Phasing out thermal coal

Our forward-looking approach to support a just energy transition

M&G Investments
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The value and income from a fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise and you may get back less than you originally invested.

Our position on thermal coal

- We believe addressing coal is a key step in the journey to transition our investments to net zero emissions by 2050
- We will use our influence as a global investor to drive positive change and help decarbonise the energy system
- We commit to removing our public equity and fixed income exposure to unabated[1] coal by 2030 in OECD countries and the EU, and by 2040 across the rest of the world
- We will be actively engaging with companies to support their phase-out from coal and transition to Paris alignment
- We will begin divestment in developed markets, where engagement efforts have been unsuccessful and companies fail our criteria, from March 2022, and in developing markets from March 2024

Why coal matters

Coal is an especially polluting fossil fuel. It represents 36% of total electricity produced, but contributes around 72% of electricity-related CO_2 emissions. This equates to roughly 27% of the world's carbon emissions[2].

The science is clear. To keep the earth's average warming within the Paris Agreement's temperature goal of 1.5 degrees Celsius requires a rapid energy transition. Global thermal coal use must decline by 80% below 2010 levels by 2030[3], requiring a complete phase-out in OECD and EU countries by 2030 and in the rest of the world by 2040.

An accelerated phase-out of coal is essential to limit global warming and ensure a sustainable future for our planet. Addressing coal is therefore a key step towards achieving our goal of net zero carbon emissions across our investment portfolios by 2050 at the latest.

Our forward-looking approach

As long-term investors we have a key role to play, investing to enable sustainable economic development that benefits society as a whole. In building our roadmap to net zero, a core part of our focus is to support a just transition, providing finance to enable power generation to shift away from coal towards sustainable alternatives.

We believe in active asset ownership and management, which encourages companies to transition towards a sustainable future.

Our phase-out criteria and restrictions on coal-related investments	
Phase-out criteria (applies to all sectors)	**0% coal by 2030 in OECD and EU countries, 0% coal by 2040 in the rest of the world**
Power generation[4]	No new unabated coal generation capacity Companies that currently generate >30% of revenue from coal / where coal is >30% of energy output Companies that currently have >10 GW (gigawatts) of coal power generation capacity
Mining	No new or expanded coal mines Companies that currently produce >20 million metric tonnes of coal per annum Companies that currently generate >30% of revenue from coal
Other sectors[5]	No new or expanded coal-related operations

1 "Unabated" refers to power generation without technologies to substantially reduce emissions, such as operational carbon capture and storage

2 Institutional Investors Group on Climate Change (IIGCC), 'Accelerating the transition to zero emissions in the power sector', November 2020'

3 Rocky Mountain Institute, Carbon Tracker Initiative and Sierra Club

4 Exemption permissible for power generation of 300MW or less

5 Includes those sectors whose main business is not coal but they have coal-related operations (eg, industrial operations which have coal power generation), according to coverage provided by ISS/MSCI and the Global Coal Exclusion List.

We will use our influence as a global investor to change companies' strategies and policies, to facilitate the cessation of new coal capacity and the phasing out of existing capacity. In this way, we will seek to help to decarbonise the real economy, rather than simply decarbonising investment portfolios, with coal being retired over the course of our timeframes.

As part of this, we commit to removing our exposure to unabated coal across our investments in listed equities and fixed income by 2030 in OECD countries and the EU, and by 2040 across the rest of the world.

Our policy in action

As active investors, we believe in active management, preferring stock selection, engagement and voting (where relevant) over exclusion, and as a responsible investor we seek to support companies transitioning towards the creation of a more sustainable economy.

Our approach applies to all listed equity and public fixed income investments, and we are using third-party data providers MSCI, ISS and the Global Coal Exclusions List to identify the initial list of 'coal-related' issuers in scope. However, the third-party data available is generally backward-looking and can be subject to inaccuracies and obsolescence.

We wish to place due emphasis on forward-looking factors, in addition to the coal expansion criteria, and therefore we are undertaking detailed qualitative analysis of securities across benchmarks and portfolios in order to determine:

- The accuracy of the population captured by the screens, undertaking further investigation to eliminate what we would consider to be false positives.
- The nature of companies' transition plans, the extent to which they are aligned to the Paris Agreement, and the further information required to determine their credibility and to evidence progress made towards Paris alignment.
- The list of companies which clearly fail our criteria and therefore qualify for divestment or exclusion.
- Where engagement is appropriate, to define the objectives and actions required within a specified time period for each company, to support their phase-out from coal and transition to Paris alignment.

We will incorporate the coal-related investments identified for engagement within our climate engagement target list. The target list was created in 2020, and has focused our climate change engagement on our largest exposures with high carbon emissions, particularly laggards.

Meaningful engagement with our investee companies on climate change is part of what makes active investment so powerful, whether acting on our own or working collectively as part of the Institutional Investors Group on Climate Change or Climate Action 100+.

We will implement this approach in two phases. We are now in the **engagement phase** where we will be:

- Working in partnership with our clients, engaging with them on our approach to coal-related investments as a key step in the journey to transition their investments to net zero by 2050.
- Completing the forward-looking qualitative screening of securities across benchmarks and portfolios.
- Engaging with our investee companies where appropriate.
- Making changes to funds and mandates to prepare to go live.

Divesting where necessary

In the **second phase from March 2022**, we will begin divestment in developed markets where companies do not comply with our restrictions on coal-related investments.

Divestment in emerging markets will follow two years later, given the nature of the energy mix, the additional engagement requirements and the necessity of encouraging a just transition for regions which are currently coal reliant.

We will divest from assets where companies do not have a credible public plan to phase out coal-related activities by 2030 (OECD and EU) or by 2040 (rest of the world), and where they fail to achieve specific, time-bound objectives in supporting their exit from coal.

Powering past coal

We will apply our thermal coal position to all of our funds and third-party mandates, unless the client requests otherwise, or the fund has been exempted for risk management reasons.

Phasing out coal is a key building block in our net zero investment framework, and provides the foundation for how we will approach other high carbon investments.

This is why we have joined the Powering Past Coal Alliance, a coalition of governments, businesses and organisations working to advance the transition from unabated coal power generation to clean energy.

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