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ESG Review

Prudential

PruFund Planet 4

March 2023

Pru
part of M&G plc

Contents

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Key facts

- This fund is part of a range of five funds with the same team and investment process behind them but each fund having a different level of expected risk and return.
- Each fund invests on a 'fund of funds' basis, across equities, fixed income, property and other 'alternative' asset classes.
- The underlying funds are classified by Prudential into three categories according to ESG outcome.
- Exclusions will have been applied to most of the underlying funds.

Fund information

Launch Date	26 July 2021
Manager	Treasury & Investment Office
Domicile	GBR
Assets	Active
Approach	Return Focused
Type	Pension / Offshore Bond / ISA

UN PRI signatory*	Yes
UK Stewardship Code signatory	Yes
IA Sector	ABI Unclassified
Morningstar Category	-
Defaqto Diamond Rating Type	-
Diamond Rating	-

*UN Principles for Responsible Investment (PRI)

ESG policy and alignment

Exclusions: Yes

Investment is on a 'fund of funds' basis. The M&G Treasury & Investment Office (T&IO) Product Framework has been developed to classify the underlying funds and is used as part of the investment manager selection and ongoing due diligence - investments are assessed based on the intention of each strategy relating to three types of outcome. These three outcome categories are: ESG Risk Focused; Opportunity Focused; and Solution Focused. See p5 for more detail on each.

Exclusion sectors are grouped as follows: coal, UN Global Compact violators, controversial weapons, tobacco, adult entertainment and gambling. Most of the funds held will have exclusions across all of these sectors or at the least controversial weapons. A few of the funds will not have explicit restrictions but, by virtue of their investment strategy, would be unlikely to invest in these sectors.

Levels of ESG investing

For full details, please refer to p5

Sustainable Development Goals (SDG) focus

Prudential has defined three environmental and three social 'outcome areas' for the Planet funds. These are: circular economy, environmental solutions and climate action; and social inclusion, better work & education and better health/ saving lives. Each of these areas has exposure to one or more of the UN SDGs to varying degrees.

ESG factors

Environmental

Less than 1%	Between 1% and 10%	More than 10%

Environmental Exposures	Product Involvement
Fossil Fuel	n/a
GMO	n/a
Nuclear	n/a
Oil Sands Extraction	n/a
Palm Oil	n/a
Pesticides	n/a
Thermal Coal	n/a

In the case of this fund, the percentage of its AUM covered by Morningstar data is relatively low, therefore product involvement data is not shown here. Prudential's own data and analysis, however, shows less than 1% exposure to all of the listed areas *with the exception of* fossil fuel and oil sands extraction, where they believe exposure to be between 1% and 10%.

Prudential state that the global energy mix is still heavily weighted towards fossil fuels and that they recognise the need to support a just energy transition. Hence they believe engagement through their fund managers will lead to a more sustainable outcome.

The oil sands extraction exposure is primarily via passive exposure to the two oil majors BP and Shell.

Social

Social Exposures	Product Involvement
Adult Entertainment	n/a
Alcohol	n/a
Animal Testing (Pharmaceutical)	n/a
Animal Testing (Other)	n/a
Controversial Weapons	n/a
Fur and Specialty Leather	n/a
Gambling	n/a
Military Contracting	n/a
Small Arms	n/a
Tobacco	n/a

As above, product involvement data is not shown here. Prudential's own data and analysis shows less than 1% exposure to all of the listed areas *with the exception of* animal testing, where they believe exposure to be between 1% and 10%.

In many cases animal testing is legally required, such as for pharmaceutical and chemical products. Prudential conduct ongoing screens to review and monitor their exposure against companies that have risks associated with animal welfare (with a specific focus on non-medical and animal farm sectors).

Prudential state that they will engage with asset managers that have been flagged by their animal welfare screens and may ask their asset managers to divest from investees that that have been flagged and are not willing to engage in the issue.

Governance

The PruFund Planet funds are managed by several internal (M&G) and external managers and almost all of them are signatories to the UN PRI. Prudential look to the managers they select to: engage with companies as active owners to help foster a more sustainable economy; participate in voting on key issues, including governance ones; and ensure that ESG is integrated into their investment processes. M&G's Responsible Investment team lead on company engagement on a cross-asset class basis.

Levels of ESG investing

Within this section, we look at how ESG has been integrated across the portfolio. We use the IA responsible investment framework across three levels: ESG integration, sustainability focus and impact (exclusions are covered on p3). The dials represent zero, low, medium or high exposure relative to our ESG Review universe. They are not mutually exclusive.

ESG integration

Strategies within the ESG Risk Focused category will manage ESG risks and seek to minimise negative outcomes for stakeholders, for example through negative exclusions or considering ESG risks when fundamentally appraising investment opportunities.

This category comprises around 10% of the portfolio and includes cash in the form of the M&G ESG Aware Money Market Cash mandate, which seeks to deliver environmental and societal benefits (as well as liquidity and yield in line with money market rates).

M&G property funds may also be held in this category.

Sustainability focus

Funds in the Opportunity Focused category are expected to pursue ESG opportunities and should seek to create positive and explicit outcomes for broad stakeholders, for example by actively looking for ESG opportunities or selecting 'best in class' companies believed will outperform the market because they operate in a more sustainable way than peers over time.

This category forms just over 40% of the fund and includes the BlackRock regional ESG optimised equity funds, which aim to provide better ESG scores than the respective regional index while still maintaining its risk and return characteristics.

The M&G Sustainable Global High Yield and Emerging Markets Corporate Bond funds are also held under this category. Both involve applying negative screens to remove companies involved in ethically questionable industries as well as positive screens to ensure selection of high ranking ESG securities.

Impact focus

Funds in the Solutions Focused category should use their capabilities to contribute to solutions to pressing social or environmental issues as well as seeking to create positive outcomes for underserved stakeholders.

This category forms nearly 50% of the portfolio. Examples of holdings within it include the Wellington Impact Bond and M&G Positive Impact funds. The Wellington fund invests in the debt of companies, governments and organisations whose core businesses aim to address major social and environmental challenges through a bottom-up approach.

The M&G fund also follows a bottom-up process with the aim of generating a positive societal and/or environmental impact alongside a financial return. M&G's proprietary 'triple i' (impact, intention, investment) approach is used.

Top 10 holdings

Name	Asset Class	Classification	% of assets
M&G ACS BlackRock ESG UK All Share	Equity	Opportunity Focused	13.8
Wellington Impact Bond	Fixed Income	Solution Focused	10.5
M&G Positive Impact	Equity	Solution Focused	9.8
M&G BlackRock ESG Asia Pacific ex-Japan	Equity	Opportunity Focused	8.9
M&G Real Estate	Property	Risk Focused	8.7
M&G Impact Financing	Fixed Income	Solution Focused	6.4
M&G Shared Ownership	Property	Solution Focused	4.0
M&G Private Equity, Real Assets	Alternatives	Solution Focused	3.1
M&G BlackRock ESG Emerging Markets	Equity	Opportunity Focused	3.0
M&G Sustainable Multi Asset	Multi Asset	Opportunity Focused	2.7

Source: Prudential, 30 December 2022

Sustainable Development Goal (SDG) focus

Engagement with corporates and/or funds

Engagement is with the managers of the underlying funds. Funds are selected using both quantitative factors, including performance and holdings analysis, as well as qualitative research, covering the business, people, process and philosophy. Regular reviews take place on a quarterly basis.

The initial and ongoing due diligence process also incorporates assessment and challenge of the manager's ESG investment policies, practices and ambitions.

A top-down decision-tree approach is used to assess funds and determine which of the three ‘outcome categories’ each fund best fits into. This is combined with a bottom-up view which involves assessing a sample of each of the manager’s holdings.

Although Prudential don’t engage directly with the investee companies of the Planet funds, they will: direct the managers to any areas of concern; ask the managers for examples of the engagement they have carried out; and monitor how the managers voted on ESG issues.

Resources

Portfolio management is conducted by the T&IO Multi Asset Portfolio Management Team. Mandate design and manager selection and oversight are performed by the T&IO Investment Manager Oversight Team of 9 people. Strategic asset allocation is determined by the T&IO Long Term Investment Strategy Team of 11.

Prudential have a dedicated ESG team of 5, the ESG and Regulatory Team. Prudential and M&G share many resources relating to ESG, including data providers Sustainalytics and MSCI as well as ISS, who provide proxy voting services.

Prudential’s ESG policy

M&G are a signatory to the UN PRI and the UK Stewardship Code as an asset owner and as an asset manager. They aim to embed ESG across everything they do, from the way they manage assets to how they operate as a business. They have identified two ESG priorities of climate change and diversity and inclusion. They aim to be net zero carbon as a corporate entity by 2030 as well as achieving 40% female and 20% ethnicity representation in their leadership by 2025.

Prudential Assurance Company are now a signatory to the UN PRI and the UK Stewardship Code as an asset owner. They are aiming to achieve net zero carbon emissions across assets under management and administration by 2050. They currently prohibit investment in certain companies linked to the development or distribution of particular controversial weapons, including internationally banned biological and chemical weapons, non-detectable fragments, depleted uranium munitions, cluster munitions and anti-personnel mines. This policy also extends to companies found to have aided in breaches of the nuclear non-proliferation treaty. Other positions are in implementation phase, including an exclusionary thermal coal policy and UN Global Compact violators policy.

About Defaqto

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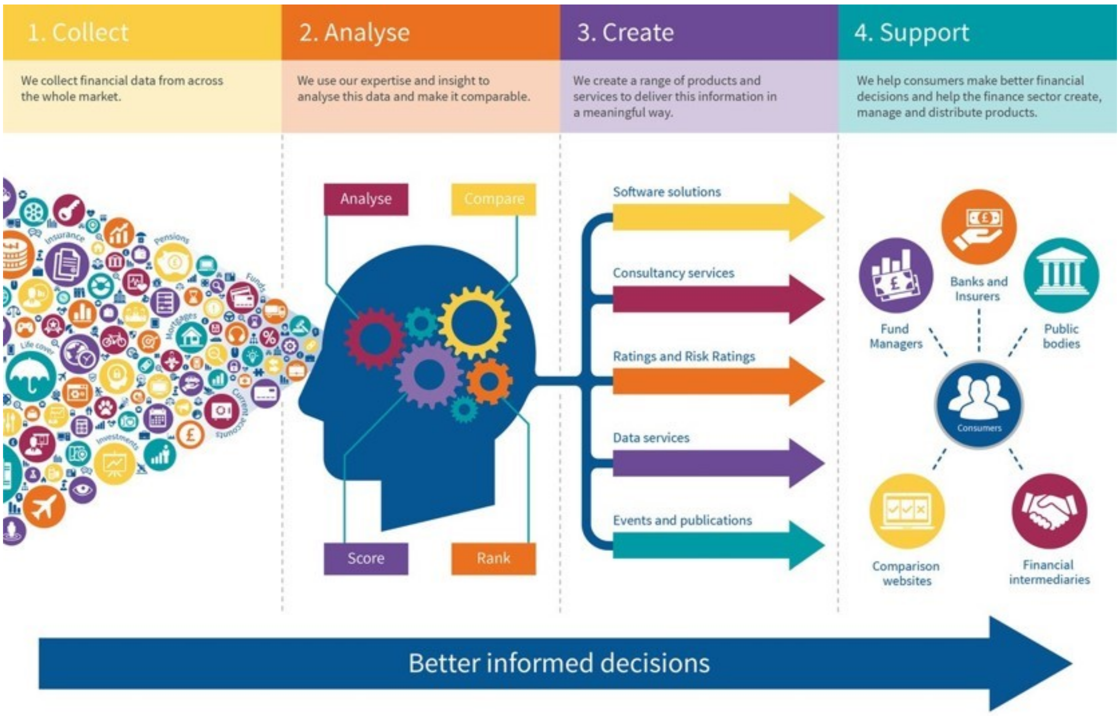

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