TIME	SPEAKER	TRANSCRIPTION
00:00:18	Mark	Good morning everyone. Welcome to today's seminar which is understanding COP26 and what that means for investors. This is the third of our Prudential autumn seminars and really glad you found time to join us, we're going to have a really interesting discussion today.
00:00:34		My name is Mark Rigall, I'm head of the client portfolio management team within the treasury and investment office and I'll be hosting today's session. Before we get into explaining more about what today is going to cover, I just want to go through some housekeeping points. So a number of things just to run through.
00:00:53		The first thing is recording today's session for on-demand replay. Our usual wrist slides which we have to show are on the screen now and they will be available with the slide deck after today's event for you to read them at your leisure, I'm not going to go through them all.
00:01:09		Today's session will provide you with 60 minutes of structured CPD accredited by the CII and CISI. And with that, as you see on screen, we have learning objectives. And it's really what we're going to give you as takeaways today, and that's around the key outcomes from COP26 climate change conference, what that means for the UK government. You know, what are the key themes and drivers around climate change that investors should be aware of that could impact asset allocation decisions. And then we're going to define how M&G's treasury and investment office looks at climate change in other ESG themes when deciding on that long term strategic asset allocation for our multi-asset funds.
00:01:56		In order to get your CPD, we would like you to complete the feedback form which we would like you to do before you leave us today. That will be available at the end and you'll see a button underneath the screen on the broadcast screen which will enable you to fill that in. Our events team will send you an email by close of play on Friday which will embed your CPD certificate, so please look for this email. If you haven't received by the close of play Friday, look in your junk, it may have gone there, if it's not there then please do give us a call early next week to either your regional account manager or email prudentialevents@prudential.co.uk. You'll be able to download a copy of the slides and watch today's recording next week by visiting Pru Adviser seminar pages, and there will also be a link in the email we send you as well.
00:03:00		So let's move on, what's today's session all about? Well unless you've been away on a two-week holiday early in November, unless you had a power cut for two weeks, you and your clients will have undoubtedly have seen the barrage of news that was on every evening around COP26. And the commentators and politicians talking about what COP26 was

		going to do and what the main key drivers for results from COP26.
00:03:37		So what we're going to do today is speak to some great speakers from around M&G PLC. For the next hour or so, we're going to look at some of those implications, the themes and the considerations for the UK government following the COP26 conference. So what does it mean going forward?
00:03:55		We'll also look at what it means for M&G PLC climate change, and also importantly, what does it mean from an investor perspective. And discuss whether this has implications for how we and you should think about asset allocation going forward.
00:04:13		So without further ado, I've got colleagues with me today and I'm delighted to be joined by Michael Collins who's director of government affairs. I'm also joined by Parat Chikaria, director of our long term investment strategy team. And also, JinWee Tan who's head of ESG and regulatory within M&G treasury and investment office.
00:04:39		The session will run as a Q&A and I'll be asking questions of each of the panel. And then as I said before, when we get to the end, there will be time for Q&A but do send your questions trough as we go through it. Anything you want to ask around this topic, around ESG, around what we're doing with regard to our thoughts and thinking around future asset allocation risks and possible changes that you need to think about going forward.
00:05:04		So without further ado, let's get started, and I'm going to start with you Michael. And I think the $10 million question from me to start with is, what's COP26 success in your eyes?
00:05:21	Michael	Thanks Mark. Absolutely essential question I think to start with. So I guess to answer that question, we need to work out what the goals were for COP26. And I think the UK government who obviously were the presidents of this COP, presidents of this conference of parties were pretty clear what the goal was. It was to keep 1.5 degrees alive.
00:05:46		So what does that mean? Well, those of you that have followed climate change policy for a few years will know that in recent times, the really big agreement was the one reached in Paris in 2015 which set across 190 countries, a target that we would limit global warming, limit climate change to well below two degrees and ideally not more than 1.5 degrees. Paris also set out a process for countries to make commitments for the ways in which they would reduce their emissions to deliver that 1.5 degrees maximum of warning.
00:06:26		Now coming into the Glasgow conference, coming into COP26, that process of national commitments on climate change reductions was not delivering. The commitments that had been made by governments coming into Glasgow meant that we were more on track for 2.5 to 2.8 degrees warming, not kind of scale of climate change. Now that was better than we had been pre-Paris, but it still wasn't enough to hit that Paris target.

00:06:59		So Glasgow wanted to make sure that 1.5 was still credible. And I think it's fair to say that we did make real progress there. There were a number of countries in and around the Glasgow conference that made new commitments that get us closer to that 1.5 degree target.
00:07:15		So I think on that key success criteria, we can say it was a success because 1.5 degrees is still alive, is still credible. But it's not in particularly rude health, and I think we might come on to that a little bit later Mark. In addition to that headline target, there were also four other specific areas where the UK government wanted to achieve progress.
00:07:39		They were talking about coal, cars, cash and trees. And the picture on those four, those kind of sector specific areas of COP26 was a little bit more mixed. Decent progress on trees, a good commitment that was achieved on rolling back deforestation, but on coal as many of you will have seen, because this was the issue that really came to the floor on the last day of COP26, on coal, the commitment to phase it out was nothing like as strong as the UK government would have wanted. But overall I think, you know I try to be optimistic about the COP process. I think it is fair to give the government something of a tick for COP26 and I think we can reasonable describe it as a success on the terms that the government was setting for it.
00:08:33	Mark	Okay, I think following on from that then you know, what happens next with the COP process, where do we go now, what is it that the government is thinking about as next steps or what generally are countries thinking about as next steps?
00:08:49	Michael	Yeah, so the UK government remains the COP president, even though we've had Glasgow and we're now moving towards COP27 in about a year's time which will be in Egypt. But the UK actually remains in charge of the international process for most of the next 12 months.
00:09:10		And I think for the UK government in terms of the COP process, we'll talk a little bit in a minute about what the UK might do domestically, but as COP president, the target for the next year is to get more countries to actually deliver new plans and new commitments. The whole of the COP instrument is based now around this idea of NDCs, nationally determined contributions.
00:09:38		There's no legally binding requirement on any country to reduce its emissions. It's all about what countries volunteer to do. And up until now, they've had to produce these new national plans on a multi-year basis, 3-5 years frequency that they come back and revisit them.
00:10:00		At Glasgow, they all agreed that they would revisit them within a year. So what Alok Sharma, the COP president will be doing I think over the next 12 months is really spending a lot of time on that kind of behind the scenes diplomacy. Trying to make sure that firstly, countries are actually putting in place the policies to deliver on the commitments, and secondly, that those whose commitments are maybe still a

		little bit weak, haven't gone quite as far as maybe they ought to can go further.
00:10:32		So that when we get to COP27 in Egypt next year, we will be able to say that 1.5 degrees is not only alive, but is genuinely the trajectory that we're on. So that's where the international COP process will be over the next year, focusing on delivery of commitments that have been made, and getting more countries to make more ambitious commitments.
00:10:55	Mark	Okay, that's really interesting and, you know obviously it's different depending on the countries and whether it's developing or emerging countries but, do you think that the fight against climate change is really being taken seriously internationally, has the conference helped that?
00:11:15		Yeah, I think it's really important to remember just how unusual this climate change process is. We've got over 190 countries that are participating in this international multilateral process. That's pretty rare, if you think across other aspects of international policy, take trade for example, where the multilateral trade negotiation process is basically moribund. In relation to climate change, it's still happening, we've still got this annual process that's supplemented by lots of technical working groups, lots of progress behind the scenes by diplomats and scientists from across those 190 countries.
00:12:01		It's really encouraging that we've still got that international process that's there because it is so rare. But it's also the case that if you really want to do something about climate change, most of the emissions come from a relatively small number of large industrial and industrializing economies.
00:12:24		And there is a debate, there is a discussion that goes on and I think it happened last year as well within UK government, about whether to really break the back of climate change to really deliver on 1.5, you shouldn't be looking to use smaller groups like the G7 or in particular like the G20. And I think the UK tried a little bit of that this year because it was also chairing the G7 but frankly, too often I think in those other fora, the focus is not on climate change. There's always something else for G7 leaders or G20 finance ministers to be talking about.
00:13:02		So the great advantage of the COP process is one, its breadth, it includes everybody, and two, the fact that it really does focus minds specifically on this question. But I think we're going to continue to see in addition to COP, not as a substitute, not as a replacement, but in addition to COP, I think we're going to continue to see sort of smaller groupings of countries coming together to tackle particular issues that particularly matter to them.
00:13:30	Mark	Great, thanks Mark. And Parat, just coming to you just whether you have anything to add to that from where you sit within the long terms investment strategy team. Do you think there's been a sea change in countries focus on climate change and how you're looking at it through your team.

00:13:51	Parat	Thanks for the question Mark. I guess from our perspective, we try and see many future scenarios, and what has certainly helped in recent weeks as a result of COP26 is we've got a lot of new pledges. And for us, some of those pledges are strengthening existing scenarios, some of them are actually new scenarios and that changes the landscape in terms of what we see.
00:14:20		As Michael said, there's going to be focus not only on some of the smaller developed nations but also the larger developing nations and there will be a debate to be had as to how much balance of weight do you put on a country to develop and how much balance do you put on the climate, and that's going to come to the floor in coming years. And that's one of the areas we are planning to watch very closely within the team because there are a number of trade-offs and as you said, a number of difficult decisions for both the G7 and the G20 to make collectively.
00:14:59	Mark	Thanks Parat, Michael just another, coming back to you. So we've talked about it from a government point of view, there was also at the conference a significant change with regard to financial services industry and I just wondered if you could elaborate on that and your thoughts around that.
00:15:19		Yeah, I think that's a really important aspect of COP26 Mark. Now lots of these conferences of parties to the UN convention on climate change have talked about money. It's frequently been a topic of discussion. Who should pay for climate change adaptation, who should pay for mitigation, and in particular, how does the rich world compensate the poorer parts of the world? And when the UK government talked about tax as being one of the four sub-themes, that was mainly what they were talking about, was taxpayers in richer countries transferring resources to poorer counties, the 100 billion that was often being talked about.
00:16:07		But this was the first COP with such a focus on private finance, such a focus on the private sector. Now to a certain extent, I think that was a little bit opportunistic because it reflected the fact that the UK with one of the few really global financial centres in the world have the kind of domestic industry, the domestic financial services sector that it could highlight and showcase in Glasgow. But it was only credible for them to do that because the financial services industry was itself moving so dramatically and so rapidly to take climate change so seriously.
00:16:50		The big announcement from Glasgow was something called the Glasgow Financial Alliance for Net-Zero, GFANZ, which was a very public commitment from the financial services sector, including M&G, we're a participant in GFANZ as you would expect. A very public commitment from the financial services sector to align some $130 trillions of assets that we control and manage and oversee towards Paris and towards the 1.5-degree goal. Now Parat and JinWee and can talk a lot

		more about what that means to us and the investments that we're making.
00:17:27		But my sense is that COP26 was really a new departure for financial services in its approach to climate change and the way in which it is seen by the climate change process as being an essential part of the solution. In addition to my day job at M&G, I also chair a city wide committee on sustainability and ESG, and it's fascinating and really encouraging being in that group to see all of the things that are going on in the financial services industry and my suspicion is that every COP in future now will have a finance day like Glasgow did that's really looking at the role and the contribution that investors can play to tackling this problem.
00:18:15	Mark	And JinWee just bringing you in here, with your role as head of ESG and regulatory, is this, obviously that focus on our industry, is that something that puts more pressure on your team or is it something that is actually going to help in some ways?
00:18:37	JinWee	No, it's a huge help Mark. I think, there are two developments that are particularly helpful I think. First one was actually before COP where the treasury announced plans to make large companies disclose their transition plan towards net-zero. And that required every large company in the UK to set emissions reduction targets.
00:19:05		The second was the establishment of the international sustainability standards body, ISSB. And what that will do, I think is create a framework for disclosing particular companies transition plans. I think so now it gets to OFRAS when OFRAS first came out. It took a little bit of time for people to move to OFRAS as an accounting standard but eventually it's so helpful, it facilitates comparison between companies. It also measures the things that are important.
00:19:40		So I think with advisers promulgating new standards, you get to measure emissions reduction in a consistent way, what gets measured gets done and therefore we can have a much more sensible conversation with companies we invest in on how they reduce emissions.
00:19:59	Mark	Great, thank you. Michael, just coming back to you, what are the key things that you think the UK government will focus on over the comings months and the next year?
00:20:10	Michael	Yeah, I've already talked a little bit Mark about the international dimension to that, the continuation of the UK government as COP president. That won't be anything like as high profile as the run up to Glasgow but will continue to take a lot of Whitehall’s time and focus and energy. So they'll continue to do a lot of that behind the scenes leg work.
00:20:34		But I think the more interesting stuff probably for our audience today is what the government will do domestically. You probably will have seen in the run up to Glasgow that the government published a large number of strategic papers, strategy documents, road maps around climate change and achieving net-zero with the net-zero strategy for the country

		as a whole kind of the pinnacle of that, that set out the overall vision for how the UK will meet its net-zero ambitions.
00:21:18		And then I think what we'll continue to see underneath that is sectoral strategy, strategies for particular bits of government, particular bits or the economy and society. So we've had one on homes and heating for example, setting out how we might be able to do something about the frankly pretty appalling state of energy and efficiency in British homes.
00:21:40		One of the strategy documents that I think was most interesting and Jinwee has just alluded to there was the sustainable finance road map that the treasury put out in the middle of October. If colleagues on the call haven't read it, I really recommend that everybody has a look at it because it set out the treasury's ambition to make the UK the centre for sustainable finance and how they want to go about it. And much of the focus at the moment is on disclosures and transparency and data.
00:22:18		What the treasury want to do and what I think they're going to spend a lot of time on over the next year is really ensuring that throughout the investment chain from the corporate issuer, through the wholesale institutional investment market, right through to IFA and retail investors, that we've got the data and we've got the information for people to be able to make investment decisions that will be informed by and motivated by the fight against climate change.
00:22:50		So we're going to see an awful lot more data coming our way. Some of that is happening anyway as a result of investor pressure and as a result of kind of market demand for this sort of information. But there's going to be an underlying regulatory framework there. And once we've got that framework in place and the government is able to see that the data exists, then I think we might start to see even more regulatory and who knows, perhaps even tax interventions from government to really drive changes in behaviour.
00:23:23		So I think over the next 12 months, a lot of the focus will be on disclosure regimes and data, getting people the information looking slightly further ahead, I think we've got a treasury now and a government more generally that is going to be willing to intervene and use all the policy leavers at their disposal to drive ever more investment in the sustainability and particularly net-zero direction.
00:23:47	Mark	Great, thanks. One last question Michael, and it's you know, within the conference we saw some surprise collaboration announced between US and China. Do you think the bigger countries, the likes of US, China or Russia, India will have to cooperate more if we're going to get to that below 2 percent, 1.5 percent target?
00:24:14	Michael	Yeah, I think you're to bring out Mark that one of the pleasant surprises from Glasgow was that bilateral US-China announcement on climate change. And if you read the substance of it, the actual hard commitments that they've

		made are relatively limited. But I think it's the fact that it exists at all when US-China relations in other respects are not so warm and cordial, that is a sign for encouragement.
00:24:50		As I said before, the centrepiece still for the fight against climate change will be the multilateral international process with 190 something countries involved. But underneath that, I think we are going to have to see some smaller grouping. So we saw smaller groupings come together and make much more ambitious commitments on coal than were written into the final document.
00:25:17		Similarly, on cars and the move to emission free cars, there were some countries that were prepared to go much further. So I think we will continue to see these kind of satellite clusters of countries coming together. But that's the optimistic assessment.
00:25:35		The slightly more pessimistic assessment is that we're now moving into a world in which I think pretty much everybody gets that climate change is real and that climate change is a challenge that we all have to face globally. But what we're also now seeing is countries realising that there are some potential strategic advantages to them and to their country in how they react to the climate change challenge.
00:26:00		So that's one of the reasons for example why we're seeing lots of interest in who controls some of the minerals and the raw materials that will go into battery technology. So yes we're all agreeing and cooperating on the need to tackle climate change but we then start to see some fairly traditional national advantage coming to the floor in working out who's going to have access to the minds that will give us the raw materials.
00:26:29		So it's a mixed picture I think on how climate change and the post Glasgow world will look and whether or not it's ushering in a spirit of cooperation. I think there are still a few reasons to be cautious about that.
00:26:47	Mark	Great, thanks Michael. Come back to you later, I want to bring JinWee in now. JinWee, I think it would be useful just to start by getting you to introduce sort of what you and your team do and what the focus is in your day job actually. I think you're on mute still at the moment JinWee.
00:27:11	JinWee	Sorry about that.
00:27:12	Mark	That's all right.
00:27:15	JinWee	So I head up the ESG regulatory team in treasury and investment office which is responsible for the broad asset on ESG investment strategy. We work to ensure that it's consistent with our M&G PLC and aligns our sort of asset managers that we use.
00:27:34		We design and implement the ESG investment strategy across our portfolios and work the asset managers that we appoint to ensure that they are ESG authorities, one of which is investing to mitigate the impact of climate change appropriately reflected in our portfolios.

00:27:50	Mark	Great, and looking at the conference and obviously I know that we had one of our senior leaders, one of our board members went to the conference and participated. Could you give us some thoughts around whether it's changed the way that M&G PLC are thinking about stewardship and responsible investing?
00:28:16	JinWee	I think it validated quite a lot of what we were thinking, but also it requires us to do some things differently. I think what it validated was that one of our top two ESG priorities fund investing in mitigated impact on climate change, that is absolutely the one.
00:28:32		Now we are meant to invest and look after our customers' wellbeing and we take a broad view of what that means, so it's not only financial wellbeing but also their general wellbeing. And because we believe climate change has the potential to impact the customers across every aspect of our lives, what we do in investment strategy has a role to play in lessening those negative impacts.
00:28:55		So I think it validates that chain of logic. What it did change was that it drew from the urgency, that means to address the climate crisis. Whatever we're doing, we need to do it better and we need to do it quicker.
00:29:14	Mark	And just bringing Michael back in just to say it's, did you see more collaboration, or both of you, do you think there will be more collaboration and consistency amongst the financial industry in the next 12 months because obviously as we know, there’s no one set rule or one set framework or plan for how we go about integrating ESG and climate change to what we do. Do you think there's going to be more of a consistent approach to this?
00:29:48	Michael	I think you've identified there one of the real challenges that we face not just in climate change but in sustainability more broadly, is that there are so many competing, I think not conflicting but just slightly different frameworks, reporting standards, taxonomies and so on. And a lot of the work that I do as director of government affairs, I mean chairing this city wide group is trying to get across to policy makers, not just here in the UK but in the EU and internationally, the great benefit of trying to come up with some consistency and some compatible systems. They don't have to be exactly the same but they've got to be able to talk to each other.
00:30:36		Because if we want the benefits of global markets and we want the benefits of global capital flows, and if we want financial institutions to be able to fund the mitigation and the adaptation around the world, then we need a certain degree of consistency in determining what is or is not a green investment, what is or is not a clean energy source. And there is some progress there, you know JinWee mentioned the foundation of the new ISSB, the international Sustainability Standards Board.
00:31:10		But the temptation from policy makers, and I speak here as a former UK government official, is always to want to do it your

		way, to want to do it exactly the way that you think is best. But I think the industry is speaking as one voice in getting the message across to policy makers that they've got to overcome that tendency and try and work together to give us a consistent framework on all of those factors that I mentioned.
00:31:37	Mark	Great, thanks Michael.
00:31:38	JinWee	I'll add a bit to that. I think there are few developments recently that are actually very helpful in terms of creating that standardization, and the first one is TCFD and it's a good framework to make your climate risk disclosures against and it's starting to be adopted widely.
00:32:00		And the second related point is the scenario analysis that where I think some of you might be aware that our regulator the PRA has asked the firms who regulate to carry out a large piece of scenario analysis work. That was done industry-wide in the UK. But it's also now seems to be the first of many other exercises that regulators around the world are carrying out with the firms that they oversee to carry out consistent scenario analysis exercise to facilitate comparison across insurance companies and banks across the world. The scenarios aren't exactly the same so sanitation only goes so far. But I think in the future these things will converge.
00:32:51	Mark	Great, JinWee can you, I'm sure there will be a few people, we've got a large audience today that want to know what TCFD is, could you just explain what that is.
00:33:00	JinWee	Sure, so the acronym stands for the task-force for climate related financial disclosures. And that was a framework put together by a group of financial market participants and some quite famous names in financial services industry to come up with a set of requirements and standards for what constituted a good set of climate risk disclosures. So it's the hybrid of, I suppose I want to say a risk document and accounting standards, but the first, it was the first document that set out how one should report one's climate risk.
00:33:52	Mark	Okay, great, thank you for that. And with regard to the policy that your team have implemented for, as we run circa 173 billion of assets for our clients, our retail clients, you know, and that policy that you've set up, has COP really changed anything with that or the focus within that?
00:34:18	JinWee	I think that we'll probably have to reconsider our priorities areas of engagement. I think we concentrated very much on coal as a sector that we needed to engage upon and I think it's clear that engagement of phasing out coal will need to continue. And other emissions heavy activities as well such as hauling gas. But the other things that were raised at COP as, you know, all this low hanging fruit that perhaps financial market participants have not considered, so things like methane emissions and deforestation perhaps might be slightly high priority than were before.
00:35:05	Mark	And you know obviously there was a big announcement around methane at the conference and it will be useful to just

		reinforce the impact on climate change of methane for anybody in the audience that didn't see that news around that or hasn't read about it since. But, so that's the first question is, what is it that methane, you know we need to be more aware of methane and what is it you're doing to monitor and screen companies that contribute to that methane output.
00:35:41	JinWee	Sure Mark, so the methane pledge announced at COP was that anybody that created a pledge would agree to reduce methane emissions by 30 percent by 2030. And methane is a particularly the egregious greenhouse gas. 104 companies, sorry 104 countries signed up to reduce methane emissions and they are mostly in western Europe and UK, that those are, sorry western Europe and US.
00:36:16		Those are the countries that led the drive to sign up to methane reduction. But the emissions from methane, sorry, methane emissions really come from three places, first of all, oil and gas extraction. So they are a by-product of pumping oil and a lot of companies simply burn it and it's called flaring. The other second biggest methane emitters is from agriculture. It's really cow burps and gas coming out the other end.
00:36:56		So that's another big source of methane. And the last one is the[unclear] and any decomposition that happens simply so it sips out from underground and into the atmosphere. So I think it's pretty simple to screen for the first two sources and companies that operate in these areas are easily identified. But it's quite hard to screen for the last.
00:37:28		And while you can target your screening capitally for the first two, I would say that perhaps if you throw away a piece of rubbish that you couldn't recycle, you are contributing to the problem. And perhaps it's everybody's problem and then a specific issue we can engage upon. But disclosure is patchy, it's almost non-existent. Very few oil and gas companies disclose how much methane they've burnt and in fact some don't even measure it.
00:38:06		When they pump oil, the gas is simply routed out to a flu and just lit and flood off and measure how much they've burnt. So it's tricky but, as I said earlier, what gets measured, get's done. So if you set a target that everyone needs to reduce their methane emissions, people will start measuring how much they emit and so that they'll be able to reduce it.
00:38:34	Mark	And with some of these things like obviously everything within sort of what we're doing and asset managers, asset owners, this is all evolving as things change and we get more data and we get more consistency and policy coming through. Obviously the playing field is the same for all of us at the moment and is data and the provision of data one of the main challenges for you?
00:39:0	JinWee	I think it's a bit of a challenge but the, I mean I'll use examples. One of the issues we've got with measuring emissions form a portfolio is that we only have usable climate

		metrics and data around on depending on the portfolio between 50-70 percent of securities. And it's patchy, and the data they do have isn't that reliable. But the solution to this is first of all someone needs to go and compile the data and occasionally we can buy it.
00:39:43		The other thing we have to do is compile data ourselves. But because there's a demand for these things, we are the only asset manager or asset owner faced with this problem as we meet demands on [unclear] point to give us this data, they will make demands on the data providers and the companies they invest in to provide data. So the situation should improve and we should expect coverage to go up.
00:40:08	Mark	Great, and the last question really is around, the positives of this, what encouraging signs for engagement with the fund managers, asset managers that we use to run money for us within that 173 billion that we manage. Has COP, will COP make it easier for us to engage and help companies change what they're doing and be more accountable going forward because of COP26.
00:40:42	JinWee	I think so, I think COP26 is probably the latest in the process of increasing transparency and people starting to take climate change seriously. We're pushing an open door I think. Nearly every corporate counterpart I've spoken to in the last 12 months is aware of context and aware of background. And so the conversations get easier and you don't have to start from scratch to explain what climate change is.
00:41:11		And companies now understand, I think, as a result of COP26 that they have their own role to play and they are more receptive challenge. And I don't think we always get what we want, but we now have the ability to have a conversation about what we do want and have the company take the conversation seriously. And once you can have a conversation, there's always a potential to change minds and that will take a collective concern to action towards reducing emissions and mitigating climate change.
00:41:46	Mark	Great thanks JinWee. At this point I think I'm going to bring Parat in and ask Parat for, the first thing is, given everything that we've talked about Parat, what are the key challenges for you and your team when you're integrating ESG into the way that you manage with profit fund and PruFund and how do you see this going forward.
00:42:12	Parat	Yeah, first that's a great question Mark and we've had really great summaries from both JinWee and Michael, not only on what the world is doing in terms of COP26, but also how it impacts asset managers. From the perspective of ourselves and our customers within with profits and all the other books of business we manage, the key question is, what does this mean for the portfolio and how do I shape or allocate my portfolio because of this.
00:42:43		And I would say, in terms of our processes Mark, there's probably three stages. And we've put together a small slide to just take you through some of the key stages as a visual aid.

		So first and foremost, we want to have a good understanding of what portfolio exposures we have to climate change.
00:43:07		And in that we look at all of the different major regions and asset classes and we assess the impact on those asset classes, both in terms of physical risks in immediate long term as well as transition risks. That is getting more and more common place.
00:43:25		As JinWee mentioned, other asset managers can of course by the regulator part of the CBES which is the climate exploratory scenario exercises are getting a lot more companies to think about the detailed modelling and what ultimately will happen is there will be a consensus on what aspects are good or bad for different regions and indeed different companies with respect to climate change, and that is what will very much impact the investors and portfolios.
00:44:01		Having looked at the kind of modelling of climate change, the next lay down we look at individual countries. And for each country we look at the environmental, social and government factors separately and we look at how that they impact both the return of the country and asset class, more importantly the riskiness of the country.
00:44:26		And in a nutshell, if there's a country or region where they have greater risks to environmental factors, be it because of maybe more vague statements in COP26, that will to us, increase the expected risk of those countries. And hence to invest in those countries, the hurdle for investing will increase and hence you'll need a greater expected return to invest. And this is all integrated into a building block framework which means we look at it throughout the process and take into account all the countries in the world.
00:45:06		And the final area which I think is actually the most important is, even if you look at any given country, there is a huge variation. So at the bottom right hand corner of the slide is a typical equity market index. And the chart shows the carbon emissions for each of the companies within the index or the carbon intensity.
00:45:34		And you can see that there is a huge disparity across the different companies. And that is where we see there is a huge further scope from a bottom up perspective to choose and select companies that have the biggest kind of benefit in the future as well as the most appropriate carbon contribution and this works for other factors as well.
00:45:59		So be it social or governance factors, you do see a huge disparity and that is very much aimed at with majority of the asset owner policy that we run as well.
00:46:13	Mark	Just a very, so obviously we're a long term investor, hence obviously the name of your team. And obviously what we're doing is looking forward, not just over the next 3-5 years. You know, this to me seems really important and if we weren't doing this, and I'm sure not every asset managers is doing this, are you really sort of sleepwalking into things that might happen more quickly than you anticipate?

00:46:45	Parat	Yeah, that's a very perceptive point Mark. And given everything we see and hear out there and statements about global warming might by the end of the century, it is very tempting to believe that this is a very slow moving beast and climate change is slow.
00:47:04		The key spanner in the works for that argument is that what depends for the customers is market perceptions. And market perceptions can change much more frequently. So market perceptions when sentiment will change much more frequently and that is kind of exaggerated by the visibility we've seen in the press with respect to COP26 and the different kind of climate exercises JinWee mentioned. And all it takes is for the marginal investor to be more climate aware of the risks of different companies and regions for that price to be impacted.
00:47:48		So there is a huge amount of benefit, just not only from a climate perspective but also from a pure financial perspective, to act sooner rather than later and be aware of the modelling. I mean the good news there Mark is that in terms of the modelling we've had we've had an in-house economic scenario generator maybe modelling climate changes in there for over a decade now and we've been able to refine it quite quickly with new announcements from COP26 etcetera.
00:48:20		A lot of other firms and asset managers as well as insurers, they use external modelling and providers and what that means is it just is taking a few more steps to get it into the system. So I'm really pleased that we're able to have a good model and that was also recognised by the Bank of England when they did do the assessment of the scenarios. They were very positive about our in-house modelling and the amount of effort we put upfront in the modelling of the scenarios.
00:48:54		And going straight back to your question Mark, no it is not tomorrow's problem, it is today's problem and that is very much because the sentiment in the portfolios will change a hell of a lot faster than the climate change happens itself.
00:49:13	Mark	So when we look at what the team does, how does COP26 play into what you do day to day JinWee? Sorry, Parat.
00:49:27	Parat	Yeah, I mean I'll probably bring JinWee into this as well. So I think in the next slide we look at, the next slide just gives a summary of some of the key policies and actions. And what we see is kind of step changes in pledges. So COP26 kind of improved pledges in some areas and from all perspectives, we need to model the different scenarios. And we firmly believe that there's one past and many potential futures. And even now, because a lot of pledges are just that, pledges, it remains to be seen exactly what comes out of that, and the strength of those pledges may change over time. So we model a number of different scenarios.
00:50:15		What COP26 means for us Mark is that that allows us to calibrate our scenarios to the most up to date pledges and that give us kind of the best way to see the different future

		paths, the difference economies and regions might take. And I believe it also then feeds into our bottoms up policies and that's probably closer to JinWee's domain.
00:50:45	JinWee	If I can...
00:50:46	Mark	Yeah JinWee, did you want to add?
00:50:50	JinWee	Sure, I think the key thing that will occupy me and my team all next year is to set and refined emission reduction targets across as why a set of portfolios is possible. And to do that we will need emissions reduction targets of the companies we invest in.
00:51:13		And we will need to make decisions about how we tilt our portfolios to ensure that we meet those targets at the time we commit to.
00:51:23	Mark	Great, thanks. Michael, is there anything you wanted to add to that?
00:51:29	Michael	Yeah I think what Parat and JinWee have demonstrated and what this slide demonstrated really well is still how much work there is to do on getting us consistently to feel confident that we're on track to deliver on 1.5 and how important it is now that we've moved into that phase of delivery.
00:52:00		And the COP process is really only ever going to be able to set the framework. It requires everybody nationally, governments and policy makers and the investors to take that commitment, take that direction of travel away and actually do something with it.
00:52:22		And that's where I think what Parat and JinWee have explained is so important. That they're able to articulate I think now what we're doing to show that we're playing our part as a signatory to the Glasgow net-zero alliance to reorient the way we allocate assets. But everybody is going to have to do that, everybody is going to have to play their part. Yeah so walk the walk not just talk the talk.
00:52:52	Mark	So coming back to you Parat, looking in sort of the medium term, where do you see the key risks for investors and obviously our audience of financial advisers, what are the areas that you think they should really focus on with regards to portfolios.
00:53:12	Parat	First question and also to Michael's point, I mean, it is important for all the investors and more importantly I think what you are saying is that investors are very much wanting at their feet and actively investing and divesting from areas which they feel have higher or lower risks. I think the key areas, as I mentioned before, the real areas to focus on are at the bottom-up level.
00:53:42		Because if you look at country averages, they can hide quite a lot of variety or disparity the next lay down. And even with some of the countries, you see the best kind of carbon emission companies as well as the worse carbon emission companies in the same index. And that's where a lot of the legwork and a lot of the risks as well as opportunities lie in terms of making good selections, picking good companies.

00:54:10		And from our perspective, we are very much focusing on encouraging that throughout the asset management process as well as that being a key part of the manager selection process and choosing managers who are very good at incorporating all of the environmental, social and governance factors into their stock and sector selection.
00:54:36	Mark	Great, thank you. And I just want to, obviously when you look at the global economy and you look at how we look at global growth and you look at the two biggest contributors to that, China and the US, they have a role in an important role to play in climate control and driving the global economy. How do you think about that and how do you look at them with regard to how they balance up sort of the two different areas around global growth and then obviously tackling climate change. Could you just give us some thoughts about that?
00:55:20	Parat	Certainly Mark, I can make a start but that is certainly not a straightforward question. So firstly, China and US as you know, they're large in their own right, they probably have close to a quarter of the world's population. More importantly, they have 40 percent of the global economic power. And from a political as well as economic influence, it is way higher.
00:55:50		So you know, they are there to keep players in market and they are also kind of very big competitors or rivals and that is natural when you have an ascending power battling with a power that has been dominant for so long as the United States have. And they are rivals in many different areas. So they're rivals in technology, they're rivals in economic growth, and what will be very interesting to watch is how they integrate or play in the environmental space.
00:56:27		It was very heartening to hear from Michael earlier that actually there is some signs of collaboration at COP26 as a bilateral party. And you know a lot of global kind of economic growth, a lot of global climate influence does come from these two countries and this will certainly be one to watch. They have influence, not only what they do but a lot on what the neighbours do, so a lot of eyes will be watching on US and China.
00:56:59		I don't know Michael if you had any more thoughts of how they may influence others in the future.
00:57:07	Michael	I think you're right Parat to draw out those two dimensions really by which the US and China will shape everybody's response to climate change. Firstly their sheer size as economies means that what they do will reverberate through the rest of the economy.
00:57:28		If we can get some of the innovation that might provide solutions to some of our climate change challenges coming out of China and the US, we will all intimately benefit from that. That will get exported, that will be technology that the rest of us can use. And there are some encouraging signs I think that that’s happening. They're not the only places where this innovation is happening.

00:57:54		M&G for example has been investing in some great business in the UK and in Europe in that space. But the sheer size of those two economies means that there's great potential for that to happen.
00:58:05		The other point as you rightly indicate is the national leadership bit. And that I think is where the US in a way has perhaps fallen slightly behind China over the last few years. I mean we had an administration in the White House for four years that basically didn't believe that climate change was real, or certainly didn't orient policy in that direction. We've now got an administration, one of the first things that Biden did was re-join the Paris process and re-commit the US to it. But that sense of faith in the US's loyalty and fidelity to climate change I think has taken something of a knock.
00:58:51		So it's going to take a little bit longer I think for the US to have that power of leadership, that kind of soft power around climate change that it has traditionally had in lots of areas of policy. But just one final point, again because I like to end on an optimistic note around the US is even while the federal government from 2016 was let's say lukewarm about fighting climate change, there was still an awful lot being done at the state level and an awful lot being done in individual cities. So my optimistic sense is that slowly but surely we are seeing a fundamental acceptance on the part of US policy makers in the broadest sense of the need to tackle climate change. But you need federal government as well in the US because it's such an important player and have got so much resource that it can draw on.
00:59:51	Mark	Great, thanks Michael. I'm just going to move on now to, we've had a few questions in so I think let's go across to a couple of these questions. The first question is to do with the term net-zero. You know, net-zero is used an awful lot. What does it actually mean with regard to carbon emissions and maybe that's one for JinWee.
01:00:25	JinWee	I think the easiest way to think about it is that in a net-zero world, the amount of emissions put into the atmosphere equal the amount of emissions being taken out. So net, there is no addition to the carbon dioxide already in the atmosphere.
01:00:50		Now the problem that we face today is that while there's lots of technologies that put carbon into the atmosphere, there are not that many technologies that extract carbon from the atmosphere. So in order to get to net-zero we actually have to reduce our emissions by a lot.
01:01:09	Mark	Thanks JinWee. There's another question that's come in that would probably be you. So it's asking how are we measuring the ESG factors excluding carbon. Which data sets are used and how are you taking into account the differences between data vendors.
01:01:27	JinWee	That's a hard question Mark. Perhaps I can give a partial answer. I think climate is easy to measure because we're kind of focused on one number, just emissions and the other

		numbers are out there, but the key number is emissions. Other ESG factors are harder to measure and as an example we are kind of grappling a little bit with biodiversity at the moment.
01:01:53		We think biodiversity is important but how to measure it, what is it exactly that we're targeting is the topic of debate within our organisation at the moment. Having said that, you can pick certain things that are of interest and that narrows the issue, so for example, in biodiversity one key issue is deforestation so if you want to control deforestation , our easy metric is number of acres of forest destroyed every year, right.
01:02:27		And you can get that data from different places, the quality of that is, varies between data sets, some better than others. We have a preference generally for MSCI because their data is, it's quite wide and it also goes back quite a long way. So you need to see changes and trends. But I think for specific items depending on what you're talking about, there are perhaps more bespoke data sets that are useful and more accurate.
01:03:02		So it really depends, we need to access as much data as we can as widely as possible and we need to make a decision depending on issues to what data we use.
01:03:13	Michael	Just on that point Mark, we've talked about this a lot in the sustainability in ESG committee that I chair for the city of London, particularly in relation to the social dimension, the social domain. And I think the kind of practical conclusion that we reached in that group was that we are almost never going to have the perfect data set as you get into the social sphere.
01:03:47		But what we can do is identify some reasonable proxy indicators and say that these at least will be indicating that a company, a sector, maybe even a country is moving in the right direction, is making progress, is doing the sorts of things that we want.
01:04:07		Because what we can't afford to do I think in any of these ESG spheres is sit and wait for the perfect data set before we act. We don't have the luxury of time in relation to climate change. And I think in relation to some of the other ESG factors, we don't have the moral luxury frankly of waiting for the perfect data set. So even while we're scratching around a little bit trying to get the metrics in place, there are still things that we can start to point to that will be better than nothing and give us some kind of sense of who are the better or the worst and the unacceptable performers.
01:04:59	Mark	Great, thanks Michael. That's it for questions at the moment. If anybody else has got any more questions, please ping them through. But I think what I will do is, that seems to be all we've had come through for the moment.
01:05:18		So what I'd like to do is just finish up by thanking you obviously for joining the session. I hope it's provided you with some food for thought. Obviously we've been delighted to

		talk to you further about what we're doing and how we're integrating all of the thinking around the discussions today into what we do with our funds and our portfolios.
01:05:44		And also, you know, what are the investment fund solutions that we've got that you might want to use with your clients and how can we support you, especially with literature, around some of these new conversations that you're having to have around ESG, climate change, etcetera.
01:06:03		So if we go back and have a look at the learning objectives from this morning, I hope that we've pretty much covered all of these off for you. I'm also chuffed a bit that I've not had a failure with my script starting to think I had a Peppa Pig moment. Some of you will be aware of what I'm talking about.
01:06:26		But for me, the key take away from today are, the target of limiting 1.5 percent change in temperatures is still very much alive, but from what Michael said, it's not in great health. So I think it's incumbent on obviously governments, businesses and us as well to try and move this forward so that we don't end up in one of the worst scenarios that obviously is which we're modelling within the range of scenarios for climate change. The second one is financial services is definitely in the spotlight, more so following COP.
01:07:11		Globally there's circa around $130 trillion of assets that we manage on behalf of clients that's linked to climate change and that 1.5 percent target. So that side we need to be able to discuss with clients and we think about how we are investing going forward to improve things.
01:07:36		And I think whilst JinWee didn't actually say this, I think one of the things I took from talking to JinWee is that we need to do things better and quicker to mitigate climate change and that this is important to everybody. So us as asset owners, the asset managers we use, but also working with yourselves and your clients to make sure that we're investing in the right areas not just, obviously very importantly, for the financial return, but also for that area of doing good as well with regard to climate change.
01:08:12		If I can ask you to just spend two minutes giving feedback on today's seminar, really helpful for us. Gives us an understanding of how useful you found today, how we can best support you going forward and also what we can focus on in future seminars. Just to remind you the feedback tab underneath this screen, if you can take a couple of minutes to fill that in, that will generate your CPD which as I mentioned earlier will be sent our via email.
01:08:40		Before I close, a couple of thank yous. I'd like to thank you Michael, Parat and JinWee for their insights today. But also, we probably won't speak before the end of the year. So I'd like to thank you for your support in 2021. I hope it’s been a good year for you all. And obviously we look forward to supporting you in the new year, thanks very much.

END OF TRANSCRIPT