



## M&G plc's position on a 'just transition to a sustainable world'

M&G aims to support a transition of the global economy and society to sustainable consumption and production and net zero carbon emissions by 2050<sup>1</sup>, in a way in which costs and benefits are shared fairly between generations, communities and regions. This Position applies to M&G's asset manager, M&G Investments, and its asset owner, Prudential UK.

### Why a just transition matters

M&G believes a just transition is necessary to achieve sustainable economic development, meaning meeting present goals without compromising the ability of future generations to meet their own needs<sup>2</sup>. While the last 70 years have seen unparalleled growth in human prosperity, economic growth has been achieved by consuming natural capital at a rate far exceeding nature's capacity to regenerate. We would require 1.7 Earths to maintain the world's current living standards<sup>3</sup>. If we continue as we are, the consequences will be climate change, biodiversity loss and degradation of nature, impacting everyone on Earth.

New technology alone will be insufficient to achieve the transition to a sustainable economy: it will require a fundamental restructure of consumption and production models, and the co-operation of governments, businesses and societies. The global scale of change required has profound implications for social equality.

- Intergenerational inequalities exist because the negative consequences and costs of climate change are borne by current and future generations who did not contribute to or benefit from the historic carbon emissions which have caused it.
- Regional inequalities occur where some parts of the world incur the economic and humanitarian costs of increasingly frequent and intense weather events arising from a warmer planet. Moving to a lower carbon economy will also have a greater impact in regions which rely heavily on high carbon fuel and industry, unless investment is available to enable development of low-carbon enterprises to take their place.
- Income inequalities mean that some people are particularly vulnerable to the impact of sustainable transition. Some communities and countries have fewer resources to mitigate and adapt to the threats presented by sustainability risks such as climate change, including less investment capital to finance new infrastructure.

Decarbonisation without taking account of the needs of affected communities may cause long term harm to social inclusion, economic development, and population health and wellbeing, and loss of the public support necessary to achieve successful change. However, a 'just transition' should create beneficial long term social and economic opportunities.

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<sup>1</sup> ie, the finite carbon budget to maintain global temperature rise within

<sup>2</sup> Our Common Future, Brundtland Report, UN 1987

<sup>3</sup> [www.footprintnetwork.org/our-work/ecological-footprint](http://www.footprintnetwork.org/our-work/ecological-footprint)



## Support for a just transition

In 2015 the United Nations (UN) set 17 Sustainable Development Goals (SDGs), designed to end poverty, protect the planet and ensure all people enjoy peace and prosperity by 2030. All the SDGs are relevant and connected to a just transition, while Goal 13 (Climate Action) and Goal 8 (Decent Work and Economic Growth) are core. The financial sector will need to play a pivotal role in financing the just transition and in doing so ensure meaningful progress toward achieving the UN SDGs. Policy action and supportive regulations will be essential to leverage the industry's collective power and direct it toward the rebalancing of economic prosperity and global environmental and societal sustainability in a fair and equitable way. The emergence and impact of the COVID-19 pandemic has helped increase recognition of the pace and scale of change required. There is more co-ordinated action by governments on environmental, industrial, social and fiscal policy to support the post-COVID economy and tackle climate change, such as the EU's draft report on the social taxonomy, a key pillar of its sustainable finance regulations, and the European Green Deal which aims to reach carbon net zero by 2050, decouple economic growth from resource use, and "leave no person and no place behind"<sup>4</sup>.

## M&G's role in achieving a just transition

As a responsible long-term asset owner and asset manager, we channel capital to companies that can help achieve a socially just transition, as well as providing finance to enable high carbon companies, especially those in developing countries, to shift to 'green' business models through engagement and collective action. We do not believe a divestment-first approach will achieve the sustainable economic transition the world needs. We remain committed to continuing to educate ourselves on rapidly evolving concepts around the just transition to ensure our investment process remains robust, relevant and well-considered.

### Asset owner

As an asset owner we are a diverse investor with widespread asset exposures and long-term policyholder liabilities. We believe in long-term stewardship that takes into account the needs of all our stakeholders and aims to change corporate behaviour for the better. We aim to integrate considerations on the just transition in the way we allocate between asset classes and geographic regions where possible, appreciating the different transition timelines between the developed and the developing world and the need to view investments in the transition holistically. This holistic approach will also be reflected in our fund strategies, the design of our mandates, and our manager selection process.

### Asset manager

As an asset manager, we believe good investment stewardship should consider the implications for society and the environment, including the impact on local communities when evaluating the pace of necessary change to achieve a just transition to a more sustainable economy. We believe that long-term investment returns are underpinned by good governance and sustainable business models and practices. Our ESG Investment principles<sup>5</sup> inform and guide how we make investments as an asset manager, including how we consider future transition-related risks and opportunities in our research, portfolio construction and engagement. One of the key objectives of our Thermal Coal Investment Policy is to achieve real-world positive change, by supporting the just transition toward a more sustainable economy.

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<sup>4</sup> [https://ec.europa.eu/info/sites/default/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/sf-draft-report-social-taxonomy-july2021\\_en.pdf](https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sf-draft-report-social-taxonomy-july2021_en.pdf)

<sup>5</sup> [https://www.mandgplc.com/~/\\_media/Files/M/MandG-Plc/documents/responsible-investing/responsible-investment/MGInvestments-ESG-Principles-Statement\\_Feb-21.pdf](https://www.mandgplc.com/~/_media/Files/M/MandG-Plc/documents/responsible-investing/responsible-investment/MGInvestments-ESG-Principles-Statement_Feb-21.pdf)