



Developing Our Approach to Nature

This paper sets out how M&G is developing its approach to identifying and assessing investment risks and opportunities associated with nature and biodiversity¹ and primarily covers The Prudential Assurance Company (PAC)² and M&G Investments³. Our approach will evolve as guidance and data improves, which will be reflected in future iterations of this document.

The Prudential Assurance Company, as part of our life business, creates distinctive risk and investment solutions, including PruFund, alongside integrated insurance propositions. We have a long track record of successfully managing a scaled balance sheet to provide security to our clients, and it also allows us to leverage expertise in M&G Investments to build new propositions to enhance financial outcomes.

M&G Investments is an international active asset manager with a range of differentiated investment capabilities. We are recognised for our expertise in private assets, public fixed income and multi-asset solutions, and our growing range of sustainability-driven thematic equities products.

The first section provides background information on the risks and opportunities related to nature and biodiversity loss, including definitions of key concepts used in this paper. Then follows an overview of how we are developing our approach to nature as a part of our Group sustainability strategy and our industry engagement. The final two sections provide an overview of how The Prudential Assurance Company and M&G Investments have started to evaluate risks and opportunities related to nature and biodiversity in key areas of the businesses⁴.

¹The paper refers to both nature and biodiversity to recognise that, while these terms are often used interchangeably, there are key differences between them. There may also be regional differences between which term is preferred among stakeholders. Definitions of nature and biodiversity are presented in the background section.

²This paper sets out the Prudential Assurance Company (PAC)'s current approach to nature, relating to all aspects of M&G plc's main asset owner business (PAC) and including its wholly owned subsidiary Prudential Pensions Limited (PPL), but excluding Prudential International Assurance (PIA) and other smaller entities, herein referred to as PAC.

³This paper sets out the approach to nature relating to M&G Group Limited ('MGG') investment and asset management businesses and activities

('M&G Investments') excluding M&G Investments Southern Africa (MGSA) and responsibility Investments AG. Entities acquired within the past 12 months are also excluded from scope of this statement whilst integration is ongoing. M&G Investments Southern Africa and responsibility Investments AG maintain their own Policies, processes and governance with respect to ESG integration and Sustainable Investing. This paper is intended to provide a general overview of how we are developing our approach to nature across our businesses. For specific product-level sustainability commitments and approaches, please refer to product documentation.

⁴As we continue to develop our approach to nature, we will look to identify opportunities for consistency across our business where appropriate, leveraging the synergies that our group business model of asset ownership and asset management capabilities provides.

Definitions

Nature is a complex phenomenon. For the purpose of this paper, nature refers to the living and non-living parts of the natural world including soil, water and the atmosphere. These parts interconnect through ecological and geophysical processes resulting in the overall functioning of planet Earth and creating the conditions necessary for humans and other species to thrive.

Ecosystems are an important aspect of nature which result from complex interactions between living organisms and their physical environment.

Biodiversity is the diversity of living organisms which is crucial to ensure the proper functioning of ecosystems and the benefits which ecosystems provide for society. Biodiversity can be understood at three different scales: within-species (genetic diversity), between-species (species diversity) and ecosystems.

Nature underpins the economy

Nature underpins our society and economy by providing key benefits, known as ecosystem services, which include access to freshwater and regulation of the global climate. Some estimates indicate that more than half of the world's GDP is directly dependent on natureⁱ, but in reality, the whole economy is reliant on the goods and services nature providesⁱⁱ.

Many economic activities negatively impact nature and biodiversity, thereby limiting nature's ability to provide the ecosystem services that underpin the economy. Companies relying on benefits derived from nature in their own operations or supply chains are especially exposed to risks, which may impact their future financial performance.

Companies with negative impacts on nature and biodiversity may be exposed to transition risks arising from a misalignment with other economic actors aiming to address the drivers of nature degradation and biodiversity loss. These include policy, litigation, and reputational risks, as well as risks associated with shifting consumer and investor preferences.

Developing our approach to nature

Halting the loss of biodiversity

The key to halting biodiversity loss is to address its direct drivers, which have been outlined by the Intergovernmental Panel on Biodiversity and Ecosystem Services (IPBES) in their Global Assessment Report. The five direct drivers of biodiversity loss are land-use change, climate change, pollution, overexploitation of resources, and invasive speciesⁱⁱⁱ.

Significant action from all parts of society is necessary to address the loss of biodiversity in terms of the amount of natural resources and area of land required to sustain the economy, and the waste generated by the modes of production and consumption^{iv}. The private sector has a key role to play but it relies on an enabling regulatory environment and demand for sustainable products from end-consumers.

Halting the loss of biodiversity requires public and private investments in sustainable modes of production within a broad range of industries. The private sector can play a pivotal role by transitioning to sustainable practices within high-impact industries such as agriculture, forestry and mining, as well as promoting enabling industries and practices such as clean technology and circular economy. As nature risks evolve, these companies may also present more resilient business models and improved financial performance when compared with those that ignore nature-related risks and opportunities^v.

We are increasingly taking steps to identify and assess our exposure to nature-related risks and opportunities, and we aim to manage these more comprehensively as our understanding develops. While nature-related data and frameworks are becoming more available, there are still significant gaps until it is possible for investors to fully embed nature-related considerations into investment decision making.

We acknowledge the strong connection between climate change and nature loss, and strive to address these challenges holistically. More information about our climate targets and climate action framework is available in **group level climate related disclosures**.

Strategy and governance

In 2024, we have launched a new sustainability framework that groups our activities under two themes – ‘Resilient planet’ and ‘Resilient societies’. ‘Developing Our Approach to Nature’ is one of the sustainability framework’s pillars underneath the ‘Resilient planet’ theme and sits alongside the work we do on climate. We recognise the importance of addressing nature loss through our investments, where our main risks and opportunities reside, as well as to measure and reduce our own impacts and dependencies on nature through our operations.

Ownership of sustainability risk and the responsibility for fostering an appropriate risk culture within our organisation rests with the M&G plc Board.

Our Director of Corporate Affairs and Brand has overall responsibility for M&G plc sustainability with the Chief Sustainability Officer (CSO) supporting and leading on sustainability strategy, policy, commitments and governance. The CSO also chairs the Executive Sustainability Committee (ESC).

The M&G plc Board has delegated certain duties and responsibilities related to climate change and sustainability to some of its committees, eg, the Risk Committee oversees risk exposures and profile of the Group, including sustainability risks, and the Audit Committee is responsible for overseeing the Group’s corporate reporting which includes sustainability-related disclosures.

The Group Executive Committee (GEC) oversees the development and implementation of strategy including the sustainability strategy while the ESC supports the GEC and the Board in providing direction and oversight of the Group’s sustainability-related activities. Further details on our sustainability governance framework can be found on page 56 of the **M&G plc 2024 Annual Report and Accounts**.

Engagement with industry actors

As we are taking steps to develop our approach to nature, we collaborate with other organisations to advance best practice through knowledge-sharing and supporting the development of new frameworks and data sources.

We are increasingly leveraging opportunities for industry engagement through our memberships in relevant initiatives, such as the TNFD Forum and TNFD UK Consultation Group, UK Sustainable Investment and Finance Association, Principles for Responsible Investment, Institutional Investors Group on Climate Change, and the UK Impact Investing Institute. We continue to assess other initiatives that can enable us to develop our approach.

Access to investment decision-grade data is necessary for us to incorporate nature into our investment decision-making process, and we review available data provider solutions periodically. We also provide feedback to sustainability data vendors to support the availability of decision-useful data points for investors.

The Prudential Assurance Company

Due diligence in fund manager selection

When selecting fund managers, we use a proprietary ESG due diligence RfP⁵ to understand how managers integrate ESG into their investment approach. As part of this we consider whether prospective managers have biodiversity-related policies and if they are integrating biodiversity into their investment decision making or risk management. We also consider whether they are members of any ESG-related investor coalitions which may include coalitions focused on nature. For more information, see the Prudential Assurance Company **ESG Investment Policy**.

Engagement with fund managers

We are committed to drive real-world change through our engagement with fund managers and outline our approach to stewardship in our Stewardship Report. We regularly engage with our fund managers and tailor our conversations based on their geographic, asset and sector exposure. We selectively engage with managers on nature-related topics and may discuss nature, alongside other material sustainability topics, during our quarterly meetings.

Operating as an anchor investor

As an asset owner we take a long-term investment horizon which gives us the opportunity to invest in both public and private market opportunities. We believe in fostering innovation via our investment and seeding process to contribute to investment solutions that support efforts to address global issues, for example, by being an anchor investor for funds with exposure to nature-related solutions. We will continue to seed, or invest in, opportunities that align with our long-term strategic asset allocation.

M&G Investments

ESG integration and due diligence

M&G Investments' **ESG Integration and Sustainable Investing Policy** describes our approach to embedding ESG and sustainability considerations in our investment process, which includes nature and biodiversity risks if they are considered to pose a financially material risk⁶. For our largest holdings, where financially material, we are taking steps to monitor these investee companies for their biodiversity performance and support them through effective investment stewardship.

For corporate issuers in public markets and private credit, consideration of the management of nature risks are analysed via proprietary sustainability research and use of M&G Investments' internal ESG Scorecard which covers material nature factors for companies' management and performance in quantitative terms, supplemented by qualitative analysis. Where material, additional analysis around nature and biodiversity is conducted in line with our approach to ESG integration, including on a company, industry and thematic level. For private markets, besides credit, investment due diligence will consider nature risks, when material, as a part of the ESG review.

For products with a sustainability focus or an explicit sustainability mandate, nature considerations are further integrated into the portfolio construction by considering potential negative impacts on sensitive biodiversity areas and norms violations related to breaches and adverse nature impacts for all holdings.

⁵For more information about the RFP process see the **Prudential Assurance Company Stewardship Report**.

⁶This policy does not cover M&G Investments Southern Africa (MGSA) and responsibility Investments AG. M&G Investments Southern Africa and responsibility Investments AG maintain their own Policies, processes and governance with respect to ESG integration and Sustainable Investing.

Engagement with issuers and voting

M&G Investments expects companies to reduce their negative impacts on nature and take this into consideration, in their core business activities, in their day-to-day operations and, where relevant, in their supply chains. Similarly, we expect companies to understand their dependencies and impacts on nature and to incorporate this into their overall management of nature-related risks. Companies in high-risk sectors are expected to develop nature and biodiversity action plans, considering emerging best practice.

Our engagement approach to nature builds on our experience engaging with issuers on climate change. In the same way that we have developed a 'Hot 100' focus list for climate, we identified companies for engagement based on our capital exposure to holdings within the TNFD priority sectors while also leveraging Forest 500 scores to identify those companies likely to have the greatest exposure to nature-related risks. In the engagements, we leverage Nature Action 100's benchmark methodology to assess material impacts and dependencies and engage both bilaterally and collectively through Nature Action 100 on the outcomes of these assessments.

We will support shareholder proposals relating to addressing biodiversity concerns when we hold similar views. For high impact sectors where we have concerns with a company's approach to biodiversity, or a lack of biodiversity policies and targets, we will consider voting against directors. For more information, see M&G Investments' **Voting Policy**.

Enable investments in nature solutions

We are leveraging our capabilities within both public and private markets to develop products which enable our clients to allocate capital to strategies with exposure to nature-related solutions⁷. When identifying investments that provide nature-related solutions, we consider the extent to which their activities, products and services enable the reduction of the direct drivers of biodiversity loss, protect against breaches of the planetary boundaries, or otherwise contribute to improved nature-related outcomes. Examples of investments that meet these criteria include companies that enhance the sustainability of processes employed in food and agricultural production, reduce waste by improving the circularity of manufacturing processes, reduce pollution into the natural environment or promote more sustainable forestry management practices.

¹PwC. (2023, April 19). Managing nature risks: From understanding to action.

²IPBES. (2024). Thematic Assessment Report on the Interlinkages among Biodiversity, Water, Food and Health.

³IPBES. (2019). Global assessment report on biodiversity and ecosystem services.

⁴Dasgupta, P. (2021). The Economics of Biodiversity: The Dasgupta Review. Abridged Version.

⁵BloombergNEF. (2024). The business of curbing nature loss: Nature opportunities.

⁷M&G Investments currently has one strategy fully dedicated to nature and biodiversity: the M&G Nature and Biodiversity Solutions strategy. Other products which have exposure to nature solutions include M&G Real Assets Impact strategy, M&G responsibility Sustainable Solutions Bond strategy, and M&G Positive Impact strategy. For more details see the specific product information.¹PwC. (2023, April 19). Managing nature risks: From understanding to action.

