March 2022

M&G Investments

Thermal Coal Investment Policy

Effective from 27 April 2022

Contents

1 Introduction

1.1 Scope

1.1.1 This document sets out M&G Investments' Thermal Coal Investment Policy (the "Policy"). The assets in scope are all public assets actively managed by M&G Investments on behalf of its clients, including the internal asset owner.

1.1.2 The public assets managed by M&G South Africa are outside the scope of this Policy.

1.1.3 The Policy is owned by the Chief Investment Officer (CIO) of M&G Plc or their delegated deputy.

1.1.4 The Policy is subject to and does not supersede the ESG Investment Policy and all relevant regulation and legislation.

1.1.5 The operational oversight of the implementation of this Policy is provided by the first line Investment members of the Investment Leadership Team (ILT) being:

i. Chief Investment Officers (CIOs) (Public Fixed Income and Equities)
ii. Head of Investments Business Management
iii. Head of Treasury and Investment Office
iv. CIO for US
v. Head of Research and Stewardship and Sustainability

1.2 Context

1.2.1 Thermal coal combustion contributes around 72% of electricity–related CO2 emissions globally, or around 27% of the world's CO2 emissions, whilst only representing 36% of total electricity produced[1]. As such, thermal coal is the single largest source of CO2 in the power sector, and one of the largest contributors to climate change.

1.2.2 The combustion of thermal coal also produces large associated health risks, directly contributing to air particulate pollution. Combusted thermal coal waste is highly hazardous. In addition, thermal coal mining can be a major cause of land-use change and water pollution negatively impacting biodiversity and ecosystem resilience.

1.2.3 The Inter-governmental Panel on Climate Change have concluded that to keep global warming under 1.5°C, carbon dioxide emissions will have to be cut by about 45% between 2010 and 2030 and reach net zero by 2050[2]. In order to meet the Paris Agreement's temperature target to limit global warming to 1.5°C and counteract the effects of climate change and CO2 emissions on nature and human well-being, scientific evidence indicates that combustion of thermal coal needs to be phased out by 2030 in EU and OECD countries and by 2040 in the rest of the world latest[3], with around 80% of the reduction occurring within the next decade[4].

1.2.4 New technology alone will be insufficient to achieve this low carbon transition and sustainable transformation of the global economy. Decarbonisation requires a fundamental change to consumption and production methods, and the co-operation of governments, businesses and people. The scale of change to decarbonise the global economy requires a system-wide change with profound implications for social equality:

---

[1] https://www.iigcc.org/download/iigcc-background-paper-accelerating-power-sectordecarbonisation/?wpdmdl=4007&refresh=614de42fa13451632494639
[2] https://www.ipcc.ch/sr15/
[3] IEA
[4] Unabated coal-fired power generation (i.e. coal-fired power generation without the use of Carbon Capture Utilisation and Storage (CCUS) technology) globally should be reduced to 80% below 2010 levels by 2030 and phased out before 2040. Most reductions in coal in the power sector need to happen by 2030, when the share of coal in electricity generation should not exceed 13% anywhere, and be around 6% globally. https://climateanalytics.org/media/report_coal_phase_out_2019.pdf

i. Decarbonisation without taking into account the context and needs of affected communities may cause long term harm to social inclusion, economic development, population health and well-being, as well as the loss of public support necessary to achieve successful change.

ii. A 'just transition' to a low carbon economy should create beneficial long-term social and economic opportunities. This will require investment. The financial sector will play a pivotal role in financing the just transition, and in doing so also ensure meaningful progress toward the UN Sustainable Development Goals.

1.2.5 Since the UK became the first country to set a net zero target in June 2019, more than 140 countries have pledged to reach net zero emissions between 2050 and 2070[5]. However, the carbon reduction pledges and COP26 Agreement to phase down thermal coal are insufficient, even under the most optimistic scenario, to keep global warming within 1.5°C[6]. 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 thermal coal power generation in the short term in certain emerging markets, whilst satisfying the growing energy demands of increasing populations and economic development.

1.2.6 In the transition towards a low or lower carbon economy, thermal coal has and will continue to be the power source at high risk of stranding. In geographies which introduce CO2 taxes, trading systems, regulations or plainly grow renewables sufficiently, thermal coal assets are the most likely to become stranded or bankrupt. These assets are high risk, and increasingly uncompetitive against renewable sources.

1.2.7 The science is clear: keeping the earth's average warming within the Paris Agreement's temperature targets requires a rapid energy transition with the complete phase-out of thermal coal from OECD and EU countries by 2030 and the rest of the world by 2040. M&G's purpose is to help people manage and grow their savings so they can live the life they want while making the world a little better along the way. As a responsible investor, we believe consideration of the implications for society and the environment to be part of investment stewardship and in line with our fiduciary duty to our customers and clients.

1.2.8 We seek to manage risks and capture opportunities arising as befits the role of a responsible long-term asset manager, actively channelling capital to companies that can accelerate a just transition, as well as providing finance to enable high-carbon companies to shift to 'greener' and 'lower carbon' business models in combination with engagement and collective action.

1.2.9 The objective of the Thermal Coal Investment Policy is:

- To enable M&G to align with a 1.5°C warming trajectory in line with the Paris Agreement which requires a phase-out of thermal coal by 2030 (EU and OECD) and 2040 (Rest of the World) according to the best climate science; and
- To achieve real-world positive change, by supporting the just transition towards a more sustainable economy.

2 Governance

2.1.1 The first version of the Policy has been approved by the M&G Group (MGG) Board.

2.1.2 The ESG Governance Meeting (ESG GM) will review this Policy on an annual basis and periodically as required, and will escalate changes to the Chief Investment Officer (CIO) and ILT excluding the Head of Treasury & Investment Office, for approval in the first instance. Major changes to this Policy will be escalated to the M&G Group Executive Committee (MGG ExCom) in the second instance and to the MGG Board for review and approval as required. The decision on whether a particular Policy change is sufficiently material for the MGG ExCom to consider is for the CIO, and the MGG ExCom will determine whether MGG Board approval is required.

[5] As at 2 November 2021 https://climateactiontracker.org/global/cat-net-zero-target-evaluations/
[6] https://climateactiontracker.org/publications/glasgows-2030-credibility-gap-net-zeros-lip-service-to-climate-action/

2.1.3 The operational oversight of the implementation of this Policy is provided by the first line Investment members of the ILT.

2.1.4 The Coal Appeals Committee comprising senior members of the Equities, Multi Asset, Fixed Income, Research and Stewardship & Sustainability teams, will adjudicate on investments referred to under the Exceptions Process set out in 4.4. The ESG GM will review and approve the recommendations of the Appeals Committee. The ESG GM reports to the ILT, and their decision is final.

2.1.5 The Product Management Committee, and Investment Performance and Risk Committee, will be notified of relevant changes to this Policy to determine the implications for existing investment strategies, and to update the relevant parties accordingly.

3 Policy Requirements

3.1 Policy Parameters

3.1.1 Addressing thermal coal is a key building block in our net zero investment framework, and provides the foundation for approaching other high carbon investments. The Thermal Coal Investment Policy is a forward-looking policy that goes beyond basic quantitative screening to assess the credibility of transition plans in accordance with phase-out timelines, and involves engaging with investee companies to achieve real-world positive change, by supporting them in transitioning towards a more sustainable economy.

3.1.2 We apply restrictions to thermal coal-related investments as follows:

Mining	Excluding companies: • Undertaking new coal expansion, and/or • Where coal production is greater than 20 million tonnes per annum or represents more than 30% share of revenue, and/or • No credible public plan to phase-out coal production completely by 2030 (EU and OECD) / 2040 (Rest of the World)
Power generation	Excluding companies: • That are building new unabated coal generation capacity, and/or • That have coal-fired power generation greater than 10GW, and/or • Where coal represents more than 30% share of energy mix output[i], and/or • No credible public plan to phase-out coal production completely by 2030 (EU and OECD) / 2040 (Rest of the World)
Other sectors	Where the company's main business is not coal, but there are coal-related operations[ii], excluding companies: • That are planning new or expansion of coal-related operations, and/or • That have no credible public plan to phase-out coal-related operations completely by 2030 (EU and OECD) / 2040 (Rest of the World)

[i] Exemption permissible for power generation for 300MW or less.

[ii] It is currently not possible to screen for some sectors where involvement is a step removed, such as financials.

3.1.3 As outlined in 1.2.5, we recognise that countries are not all at the same stage in decarbonising their energy system, and a divestment-first approach will not achieve the sustainable economic transition the world needs. Therefore we will implement our Policy taking into account the country of risk of the investment.

3.1.4 We categorise our investments as:

- Category 1: investee companies in EU and OECD countries required to transition by 2030
- Category 2: investee companies in non-EU and OECD countries required to transition by 2040

3.2 Client Consultation and Engagement

3.2.1 We recognise that an increasing number of our clients are setting their own climate-informed investment strategies, to position their portfolios to effect real-world decarbonisation outcomes and meet regulatory requirements and their stakeholders' expectations.

3.2.2 We seek to work in partnership with our clients to achieve their investment objectives. We engage with our clients to understand their approach to addressing the risks and opportunities arising from climate change, their appetite to align their portfolios to limit global warming within the Paris Agreement's temperature targets and to implement our Thermal Coal Investment Policy, and therefore their priorities for the investments we manage on their behalf.

3.2.3 This Policy is applicable to all pooled funds. For segregated mandates, sub-advised and advised mandates, application of this Policy is subject to client consent, and M&G aims to achieve consent.

4 Policy Implementation

4.1 Assets & Sectors In Scope

4.1.1 Assets in scope of the Thermal Coal Investment Policy are public listed equities, public bonds listed by a single corporate entity and single name derivatives thereof including credit default swaps (CDS) and equity warrants, as well as convertible bonds.

4.1.2 Private instruments, Asset Backed Securities (ABS), sovereigns and money market funds are currently out of scope. Once sufficiently robust and granular approaches capable of widespread implementation are established, these asset classes will be considered for inclusion within the Policy.

4.1.3 M&G's Thermal Coal Investment Policy prescribes the exclusion of investments in mining, power generation and thermal coal-exposed companies whose business strategy is not supportive of the transition to net zero carbon emissions by 2050 at the latest, or where the net zero target of the country of risk is later than 2050 but whose business strategy does not support the complete phase out of thermal coal by 2030 (EU and OECD) /2040 (Rest of the World). As set out in 3.1.2, this includes companies with new thermal coal expansion plans, energy mix output and power generation based on thermal coal above a 30 % or 10GW threshold respectively, and companies without credible public plans to phase-out thermal coal production or thermal coal-based operations completely by 2030 in OECD countries or 2040 in non-OECD countries.

4.2 Assessment Criteria

4.2.1 The evaluation of an issuer's appropriateness for investment is based on a holistic forward-looking assessment against the Policy parameters set out in 3.1.2 taking into consideration:

i. Materiality: Investee exposure to material systemic sustainability risks both physical and transitional;

ii. Just transition: Impact on the receiving environment and local communities; and

iii. Credibility of transition plan: Investee company transition plan including disclosure of targets, metrics and timescales, alignment with science-based targets, governance, actual/forecast composition of revenue and allocation of capex.

4.2.2 The country of risk as determined by M&G will be used to determine the transition period category as defined in 3.1.4.

4.2.3 The transition period categorisation recognises the different starting point for developed and developing countries to achieve net zero.

4.2.4 The assessment criteria recognise the variety of issuer corporate structures including parent-subsidiary relationships and affiliation to separate legal entities created for financial purposes. For example:

i. Instances where a subsidiary passes the screening and assessment process whilst another 'sister' subsidiary fails, will cause the parent to fail the assessment also due to its association with the failing subsidiary.

ii. Financing subsidiaries created for the sole purpose of carrying out certain financial activities on behalf of its parent company fail the assessment should the parent fail the screening and assessment process. The parent's subsidiaries which pass those checks remain unaffected and permissible for investment.

iii. Investment in green bonds that have successfully passed M&G's themed bond assessment process may be permissible irrespective of the issuer.

4.3 Assessment Process

4.3.1 All in-scope assets will be subject to an initial data screen to determine the issuer alignment with the timelines of the net zero transition as per the assessment criteria outlined in 4.2.1. Screening data accuracy and obsolescence is mitigated by using multiple third party providers (MSCI / ISS / Global Coal Exclusion List (GCEL)) to cross-check and corroborate assessment. This initial screen will then be supplemented by specialist, inhouse assessment.

4.3.2 Where investments are assessed to be in clear breach of the thermal coal thresholds as outlined in 3.1.2, with no credible transition plan to move within parameters, then they will be classified for divestment and excluded from further investment.

4.3.3 Where investments are assessed to be in breach of the thermal coal parameters but have transition plans, then the investee companies will be subject to a time-bound engagement with clearly defined objectives to determine the credibility of their transition plans and sufficiency of actions to meet those objectives.

4.3.4 We also engage with investee companies with exposure to thermal coal that is within our coal thresholds outlined in 3.1.2, in order to prioritise the phase out of thermal coal across the EU/OECD by 2030 and Rest of the World by 2040. If we determine that the phase out plans of companies below our coal thresholds are not progressive enough then we may also require their divestment.

4.3.5 Engagement with investee companies on their disclosures, intentions, commitments, strategy plans, policy and public commitments may continue after the effective date. The prospect of divestment in case of not meeting the Thermal Coal Investment Policy requirements will be clearly communicated to investee companies.

4.3.6 Investee entities that following engagement fail to meet expectations within agreed timeframes will be divested from the Policy effective date for Category 1 and from March 2024 for Category 2 investments.

4.4 Exceptions Process

4.4.1 In line with the objectives of the Thermal Coal Investment Policy as set out in 1.2.9, a fund manager may instigate an appeal for an issuer to be treated as an exception to or exemption from the Thermal Coal Investment Policy where there is credible evidence that the issuer complies with the material features of the Policy.

4.4.2 Examples for grounds for appeal could include:

- Minor delay of thermal coal-shutdown implementation (e.g. 2031/2045) – allowing for extended engagement to align timelines;
- Political difficulty in making a public statement but where private intent is evidenced and clear and robust;
- State-owned entities where energy policy does not wholly align to the Policy outcomes;
- Corporate group structure association without meaningful connection;
- New information not previously available which is material to the original classification of the issuer.

4.4.3 The Appeals Committee will consider each appeal on the evidence presented and the individual merits, taking into consideration reputational risk, regulatory and reporting risk.

4.5 Divestment and Exclusion

4.5.1 Once an investment is classified for divestment, the investee entity will be excluded from the investment universe, and no further investments may be made, with the exception of a corporate action by the investee entity, where participation in the corporate action is in the best interests of the customer or client.

4.5.2 Divestment of thermal coal investments classified for divestment under 4.3.2 will commence from the Policy effective date.

4.5.3 Divestment of thermal coal investments classified for divestment under 4.3.6 will commence from March 2024.

4.5.4 Affected securities will be divested taking into account market conditions and the best interests of clients.

4.6 Implementation Process

4.6.1 The Policy is effective from 27 April 2022.

4.6.2 All thermal coal-related investments will be subject to regular review at least annually. If at any point during the time-bound engagement period an investment is determined not to have a credible transition plan and be unable to move into the thresholds as set out in 3.1.2, then the investment will be reclassified for divestment and exclusion, and divestment must be completed in line with 4.5.

4.6.3 Where an exception has been granted it will be applicable for a period of one year up to the next annual review.