M&G plc Thermal Coal Position
2 March 2021

M&G plc's Position on Thermal Coal

The following plc Position on Thermal Coal was published in March 2021 applicable to M&G Investments and Prudential, excluding M&G Wealth and M&G Southern Africa. As of April 2024, please refer to our latest Annual Report for up-to-date information on our approach to thermal coal, as well as the publicly available M&G Investments Thermal Coal Investment Policy, which operationalises the Plc Position on Thermal Coal.

Forward-looking approach to support a just energy transition

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

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

Coal represents 36% of total electricity produced but contributes around 72% of electricity-related CO2 emissions, or around 27% of the world's carbon emissions1. The science is clear, to keep the earth's average warming within the Paris Agreement's temperature targets requires a rapid energy transition with the complete phase-out of coal from OECD and EU countries by 2030 and the rest of the world by 2040.

We aim to use our influence as a global investor and asset owner to drive positive change, to decarbonise the energy system and increase energy and resource efficiency. We commit to reducing our exposure to unabated2 coal by 2030 in OECD and the EU and by 2040 across the rest of the world. By adopting a forward-looking approach as an active investor, we can support companies as they transition their businesses towards net zero and phase out coal from the energy system in line with the IPCC. We will apply restrictions to coal-related investments as follows:

Power Generation	• New expansion • >30% coal share of revenue / mix of energy output • >10 GW capacity • 0% coal by 2030 OECD & EU / 2040 Rest of the world
Mining	• New mines • >20MT production per annum • >30% coal share of revenue • 0% coal by 2030 OECD & EU / 2040 Rest of the world
Other sectors	• New expansion • 0% coal of 2030 OECD & EU / 2040 Rest of the world

1. Exemption permissible for power generation of 300MW or less
2. Includes those sectors whose main business is not coal but they have coal-related operations (eg industrial operations which have coal power generation), according to coverage provided by ISS/MSCI and the Global Coal Exclusion List

1 IIGCC paper: Accelerating the transition to zero emissions in the power sector, November 2020

2 'Unabated' refers to coal power generation without any technologies to substantially reduce CO2 emissions, eg operational carbon capture and storage

The international political landscape is moving fast – to date 127 countries responsible for around 63% of global emissions are considering or have adopted net zero targets. Whilst regulations do not yet reflect political ambitions, it is expected that they will follow to expedite the adoption of new technologies to decarbonise the energy system. We recognise that there remain some obstacles to reducing coal power generation in the short term in certain emerging markets, whilst satisfying the growing energy demands of increasing populations and economic development. Yet building new coal power plants today with expected working lives of 40 years or more is incompatible with reducing carbon emissions in line with the Paris Agreement, and is likely to lead to stranded assets in time.

Implementation

Addressing coal is a key building block in our net zero investment framework, and provides the foundation for approaching other high carbon investments. As a firm we will be implementing our approach to coal-related investments across our own internal investment portfolios over the coming year.

We work in partnership with our clients to achieve their investment objectives, and we will be engaging with them on our approach to coal-related investments as a key step in the journey transitioning their investments to net zero by 2050.

We believe in active asset ownership and management which encourages companies to transition towards a sustainable future. Our approach applies to all listed equity and public fixed income investments, and we are using third party data providers MSCI, ISS and the Global Coal Exclusions List (GCEL) to identify the initial list of 'coal-related' issuers in scope. However, the third-party data available is generally historic and can be subject to inaccuracies and obsolescence. We wish to place due emphasis on forward-looking factors in addition to the coal expansion criteria, and therefore we are undertaking detailed qualitative analysis of securities across benchmarks and portfolios in order to determine:

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

We will incorporate the coal-related investments identified for engagement within our climate engagement 'Hot List'. The Hot List was created in 2020, and has focused our climate change engagement on the largest companies with high carbon emissions, particularly laggards. Meaningful engagement with our investee companies on climate change is part of what makes active investment so powerful, whether acting on our own or working collectively as part of the Institutional Investors Group on Climate Change or Climate Action 100+.

We will implement this approach in two phases. Today we begin the engagement phase where we will be working in partnership with clients – engaging on our coal approach; completing the forward-looking qualitative screening; engaging with investee companies; and making changes to funds and mandates to prepare to go live. In the second phase from March 2022, we will begin divestment in developed markets, with divestment in emerging markets following two years later.