decarbonisation strategy to deliver these GHG reduction targets, goals and ambitions; and for an assessment to be carried out of the extent to which the company's capital investment in carbon-intensive assets or business lines are consistent with the goals of the Paris Agreement.

Action: M&G met with Linde's head of investor relations and head of sustainability to explain our expectations.

Outcome: At the time of our engagement, Linde had last set ESG goals in January 2020, and was expecting to announce new goals by the end of 2021. At the time of meeting, Linde was buying approximately US$3.0 billion of power per annum, of which 35% was from renewable/low-carbon sources; the aim was to double that. The company has been capturing and selling carbon dioxide ($CO_2$) for 40 years, primarily to the food and beverage end market, and the next step is to sequester $CO_2$ in inactive oil fields. In Q3 2021 Linde announced new, more ambitious sustainability goals, which included a roadmap to climate neutrality by 2050. In its path to reach this goal, Linde announced that it expected to reduce absolute GHG emissions by 35% by 2035. To do so there are various actions that the company is currently undertaking, including increasing its sourcing of renewable energy to about 45TWh, three times more than it currently consumes. Linde has also committed to the SBTi and expects to be approved sometime in the first half of 2022. We will continue to engage with the company.

### NTPC – targets and disclosures

Objective: For NTPC, the Indian electricity utility, to publicly disclose an ambition to achieve net-zero GHG emissions by 2050 (or sooner) and set clear short, medium and long-term GHG reduction targets or goals covering all material scope 1, 2 and 3 GHG emissions, and aligned to a 1.5°C global warming trajectory.

Action: M&G met with managers from finance and investor relations.

Outcome: The company explained that, as a state-owned utility, it would not be able to announce a net-zero target until India, as a state, announced its net-zero target. However, India is heading for the IEA target that electricity generation will be 90% renewable by 2050, but has not said how it will get there. The company explained that it was intending to build out the current coal-fired pipeline of power generation of 11.8GW to take total coal capacity up to 65GW, but at the same time build 60GW of renewable capacity by 2032.

## Collective climate engagement

Through the course of 2021, we continued to participate in Climate Action 100+ (CA100+) collective engagement groups. CA100+ is an investor-led initiative to help ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. It is made up, at the time of writing, of 617 global investors who are responsible for more than US$65 trillion in assets under management across 33 markets.

Within CA100+, M&G is a co-lead on miner Rio Tinto, chemicals company BASF, auto maker VW and energy company TotalEnergies, representing the 617 members of CA100+. We are also active members of working groups on energy companies BP and Petrobras, and chemicals company LyondellBasell, while we sit on the Corporate Programme Advisory Group, which helps set future CA100+ priorities. During the year we joined the Net-zero Stewardship Working Group as well.

The groups have continued to concentrate on the updated CA100+ Net-Zero Company Benchmark, and to keep pressure on companies' disclosure weaknesses, such as reduction targets for scope 3 emissions. The Net-Zero Company Benchmark is composed of two types of assessments: a Disclosure Framework and Alignment Assessments. These two types of analysis are complementary and share the common goal of helping investors assess a company's transition to a net-zero future.

Over the year, M&G maintained constructive dialogue with companies, holding meetings to run through updated commitments and announcements since the last benchmark was released, and also to give a sense of the direction of travel for engagement expectations.

### BASF – net-zero emissions targets

We met with German chemicals producer BASF on a number of occasions at the beginning of 2021 to urge the company to agree to a net-zero carbon target by 2050 for scope 1 and 2 emissions, and a reduction in scope 1 and 2 emissions by 2030. Having previously only committed to $CO_2$-neutral growth until 2030, BASF announced a 2030 reduction target and a 2050 net-zero target during its capital markets day in March 2021. We were very pleased with this commitment.

As we moved through 2021, our conversations with BASF continued. The company, and the chemicals sector as a whole, continues to face challenges in measuring and setting targets on scope 3 emissions. BASF has remained ambitious and aspires to reduce all emissions, but faces significant difficulties accounting for scope 3 downstream emissions and end-of-life treatment of products in a bottom-up manner. In addition to highlighting the actions to reduce scope 1 and 2 emissions, the focus of our engagements has been around these topics – encouraging the company to articulate its strategy to quantify and influence the remaining emissions going forward, and disclose what scope 3 details it can at this point, starting with upstream emissions before moving on to downstream and end-of-life.

### Rio Tinto – scope 3 emissions

Over the course of the year, M&G met with miner Rio Tinto on a number of occasions, as part of the ongoing work to support the company in developing its decarbonisation strategy and disclosure, both individually and through CA100+. One of the main focuses in these discussions has been around scope 3 measurement and reporting, as part of an ambition to reduce emissions and eventually get to net-zero. As part of our engagement with the company, we have been encouraging management to highlight the efforts they are making to reduce scope 1 and 2 emissions and disclose the areas of scope 3 emissions and developments which are possible at this stage. This includes details and metrics around partnerships with customers, the proportion of customers that have reduction targets in place and outlining an engagement programme to broaden this out in the future.

### VW – decarbonisation plans

We had an insightful meeting with German automaker VW, covering a range of topics highlighted in its recent disclosures, including the newly announced four pillars to its decarbonisation plans, all heavily reliant on technology. The company gave us detail on its plans and projections for electric vehicles, explained how ESG and climate considerations were now baked into its strategy at the core, and continued the dialogue on lobbying and trade associations and how the company manages any conflicts on climate issues that may arise. We look forward to the next phase of engagement.

## Other collective climate engagements

At oil and gas company ExxonMobil, M&G co-filed a shareholder resolution on financial accounting, to highlight the importance of implementing climate risks into financial accounting. This was in conjunction with a group of other shareholders, organised through the US collective engagement vehicle Ceres. The AGM resolution received 49% support, which although not a majority nor enough to be passed, was an unprecedented result given the circumstances.

M&G signed a collaborative letter through CA100+ requesting that industrial gases company Air Liquide make a net-zero commitment for 2050. The company, having previously resisted a meeting with CA100+, agreed to a collaborative meeting and subsequently announced a net-zero 2050 target at its sustainability day.

We also signed a collaborative CA100+ letter requesting cement maker Heidelberg commit to publishing its lobbying activities report. Due to the number of investors signing the collaborative letter, the company bowed to shareholder pressure and agreed to publish the report.

As a final example, as chemicals company LyondellBasell does not have a net-zero 2050 commitment target, we signed a collaborative CA100+ letter requesting additional AGM topics at the company's 2021 AGM. These topics were the company's climate change commitments and strategy and whether the company should adopt an annual advisory vote on its climate strategy. Both discussion topics at the AGM were accepted by the company, but it was unable to provide substantive detail in response to this questioning. We look forward to continuing engagement to influence greater change.

## Coal engagement

In the first quarter of 2021, M&G plc published a position paper on coal, available on the corporate website, with our coal policy in effect from April 2022. We aim to use our influence as a global investor to drive positive change, to decarbonise the energy system and increase energy and resource efficiency. We commit to phasing out our exposure to unabated 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 coal from the energy system, in line with the Intergovernmental Panel on Climate Change (IPCC).

M&G analysed its holdings to understand which coal-related positions will fall foul of the exclusion policy, or alternatively are exempt from the policy. In the second quarter of the year we identified a number of companies for engagement, where the phase-out plans for coal either needed a timeline (by 2030 for OECD countries and 2040 Rest of World) or the wording needed to be clarified. As a few examples:

### Origin Energy

Objective: To ask Australian energy company Origin to publicly announce, by March 2022, that it will be shutting down coal by 2030.

Action: M&G met with the company to explain our coal policy and to make our request known.

Outcome: At the time of engagement, Origin's public target to exit coal-fired generation was by 2032. Since then, the company has informed the market that it proposed to accelerate its exit from coal-fired generation, and is intending to retire the Eraring Power Station from 2025. As more renewables come into the market, the economics of coal-fired baseload generation will become increasingly challenged. Regulations in Australia require 42 months' notice to close a plant, and Origin intends on placing battery storage on the site. The company is currently working through how closing the single largest power-generating unit in the country will be replaced with adequate capacity, and we will continue to monitor the situation. Further, the company is committed to updating its emissions reductions targets consistent with a 1.5°C pathway.

### China Resource Power

Objective: To ask Chinese coal investor, developer and manager, China Resource Power (CRP), to commit to phasing out coal in line with the M&G coal position statement, and ensure it will be compliant with the M&G timelines.

Action: M&G met with the company's executive director to make our expectations known.

Outcome: Currently coal represents 80% of CRP's turnover, and this is likely to rise before it falls. There is an internal target to add 40GW of renewables over the next four years, with some local partnering involved. However, it is unlikely that CRP will meet our coal position requirements. We will continue to engage until we have to potentially exit the investment, in line with our coal position.

## Diversity

With the end of the five-year review by Hampton and Alexander in 2020, and Diversity and inclusion (D&I) being one of M&G's primary ESG priorities, in 2021 M&G's Stewardship and Sustainability team analysed M&G's equity portfolios for laggards in D&I, using tools available through data provider ISS. We then discussed the output with individual investment teams to compile an aggregate engagement list of companies. Over the course of the year we wrote to, or engaged with, 92 companies (35 UK and 57 international companies) that did not meet our minimum criteria.

M&G believes that an investee company board of directors with gender balance and minority ethnic representation, that encompasses a diverse range of backgrounds, skills, and experience, provides a balanced input into long-term strategic decisions. We, therefore, have set an ambition for our investee companies to have board gender equality by 2027.

Our expectations on pathways to get there differ between large and small companies and across geographies. In our view, companies should disclose sufficient information and proposed plans on diversity to enable shareholders to make an informed judgement on progress. To provide context for investee companies, M&G sets out its minimum expectation for board diversity globally on a regional basis:

- For companies listed in the UK (FTSE350), Europe, North America and Australia, the minimum expectation is for boards to be 33% or more female by the next Annual General Meeting held in the calendar year 2022, and progress towards 40% by the AGM held in calendar 2023.
- For UK small and AIM-listed companies, the minimum expectation is to be 25% or more female by the AGM held in calendar year 2023, and have a pathway of how to get to gender equality by 2027.
- For the rest of the world, including emerging markets, the minimum expectation is 10% female by the AGM held in calendar year 2023, with a published strategy of how the board proposes to get to gender equality by 2027.
- Diversity is not just about gender and M&G's minimum expectation for FTSE100 companies is to have at least one director from a minority ethnic background by the next AGM held in calendar year 2022.

M&G also expects progression in gender equality among senior management below board level.

As examples of diversity engagement from the year:

### Kenmare Resources

We encouraged mining company Kenmare Resources to increase gender diversity throughout its workforce. M&G met with the company's chief executive, new head of sustainability and investor relations to make our expectations known. Currently Kenmare has about 10% female representation throughout its workforce in Mozambique. It has set ambitious targets for the year ahead to try and increase this level, but we should not expect a dramatic increase year-on-year. Staff turnover is around 2% a year, which results in low annual recruitment figures, and hence slow diversity progress. The company is aware that diversity is a focus for us and will continue to work on initiatives to increase gender diversity within the workforce.

### NCC Group

M&G voted in favour of all the non-executive directors at global cyber and software resilience firm NCC Group's 2021 AGM, given the company's commitment to reach 33% gender diversity in the near future. However, given our current diversity expectations, following the AGM we wrote to the company outlining the conditions for our future votes. We indicated in our letter that we would likely be voting against the nomination committee chair if we did not see improvement by the following year's AGM vote. All directors received over 90% support at the 2021 AGM vote. The company has appointed another female board member, who joined the board on 1 January 2022. We think this demonstrates that NCC is taking the matter seriously, and is a firm sign of its near-future intentions in terms of improving diversity around the board table.

### AIA

We asked Pan-Asian Insurance company AIA to increase board diversity and ensure there was sufficient succession planning. In June 2021, the board recruited an additional female non-executive director, and diversity continues to be an area of focus, with a number of initiatives within the organisation to promote diversity throughout. It is worth noting that there is a growing issue of overboarding (holding a large number of board positions) for talented females within Hong Kong (although the company has a number of directors from outside Hong Kong), so we remain slightly cautious here.

In regard to succession planning, the board was aware that there are a number of directors who joined between 2010 and 2012, so some will soon reach the long-tenure threshold of nine years under the Listing Rules and will require re-affirmation of their independence. We were assured that the board continues to address succession planning.

### Premier Foods

British food manufacturer Premier Foods currently has two out of 10 female board members, hence failing to meet our FTSE250 expectations. M&G spoke with the company's chair to discuss plans to improve this. Clearly diversity is a priority for the board, and is not something that is being ignored. The board currently has two shareholder representatives (both of whom are male) which affects the balance of only 2/10 females. Other issues include the all-male executive committee. There are two female factory managers and reasonable representation two layers below management. It is worth noting that the board has seen a lot of change over recent years, with the chair only being in place for two years. The company is also relatively new to the FTSE250, having entered in October 2020, so we are prepared to allow a degree of leeway in the short term.

## Social

### Compass Group – open letter on school meals

Objective: For food services company Compass Group to review its processes and provide reassurance as to how the food parcels that it provides meet the needs of the most disadvantaged families in the UK. This was in light of Chartwells, a wholly owned subsidiary of Compass Group, having been found to be delivering sub-standard meal packages under its government contract to provide free school meals for those children learning at home during pandemic lockdowns.

Action: M&G joined with other asset managers, representing over £3 trillion in assets under management, and signed an open letter to Compass Group asking for the above process review and reassurance.

Outcome: In response, the company committed to a number of improvements in quality assurance, increases in the quantity and quality of food provided and to make no profit on the provision of the food parcels.

### CCR – health and safety

Objective: For highway operator CCR to improve the disclosure of health and safety (H&S) metrics, and to encourage the company to include H&S within its ESG priorities. Given previous bribery allegations, we also wanted to assure that the correct governance structures were now in place to prevent future bribery concerns.

Action: M&G spoke with the chief financial officer, IR, head of communications and vice president of governance risk and controls.

Outcome: The main reason that health and safety data was not included in the ESG priorities presentation was because the company did not at the time have sufficient base data from which to measure progress. It was clear H&S was a priority for the company and there was a project team working on formalising the base data. The company assured us that it would be setting targets and would be publishing historic data.

The company also needs to work on including contractor H&S data into its wider company reporting. This work would be included within the wider H&S work piece that was underway.

In relation to governance structures, the company hired an external consultant to assess its board and its committees within the board structure. Given the family ownership share structure, the board struggles in its independence percentage. The company is looking to reduce the number of board members, and subsequently increase the independence level. Directors were not standing for election in 2021, so these changes are likely to be seen during 2022. A large amount of work has gone into the governance process around decision making and the chains of approval that must be sought for decisions to be made. These processes are audited and have been received well into the organisation. Employees are valuing these decision-making chains, as opposed to seeing them as an additional red tape process.

### Bouygues – modern slavery

Objective: To encourage multinational construction company Bouygues to disclose its current modern slavery policies and evidence how it is mitigating the risk of modern slavery in the supply chain.

Action: M&G met with the Bouygues group sustainability coordinator and the group compliance coordinator.

Outcome: Bouygues has published a modern slavery statement on its UK website, covering the high-level steps taken to prevent modern slavery. Given that Bouygues operates across many regions and continents, it is hard for the company to have an overarching policy that can be relevant within all regions.

Currently, the company focuses on its Tier 1 suppliers, in addition to its 'top sites', where it directly outsources or contracts work. Each Tier 1 supplier must undertake a social audit, whereby they are asked a set of detailed questions about current policies, including questions relating to modern slavery. The company was unable to disclose to us how many suppliers fall into the Tier 1 category. Currently nothing is asked of Tier 2 and 3 suppliers, and this is an area we would like to see developed. In addition, we would like Bouygues to evidence any remedial steps that are in place following any modern slavery evidence in the supply chain. This is currently not documented at all, and we could not find any evidence of remedial steps within company disclosures. We will follow up in due course.

## Governance

### Methanex – M&G's move to passive filing status

Objective: To improve corporate governance and capital allocation decision making at US methanol producer Methanex, and specifically to change the decision to build a major new plant, 'Geismer 3'.

Action: Our long running engagement (over two years) with Methanex officially ended when we changed our filing status from an Active to a Passive shareholder. Both the investment teams and the Stewardship and Sustainability team have held many meetings with the management and board of the company since we started the engagement in early 2019, with the key trigger being the company's decision to build its Geismer 3 plant. Since then, the board has been refreshed, with M&G instigating a proxy contest to put on two nominees, and there is a new chair. Board decision making processes have been improved and the capital allocation policy at the company has, we believe, also been improved. Methanex will remain a key strategic holding for certain M&G equity funds.

Outcome: M&G has moved to passive filing status because we believe there has been substantial change at the company and we remain heavily invested.

## Other engagements

### DS Smith – audit

Objective: To ask UK sustainable packaging company DS Smith to improve its disclosure, in line with likely IFRS (international accounting framework) changes, on its reverse factoring facility with Citibank.

Action: M&G met with the chief financial officer and head of investor relations to discuss our request.

Outcome: The Citibank facility was set up for DS Smith suppliers at the suggestion of government, to discount their receivables in the same way that DS Smith uses BNP to discount its receivables. There is no pressure for DS Smith suppliers to use it. Creditor days are 110 and normal credit terms are 90 days, although all terms are negotiated individually with suppliers. While DS Smith is aware of who has registered to potentially use the facility, it does not have sight of their use or otherwise of the facility. The company will conform to the new standards, but does not intend to provide additional disclosure ahead of it. M&G will monitor the situation as the new accounting standards develop.

## ROCKWOOL – pollution

Objective: To ask Danish stone wool maker ROCKWOOL for further details on processes, and request improved public disclosure on its remediation efforts, community engagement processes, management incentives and air quality monitoring, all in relation to community protests regarding its new factory in West Virginia, US.

By way of background, there were protests in relation to ROCKWOOL's new site in Ranson, West Virginia. There were concerns by some community members that the pollution levels caused by the plant would be unsafe, risk contaminating groundwater and affect air pollution levels. An investigation into these claims by Danish independent adjudicator NCP concluded that, while there is no discernible risk to public health, ROCKWOOL did not carry out adequate risk-based due diligence in the initial stages of the project and failed to properly involve and consult the local community and its views on the construction of the facility.

Action: M&G met with ROCKWOOL's director of sustainability to make our request known.

Outcome: In terms of remediation efforts with the local community, ROCKWOOL's response has been two-fold. Firstly, to reassure the residents that there is no risk to their health, ROCKWOOL is monitoring the air quality (managed by a third party) on a daily basis and the results are accessible online via a website, which allows the community to access the data. This was implemented more than a year prior to the factory beginning operations to enable community members to compare air quality levels pre- and post-start of operations.

In terms of groundwater risk, no production wastewater is discharged to any waterways, sewer systems, or the ground. To reduce dependence on the municipal water supply for water inputs to the production process, ROCKWOOL installed two large reservoir ponds onsite to collect rainwater and stormwater runoff. As part of standard floodwater protection measures for industrial sites, ROCKWOOL installed triple-layer liner membranes that substantially exceed regulatory requirements, as part of its effort to reassure the community that contamination is not possible.

Secondly, ROCKWOOL has created an online community engagement forum whereby it can inform the community about relevant project-related matters and community members can voice their opinions, ask questions, or seek information. In addition, ROCKWOOL informs the local community of updates via email newsletters and social media platforms.

One of the lessons that ROCKWOOL has taken from the Ranson facility is that internal social due diligence processes need to be strengthened. As such, the company is developing a comprehensive public engagement programme that will enhance opportunities for two-way communication with the community. The programme is expected to kick off in the first half of 2022. The company is speaking to other business units to share best practice in managing these risks more effectively. On management incentives, ESG targets are currently part of the chief executive's incentive programme. The extent ESG targets are included as management incentives at business unit level is up to the discretion of management at business unit level, but this is something that M&G strongly encouraged the company to adopt, due to the effectiveness of such approaches and alignment with best practice. We will continue to monitor these issues on an ongoing basis, but overall we feel confident that the situation at the Ranson plant is being adequately addressed by ROCKWOOL, and that the remediation efforts underway will help re-establish a good relationship with project critics in the local community.

## Vestas Wind Systems – UNGC amber flags

Objective: To encourage Danish wind turbine maker Vestas Wind Systems to continue dialogue with data provider ISS on United Nations Global Compact (UNGC) amber flags, and to ensure that best practice remediation efforts and preventative measures were in place going forward.

Action: M&G met with the head of investor relations to receive an update on the situation, understand the company's perspective on the UNGC flags and encourage further dialogue and resolution efforts.

Outcome: The company outlined the challenges it has faced in relation to the case, and where it felt it was in terms of investigation and remediation efforts. Vestas believes that the ISS UNGC flag does not accurately represent the situation or take into account norms across the industry. We agreed that M&G and Vestas would reengage in dialogue with ISS on this matter to take steps towards a resolution (for more on this, please see the 'Other engagements and activities' section of this report).

## Farm Animal Investment Risk and Return (FAIRR) – sustainable proteins

Objective: M&G participated in a collective engagement facilitated by FAIRR with UK retailer M&S and Swiss multinational food and drink company Nestlé, focused on both companies' sustainable proteins strategies.

Action: We covered M&S's previous performance and its current strengths and weaknesses, and then focused on several key areas of questioning: materiality; strategy; product portfolio; consumer engagement; and tracking and reporting. M&S presented a strong story on the growth and success of its sustainable/alternative proteins strategy.

In the meeting with Nestlé, we discussed the company's previous performance in the index and its current strengths and weaknesses. We then focused on the same key areas of questioning as we had for M&S. Nestlé provided a lot of detail about how it was trying to integrate sustainability into its traditional protein strategy, versus simply providing 'add-on' products to its portfolio. This is a big ask as a highly dairy-based brand – there are numerous trials currently underway to find more environmentally friendly solutions to traditional agriculture methods. Nestlé wants sustainability considerations to be at the core of all it does, and this is currently reflected in its ranking from FAIRR.

Outcome: Following this engagement series, both companies' FAIRR rankings were upgraded.

## Letter campaigns

Over the course of 2021, M&G undertook, or took part in, a series of letter-writing campaigns, which sought different outcomes on a number of ESG themes.

Near the beginning of the year, we wrote to seven Chinese real estate companies asking for responses to a questionnaire focused on various ESG issues, including the social impact of development, displacement of local communities, recruitment practices, and modern slavery.

We later wrote to a group of nine Latin American banks, asking for responses to a separate ESG questionnaire. Firstly, we wanted to understand how environmental considerations formed part of the banks' lending considerations, and to what degree, as well as understanding what the banks believed to be the direction of travel on this. We also wanted to hear how the banks were looking at reaching underserved communities, through methods such as extended credit availability, and how they were addressing gaps in financial literacy in their customer base or potential customer base. With regards to governance, our questions focused on transparency and managing corruption risk through codes of ethics and corporate culture.

The Facilitation Council of the Access to COVID-19 Tools (ACT) Accelerator (that is, the international initiative that provides the highest-level political leadership for the global response to COVID-19, coordinating health and economic activities in conjunction with G7 and G20 meetings) asked the Access to Medicine Foundation to coordinate a statement from global investors on the economic evidence in support of global equitable access to COVID-19 vaccines, medicine and diagnostics. The statement was used in advance of the meeting of the Facilitation Council in February 2021, and subsequent meetings of G7 and G20 Health and Finance Ministers later in the first quarter. According to the hosts of these meeting, the statement was important to show broad support across stakeholders, including global investors, for strong and urgent government action. As a signatory to Access to Medicine, M&G, along with other institutional investors, co-signed the statement, ultimately aimed at mitigating the financial risks created by the new COVID virus variants and the less-than-optimal deployment of COVID-19 vaccines and medicines globally.

M&G supported the collaborative engagement efforts coordinated by FAIRR (Farm Animal Investment Risk and Return) on working conditions within protein producers. M&G signed several of the engagement letters which, in total, went to seven global meat producers. These were regarding underlying labour issues that prevent effective labour risk management in the meat industry, and its supply chain, in three key areas: health and safety, fair working conditions and worker representation.

We were also a co-signatory of a letter prepared by NGO ShareAction, which was sent to a number of global banks, asking them to: publish short-term (5-10 years) climate-related targets covering all relevant financial services ahead of their 2022 AGMs; integrate the findings of the IEA Net-Zero scenario and/or another 1.5°C scenario with low overshoot and minimal reliance on negative emission technologies into their climate strategy; phase out from coal by 2030 in OECD countries and by 2040 in non-OECD countries at the latest; ensure financial statements are drawn up in alignment with a 1.5°C pathway; and commit to protect and restore biodiversity.

# Infracapital

Infracapital, the private infrastructure equity arm of M&G, has raised and managed over £6.5 billion, investing in European infrastructure in the mid-market. As a long-term investor providing essential infrastructure services to society, we are alive to the numerous stakeholders we impact. Infracapital recognises the long-term value that can be achieved through sustainable growth, and the distinct opportunity we have to make economic growth more sustainable and inclusive, as well as helping to achieve many of the UN Sustainable Development Goals. As such, we consider responsible investing across all of our investment activities. 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. Building businesses that are committed to sustainability drives value for investors and aids environmental and social cohesion for the communities in which we operate.

The Infracapital Responsible Investment Committee oversees the implementation of our ESG commitments. All Managing Director members of the Responsible Investment Committee sit on the Investment Committee, ensuring that ESG considerations are aligned in the investment decision making process. In addition to the committee, Infracapital ensures all its staff 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 Directors Duties, Health and Safety and Carbon Reporting. Infracapital also runs ESG-focused workshops, bringing together key executives from across our portfolio companies with Infracapital teams to share best practice and ensure prioritisation of ESG-related matters.

Infracapital further recognises the importance of ESG factors across our investor community and works to support the delivery of their ESG objectives. We commit to being transparent to our investors on our ESG performance, and have integrated ESG reporting into our Monthly Fund Updates, in addition to reporting annually via a dedicated ESG report.

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

## Infracapital investee companies: case studies

### Fibrus

During 2020, Infracapital acquired a 100% stake in Fibrus, a broadband network provider delivering Fibre-to-the-Premises to premises across suburban and semi-rural towns in Northern Ireland. As the business scales for growth, we are proud that, in line with Infracapital's commitments to Diversity and inclusion, the business has pledged that 50% of the company's new recruits will be women by 2028. Additionally, the business is enhancing its D&I policies and practices, including outreach programmes to raise awareness of careers in fibre engineering to proactively address the gender imbalance that presently exists. Fibre is an exciting industry which is growing in size and scale, and we look forward to making the industry more inclusive for all.

### Last Mile Infrastructure

At Infracapital, we see the climate agenda as both a driver of risk and of vast opportunity. Last Mile Infrastructure is a leading multi-utility business in the UK which designs, owns and operates 'last mile' electricity, gas and water connections, servicing residential and commercial customers. As global commitments to seek decarbonisation become commonplace, utilities must ensure the future resilience of business models. During 2021, Last Mile Infrastructure formed a joint venture with Rendesco to provide developers across the UK with a sustainable and cleaner energy option for heating properties. The joint venture is part of Last Mile's strategy of adding sustainable energy infrastructure capabilities to its offering, and will support its customers' ambitions of lowering the carbon footprint of the domestic and commercial properties they develop, as well as the UK government's net-zero target.

### BCTN

In line with our commitment to provide essential, sustainable infrastructure, during 2021 Infracapital acquired BCTN, a leading inland container terminal operator in the Benelux. Inland waterway transport is a sustainable and efficient method of transporting containers from the region's deep-sea ports to a diverse set of blue-chip clients via BCTN's network of eight inland terminals. Each barge has the ability to take approximately 100 trucks off the road, contributing to a significant reduction in carbon emissions and congestion. Several of the barges are operating as hybrids and are electric. Infracapital is exploring the opportunity to convert them to be fully battery powered, further enhancing the business's sustainability credentials.

### EnergyNest

During 2021, Infracapital acquired a majority shareholding in EnergyNest, a leading Norwegian technology company. The investment will support the rollout of EnergyNest's innovative Thermal Battery energy storage solutions to industrial customers, supporting the decarbonisation of energy-intensive industries. We look forward to the positive environmental impact that EnergyNest can deliver through its innovative technology.

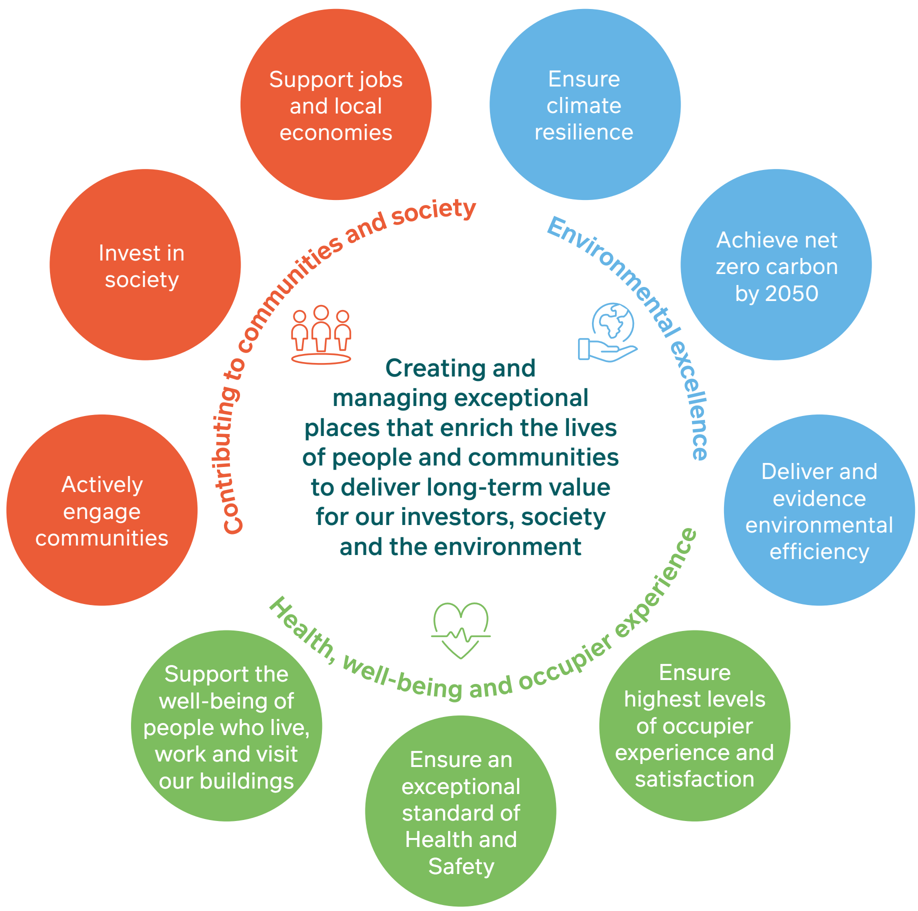
# Real Estate

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

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.

Full details of our approach to ESG governance and integration into the real estate investment process is detailed in the M&G Real Estate ESG Investment Policy, which is published on the M&G website and reviewed annually.

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



## Case study: net zero and climate resilience

We believe that climate change is the most important environmental issue facing the world today. The risks posed by climate change are multi-faceted and far reaching, and the implications on our environment and society are profound.

Further to M&G plc commitments to focus and accelerate efforts 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, as one of the founding signatories of the Better Buildings Partnership (BBP) Climate Change Commitment. Last year we published our pathway to achieving our net zero ambitions, full details of which are available on our website.

In the past year, significant steps have been taken to integrate the consideration of climate-related risk and opportunity into business strategy and financial planning:

### Acquisition

We have strengthened our ESG due diligence requirements to include greater consideration of physical and transition risks affecting real estate assets, specifically issues such as operational carbon and energy efficiency, as well as exposure to physical climate-related risks. By integrating review of these issues at the point of investment, the financial cost of maintaining climate resilience can be better understood, underwritten and managed through the holding period. Challenges do exist in integrating these requirements, for example, there is not an agreed market definition of net zero carbon.

### Developments

In the UK and Europe, we have worked with Arup Partners to create a Sustainable Development and Refurbishment Framework which is now being actively applied in projects across the region. The Framework, which builds on our existing UK-focused requirements, 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. This acts as a critical tool in financial planning, enabling the identification of investment opportunities which will act to enhance the climate resilience of the asset once complete, improving marketability, delaying obsolescence and protecting value in the longer term.

### Portfolio management

Across a number of our largest products, we have completed transition and physical climate-related risk-screening exercises. These projects, which have involved engagement with specialist external consultants, have looked to assess current portfolio exposure to climate-related risk using the latest industry tools (for example, the Climate Risk Real Estate Monitor) under different climate future scenarios.

Subsequently, we are now assessing those areas of our portfolio identified as higher risk to mitigate and build resilience. This work is being led by our in house ESG, Fund and Asset Management teams, who are actively reviewing the analysis and seeking consultants to conduct further asset level investigation to identify appropriate improvement and mitigation measures. These will be completed in the course of 2022, with findings incorporated into asset and financial planning.

## Case study: green leasing

Engagement with our tenants is critical to the success of our ESG commitments. We are introducing 'green lease' requirements in new leases to facilitate greater collaboration between landlord and tenant on sustainability issues, encouraging the sharing of data and responsibility on environmental performance, in particular.

We are also working to address environmental performance through our leasing negotiation. In recent lease negotiations with tenants in our European Property Strategies, we have agreed to invest more than €0.75m in energy efficiency improvements across industrial properties in the Netherlands and France. We are also exploring opportunities to deploy on-site solar renewable energy systems in cooperation with tenants.

## Case Study: supporting the well-being of our occupiers

We are committed to creating positive outcomes by developing high-quality places where people want to live, work and take leisure. There is also significant opportunity to influence occupier health and well-being through building design in construction and refurbishment of assets.

This is well demonstrated in our Asia property strategy's investment into the development of the 80 Ann office tower in Brisbane Australia. The project is targeting Gold certification under the WELL Building Standard (Core and Shell), the first well-being certification to be sought by the strategy, along with a 6 Star Green Star as-built rating. In seeking certification, a number of design features have been implemented which aim to enhance occupant well-being; for example, the building will include extensive landscaping and biophilic design elements, which will allow building occupants to feel connected to nature, as well as promote natural airflow.

## Case study: sustainable living in action: Castle Park View, Bristol

On the site of a former medieval castle near Bristol's historic docks, the city's tallest building has been developed in synergy with its environment, with sustainability at the core. Castle Park View adds 300 high quality homes to Bristol's housing market, close to the central employment hub and Bristol Temple Mead station, forming part of Bristol's major regeneration plans. Forward funded by M&G in partnership with Bouygues UK, the building has created a new destination that is woven with the local community and optimises its surroundings to operate efficiently.

Circular economy principles were a key element during construction, with 99.9% of the waste generated at the site diverted from landfill. The construction process allowed for positive social value creation by stimulating local employment and skills development. Around 1,290 apprenticeship weeks were undertaken alongside over 300 career support sessions, providing guidance and advice to local young people.

The scheme has been designed around the principle of using and sharing sustainable energy sources, and benefits from a new district heating network, powered by a large-scale water source heat pump that draws water from the nearby harbour; the country's largest project of its kind and a key component of Bristol's 2030 Net Zero carbon plan. Heat is produced by a central plant and supplied to buildings throughout the city, allowing for improved efficiency over a series of localised boilers. This provides low-carbon, cost-efficient heat and hot water for residents. Renewable energy is generated on-site at Castle Park View through almost 200 photovoltaic roof-mounted solar panels which convert sunlight to electricity.

With people's focus on health and well-being further heightened following the test of lockdown, facilities that improve residents' quality of living are an increasingly important aspect of placemaking. At Castle Park View these include a residents' garden, BBQ and entertaining areas, 24-hour concierge service, parcel storage, and a sky lounge on the 24th floor incorporating a residents' lounge and fitness suite.

# Voting

## Introduction

In 2021, M&G voted at 3,691 meetings, comprising 863 UK meetings and 2,828 international meetings. This equated to 97.9% of eligible votes; at 1,630 meetings M&G voted against at least one resolution.

The M&G Voting Policy is published on our website and is regularly reviewed in consultation with our investment teams. We use the ISS voting platform to vote and we have built, with ISS, a custom voting service that reflects our public voting policy.

From January 2021, we began voting our international passive holdings. There may be occasions when we choose not to vote because share blocking is in place (in other words, the practice under which shares when voted on are temporarily blocked from trading) as was the case for the 2.1% of meetings not voted in 2021, and we do not vote if there is a conflict of interest on M&G funds.

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.

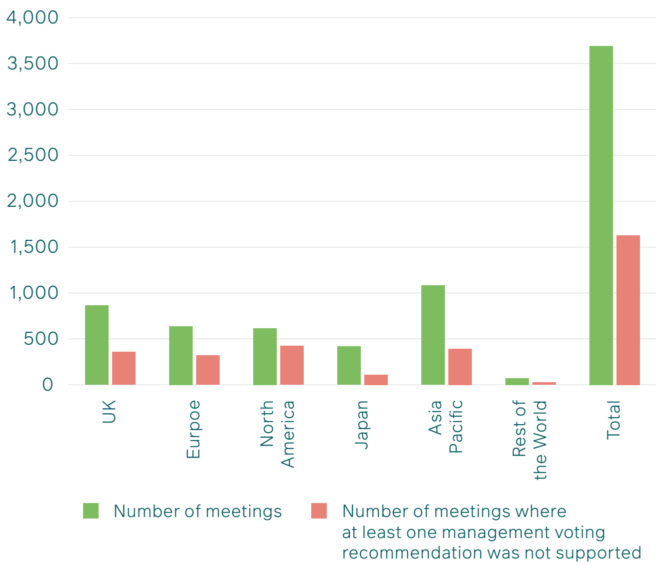
Before deciding to abstain or vote against a resolution that has been flagged by ISS or IVIS, we will either discuss straightforward issues within the Stewardship and Sustainability team or involve the relevant fund managers for more contentious issues, allowing them to make the ultimate decision. We 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 position is to be supportive of the management of companies in which we invest. However, there are occasions when company boards put forward resolutions that we feel are not in the best interests of the company. Below we highlight some of our voting decisions taken during the year.

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

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

Meetings where at least one management recommendation was not supported




Source: M&G, as at end-2021

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

| | UK | Europe | North America | Japan | Asia Pacific | Rest of World |
|---|---|---|---|---|---|---|
| Directors-related | 12% | 30% | 35% | 73% | 34% | 54% |
| Remuneration | 21% | 33% | 9% | 7% | 17% | 19% |
| Capital-related | 55% | 16% | 0% | 0% | 24% | 7% |
| Corporate activity | 1% | 0% | 0% | 8% | 12% | 1% |
| Anti-takeover | 0% | 1% | 3% | 3% | 0% | 0% |
| Routine other business | 11% | 19% | 30% | 0% | 12% | 18% |
| Shareholder resolutions | 0% | 1% | 23% | 9% | 1% | 0% |
| | 100% | 100% | 100% | 100% | 100% | 100% |

Source: M&G, as at end-2021

## Commentary

Throughout the year we continued to review our voting approach in light of the impact from COVID-19. We voted against a number of New Articles of Association proposals over concerns around the possibility of virtual-only meetings. While there has been a need for virtual meetings over the past year, 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 had been proposed, we supported those that suggested hybrid meetings (in-person and virtual) and those that confirmed they would annually seek approval for virtual-only meetings.

We also reviewed and discussed our expectations regarding executive remuneration given the effects of the virus on operations, employees, suppliers and shareholders. We voted against a record number of remuneration proposals in 2020; this year, however, we wanted to ensure we worked with companies to reduce the flight risk of executives. It became evident throughout the year that it was unlikely a number of long-term incentive plan (LTIP) schemes would vest for a second year in a row. Further details are provided below.

## United Kingdom

### Pre-emption

The largest proportion of our votes against management resolutions in the UK relates to our voting policy that larger companies should not seek more than 5% disapplication of pre-emption rights, which we believe would otherwise risk excessive dilution for existing shareholders. Pre-emption rights give existing shareholders the opportunity to buy additional shares in any future issue of a company's common stock, before the shares are made available to the general public. After relaxing this to 20% during 2020, due to COVID, and to allow companies more flexibility with the issuance of shares, we returned to the 5% limit from the start of 2021.

### Diversity

A key voting focus for M&G throughout 2021 was board diversity. During the year we voted against board directors at 17 UK companies, due to not meeting our minimum expectations on board gender diversity. We wrote to each company and encouraged a target to be set prior to next year's AGM. We typically targeted our voting at nomination committee chairs (who often are also the chair) including at steel maker and mining company Evraz, banking group TBC Bank, high-tech instruments and test equipment company Spectris, aviation services business John Menzies, manufacturing company Renold, financial services company CMC

Markets, retailer Card Factory and investment trust Caledonia Investments. One of the most significant votes we saw in regard to diversity was a 23% vote against the nomination committee chair at pub operator JD Wetherspoon. Due to the board changes at software and automation system provider Ocado, we did not think it was appropriate to vote against the new chair, given he had no influence over the lack of gender diversity on the current board. Instead, we voted against the senior independent director who is a member of the nomination committee. At a number of companies we supported nomination committee chairs' re-elections, despite diversity concerns, following engagement. Typically, this was where an achievable target had been set for future years. However, for next year's AGM vote we will look to vote against if progress is insufficient.

## Remuneration

Given the uncertainty that remained in the corporate world throughout 2021, we kept a close eye on salary increases and discretion used by remuneration committees in granting bonuses. While we expected remuneration committees to motivate management and set stretching targets, we also did not want executive directors to benefit from undeserved windfall gains. Our overall message was to ensure that executive pay was appropriately aligned with shareholder returns. We voted against a number of remuneration reports where in-flight targets had been adjusted. At publishing company Informa's AGM, we voted against the remuneration report, along with circa 60% of other shareholders, following in-flight changes to the LTIP measures. We did not agree with the remuneration committee's application of discretion to the 2018 LTIP outcomes, despite the performance period metrics not being met.

Another concern is one-off awards in place of missed LTIP grants. Pub and hotel provider Fuller Smith & Turner proposed granting a one-off LTIP recovery grant, given the lack of vesting of the current in-flight LTIP. We did not agree with the amount of the award and subsequently voted against all the remuneration resolutions at the company's AGM. The remuneration policy received circa 14% against.

We also saw a number of new remuneration policy proposals for less traditional remuneration structures. These included replacing the traditional LTIP structure with Value Creation Plans (VCP), Restricted Share Plans and Performance Share Plans. We assess each remuneration proposal on its own merits, but do think that certain schemes are better suited to certain sectors. For this reason, we voted against exhibitions and conferences organiser Hyve Group in relation to its value creation remuneration plan proposal. Along with 25% of other shareholders, we did not feel a VCP was appropriate for the business at the time.

We continued to vote against remuneration policy proposals that did not align executive director pension contributions with the rate available to the general workforce. In line with the Investment Association guidance, all director pensions should be aligned with the workforce average by the end of 2022, and we expect there to be a glide path to alignment, as opposed to a one-off drop. Due to the majority of policies being binding for three years, we are reluctant to support any new policy which does not propose alignment within its timeframe. Senior, an engineering solutions provider, where executive directors currently receive double the workforce average pension contribution, proposed alignment by 2024. We voted against both the remuneration report and the remuneration policy. Chemicals company Elementis provided no evidence of a glide path to alignment so, along with 19% of other shareholders, we voted against the new proposed remuneration policy. Multinational assurance, inspection, product testing and certification company Intertek received over 31% dissent on its new proposed remuneration policy. Pension contribution alignment within the new policy was proposed by 2025, with a 5% decrease each year from the current 25% level. We voted against the proposed policy. Renewi, a waste management company, failed to provide any evidence of a path towards alignment between the chief financial officer's pension contribution and the workforce average. We consequently voted against the remuneration report.

### Shareholder resolutions

We have seen an increasing number of climate-related resolutions being proposed at companies' AGMs. This year we saw a mix of both management and shareholder proposals. Generally, we supported all management proposals of companies putting their transition plans up to a shareholder vote. One of the most significant was consumer goods giant Unilever's climate plan, which commits the company to achieving net-zero emissions by 2039. We supported the resolution, along with 99% of other shareholders. Dutch climate campaign group, Follow This, proposed resolutions at both BP and Royal Dutch Shell's AGMs. Given BP had published its climate transition plan, including short, medium and long-term targets, we decided to vote against the Follow This resolution, as we considered it unnecessary. We abstained on the resolution at the Royal Dutch Shell meeting due to concern that the resolution did not fully reflect the work that Shell had undertaken in the previous months.

### Directors

In line with the UK Corporate Governance code, we expect all remuneration and audit committees to be fully independent and not be made up of any non-independent directors or executives. At airline company Jet2, we abstained on one of the directors' re-election due to concerns over independence. The director sits on the audit committee of Jet2, and received a 20% vote against his re-election. This was due to consultancy services provided to the company during the year raising questions about his independence. At investment company Gresham House Strategic's AGM, we voted against a director's re-election due to concern over independence and their position on the audit committee. Further, at passenger transport company The Go-Ahead Group, we abstained on the re-election of the chair of the audit committee, in light of the controversy around tax-payer funding and internal controls. Although the resolution passed, some 46% of the votes were unsupportive.

M&G has a large shareholding in engineering consultant TP Group, which faced proposals from the company's largest shareholder for the removal of the chair and another non-executive, and the election of two new directors nominated by the requisitioning shareholder. In the event, the incumbent directors resigned ahead of the meeting when the voting results had become clear, and the nominees were duly elected with 56% of the vote.

## North America

Many issues we vote on in the US and Canada are related to shareholder rights and corporate governance. As in previous years, M&G is supportive of recapitalisation plans for 'one share, one vote', the declassification of boards and providing shareholders with the right to call special meetings. We remain vigilant regarding by-law amendments, which may reduce director accountability or undermine shareholder rights.

Last year we opposed the election of several directors due to concerns over independence, more often than not on tenure grounds. However, at exercise equipment and media company Peloton Interactive, we withheld our support for the chair of the governance committee due to concerns over governance practices and provisions which allow for a dual share-class structure, a classified board, and prohibit shareholders from calling special meetings.

Possibly the most remarkable episode during 2021 occurred at the AGM of oil and gas company Exxon Mobil where we opposed several directors, as we felt their behaviour in refusing to positively engage with shareholders was not in the company's interests. We supported four dissident candidates nominated by investment firm Engine No.1. In the event, three directors were voted off the board and three of the dissident directors were elected, in what has been described as a milestone for shareholder activism. As mentioned in the engagement section of this report, M&G also co-filed an Exxon Mobil shareholder resolution on financial accounting, to highlight the importance of implementing climate risks into financial accounting.

Another landmark for shareholder activism was the passing of a resolution on greenhouse gas emissions at Chevron Corporation. The proposal, which asked the company to adopt scope 3 emissions targets, received support from 61% of shareholders, including M&G, surpassing the simple majority requirement with a clear margin. At the AGM of food products and kitchen equipment company Sysco, the firm was asked by shareholders to disclose short, medium and long-term greenhouse gas targets aligned with the Paris Agreement. The proposal received overwhelming support, with 92.1% of shareholders voting in favour (also including M&G).

At transportation company FedEx, we supported a pair of shareholder resolutions requesting the company to increase its disclosure on lobbying expenditures and to conduct a congruency analysis on political spending. Despite management's negative recommendation, both gained substantial support – 62.2% and 37.2% respectively. In another shareholder proposal, which we supported, the company was asked to submit its future severance arrangements to a shareholder vote. The resolution received majority support from shareholders.

As a major shareholder of methanol producer Methanex, its AGM was a significant meeting for us, and we again decided to withhold support from all but two of the directors seeking election, due to concerns over corporate governance and strategy. Following the AGM, however, Methanex published a new strategic plan, and we wrote to the company and spoke to its chair to express our support. Subsequently, the company also announced a deal to sell 40% of its shipping business and use the cash to pay down debt (a capital allocation decision consistent with M&G's recommendations to the board). As a result, M&G changed our filing status from an Active to a Passive shareholder (for further details, please see the engagement section of this report). Also, as was the case last year, concern over length of tenure led us to withhold support on the re-appointment of the auditor; and we opposed the resolution on remuneration because, in our view, the levels of pay at the company are too high.

Remuneration concerns at our US investee companies are common, and the use of substantial special grants and retention awards led us to oppose 'say on pay' votes at IT services company DXC Technology and video game company Electronic Arts. Other investors apparently shared our concerns, resulting in both proposals failing to gain majority support. We also opposed the say on pay for human resource outsourcing service company Paychex, due to concerns over significant COVID-related adjustments that we believed lacked sufficient justification. The say on pay for conglomerate General Electric was another instance of concern for us, due to inappropriate use of discretion in combination with excessive pay packages. The say on pay resolution failed, receiving only 42% support from shareholders. Furthermore, we were supportive of a number of shareholder resolutions asking companies to explicitly link remuneration outcomes to social and sustainability criteria.

Racial matters remain a concern for investors, and numerous resolutions related to racial equity and inclusion were filed by shareholders at US companies. We supported several resolutions requesting companies to conduct racial equity audits. In our view, an audit would enable companies and shareholders to better identify key areas of focus for future development. An example is investment bank JPMorgan Chase, where we voted in favour of such an audit proposal which, though it didn't pass, received 40% support.

Tech giant Microsoft faced a number of shareholder resolutions. We were supportive of resolutions requesting increased disclosure on gender and racial pay gaps, effectiveness of workplace sexual harassment policies and lobbying activities. We also voted in favour of a proposal asking the company to, through the lens of racial discrimination, report on its implementation of the 'Fair Chance Business Pledge', which aims to remove obstacles in the labour market for formerly 'incarcerated individuals'. Shareholders also filed a resolution for the company to prohibit the sales of facial recognition technology to government entities. While we agree that facial recognition technologies should be deployed with all due consideration for human and civil rights, we believe that current safeguards appear to be adequate, and an outright ban could do more harm than good for society.

Human rights were also a shareholder concern at footwear, apparel and accessories company NIKE, where we supported a shareholder resolution requesting the company to disclose a human rights impact assessment on its cotton-sourcing practices. While we recognise NIKE's current ambitions in this area, we nonetheless believe that an assessment could potentially improve company practices further. This is especially the case as it operates in a high-risk industry in terms of human rights, and does not directly source cotton, which negatively affects traceability. At the same meeting, we were also supportive of shareholder resolutions requesting the company to report its gender and racial pay gaps, as well as its diversity and inclusion efforts. Similarly, at US firearms manufacturer Smith & Wesson we supported a resolution requesting the company to adopt a human rights policy, as we believe it is imperative for companies in most industries to have a robust system in place for mitigating and managing risks related to human rights.

The more nascent electric auto industry also faces risks related to human rights and forced labour in its supply chain, and has been subject to much scrutiny after reports of child labour surfaced in relation to the sourcing of cobalt for the production of lithium batteries used in cars. The most prominent example in this regard is electric car manufacturer Tesla, leading us to support a shareholder resolution filed at its AGM requesting the company to increase its reporting related to human rights. Furthermore, Tesla had recently been involved in several labour-related controversies, including the alleged interference with union activity at its manufacturing plant. In light of these events, we supported a proposal asking the company to formally assign responsibility for the strategic oversight of human capital management to a board-level committee. While none of the resolutions passed, they received considerable support of between 28% and 38%.

COVID-19 sparked numerous workforce-related controversies at US retail companies. For example, at online retail giant Amazon's annual meeting we supported a number of shareholder resolutions, including the adoption of a policy to include employees as director candidates. At retailer Walmart we supported a resolution requesting the creation of a pandemic workforce council, with the purpose of providing the board with employee feedback on workforce-related issues.

Amid growing concerns with the monopolistic power of some technology companies, we voted in favour of shareholder resolutions for reporting on how anti-competitive behaviour risks are mitigated at Amazon, and Google's parent company Alphabet.

A number of takeovers required shareholder approval during the year, and we voted in favour of proposals for several companies, including software company Slack Technologies and hotel chain Extended Stay America, as well as the acquisition of financial services company People's United Financial by M&T Bank. We also voted positively on acquisitions by financial information and analytics business S&P Global, hydrocarbon E&P company ConocoPhillips and bank holding company Huntington Bancshares during the year.

Our strengthened policy stance on auditor tenure resulted in us opposing over 200 auditor re-appointment resolutions, typically due to auditor tenure, including at oilfield service company Gibson Energy, where we hold 19% of the shares.

## Europe

As mentioned above, a significant number of our votes against boards occurred in relation to proposals allowing for shareholder meetings to be held virtually and without a physical meeting. These included industrial company NKT, pharma company Novo Nordisk and renewable energy leader Ørsted, all Danish companies. Our position is that hybrid meetings should be held by companies, due to our concerns over shareholders' ability to ask questions at virtual-only meetings. These concerns were brought into focus at the AGM of German telecommunications company Deutsche Telekom, where a shareholder resolution was proposed to allow shareholders to speak and ask questions during virtual only meetings; something that is currently not allowed by the company, which cites legal and practical uncertainties. We voted in favour of the resolution in support of basic shareholder rights. The resolution didn't pass, though 46% of votes were supportive. A similar resolution was also proposed at German industrial manufacturing conglomerate Siemens.

Our voting at shareholder meetings of Irish companies has been significantly impacted by Brexit, following the change in depositary for these companies from CREST to Euroclear, which now frequently applies share-blocking. This means that we are unable to trade shares for a period of time around shareholder meetings if we decide to vote at those meetings.

Large block shareholdings, often held by founding families, are a common feature of the European corporate landscape and often give rise to concerns around board independence. French logistics services provider ID Logistics received negative attention over its proposal for shareholder approval of consultancy agreements between the company and a company controlled by the chair and chief executive. We voted against the resolution, as we could not be confident of appropriate independent oversight, given the lack of information disclosed. The 48% opposition vote suggests other shareholders shared our concerns. Capital management was also an issue, and we voted against a number of related resolutions. This is a common area of discontent for us, as European companies quite often seek authority to issue shares during takeover periods, or to issue excessive amounts without giving existing shareholders the right of first refusal.

Sweden-based healthcare and diagnostic services provider Medicover is a controlled company with an eight-person board, comprising only two independent directors. We decided to oppose two of the non-executives whose tenures exceeded 20 years. We also opposed a proposed incentive scheme that in our view was excessive, and in light of the fact that neither of the two independent directors sit on the remuneration committee.

At another controlled company, Spanish financial services company Bankinter (which has a 23% shareholder), we opposed the re-election of the chair due to concerns over independence, committee membership and board tenure.

Our voting at Danish branded jewellery company Pandora was similar to last year, as concerns over board refreshment and multiple directorships have remained.

Etalon Group, the Russian-focused property company, held an extraordinary shareholder meeting, seeking shareholder approved to raise capital. We have ongoing concerns with capital management at the company and opposed the resolutions.

German DIY retailer Hornbach sought shareholder approval to issue more that 10% of its issued share capital with pre-emption rights. Our usual stance is to oppose such resolutions; however, following discussions with the company, it published a statement that issuance would not exceed 10% and we were able to support the resolution, in light of the public commitment.

We voted against a number of remuneration policy proposals over a variety of concerns, including incentive structures and amount increases. However, severance arrangements for executive directors was a recurring factor, and examples of meetings where we opposed votes included German civil engineering company Bilfinger, Italian pharmaceutical business Recordati and Italian technology distributor Esprinet.

This year French media company Vivendi stood out, due to the level of dissenting votes (ranging between 34% and 40%) across its 13 policy and remuneration approval resolutions. We also opposed these resolutions, where concerns included unjustified high levels of pay, poor disclosure, inappropriate remuneration of non-executives and the censor.

At a number of meetings we opposed the reappointment of auditors due to tenure. This included for Swiss luxury goods company Compagnie Financière Richemont. We abstained on the auditor's special report on related-party transactions at French drinks maker Remy Cointreau due to concerns over insufficient disclosure. At luxury jewellery company Folli Follie, a Greek business, an extraordinary meeting to approve a rehabilitation agreement was finally passed.

A number of other shareholder resolutions appeared across meeting agendas, although the most significant tended to relate to the environment. The shareholders of Norwegian energy company Equinor were asked to consider no less than 10 shareholder resolutions, of which nine concerned environmental issues. We typically support environment and climate-related resolutions, but at this meeting we supported only one, which asked the company to set emissions targets. At Danish stone wool manufacturer ROCKWOOL International, we supported a resolution for environmental impacts to be assessed.

German biotech specialist Magforce faced two shareholder resolutions proposed by a significant shareholder, aiming to remove the chair of the supervisory board and appoint a new director to that board. The chair resigned before the meeting and the resolution on the nominated director was passed, although we had decided not to support, as no explanation had been provided.

A shareholder resolution at Novo Nordisk called for a change of ownership 'so that in time the company shall not pay dividends to private investors and shall not direct the business based on benefiting foreign investors by dividends, but shall only spend the company's profits on developing and producing vaccines, and as far as possible on reducing the prices paid by consumers.' We opposed the resolution.

## Asia

Our voting against boards' recommendations in Asia Pacific is dominated by two categories of resolutions: directors and capital management.

At South Korean electronics company Samsung Electronics we opposed the election of two non-executives over concerns of governance, in light of the convictions of two board directors. Both directors retained their board seats, although there was significant shareholder dissent. In a similar vein, we opposed directors at South Korean banking and financial services provider Shinhan Financial Group who failed to remove a fellow director from the board, despite a criminal conviction. There were further concerns around fraud at a subsidiary company. More wrongdoing, this time at Thai private healthcare group Bangkok Dusit Medical Services, caused us to oppose two director elections, in light of share price manipulation by one of the directors at another company. In India, online auto classifieds platform CarTrade Tech put forward a resolution to provide that one particular shareholder be entitled to nominate a director while they held at least 3% of the shares. We opposed the resolution, which we regarded as unreasonable. Gender diversity is a challenging issue in Asia, and we voted against director election resolutions at companies with male-dominated boards including Chinese auto maker Guangzhou Automobile Group, Indian infrastructure finance company REC, Indian electric utility NTPC, and Hong-Kong property developer Sun Hung Kai Properties.

In respect of capital management, we are often seeking to protect our shareholder position on the register. As above, we consider that shareholders should have pre-emptions when companies seek to issue more than 10% of the issued share capital. Asian companies, most notably in Hong Kong, often put forward resolutions for higher amounts, which we typically oppose.

Also in Asia, remuneration reports and policies are rarely put to the vote, but incentive schemes and grants of awards often require shareholder approval. However, lack of disclosure and independent oversight means we regularly do not support these proposals. In China it is common for various elements of an incentive scheme to be proposed separately. We typically vote against proposals on scheme administration, as participants in the scheme are often also administrators raising concerns about independent oversight. At Australian mining company Mineral Commodities, where we have a notable shareholding, we declined to support resolutions on the remuneration report and a share options scheme, due to concerns over pay structure and outcomes.

Government changes in the Chinese corporate governance code are gradually being reflected in the constitutions of Chinese companies. In the past, we frequently abstained on resolutions that embedded Communist Party organisations and committees within companies. However, more recently we began opposing such constitutional amendments, as the role of these committees has changed from advisory to leadership in nature, which we do not consider to be in shareholders' long-term interests. Due to these concerns, we opposed resolutions at a number of companies including construction engineering firms SINOPEC Engineering and China State Construction Engineering, lenders Bank of Ningbo and Industrial Bank Co, and electronic component maker Shennan Circuits.

At a small number of meetings we opposed the reappointment of auditors due to tenure and disproportionate non-audit fee levels, including Chinese e-commerce firm Alibaba and Hong Kong management consultancy Far East Horizon. At the AGM of Indian steelmaker Steel Authority of India, we abstained on the annual financial statements, as the auditor's opinion was qualified, with a range of concerns highlighted.

Australian insurance provider QBE Insurance Group and petroleum E&P company Woodside Petroleum each faced a shareholder resolution from activists. We supported a proposal for annual publication of climate targets at QBE and opposed a resolution to close operations at Woodside Petroleum. A shareholder resolution requesting electricity and gas utility AGL Energy to disclose Paris-aligned emissions reduction targets in relation to its future demerger gained our support.

Also in Australia, iron ore company Fortescue Metals Group faced a proposal from shareholders looking to improve the Western Australian Cultural Heritage Protection Law, following the Rio Tinto disaster in 2020. While we supported the resolution, the proposal was dependent on the passing of another resolution to amend the company's constitution, which was not supported by shareholders.

During the year we voted in favour of the mergers and takeovers involving Taiwanese insurance company Fubon Financial Holding, Papua New Guinean oil and gas E&P Oil Search and Australian fintech Afterpay. South Korean conglomerate LG Corp's proposal, which we opposed, to spin off parts of the company into a newly listed entity drew considerable criticism relating to the rationale for the plan and value for shareholders.

## Japan

A significant feature of corporate boardrooms in Japan is the relationship between companies, banks and other associated companies, such as suppliers and customers. This makes independence a central concern, and we voted against many directors on the basis of ongoing or former business relationships that might affect independence.

The two largest shareholders of multinational conglomerate Toshiba proposed resolutions at a special convened shareholder meeting. The first called for the appointment of investigators following concerns over the company's behaviour in administering the 2020 AGM, and reports of shareholders being pressured by the company over their voting. The second resolution sought to stipulate within the company's Articles certain capital management policies, with the proposal essentially stemming from a background of scandal and mistrust in the company. We decided to support both proposals, although only the first was passed. However, the second did receive 39% support. The report was subsequently published just ahead of the company's June AGM, which led to a number of directors stepping down, including the chair. However, three directors, including one who had become the new chair, and who in our view had failed shareholders, sought re-election, which we voted against. In the event, two of the directors failed to be elected and the third withdrew before the meeting.

At the annual meeting of conglomerate SoftBank Group's shareholders, we opposed two non-executives – due to independence relating to business relationships – and a newly appointed statutory auditor, again due to independence concerns. Another resolution seeking to amend the Articles was opposed due to it allowing virtual-only shareholder meetings. It was disappointing that the changes were bundled within a single resolution, as we were supportive of other changes, most notably on advisory positions.

A number of companies, including machine component maker Nippon Thompson, proposed and passed poison pill resolutions, though we opposed in each instance. 'Poison pill' refers to a defence strategy used to prevent or discourage a potential hostile takeover by an acquiring company. These resolutions all received significant opposition.

Integrated trading company Sumitomo Corp and financial services firm Mitsubishi UFJ Financial Group both faced shareholder resolutions for Article amendments that would require reporting on how their strategies align with the goals of the Paris Agreement. We voted in favour of both and, though the resolutions failed to pass, they both received over 20% support. We declined to support shareholder resolutions at electric utilities Chubu Electric Power, Hokkaido Electric Power, Tokyo Electric Power, Kyushu Electric Power, Shikoku Electric Power, The Chugoku Electric Power, The Kansai Electric Power and Tohoku Electric Power – these were aimed at phasing out nuclear power. An activist shareholder association proposed resolutions, which we did not support, to remove every director at Shikoku Electric Power in connection with nuclear decommissioning.

## Rest of World

Proposed changed to companies' Articles that reduce shareholder rights and interests occurred at three companies during the year. South African diversified automotive business Motus Holdings sought to amend its Articles in a way that would reduce accountability of executive directors to shareholders. We are a significant shareholder and opposed the resolution, which in the event passed. There were also concerns over a reduction in shareholder rights at Israeli telecoms company BATM Advanced Communications, where the board successfully proposed to remove the right of shareholders to approve the dividend, leaving this power solely with the board of directors. Brazilian education provider Cogna Educação sought shareholder approval for Article changes that included a mandatory bid provision, which specified a shareholding threshold that we considered to be inappropriate, leading us to oppose.

Mexican banking services provider Banco Santander Mexico SA Institucion de Banca Multiple held a special meeting for a proposal to delist, in connection with a tender offer from the controlling shareholder. We opposed the resolution as, in our view, true value was not being offered to minority shareholders.

Remuneration concerns remained at Plus500, the UK-listed Israeli technology company. We did not agree with a proposal to give a one-off bonus to the finance director. Nor did we support the remuneration report, in light of the leaving arrangements for the former chief executive.

In South Africa we opposed the re-election of a long-tenured, non-executive director at logistics company Imperial Logistics, in which we have a substantial shareholding. Our concern centred on continuing membership of board committees, which we consider inappropriate.

# Remuneration

During the year we received consultations on 129 new proposals from remuneration chairs, with subsequent follow-up letters and emails. We had a total of 35 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.

Given the continued uncertainty created by the pandemic, we saw many companies deciding to roll over their current policy for another year, as had also been the case in 2020. The thinking was that a constructive shareholder engagement process around new remuneration policies was better suited to a post-COVID environment.

As in 2020, many companies proposed alternative remuneration plans, away from the traditional short and long-term bonus structure, in an attempt to remove some of the unpredictability in the remuneration outcomes in coming years. We saw a number of proposals related to short-term market volatility and the prospect of further downturns. While we understand the need to incentivise management, we expect remuneration proposals to focus on a long-term approach. Given the depressed nature of share prices during the year, we were very conscious of 'one-off share grants' and subsequent potential windfall gains. Every company's proposed arrangements were assessed on their own strengths.

During 2021, as mentioned in the voting section of this report, we saw a number of companies propose a move to Restricted Share Plans (RSP), Performance Share Plans (PSP) and Value Creation Plans (VCP) and away from a traditional Long Term Incentive Plan (LTIP). We do not think these schemes should be used as a default solution to circumvent difficult decisions. However, due to the uncertainty and cyclicality of certain sectors, while we return to 'normal' post-COVID, we thought these were often appropriate for remuneration committees struggling to set LTIP targets that were suitable to motivate management and stretching enough to satisfy shareholders. Generally, we saw companies within highly-cyclical industries propose these plans.

We did not just assess the short-term impact of the pandemic when assessing these proposals, but instead looked at the long-term benefits or shortfalls that the proposed policy could present for each company.

Within more traditional proposals, we saw an uptick in non-financial metrics being included. Over recent years the percentage that these non-financial targets contribute to the overall remuneration structure has increased. 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. 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.

Within this, we saw the further inclusion of ESG metrics within proposals. In general, we are very supportive of the inclusion of these metrics, however, as with all other non-financial metrics, we do expect these to be measurable with tangible outcomes. ESG considerations should be a fundamental part of a company's strategy, and we encouraged companies to include metrics that relate directly to their ESG risks and opportunities. Companies should also have considered splitting out ESG issues between long-term targets relevant for the LTIP and annual targets, which should be placed into the annual bonus metrics. The issue of overweighting non-financial targets was discussed at the Investment Association committee meeting during the year. Our view that remuneration bonus proposals should not go beyond a 30% non-financial weighting was shared by others.

A number of companies during 2021 voiced the challenges of trying to compete with the US in regard to remuneration and the retention of employees. Attracting talent becomes very difficult when competing with US remuneration structures and the higher multiples that are available to many executives.

# Other engagements and activities

M&G Investments is 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 and 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.

Over the course of 2020, M&G Investments' Stewardship and Sustainability team took part in numerous events related to responsible and impact investing. As just a few examples of these, we joined a panel at the London Stock Exchange to discuss ESG integration and disclosure, alongside the Financial Reporting Council (FRC) and FTSE Russell. There was general consensus that investee companies faced an enormous challenge to disclose material ESG information, and companies are sometimes confused by the many reporting standards. We highlighted the value of several standards, including the Sustainable Accounting Standards Board (SASB) framework and the TCFD (Task Force on Climate-related Financial Disclosures) recommendations, as these disclosures help us to engage with investee companies on financially material ESG issues.

We were invited to join a panel at a Pensions Lifetime Savings Association (PLSA) event, to give an overview of how asset managers are integrating ESG into the investment process. The audience was a mixture of asset owners, lawyers and pension funds, with many questions on integration, impact investing and climate solutions.

We attended three working sessions on ESG metrics and reporting for social housing hosted by the Good Economy. The aim of the workshops was to identify key ESG metrics that social housing providers can report on, which are of material use to investors and indicate the direction of travel in regards to sustainability.

Members of the Stewardship & Sustainability team, along with M&G Investments' Positive Impact team, presented to a group of Masters and MBA students from Imperial studying finance and impact/responsible investment. The presentation covered ESG integration and impact investing at M&G Investments, including integration work over the past year and an overview of our Impact Framework. The students were highly engaged and asked some challenging questions on our approach.

As a few other examples, at an Investor Relations Society conference we explained how we made use of the SASB framework to structure our ESG engagements, as well as the development of ESG training. With the Natural Resources Forum we updated on ESG, specifically as it related to the mining sector, while at the Corporate Governance Council we took part in a multi-faceted discussion which included shareholder engagement, EU directives, capital allocation and the global context of the shareholder versus stakeholder debate.

Over the course of 2021, the Stewardship and Sustainability team took part in numerous events related to responsible and impact investing. As just a few examples of these, we took part in the M&G Positive Futures series of educational videos. In this series, M&G reviews the current and predicted future state of impact investing and identifies areas where investors could have the most impact across the globe. Initial discussions explored how investors could help combat the climate emergency, and the methods used to measure impact.

For the second year (after a hiatus due to COVID) M&G hosted and took part in the Sustain Social Conference, one of the few such conferences aimed at direct (ie private) customers; M&G representatives covered topics including climate fintech, social impact, purpose washing and place-based impact. This was an excellent opportunity to discuss issues and insights with private investors.

We took part in Worthstone's Annual Impact Academy, which featured a range of topical impact-related sessions, and where we discussed key differentiations between ESG and Impact investing, focusing on how impact investors in public markets can generate positive impact; it was agreed 'additional' mechanisms, such as impact-oriented engagement and signalling impact via capital allocation decisions, were important components.

Other conferences where we participated included the NatWest Corporate Climate Action webinar, MSCI's Implementing TCFD: Engaging with Issuers on Climate Risk Management webinar and the CDP's 2021 UK and Worldwide Workshop: Transparency to Transformation, among many others.

We believe that these types of events emphasise the importance of M&G Investments continuing to play an educational role with our clients. Encouragingly, it also highlights the fast-growing demand for information on our approach to responsible investment and growing appetite for funds that are explicitly linked to ESG.

In addition to meetings and presentations, we also think it is important to stay engaged with the market. For this reason, we are members of a number of industry working groups and committees in which we pride ourselves on being active members, actively participating in remuneration, corporate governance and sustainability committees. A selection of these groups, along with events attended throughout the year, are detailed below.

While we, of course, want the best management teams and for executives to be sufficiently motivated, we do not think remuneration should be the only reason why UK companies can compete for US talent. There are many other attractions in running a FTSE 350 business such as media profile and kudos.

As mentioned in the voting section of this report, in line with IA guidance, we continued to keep a close eye on the executive pension arrangements being proposed within new remuneration policies. When engaging on executive remuneration concerns throughout the year, we informed companies that we expected to see a glide path to alignment of executive pensions with those available to the wider workforce. As this alignment is due to be in place by December 2022, we voted against or abstained on the majority of new remuneration proposals that failed to demonstrate how this would be achieved.

## Environmental

### Institutional Investors Group on Climate Change (IIGCC)

In 2021 we continued our active participation with the IIGCC, which included attending meetings, seminars and roundtables with the group. These were ultimately to share best practice on approaches to addressing climate change, understand the approaches other organisations were taking, and to help encourage joined up action from across the investment industry. Some highlights from the year included:

### Steel Roundtable

Having attended the preparation meeting with various IIGCC members ahead of a planned roundtable with operators in the steel sector, M&G subsequently attended the roundtable. Steel sector representation included attendees from Thyssenkrupp Steel, SSAB, Arcelor Mittal, BlueScope Steel and Responsible Steel, as well as a number of institutional investors. The intention was to start developing a basis for investors to understand the transition pathway for the steel sector, identifying key actions needed (and who needs to take these) and the interventions (regulatory, policy, financial and institutional) needed to ensure that these actions are taken at the scale and urgency required. The IIGCC's plans encompass an evolving 'steel sector transition paper' – which was the basis of the roundtable – to capture and draw from the existing initiatives and dialogues already underway, which will provide clarity on the pathways that companies and investors should be pursuing to decarbonise the sector.

A number of challenges were discussed, including the need for more renewable energy to facilitate green steel production – whether through electric arc furnaces or green hydrogen – the current high cost of hydrogen without subsidies, the shortage of scrap needed for recycled steel production (with only 25% of supply available to meet global demand) and the current and future feasibility of carbon capture, utilisation and storage.

## Net-zero Stewardship Working Group (NZSWG)

The NZSWG supports the overall IIGCC programme of initiatives by working on two specific objectives:

1. The development of a functional toolkit that supports investors with stewardship and voting – a draft had been finished prior to the 2021 voting season.
2. Developing a strong relationship with proxy advisers to ensure they can supply investors with sufficient information to help them deliver net-zero at the portfolio level.

The working group met on a number of occasions to review progress on the toolkit. It also wrote to voting service providers Glass Lewis and ISS, outlining what information needs could support a net-zero policy.

## IIGCC Chemicals Sector Scope 3 Roundtable

In this roundtable we discussed the key challenges experienced to date by the chemicals sector in quantifying and reducing scope 3 emissions (as mentioned in the engagement section of this report). Chemicals companies tend to have complex supply chains, and end-of-life treatment is particularly challenging, as it relies heavily on assumptions and are highly variable. Potential ways the chemical sector can reduce downstream scope 3 emissions were highlighted, including emission-neutral feedstock (eg green hydrogen), recycling (prioritising mechanical before re-usage as feedstock) and emission-free production processes (100% renewable energy). In terms of the Science Based Targets initiative (SBTi), currently 57 chemical companies have committed to setting SBTi validated targets, although names that have been approved will be further along the value chain than the larger chemical companies (so scope 3 is therefore smaller and easier to map).

## IIGCC AGM

This year's AGM reflected on IIGCC achievements from 2021, as well as looking ahead at key priorities for 2022 and the years beyond. COP26 President Alok Sharma joined to discuss outcomes of the COP and the UK government's plans for its presidency year, as well as the role of private finance in the net-zero transition and how investors and policymakers can work together to tackle climate change. There was also discussion on the shift from target setting towards transition planning and action in terms of net-zero, and the role of corporate engagement in the transition.

## Climate Action 100+ (CA100+) – meeting to discuss transition plans in company reporting

There is now an expectation that companies should evidence transition plans to net-zero within their report and accounts, and explain how the financials are likely to be impacted. It is no longer sufficient to simply disclose financial statements and ignore potential impairments in the road to net-zero. While it might not be possible to put provisional values on these impairments, it is expected that companies will estimate potential costs. The audit committee, and subsequently the audit committee chair, is responsible for this financial statement disclosure, as well as ensuring that there is a narrative position on the transition plan, reflecting how the financials are likely to be impacted.

### Other climate-related examples

M&G plc publicly endorsed the Taskforce on Nature-related Financial Disclosures (TNFD), and applied to the TNFD Forum. We were subsequently successful in that bid. Participating in the TNFD Forum is by invitation only, hence our successful application is evidence of the TNFD Secretariat's positive view of M&G's sustainability credentials.

We participated in COP26 in Glasgow, as part of a joint event with CDP on accelerating the Just Water Transition. This highlighted the need to prioritise water as a core part of effective action on climate change, biodiversity and social equality. M&G is supporting CDP to develop its Company Water Questionnaire to enhance the availability of investment decision-useful water data.

We provided feedback to a briefing note on Financing the Just Transition Beyond Coal, drafted in by the Powering Past Coal Alliance (PPCA) in collaboration with the Grantham Research Institute associated with the London School of Economics and Political Science.

As mentioned in the engagement section of this report, in the first quarter of 2021, M&G plc published a position paper on coal, available on the corporate website, with our coal policy in effect from April 2022. We aim to use our influence as a global investor to drive positive change, to decarbonise the energy system and increase energy and resource efficiency.

We also published M&G plc's Biodiversity and Just Transition Position Statements, which can be found on our corporate website. These were published ahead of COP26 to proactively provide clarity and substance to our existing sustainability positions, explaining that action on climate is not limited to carbon reduction.

M&G was asked to co-chair the Natural Capital Committee, a new venture from the International Corporate Governance Network (ICGN). The committee's primary responsibility was to set an agenda of work for 2022. It was agreed to ask external experts to present to the committee to set out a framework for natural capital, the options for investors to focus on and a set of recommendations

## Diversity and inclusion

As mentioned earlier in this report, diversity and inclusion is one of M&G's 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.

We attended quarterly meetings with the group to discuss progress and areas in need of attention. This included a new focus on racial and ethnic representation, with a clear need for increased disclosure and representation at all levels of organisations. Near the end of the year the group launched a letter campaign, marking the start of engagement with companies in the UK on race equity. The letter is for all FTSE companies that are not yet meeting the Parker Review requirements (resulting from an independent review that considered how to improve the ethnic and cultural diversity of UK boards, to better reflect their employee base and the communities they serve), and the club will be engaging collectively with companies next year.

## Impact

We continued our participation in the Harvard Business School's 'Impact Weighted Accounts' pilot project, alongside the Global Steering Group for Impact Investing and a number of other investors. This involves developing and testing a methodology to reflect a more accurate and holistic picture of the impacts generated by individual companies, adjusting their financial accounts to reflect the positive and negative real-world impacts that companies can have on people and the planet.

We continued our involvement with the Global Impact Investing Network (GIIN), as a member of the Listed Equities Working Group, with discussions focused on two crucial concepts within impact investing, 'investor contribution' and 'theory of change'. Contribution, or additionality, in listed equities is represented by the contribution a company makes to solving a real-world problem. It is also contribution the investor makes with regards to the company, primarily via engagement and influence, but also by signalling to other investors the case for sustainability and positive impact. Theory of change is the tool that impact investors use to plan and articulate how their investment is intended to address the issue at hand. Also linked to the GIIN, we participated in the Navigating Impact Project to develop a 'biodiversity toolkit' to be used by impact investors. We took part in a working group alongside other investors and biodiversity specialists to add a new biodiversity theme within the GIIN's IRIS+ system (for framing, measuring and managing impact). The aim was to design a framework for biodiversity impact assessment and measurement, to review the framework and to define a core set of metrics to measure biodiversity impacts.

Two of the ways in which impact investors can fulfil their 'underserved' mandate is via directing impact capital to countries where financing is scarce (ie emerging markets) and via so called 'place-based' impact investing, which takes a more localised approach to support local communities. We participated in a series of workshops coordinated by impact consultancy The Good Economy to develop a place-based impact (PBI) reporting framework to help investors (such as Local Government Pension Schemes) identify and report on the place-based impact of their investments. The goal is to allow them to do this in a clear way that works for their members and promotes improved place-based impact measurement, management and reporting across the UK investment industry. The initiative covers a number of impact pillars, included housing, clean tech, infrastructure and regeneration.

We attended the London launch of the findings of the G7 Impact Taskforce, with recommendations from two workstreams on impact standardisation, reporting and mobilising more capital to geographies and issues that most need it. The first taskforce workstream focuses on standards, disclosure, and transparency. Key recommendations included support for efforts by ISSB — the International Sustainability Standards Board of the IFRS Foundation — to "create a global reporting 'baseline' on impact related to enterprise value" and a call for G7 governments to participate in the board's consultations. The second workstream focuses on scaling impact investing to address the SDGs and a just climate transition, in particular in emerging economies. It recommended coordinating across parts of the impact ecosystem to remove barriers limiting the flow of institutional capital to impact investments. It also urged support for mobilising capital by improving the regulatory frameworks that constrain their investing, and by improving institutional investor mobilisation.

M&G is also taking part in a working group of the Investment Association's Sustainability and Responsible Investment Committee to support the creation of a definition for and characteristics of impact investing for UK market participants.

With COP26 a major potential driver of impact and climate finance, we attended a number of side events hosted by the Impact Investing Institute and Impact Management Project (which has gone through a reorganisation to become the Impact Management Platform).

## Policy-related

During 2021, the Policy and Disclosure team – within the Stewardship and Sustainability team – focused on a wide range of issues, including the publication of sustainability-related corporate and business network reports, participation in climate change and nature-focused industry initiatives and response to regulatory updates, among others. To highlight a few of our activities from the year:

We contributed to the publication of the Association of British Insurers' (ABI) Climate Roadmap, as part of a dedicated working group comprising of the 10 leading insurance and long-term savings companies in the UK. The ABI Client Roadmap outlines the insurance sector's collective ambition to transition to net-zero, and formalises targets, progress measurement and the commitment to support the UK government and regulators in policy development. The final ABI Climate Roadmap was published at the start of July 2021.

We responded to two FCA consultations. One addressed TCFD-aligned disclosure requirements for asset managers, life insurers and pensions providers, as the FCA was seeking the industry's views on the practical implementation of requirements. The other consultation was seeking the industry's view on enhancing climate-related disclosure requirements for standard listed companies, as well as commentary on other ESG topics. These included the introduction of specific requirements for use of proceed bond frameworks, the development of bond standards and the challenges and potential harms arising out of the role of ESG data and rating providers.

We also responded to the FCA discussion paper addressing the implementation of HMT's new integrated Sustainability Disclosure Requirement (SDR) framework and a sustainable classification and labelling system for investment products. In advance of the direct submission to the FCA, we participated in roundtable discussions organised by industry networks to share views and feedback on the FCA's proposals.

# Other

## Investor Forum

Beyond collective engagement work, the Investor Forum organises a range of events for members to provide opportunities to share insights, discuss topical issues and hear from experts. Recent interactive events have included: an expert speaker from the Climate Change Commission; a discussion on the merits of dual-class shares; insights into sustainable procurement; a presentation from the BRC on its Climate Action Plan; a discussion with EY on getting the most out of climate reporting; and an update from the chief executive of the FRC on the BEIS white paper Restoring Trust in Audit and Corporate Governance.

## International Accounting Standards Board

M&G prepared a paper to present to the IA's Company Reporting and Auditing Group (CRAG) meeting last summer on the dangers of companies not disclosing supply chain finance, otherwise known as factoring. After much debate at CRAG, of which M&G is chair, we attended a round table with the user board of the International Accounting Standards Board (IASB) and suggested they look into this subject. As a result of our input we were subsequently notified that the IASB would discuss this as a potential topic at their June board meeting, at which the board tentatively decided to add a narrow-scope standard-setting project to its work plan to meet these investor information needs.

## BEIS audit reform

M&G has spent a significant amount of time meeting different stakeholders and communicating our position on the key topics affecting investors related to audit reform. M&G met with Deloitte, KPMG, Lord Callanan, BEIS, and the All-Party Parliamentary Corporate Governance Group, and attended numerous meetings hosted by the Investment Association on the topic. M&G Investments has fed into the IA response and the M&G plc response.

The key items that we feel strongly about include not having a vote on the proposed new Audit and Assurance Policy, increasing internal controls, duties for directors, and not having a shared audit to solve the competition problems of concentration among the Big 4 in the audit market.

## ISS – Vestas Wind Systems and UNGC flags

Following our meeting with Danish wind turbine maker Vestas, mentioned in the engagement section of this report, we wanted to speak to data provider ISS to understand what steps Vestas would need to take in order for the UNGC amber flags to be considered resolved and remediated. We also wanted to encourage ISS to be more forthcoming in providing the company with data relating to the cases, to assist with the resolution. We spoke with three norms analysts at ISS, who cover the UNGC flags for Vestas. They provided more context to the flags and we were able to highlight that the company does not feel it has had full insight into the data driving the case against it. We encouraged ISS to reconnect with the company and highlight outstanding items in order for Vestas to ensure the correct procedures/policies are in place for the flag to be downgraded to green.

## ShareAction

M&G has continued to work closely with investment NGO ShareAction. As part of ShareAction's Healthy Markets Initiative, which aims to increase disclosure and ensure access to affordable, healthy food, we signed letters to both Unilever and Danone. These were encouraging both companies to report on their sales of healthy foods and discuss future plans to increase these figures. We also co-signed a letter sent to 63 banks, calling on them to demonstrate their climate credentials by committing to phase out coal finance before COP26. ShareAction also published a report on the chemicals sector, and will be following up with a series of letters for co-signatures. We will report on this in due course.

We also met with ShareAction to discuss the Workforce Disclosure Initiative (WDI) and the Good Work Coalition – which encourages companies to become accredited Living Wage payers and undertakes engagement activity. The WDI provides very granular information on company employment practices and supply chains.

## RI Europe

RI Europe is one of the largest responsible investment conferences in the calendar, but given the COVID situation, this was the second year it went entirely digital, with five days of online keynote addresses, high-level plenaries, Q&As and thematic breakout sessions.

This year's conference had a heavy focus on the EU Green Deal, and Action Plan on Financing Sustainable Growth, including discussions on the EU Taxonomy, Sustainable Finance Disclosure Regulations and the role of the revised Corporate Sustainability Reporting Directive. There was also much discussion on the road to net-zero, including practical investment implications and the role of Paris-aligned and transition benchmarks. Interesting key notes were delivered by Luxembourg's Minister of Finance, Pierre Gramegna, Lord Adair Turner, now chair of the Energy Transitions Commission, and Kwasi Kwarteng, Secretary of State for BEIS.

## PRI Conference

In October M&G attended the PRI Digital conference, which covered a wide range of important topics with a number of impressive keynote speakers. Highlights included:

- Discussion on the key policy and legal reforms emerging around the world to align investment markets with sustainability initiatives, including the Paris Agreement.
- An exploration of how net-zero can be achieved in practice by asset managers across asset classes, transitioning from target setting to implementation. This included guidance from the Net-zero Asset Owner Alliance.
- Discussion over raising the bar on D&I initiatives across financials, through holding companies to account with auditing, as well as addressing bottlenecks that exist within the industry – although equal numbers of men and women enter the industry, less than half of women progress to management roles. There is a need to ensure that policies, mindset and culture are embedded into the framework of the business.
- In relation to the COVID-19 pandemic, a dialogue on how investors can play a role in contributing to a sustainable and inclusive recovery.
- Additionally, there was discussion on the Global Biodiversity Framework, which offered actions investors could take to address the targets – this included a conversation about indigenous rights and the inclusion of indigenous people in decision making processes, as they protect most of the world's biodiversity, and know how to live in harmony with it.

# Corporate finance

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

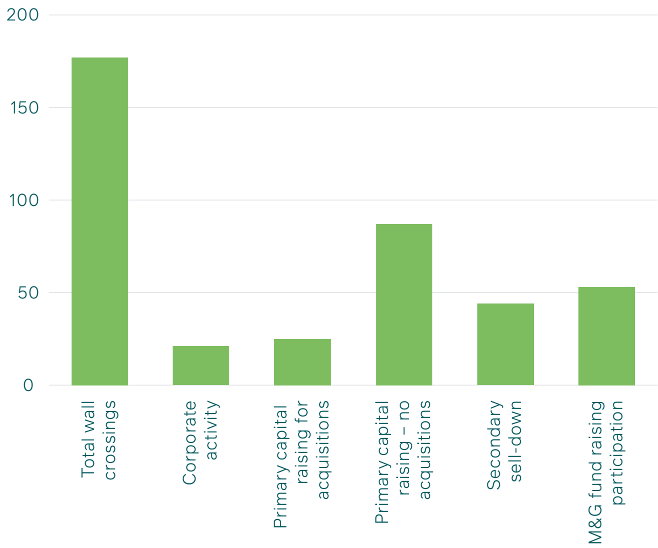
M&G is involved with companies at all stages of their evolution in the public markets, from the initial public offering (IPO), through periods of capital raising and expansion to those companies being sold. In this way, we can provide equity capital to our investee companies to help fund their growth 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 Stewardship and Sustainability 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, M&G was wall-crossed in respect of 177 companies in relation to proposed transactions or board changes prior to them being made public. Of these, 112 were related to equity capital fund raising: 25 were primary issues to fund an acquisition and 87 were without an acquisition. There were 44 related to secondary placings. M&G participated in 44 of the primary issues and nine of the secondary placings.

2021 wall crossings



## M&A and fund raising case studies

Some of the notable transactions in 2021 included:

### Alpha FMC

#### Acquisition of Lionpoint

Global financial consultancy Alpha FMC proposed a 10% equity placing (where new equity shares are issued) to raise £33 million (US$46m) to fund the acquisition of Lionpoint, a US-based company providing advice to the alternative investments industry. Alpha would pay US$55m up front (US$34.5m in cash) with a four-year earnout* of up to US$35m. Management owned 80% of the business and investment management company Blackstone, with 17.5%, was exiting completely. Alpha knew the company well and had been courting it for some time. It fulfilled its strategic ambitions of US expansion and diversification into new asset classes. Lionpoint specialises in private equity, real estate and credit, and, similar to Alpha, it provides platform advice and technology-based operating solutions.

We applied for 683,541 shares representing our pro-rata entitlement** of 6.76%, which we received in full.

* 'Earnout' is an element of M&A where the sellers must 'earn' part of the purchase price based on the performance of the business following the acquisition.

**'Pro-rata entitlement' is a legal term that describes the right, but not the obligation, that can be given to an investor to maintain their initial level of percentage ownership in a company during subsequent rounds of financing.

### Synthomer

#### Acquisition of Eastman Chemical Adhesive Resins business

In October 2021, UK chemicals company Synthomer announced the agreed acquisition of Eastman Chemical's Adhesive Resins business for US$1.0bn in cash. M&G has been a long-term shareholder in Synthomer and was supportive of the £200m equity raise, which was undertaken as part of the transaction. The size of the transaction in relative terms meant it constituted a 'Class 1 Transaction' under the listing rules, meaning it needed to be approved by shareholders. The associated general meeting was held in November, where the transaction was approved.

### UDG Healthcare

#### Takeover offer by private equity

UDG Healthcare, a UK-listed Irish company that provides services to the healthcare sector, announced a recommended cash offer at 1,023p per share by a private equity house – this had previously bought Huntsworth, another listed public relations business in the healthcare sector. At the time, M&G held 2.6% of UDG's equity and met with its chief executive twice, its chair and two minority shareholders. Our view was that the bid came too early in the post-COVID cycle for the company's share price to have time to recover, and that this was opportunistic and at too low a price – we went public with this view to the press. The vote was due to be held at the end of June, but the meeting was adjourned on the day of the vote pending a higher offer, which was duly announced at 1,080p. We still felt that this fell short of our expectations, but the largest shareholder, with 8% of the equity, accepted the higher offer.

## Bacanora Lithium

### Ganfeng Lithium's bid

What had been a long-running saga of Ganfeng Lithium's bid for Bacanora concluded in the third quarter of 2021. Ganfeng is a major Chinese lithium producer which first made a potential offer for UK-listed lithium producer Bacanora in May. The price was 67.5p in cash, representing a 16% premium to the share price. Ganfeng owned 29% of Bacanora, and also owned 50% of Sonora – Bacanora's Mexican lithium project – at the asset level. The board was minded to accept the offer, and while the bid was not overwhelming, given the existing ownership structure, our options were limited. Furthermore, the Sonora deposit, in light of its location, carries both geopolitical risk and also development risk. The technology was untested and projected costs had already been increased, and further significant funding would be required. In August, Ganfeng sweetened the offer with an *in specie* distribution to shareholders of its 35% shareholding in the Germany-based Zinnwald Lithium (67.5p cash + 0.24 Zinnwald Shares). This offer was recommended by the board and we indicated our intention to accept. We owned 14% and had held the shares since November 2015.

## Spire Healthcare

### Ramsay Healthcare's bid

In June, the Australian healthcare company Ramsay Healthcare announced a recommended offer for UK private healthcare company Spire at 240p, to be effected by way of a Scheme of Arrangement (a court-approved agreement between a company and its shareholders). The offer was unsolicited, and the company had first approached in March when the share price was 154p. Importantly, Mediclinic, a South African medical provider, which owned 30% of Spire following a failed bid at 298p in 2017, had irrevocably agreed to accept the offer. The board acknowledged the bid was not a knockout price. Our key concern was whether or not the company could achieve a satisfactory return on its employed capital. This had not been the case for many years. While (unfortunately) there will be very strong demand for its services in coming years – both on a private basis and also in its role as an overflow provider for the NHS – it is unclear that it will be able to achieve satisfactory pricing models. We had several meetings with the company to discuss these issues in more detail. On balance, we decided to accept the offer. However, two major shareholders publicly stated their intention to reject. Ramsay then added 10p to its offer at the last moment and declared it final. At the delayed court meeting in July, the Scheme of Arrangement failed to achieve the required level of support (75%+). The result being 68% for and 32% against on a 77% turnout. Consequently, the company remains independent and we will maintain our usual dialogue with it.

## Entain

### DraftKings' proposed takeover

In the fourth quarter of 2021, the directors of UK gambling company Entain declined to recommend a takeover from US competitor DraftKings. We had met the board in the previous quarter to discuss our concerns about the proposed transaction, as we felt that Entain remained a good standalone business. The board was constructive with its dialogue and, we believe, provided an exemplary study of how a company should behave when assessing the relative merits of a bid. Holders of the equity were in favour of the company remaining independent and were pleased with the outcome.

## Shell and BHP Billiton

### Change of domicile

In August miner BHP Billiton announced plans to unify its current dual structure with UK BHP Plc shares being exchanged for Australian BHP Limited shares. The proposed transaction was subject to a shareholder vote in January 2022. While BHP Billiton is a significant constituent of the FTSE indexes, and therefore will be removed from the UK investment sphere, we will remain invested through APAC strategies.

In November, energy company Shell announced, subject to shareholder approval, that it would move its headquarters from the Netherlands to the UK and scrap its own dual class share structure. We held a number of meetings regarding the move and agreed with the company's proposal. The move was formalised with a successful vote in December.

## Other capital raising

As mentioned above, M&G plays an important part in providing capital through the equity markets for the benefit of our investee companies. We believe that supporting companies where we are long-term shareholders is a key role for us as stewards of our customers assets, and we took part in a number of capital raisings over the year, many related to ongoing difficulties stemming from COVID-19. Examples of companies where we participated in capital raising included restaurant chain operator Restaurant Group, e-commerce fashion business Global Fashion Group, UK fuel cell technology specialist Ceres Power, construction and infrastructure group Kier and airline EasyJet, among many others.

# Initiatives

## Asset Manager (M&G Investments)

30% Club — Growth Through Diversity

BBP — Better Buildings Partnership

BPF — British Property Federation

Climate Action 100+

Climate Bonds Initiative

ClimateWise

FRC — Financial Reporting Council

GIIN — Global Impact Investing Network

The Green Bond Principles

Impact Management Platform

IIGCC — Institutional Investors Group on Climate Change

ICGN

The Investment Association

The Investor Forum

IPF — Investment Property Forum

Net Zero Asset Managers Initiative

Revo — Retail. Property. Community.

Signatory of: UK Stewardship Code 2021

PRI — Principles for Responsible Investment

UKSIF — UK Sustainable Investment and Finance Association

# The Stewardship and Sustainability team

M&G's Stewardship and Sustainability (S&S) team acts as a dedicated central ESG resource for the whole of M&G, working collaboratively with investors across our wholesale and institutional business. Having a central function team to cover these areas ensures oversight and accountability for stewardship within the organisation.

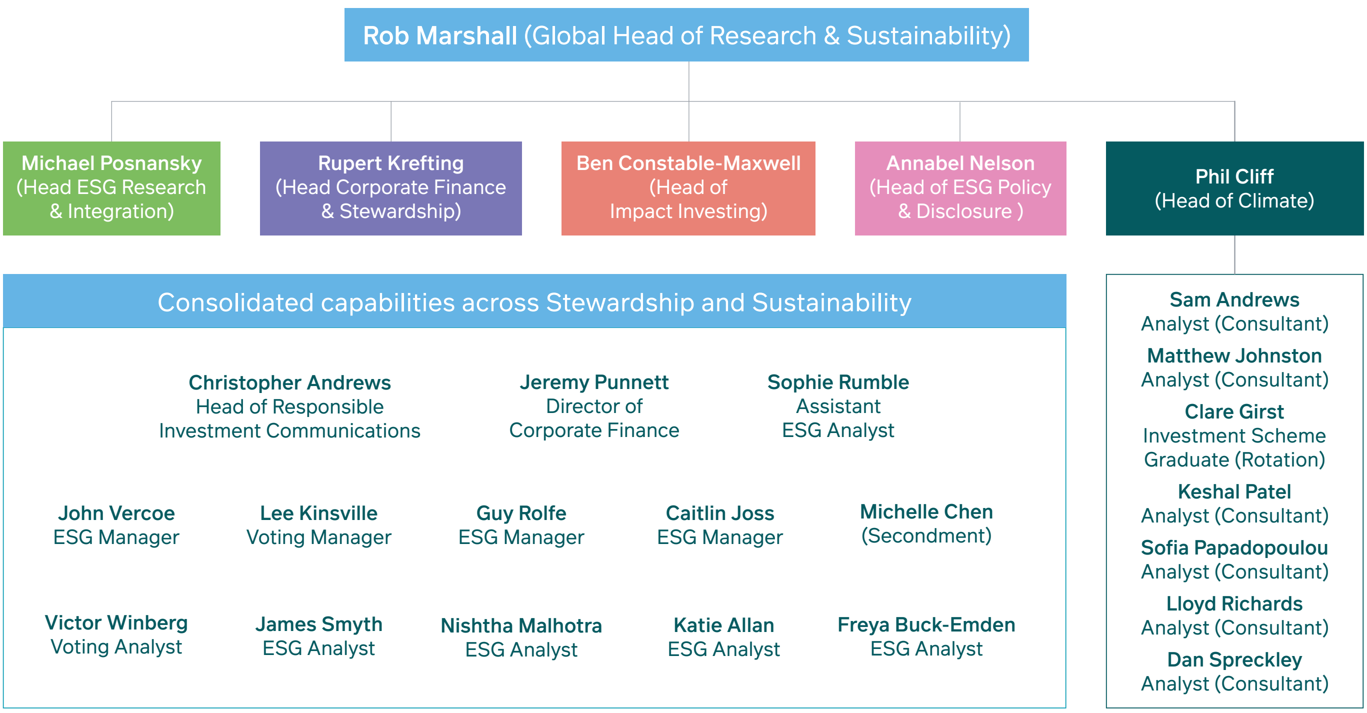
The team coordinates M&G's stewardship activities, engaging with companies on a number of issues from corporate governance to environmental sustainability, alongside the investment teams. Closely linked to this engagement work, the team undertakes M&G's voting responsibilities at shareholder meetings,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

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

The team also maintains M&G's relationships with responsible investment-oriented organisations, including the UN-backed Principles for Responsible Investment (UNPRI).

The S&S team does not force action onto managers, but rather collaborates both directly and via the 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.

At the end of 2020 there were 15 S&S team members, which by the end of 2021 had expanded to 19 full-time members, with a number of additional consultant analysts working specifically on climate. The team is now structured along the lines of: ESG Research and Integration; Corporate Finance and Stewardship; Impact; ESG Policy and Disclosure; and Climate. The team will continue expanding in 2022.



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

## 2021 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 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 both individual savers and institutional investors in 28 markets. As at 31 December 2021, we have £370 billion of assets under management, over 5 million retail customers and more than 800 institutional clients. 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. We serve our savings and insurance customers under the Prudential brand in the UK and Europe, and under the M&G Investments brand for asset management clients globally.

### 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 entities 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'). The asset owner and the asset manager function independently, but are aligned to a common business purpose defined at the level of M&G plc. Both operate under the group's sustainability principles, are subject to the group's sustainability priorities and commitments, have the same core values of Care and Integrity, and must comply with and operate within the policies of the group governance framework.

The asset owner is responsible for sourcing and distributing financial products to a number of different types of customers, including retail customers, institutional investors such as pension schemes, and investment platforms. The investment strategies for these products differ, and are tailored to the requirements of each product, but may include multiple asset classes spread across a number of mandates or investment vehicles.

The asset owner appoints asset managers to manage its investment portfolios. Asset managers are appointed for their expertise in generating sustainable risk-adjusted returns, net of fees, over the long term, for a particular asset class or investment strategy. The primary asset manager that the asset owner uses is M&G.

The asset owner endeavours to appoint asset managers that it deems to be best-in-class for an appropriate fee. The asset owner can, and does, appoint asset managers that are external to the M&G plc group. Among the external asset managers that the asset owner has appointed are BlackRock, Eastspring Investments and Value Partners LLP.

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

The relationship between the internal asset manager and the asset owner is carefully managed to ensure that customers 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 are now reporting our stewardship activities in line with the 2020 Code. In relation to M&G 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, Property 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. |

# 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

At M&G plc our purpose is to help people manage and grow their savings so they can live the life they want, while making the world a little better along the way.

### Culture and values

M&G plc has a clear ambition of what it wants its culture to be, including ensuring that the business operates to a ‘One M&G plc’ principle, where everyone is aligned to one purpose and one vision.

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

- **We act with care** – we treat customers, clients and colleagues with the same level of respect we would expect for ourselves. And we invest with care, making choices for the long term; and
- **We act with integrity** – we empower our people at M&G plc to do the right thing, honouring our commitments to others and acting with conviction. Our business is built on trust and we do 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.

### Business-wide principles

M&G plc has a set of key principles, which guide how we do business, and what matter most in our decision making:

- Impact – using financial power as a force for good
- Inclusion – opening up opportunity for more people around the world
- Innovation – focusing on changing things for the better

### 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 customers, clients and shareholders, and better outcomes for society. That is why sustainability is being incorporated into everything our business does.

To enable our sustainability-driven ambitions, M&G plc has identified the following key priorities in the ESG, sustainability and stewardship space:

- **Climate change** – we commit to being carbon net-zero in our own business operations by 2030 at the latest and we commit to achieve carbon net-zero investment portfolios by 2050, across our total assets under management, to align with the Paris Agreement on Climate Change
- **Diversity and inclusion** – we commit to achieving greater representation of gender and ethnicity in our 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

M&G plc also acknowledges the importance of the wide spectrum of ESG issues, and has investment strategies and engagement activities in place to acknowledge this. To ensure appropriate consideration of ESG and sustainability in everything we do, M&G plc has published the following sustainability principles on our website:

- We will consider sustainability and ESG factors when determining our corporate strategy and new business initiatives
- We will embed sustainability considerations throughout our business
- We consider the interests of all our stakeholders and ensure our views on sustainability are consistent with our long-term approach
- We will manage our businesses to the same principles of acting responsibly that we hold our investee companies to account on
- We identify and incorporate ESG risk factors into our general risk management process
- We review our sustainability thinking regularly in order to align with scientific and technological improvements, and changes in the global economy, ethics and consumer preferences. We aspire to be a thought leader, to innovate, and to advance understanding of sustainability issues
- We aim to use our influence as a global investor and asset owner to drive positive change in sustainability policy and corporate standards. We believe in active asset ownership and management which encourages companies to transition towards a sustainable future

## Strategy

M&G's strategy supports the company's vision to become the best-loved and most successful savings and investment business. With an established track record in growing business and entering new markets, the company is ideally placed to capitalise on supportive long-term economic trends to deliver superior outcomes for customers whilst continuing on the journey to pivot the entire business to sustainable investing, so that as the stewards of the long-term savings of millions of people, it makes an even bigger difference to people and the planet.

The execution of the strategy is based on key strategic priorities, underpinned by the One M&G strategic priority, which expresses the alignment to a single purpose, driving the values of care and integrity and the focus on sustainability. These strategic priorities cover M&G's four growth markets of the UK, Europe, other International markets in Asia, the US and Africa, and Institutional Asset Management. They also include the Heritage business, a portfolio of annuities and traditional with-profits policies that are closed to new business. M&G's responsibility is to create the best customer outcome in terms of general well-being in line with its fiduciary duty, taking into consideration financial security.

## Business model

### Caring for customers for more than 170 years

We have been serving individual savers since 1848 and continue to help millions of people to manage and grow their savings. We also work with financial partners around the world to help their clients build and manage their investments. We serve more than 800 institutional clients such as pension funds and insurance companies.

### Serving a wide range of customers and clients

We believe our customers are our customers because they prefer the quality of our savings and investment solutions, and appreciate the care with which we look after their money. Our investment practices are driven both by our purpose, which is centred on helping each customer manage and grow their financial resources, and our values, which guide our investment practices to help customers achieve the financial outcomes they want in a sustainable way.

### Individual savers and investors

Customers invest directly with us to save for their family's future or draw an income from long-term savings.

### Institutional clients

We partner with pension funds, insurers and others to design investment solutions.

### Professional investors

We work with financial partners worldwide to meet their clients' investment needs.

### Financial advisers and paraplanners

We have a range of products, educational and business development services to help financial advisers and paraplanners to serve their clients better.

A commitment to excellent customer service is woven through all levels of our company. Whoever the customer, we try to ensure their experience is streamlined, transparent and offers value for money. From our digital transformation programme for retail customers, to taking steps to minimise any Brexit disruption both in the UK and overseas, we always act with our customers' best interests at heart.

### Understanding our customers

M&G plc interacts with our customers 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 Customer Insights team is also tasked with understanding the needs of clients across the spectrum.

In order to better understand our retail customers, M&G plc uses the research platform 'MyView'. This includes a number of panels, dedicated to M&G's customers, as well as customers of the asset owner side of the business. This provides a ready group of customers 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, 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, M&G is 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.

M&G's ESG Investment Principles Statement sets out the ESG investment principles that we use to inform and guide all investments made as an asset manager. These principles are consistent with M&G plc's sustainability principles and reflect the firm's purpose and corporate values of Care and Integrity.

These principles support, and do not supersede, our fiduciary responsibility to our clients: to invest according to a given investment mandate, or as defined in fund documentation. In general, for funds other than ESG-labelled funds, the overall objective will be to deliver a specific financial outcome or to optimise investment return in line with any level of risk defined in the fund documentation or client investment mandate. To read the statement, please visit: **https://www.mandgplc.com/~/media/Files/M/MandG-Plc/documents/responsible-investing/responsible-investment/MG-Investments-ESG-Principles-Statement_Feb-21.pdf**

On 1 January 2022, M&G also published our ESG Investment Policy. This further sets 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. To read the policy, please visit: **https://www.mandgplc.com/~/media/Files/M/MandG-Plc/documents/mandg-investments-policies/MG-Investments-ESG-Investment-Policy-January-2022.pdf**

#### Equities

M&G Equities 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 stockmarket 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.

For our passive funds, we look to replicate requisite benchmarks in the most cost-effective way. In terms of our stewardship activities around engagement and voting, we have historically been more focused on our active holdings. In 2020, M&G Investments voted its UK active and passive holdings, and those international holdings that were actively held. Having started from January 2021, we are now voting our international passive holdings as well, meaning that we aim to vote all of our shareholdings, irrespective of holding size.

### 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 cheap, 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.

### Infrastructure

Infracapital, the infrastructure equity arm of M&G Investments, are long-term investors 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, this drives value for investors and aids environmental and social cohesion for the communities in which we operate.

## Approach

At M&G Investments we are, first and foremost, stewards of our customers' 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 help our customers prosper by putting their savings to work.

At a time when the typical holding period of an investment can be measured in months rather than years for some investors, M&G Investments' 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 and social factors where these are material to risk and return.

Indeed, environmental matters and social issues are often important aspects of assessing an investment, and our approach is to integrate environmental, social and governance (ESG) factors into our investment decision making process by putting them at the heart of what we do. Investment teams share an acute awareness of their duties as stewards of our clients' assets, and this perspective informs all of our investment decisions.

M&G Investments manages funds with a range of investment strategies on behalf of clients on both an active and passive basis. 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

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 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 of 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 and 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. More information on our processes can be found in the principles below.

At M&G 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. 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 12** and the voting section from **page 30**.

## Value Assessment

M&G Investments undertook the first 'value assessment' of our wholesale funds in 2019, considering the value for money of each fund based on a number of criteria. This assessment included an explanation of our methodology for determining value, and corrective action in instances where a fund was deemed to be delivering poor value for our customers.

The 2021 assessment continued to use a proprietary methodology, guided by the Financial Conduct Authority (FCA). This focused on what we considered to be the most relevant value metrics, with weightings that reflected the priorities of our customers. The assessment included the following seven criteria: quality of services; investment performance; cost; economies of scale; comparable market rates; comparable M&G services; and share classes.

# Principle 2

**'Signatories governance, resources and incentives support stewardship'**

## M&G plc

### Governance structure

M&G plc is a leading savings and investments business which was formed in 2017 through the merger of Prudential plc's UK and Europe savings and insurance operation and M&G Investments, its wholly-owned international investment manager.

The M&G plc board ('the board') comprises six Directors: a Non-Executive Chair, one Executive Director, a Senior Independent Director and three Non-Executive Directors. (Following the 2022 Annual General Meeting, it is expected that M&G plc will have a board of nine: its Chair, two Executive Directors (Chief Executive Officer and Chief Financial Officer), a Senior Independent Director and five Non-Executive Directors).

The board has a fiduciary responsibility to promote the long-term success of the company for its shareholders, while considering all its wider stakeholders. Our regulators require that our asset owner business and our asset management arm are separately regulated groups, with independent boards, with a fiduciary duty to act in the best interests of their respective policyholders and customers. Our governance structure is designed to ensure we deliver on all these responsibilities to our stakeholders and manage conflicts between the interests of stakeholder groups.

While governance around ESG activities continues to evolve, significant progress has been made to date in ensuring that sustainability and effective stewardship activities are embedded across the firm, and are an inherent part of our governance structure.

The board is ultimately responsible for all of M&G plc's stewardship activities. The Executive Committee has been prioritising sustainability as a core component of the business's strategy, ensuring that our sustainability principles are embedded in everything we do.

Reflecting the scale and scope of our sustainability commitments and ambitions, a company-wide ESG Programme was set up in 2020, sponsored by our Group Chief Executive. The overall strategic priorities of the programme were agreed by senior leaders across the organisation, which were then implemented and delivered by the ESG Programme, which is overseen by an Executive Steering Committee. The programme is now extending to deliver against a broader set of objectives, including ongoing ESG integration and regulatory compliance, with further ESG and sustainability-related transformational workstreams being set up to deliver on our sustainability objectives.

To date, decisions within the ESG space have been taken independently within asset owner and asset manager, using existing governance structures, while ensuring ongoing dialogue and alignment, and management of conflicts of interest (see Principle 3).

Further detail on the M&G plc governance structure can be found in our M&G plc Annual Report and Accounts.

## Training

In line with our sustainability principles, it is key that all staff have an understanding and appreciation of what sustainability means for M&G plc, 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 the sustainability landscape.

In 2020, M&G plc's Non-Executive Directors undertook bespoke training in ESG risks and opportunities, and in 2021 a series of mandatory learning modules for all staff were launched. These were integrated into the existing mandatory training programme to signal its importance to the business, and provided an overview of key aspects of sustainability, including what it means, its importance, and how we are putting sustainability into action through our goals, principles and initiatives. The learning modules were issued alongside specialist training on sustainability and ESG data, and additional training already undertaken by investment professionals and salespeople.

The business also actively sponsors professional qualifications for its employees, such as the CFA accreditation and the CFA's Certificate in ESG Investing, and external personal development courses such as the University of Edinburgh Climate Change course. Sustainability-related panel discussions and forums were also scheduled firm-wide on key sustainability topics, including on ESG risks, while ESG and Regulatory 'Lunch and Learn' sessions provided a useful learning tool to discuss internal developments in the ESG-space.

The launch of M&G plc's Sustainability Hub was key to ensuring all employees had a central repository for everything sustainability-related at M&G plc, including learning materials and key internal and external sustainability-related news. The site also includes insights on how to effectively discuss our work with key stakeholders, and on how we are building sustainability into our business activities and processes.

To fully embed awareness and understanding of sustainability, there is a need to further progress and streamline our training and communications on ESG topics, a key priority which will be reviewed across 2022.

## Incentives

At M&G plc, compensation decisions are based on a holistic appraisal process with appropriate objectives set according to the role. From 2021, all employees of M&G plc's Investments division (spanning both asset owner and asset manager) have an ESG-related objective which requires each person to take into account ESG considerations in their day-to-day work. Achieving this objective forms part of the annual performance assessment, and success here is crucial to both a good performance rating and remuneration.

The 2021 Long Term Incentive Plan (LTIP) for executives now has a 25% non-financial component linked to specific outcomes, including in the areas of diversity and sustainability.

The M&G plc ESG Risk Policy, which sets out the requirements for managing ESG risks on an ongoing basis (see Principle 4), includes specific requirements to ensure ESG commitments/targets are considered as part of the annual review of the Remuneration Policy for senior executives and board members, in order to promote the long-term prosperity of the company.

How ESG, sustainability and stewardship objectives are reflected in our incentive schemes will be a key factor for consideration in future reviews of the M&G plc Remuneration Policy.

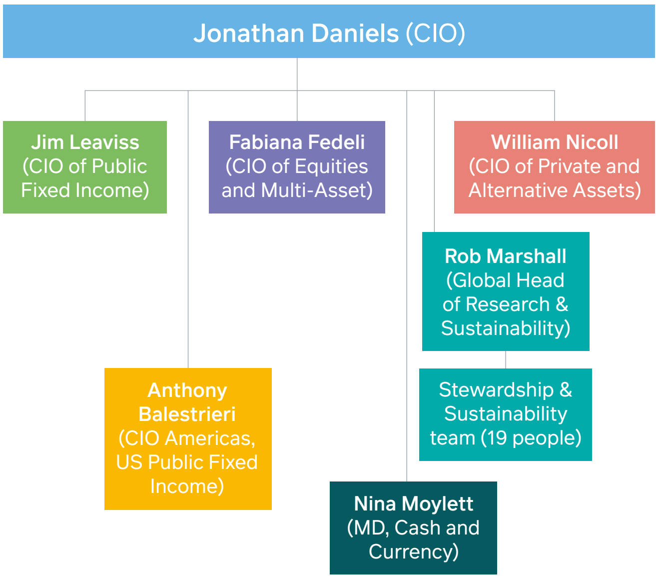
# M&G Investments

## 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). M&G is a separate legal entity, has its own board and is regulated by the Financial Conduct Authority (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. The board has four non-executive directors alongside two executives.

Investment Leadership team




The heads of M&G's investment teams (Equity and Multi-Asset and Fixed Income, as well as the Global Head of Research and Sustainability) report into the Chief Investment Officer (who sits on the M&G plc Executive Committee) and M&G's Stewardship and Sustainability team reports to the Global Head of Research and Sustainability. While the overall Stewardship and Sustainability team is responsible for the asset manager, several members, including the Global Head of Research and Sustainability, sit across both the asset manager and asset owner.

The Stewardship and Sustainability team grew out of M&G's Corporate Finance and 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 M&G's capability in research, policy, evaluation, integration and reporting of environmental, social and governance (ESG) risks and opportunities across asset classes. 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, including a Climate Engagement Programme focused on companies with high carbon exposure. The team is widely integrated across all of M&G's research and investment teams, indicative of the importance of sustainability to the group across all of its businesses.

The Stewardship and 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 lie with the fund managers; the role of the Stewardship and Sustainability team is to support that process.

In order to manage the complexities of M&G's evolving ESG, sustainability and impact strategies, the ESG Governance Meeting (ESGGM) was created, which has delegated authority from the Investment Leadership Team. The purpose of this group is to provide first-line oversight of our ESG, sustainability and impact investment activities, taking into account inputs from quarterly ESG portfolio reviews, as well as items raised on a day-to-day basis. The group reviews and decides upon ESG issues and exceptions raised by the investment teams – such as differences in internal and third-party ESG views on a company – approves any new investment exclusions, and is responsible for the M&G ESG Investment Policy, available on the corporate website.

The ESGGM comprises representatives from all investment teams, as well as members of the Stewardship and Sustainability team, and other functions, including compliance, operations and technology. The diverse membership is designed to ensure ESG decisions are well considered and have the appropriate inputs.

In conjunction with the ESGGM is the ESG Strategy meeting, which helps to formulate broad, strategic ESG-related considerations.

## Policies

As mentioned above, On 1 January 2022, M&G published our ESG Investment Policy. This sets 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 the first quarter of 2021, M&G plc published a position paper on coal, available on the corporate website, with the M&G coal policy in effect from April 2022. We aim to use our influence as a global investor to drive positive change, to decarbonise the energy system and increase energy and resource efficiency. We commit to reducing our exposure to unabated coal by 2030 in OECD 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 coal from the energy system, in line with the Intergovernmental Panel on Climate Change (IPCC). The policy is mandatory 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 M&G Investments, the Stewardship and Sustainability team has regular meetings with fund managers to monitor and identify potential issues and provide support.

M&G Investments has a preference for the use of proprietary ESG research in the investment decision making process, and is in the process of developing the following tools and processes:

M&G Corporate ESG Scorecard: acknowledges the qualitative nature of many ESG considerations, and allows analysts to express their views in primarily qualitative terms, within the context of a structured and disciplined framework.

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).

ESG Dashboard: M&G's ESG dashboard and climate tools assist analysts and fund managers in reviewing and comparing an array of data points and qualitative disclosures across a broad range of ESG factors.

Sovereign Dashboard: aggregator of external ratings' domain knowledge.

Portfolio Analysis Tool: allows fund managers to analyse ESG scorecards individually and on an aggregated portfolio basis, including against benchmarks. External data including climate data and ESG vendor scores are combined with proprietary data to support investment decision making and portfolio construction.

Carbonator: M&G's carbon emission estimation tool, able to approximate scope 1 and scope 2 emissions for investee companies and other investments, subject to data availability to inform the estimation.

Engagements Tool: records engagements (as defined by M&G, following the PRI definition) conducted by the Stewardship and Sustainability team and the investment teams across asset classes. The tool records both private and public engagements to ensure we can consistently and accurately report our engagement activities to clients. A separate tool records company meetings which do not qualify as 'ESG engagement', and highlights the ESG topics discussed with companies. As mentioned in Principle 7 below, we use hashtags to denote these topics in research and company notes, which feed through to the tool.

External data: M&G's analysts and investment teams also make use of external ESG content for a range of purposes. M&G has portal and data access with a number of ESG vendors, including MSCI, ISS, Sustainalytics and other specialist advisers. In addition, we obtain ESG data through authorised aggregators or channels, including Bloomberg, Factset, Refinitiv Eikon and Aladdin. M&G's ESG Data Strategy records preferred vendors for particular coverage and subject matter requirements.

The use of these vendors for different applications should balance 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

ESG portfolio reviews: Listed equity and fixed income funds are overseen through periodic ESG Portfolio Reviews. At review meetings, Stewardship and Sustainability team members convene with the relevant investment teams to provide analysis on a number of ESG-related areas. This includes, but is not limited to, portfolio climate metrics, board diversity and workforce/stakeholder issues, UNGC flags, and examination of third-party ESG ratings for companies within the portfolio. Portfolio managers and analysts scrutinise and explore the impact of ESG themes and risks on portfolio holdings and trading activity. Any ESG issues that were taken into account in investment decision making are also discussed. Where relevant, specific ESG issues may be raised for engagement with investee companies.

As mentioned above, ESG engagements are recorded in a central log for use by the different investment, client and marketing teams within M&G. A sample of significant ESG engagement case studies are published in the main body of this report, from **page 14**.

## Resources

At M&G Investments 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 and Sustainability team, to ensure effective stewardship is undertaken.

### Investment teams

Equities: The equities investment team comprises 26 fund managers, 17 embedded analysts and 10 sector research analysts.

Fixed Income: The fixed income team comprises 79 fund managers and 136 research analysts.

Multi-asset: The multi-asset team comprises 14 fund managers.

Real estate: The real estate team globally comprises 27 fund managers and 12 research analysts.

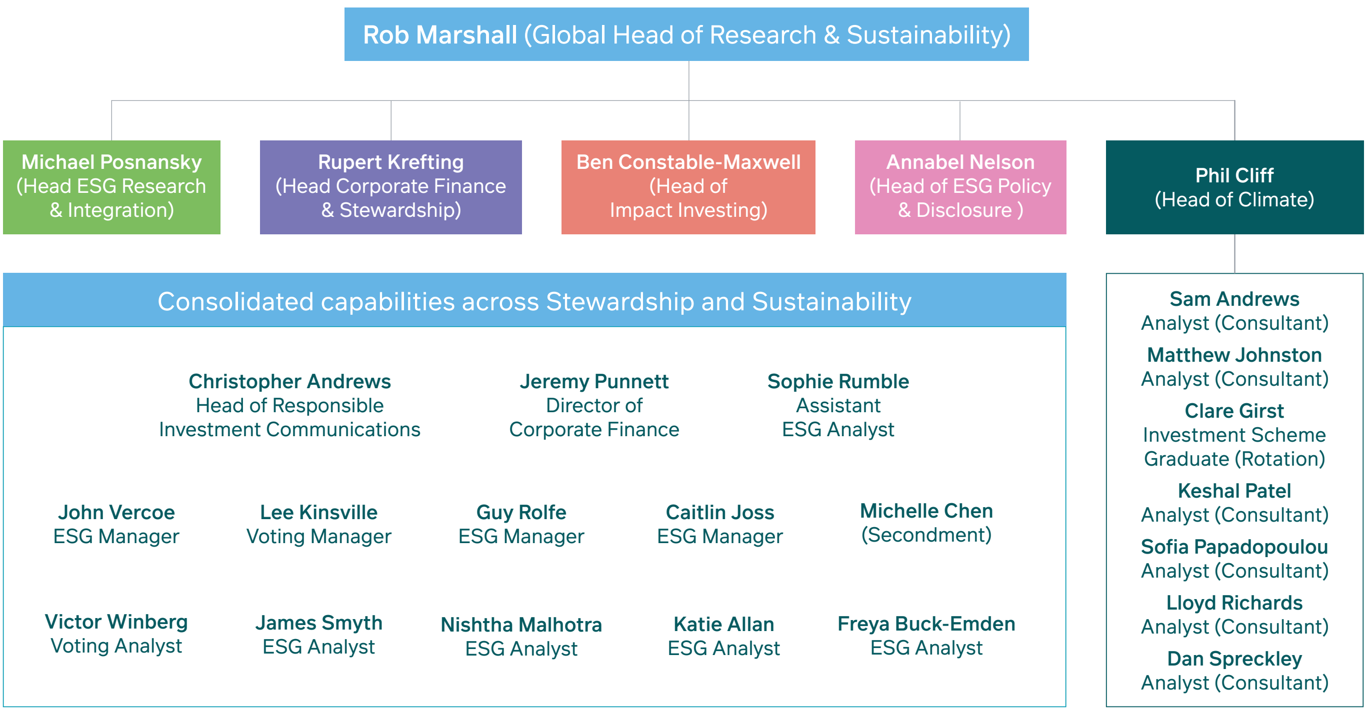
Infracapital: The Infracapital team comprises 46 investment professionals, four investor relations / co-investment professionals and six finance professionals.

(Figures as at 1 January 2022).

### Stewardship and Sustainability team

As at 1 January 2022, the Stewardship and Sustainability team comprised 19 permanent members of staff focused on environmental, social and governance (ESG) issues, with specific teams within Stewardship and Sustainability concentrating on: ESG research and integration; corporate finance and stewardship; impact investing; ESG policy and disclosure; and climate. The climate team also employees a number of full-time external consultants.

M&G Stewardship and Sustainability team



M&G Stewardship and Sustainability team

**Rob Marshall**
Global Head of Research & Sustainability
21 | 23

**Christoper Andrews**
Head of Responsible Investment Communications
10 | 20

**Rupert Krefting**
Head of Corporate Finance and Stewardship
5 | 24

**Ben Constable-Maxwell**
Head of Impact Investing
18 | 21

**Michael Posnansky**
Head of ESG Research and Integration
14 | 20

**Phil Cliff**
Head of Climate
10 | 21

**Victor Winberg**
Voting Analyst
2 | 6

**Nishtha Malhotra**
ESG Analyst
<1 | 2

**Jeremy Punnett**
Director of Corporate Finance
3 | 20

**Caitlin Joss**
ESG Manager
3 | 6

**Michelle Chen**
(Secondment)
4 | 8

**Guy Rolfe**
ESG Manager
7 | 7

**Katie Allan**
ESG Analyst
3 | 4

**Lee Kinsville**
Voting Manager
18 | 20

**John Vercoe**
ESG Manager
2 | 22

**Freya Buck-Emden**
ESG Analyst
1 | 5

**Annabel Nelson**
Head of ESG Policy and Disclosure
3 | 22

**James Smyth**
ESG Analyst
2 | 4

**Sophie Rumble**
Assistant ESG Analyst
<1 | 0

- Years at M&G Investments
- Years of industry experience

Corporate governance is a key underpinning factor in investment decisions at M&G, as are environmental and social factors where material to risk or return. Our Stewardship and 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 and Sustainability team is focused on company engagement, voting activities, ESG integration and thematic research, M&G's impact investment activities, ESG policy and disclosure and climate. 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 and Sustainability team, see the main body of this report on **page 53**.

## 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 current expertise, experience and diversity of teams ensures sufficient subject matter expertise in all areas of Sustainability / ESG, ESG risk management, and stewardship 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.

In 2021 M&G's focus was to continue to assess the effectiveness of its governance structure as a standalone newly-publicly listed corporate entity, and ensuring adequate governance across ESG activities. Over 2021, the M&G Board spent more time considering environmental, social and governance matters in preparation for delivering enhanced sustainability disclosures. The M&G Board has also considered its own role in overseeing ESG matters, taking into account the increasing focus of stakeholders on firms' reporting on these matters. Overall, we believe significant progress has been made on the governance around ESG and stewardship activities.

# Principle 3

## 'Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first'

## M&G plc

It is a fundamental requirement for a financial services firm such as M&G plc to act in the best interests of its clients and/or its beneficiaries, and identify and manage conflicts of interest. This is central to our duty of care. Accordingly, it is important for our clients to know that M&G plc will use all reasonable endeavours to identify conflicts, manage them effectively and treat our clients fairly.

### Management of conflicts of interest

M&G plc is 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.

The effective management of conflicts of interest is key, and within the organisation this is enabled by a wide range of processes and policies. Our expectations for managing conflicts of interest are denoted within the M&G plc Code of Conduct, and 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.

M&G plc has a Conflicts of Interest Policy, which reflects both the nature of its business activities and its ownership structure (including any potential conflicts arising from the asset manager's and asset owner's ownership by M&G plc). This Policy applies to both asset manager and asset owner, and is designed to ensure that M&G plc effectively protects the interests of all its customers, clients, and end-investors, and to ensure compliance with regulatory requirements. In certain jurisdictions, the policy is also supplemented, where appropriate, by local compliance manuals, policies and procedures. The 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 interests. All key changes made to the Policy are subject to review and approval by the relevant Governance Committees. All business areas are expected to comply with the policy and to escalate any breaches to the appropriate channels.

In line with the Conflicts of Interest Policy, the steps taken by M&G plc to manage actual and potential conflicts can include, but are not limited to:

- 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.
- Requirement by all employees 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 M&G.

## M&G Investments

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

In identifying the conflicts of interest that may arise when providing services to our clients, M&G Investments will take into account the following:

a. Whether any M&G entity is likely to make a financial gain, or avoid a financial loss, at a client's expense (firm versus client conflict)

b. Whether a client is disadvantaged or makes a loss when an employee or other person connected to an M&G entity makes a gain (individual versus client conflict)

c. Whether a client makes a gain or avoids a loss where another client makes a loss or is disadvantaged (client versus client conflict)

d. Whether an M&G entity, employee or fund benefits at the expense of another M&G entity or fund (intra group conflict).

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 and 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 M&G is voting on resolutions.

In each case, where a conflict arises, the conflict is identified and reported in line with the wider M&G plc Conflicts of Interest Policy, and an appropriate plan for mitigating the conflict is agreed. This might include referring the matter to the M&G plc Conflicts of Interest Committee for deliberation.

### 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, the chief investment officer straddles both businesses, as do several members of the Stewardship and Sustainability team. 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.

M&G's investment 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 Investments company is also a director of a company in which M&G Investments invests
- M&G Investments invests in a company that is a client of M&G Investments; or
- M&G Investments invests in a company that is a significant distributor of M&G Investments products.

In such instances, M&G Investments may be conflicted, for example, in the way it deals 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.

## 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, M&G votes 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). At M&G Investments 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

M&G Investments publishes its approach to responsible investing, including *inter alia* its remuneration and voting policies. M&G Investments also publishes the results of its voting on a quarterly basis, which is also summarised in the main body of this report.

The majority of the funds managed by M&G Investments are either retail savings or invested on behalf of the asset owner function of the business. Only occasionally does M&G Investments' stewardship policy differ materially from an institutional client who wants to apply its own stewardship policy. Where this occurs, we would pragmatically seek a solution with the client.

## Activity and outcome

We aim to continuously manage conflicts of interest by putting the best interests of clients and beneficiaries first, through appropriate governance channels and compliance to our existing policies. As a case-in-point, and as mentioned elsewhere in this report, M&G's coal policy comes into force in 2022, with appropriate governance in place to implement and manage the policy. Generally the approach to all future 'green' policy implementation will follow a similar 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.

# Principle 4

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

## M&G plc

The M&G plc Board has ultimate responsibility for risk across the group. To assist the board in discharging its responsibilities, we have a comprehensive approach to identifying, measuring, managing, monitoring and reporting current and emerging risks ('the risk management cycle'), supported by an embedded risk culture and strong risk governance. Our Risk Management Framework is designed to manage risk within agreed appetite levels, which are aligned with delivering our strategy for customers, clients and shareholders.

The board is responsible for instilling an appropriate corporate risk culture within the group. Our approach to 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 our customers and clients, our stakeholders and our business.

M&G plc's Risk Committee supports the board in its risk activities, providing leadership, direction and oversight, and the Audit Committee assists the board in meeting its responsibilities for the integrity of our financial reporting, including obligations for the effectiveness of our internal control and risk management systems. The Remuneration Committee ensures that compensation structures place appropriate weight on all individuals adopting the required risk culture and behaviours. The system of internal control, including risk management, which supports the board and Risk and Audit Committees is based on the principles of 'Three Lines of Defence':

1. Risk identification and management,
2. Risk oversight, advice and challenge and
3. Independent assurance.

**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

## ESG risk management

The identification, assessment and management of ESG risk is conducted in line with the M&G plc Risk Management Framework, with risk governance based on the aforementioned 'Three Lines of Defence' model.

Recognising the complex range of risks that sit under the auspices of ESG, we have developed a specific ESG risk management framework to further enhance our approach to the identification, assessment and management of ESG risks. The framework, which was approved by the Risk Committee in 2021, is intended to help inform, educate and communicate the importance of ESG risk across the business. This 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.

The framework is supported by an ESG risk policy, which articulates our ESG risk appetite and sets out key requirements, applicable to all business areas, for the management of ESG risk in a manner consistent with our risk appetite. To summarise, M&G plc has no appetite for (i) failing to consider and appropriately respond to ESG risks in designing and executing strategic decisions and (ii) not meeting our external ESG commitments or targets. The policy was developed in 2021 and went live in early 2022.

ESG risks are escalated within risk reporting, which is provided to board and Executive Risk Committees, with further escalation to relevant boards as required.


### 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 engage with, participate in, and in some instances chair, a number of associations and initiatives. For M&G plc, this includes, but is not limited to:

- TheCityUK, which champions the UK-based financial and related professional services industry. We have been on the Leadership Council of CityUK and have spoken at its events. We participate in its meetings with policymakers and sit on various of its committees.
- The Investing and Saving Alliance's (TISA), whose ambition is to improve the financial well-being of UK consumers by bringing the financial services savings industry together to promote collective engagement, to deliver solutions and to champion innovation for the benefit of people, our industry and the nation. We sit on various committees and feed into policy documents.
- The International Regulatory Strategy Group (IRSG), a body comprising leading UK-based figures from the financial and related professional services industries. It is one of the leading cross-sectoral groups in Europe for the industry to discuss and act upon regulatory developments. We chair the IRSG's ESG Committee, sit on its board and council and participate in many of its committees.

## M&G Investments

### Working with other stakeholders to improve functioning of financial markets

As a large investor, M&G recognises it has 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.

M&G actively engages with trade bodies, policymakers and non-governmental organisations (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)
- The Asian Corporate Governance Association (ACGA)

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.

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.

### 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. 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 2020, continued to be a focus in 2021, and will continue being so, as will diversity and inclusion. Our net-zero and diversity and inclusion commitments and targets, Thermal Coal Investment Policy, and documents outlining our approach to biodiversity, and achieving a Just Transition and are available on the corporate website under the 'Sustainability' tab.

### 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 39**.

### Outcome

With the aim of promoting a well-functioning market,and safeguarding all of our key stakeholders, 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 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. Through our interactions with NGOs, including ShareAction and Reclaim Finance, 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 and Asia Corporate Governance Association, as well as working with clients and external stakeholders, we are helping to develop best practice, and ensure this best practice is updated 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 M&G's ESG Investment Policy, updates to our voting policy to take account of diversity and inclusion and climate, and the M&G plc position papers on coal, biodiversity and just transition.

Our controls and processes in place receive annual assurance through an external auditor, in particular in relation to our voting process, while M&G's operational risk function in 2020 assured 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), on how we discharge our stewardship responsibilities. For instance, our quarterly internal stewardship report goes to the boards of M&G Investment Management and M&G Alternatives Investment Management, 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 Investments' ESG Disclosure Review Panel, in order to help ensure it meets the aforementioned requirements of being fair, balanced and understandable, and we will consider external assurance of the report in future.

This report has been approved by the M&G Disclosure Committee and the Board of M&G Investment Management Limited and signed off by M&G plc's Chief Executive John Foley.

### Outcome

As a result of our internal audit review of our 2020 Stewardship Code submission, continued for the 2021 submission, M&G now has a more fully-documented process for the production and approval of this report. Also, 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. Our rationale for both internal audit and internal assurance is 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. As the market for external assurance develops, we will consider external assurance in the future.

# 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 2021, were £370.0 billion.

## M&G Investments

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

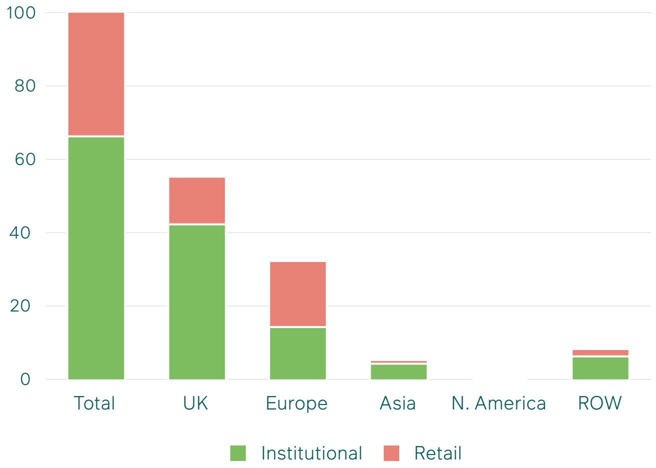
| | |
|---|---|
| External | £155.8bn |
| Internal | £168.6bn |
| Total | £324.5bn |

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

| | |
|---|---|
| Total Equities | £38.3bn |
| Total Fixed Income | £102.4bn |
| Total Property | £15.2bn |

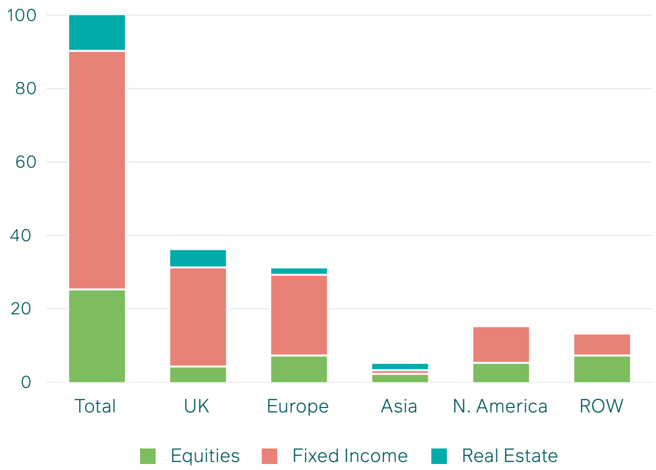
Source: M&G Investments, as at 31 December 2021.

% External AUM by client type and geography




Source: M&G, as at 31 December 2021.

% External AUM by asset class and geography




Source: M&G, as at 31 December 2021.

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 customers' 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

M&G listens carefully to our clients' and customers' views and requirements in respect of stewardship, at both the institutional and retail level. For the latter, this includes our interactions with the advisor 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. M&G has 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 we believe that clients are satisfied that our policy fulfils their requirements and objectives.

To date, the vast majority of our clients have not requested that we implement their own particular voting or stewardship policies. M&G can offer segregated account arrangements should this meet clients' needs better than a pooled investment.

## 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 is 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.

M&G maintains records of interactions with companies, with a system for recording general monitoring activities for equity and fixed income holdings, 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 and 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 Indepenent Financial Advisers (IFAs) or retail through our call centres and Customer 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 customers' behalf. To read the ESG Investment Policy which M&G uses to inform and guide all investments made as an asset manager, please visit **https://www.mandgplc.com/~/media/Files/M/MandG-Plc/documents/mandg-investments-policies/MG-Investments-ESG-Investment-Policy-January-2022.pdf**

### Integration of stewardship

As long-term investors, we take great care with our customers' 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 if we think these pose a risk to long-term performance.

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 integrated within investment decisions wherever they have a meaningful impact on risk or return.

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

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. 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.

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 and 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

M&G subscribes 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. M&G's 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 then 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, M&G makes 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 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 M&G deems appropriate.

The following structure applies globally to listed equity and fixed income funds. We are beginning to formalise the integration into private assets.

### Integration into investment research

The Stewardship and 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 and 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 and 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, M&G uses 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.

### Portfolio reviews

As highlighted in Principle 2, listed equity and fixed income funds are overseen through periodic ESG portfolio reviews. At review meetings, Stewardship and Sustainability team members convene with the relevant investment teams to provide analysis on a number of ESG-related areas. This includes, but is not limited to, portfolio climate metrics, board diversity and workforce/stakeholder issues, UNGC flags, and examination of third-party ESG ratings for companies within the portfolio. Portfolio managers and analysts scrutinise and explore the impact of ESG themes and risks on portfolio holdings and trading activity. Any ESG issues that were taken into account in investment decision making are also discussed. Where relevant, specific ESG issues may be raised for engagement with the investee company (see Principle 7 below on engagement).

## 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 and Sustainability and analyst teams.

Hashtags for ESG-informed company meetings: when meetings are arranged and the calendar entry is made within relevant MiFID tracking calendars, anticipated ESG discussion topics should be recorded using ESG hashtags. Where ESG factors are incorporated within written research following company meetings, they should be highlighted by the addition of a specific hashtag representing the ESG topics covered in the meeting.

Central ESG engagement log: where ESG engagement with companies, issuers or policy makers is undertaken, this should be 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 and Sustainability team approves engagements entered into the log, to ensure they are compliant with the PRI ESG engagement definition.

Minutes of portfolio review meetings: copies of all reports prepared to analyse portfolios are recorded, as are the action points arising from the meeting. Notes are also kept of ESG issues that were considered in investment decision making since the last meeting.

# 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 and Sustainability team or involve the relevant fund managers for more contentious issues, allowing them to make the ultimate decision. 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 3,691 meetings in 2021. 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

M&G has an annual meeting with ISS after the main proxy voting season to discuss what has gone well and what has not. 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. M&G currently primarily uses ISS, MSCI and Sustainalytics for ESG research, which is delivered through dedicated data portals to our Investment, Research and Stewardship and Sustainability teams, among others.

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 M&G considers the research provider to have made a factual error.

M&G has a central team to act as a formal point of contact for our service and information providers.

# 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

M&G's resources are generally applied based on a range of factors, including the materiality of the issue and the size of M&G's 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 if we think these pose a risk to long-term performance.

As a general rule, where M&G's 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 M&G's 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 climate change, including engagement with companies with thermal coal exposure in the run-up to our Thermal Coal Investment Policy going live in April 2022. The Thermal Coal Investment Policy, our net-zero commitments and targets, and documents outlining our approach to both biodiversity and achieving a Just Transition are available at **https://www.mandgplc.com/** under the 'Sustainability' tab.

### 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 less routes for direct engagement and escalation.

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, M&G interacts 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 be supportive of the boards of our investee companies, but there will be occasions when we need to vote against management-proposed resolutions or support shareholder resolutions which are not recommended by the board. In these cases, where it is practical, M&G tries to engage with the company beforehand. Indeed, voting against resolutions may be seen as a failure of engagement.

M&G's 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, which are recorded using hashtags as described above. 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 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, pro-active ESG engagement programmes are thematic, such as our climate engagement programme or engagement on controversies or potential 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 and Suitability team, for use by the different investment, client and marketing teams within M&G.

## Engagement across asset classes and geographies

Our approach across asset classes continued to develop in 2021, 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. Across asset classes, the end goal of all of our stewardship activities is to best serve our customers 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 and 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 and 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, M&G considers 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 new D&I policy we have different expectations according to geography.

## Outcome

A sample of significant ESG engagement case studies are published in the main body of this report.

# Principle 10

**‘Signatories, where necessary, participate in collaborative engagement to influence issuers’**

## M&G Investments

M&G is 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, Climate Action 100+ and NGOs such as ShareAction.

Climate Action 100+ represents over 600 asset managers globally and has a focus list of 167 companies for its engagement. M&G is an active member of Climate Action 100+ and is a co-lead on miner Rio Tinto, chemicals company BASF, auto maker VW and energy company TotalEnergies. We are also active members of working groups on energy companies BP and Petrobras, and chemicals company LyondellBasell, while we sit on the Corporate Programme Advisory Group, which helps set future CA 100+ priorities. During the year we joined the Net-zero Stewardship Working Group as well.

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

In addition, members of the Stewardship and Sustainability team participate on a range of external formal and informal committees related to broader shareholder issues.

### Outcome

As highlighted under Principle 4, M&G is 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 and 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.

M&G seeks close dialogue with its investee companies and is 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.

M&G 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:

- business strategy
- performance
- financing and capital allocation
- governance
- risk
- management and employees
- acquisitions and disposals
- operations
- internal controls
- membership and organisation of governing structures and committees
- sustainability
- remuneration policy, structures and outcomes
- culture
- climate change
- environmental and social responsibility
- thermal coal exposure
- quality of disclosure

These issues can manifest as a reaction to events or result pro-actively from our in-house analysis or issues raised by other shareholders.

The approach taken by our investment team and Stewardship and 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.

As previously mentioned, M&G’s resources are generally applied based on a range of factors, including the materiality of the issue and the size of M&G’s holding. Our focus will be on issues that are likely to be material to the value of the company’s shares. As a general rule, where M&G’s 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 M&G’s influence is less significant) unless M&G 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 M&G, confrontation with boards at shareholder meetings represents a failure of corporate governance.

Escalation is normally conducted by the investment team alongside the Stewardship and 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 customers, 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.

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 coal policy, examples of escalation include M&G's 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 agreed ahead of the Policy going live in April 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 regardless of 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. As a prime example, please see the voting section under 'diversity'. A key voting focus for M&G throughout 2021 was board diversity. During the year we voted against board directors at 17 UK companies, due to not meeting our minimum expectations on board gender diversity. Other examples can be found in both the engagement and voting sections of the report.

# 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 Voting Policy is published on our website and is regularly reviewed in consultation with our investment teams. 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 and Sustainability team or involve the relevant fund managers for more contentious issues, allowing them to make the ultimate voting decision. 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 position is to be supportive of the management of companies in which we invest. However, there are occasions when company boards put forward resolutions that we feel are not in the best interests of 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 comes down to the individual fund manager concerned, who is ultimately responsible for voting decisions. When changes are made to the voting policy, for instance on climate change or diversity, then M&G tries 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. Clients cannot, and have rarely tried, to override the M&G Voting Policy.

We strongly believe that M&G 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.

## 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, on occasion, 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, at M&G 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 feed back 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 2021, M&G voted at 3,691 meetings, equating to 97.9% of eligible votes; at 1,630 meetings, M&G voted against at least one resolution. From January 2021, we began voting our international passive holdings.

There may be occasions when we choose not to vote because share blocking is in place (ie the practice under which shares when voted on are temporarily blocked from trading) as was the case for the 2.1% of meetings not voted in 2021, and we do not vote if there is a conflict of interest on M&G funds.

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 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, M&G votes 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 M&G 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 to 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.