Prudential Assurance Company

Stewardship Report 2023

May 2024

Contents

Foreword

Welcome by the CEO of M&G Life

Welcome to this Prudential Assurance Company Limited (PAC) Stewardship Report (the Report) for the year ended 31 December 2023. PAC, referred to as the asset owner in this Report, is the part of M&G plc that decides on what's included in PAC investment funds.

I'm sharing this with you as the new CEO for M&G Life with responsibility for PAC.

It's important to me that we have a level of transparency on how we manage our clients' (such as shareholders, institutions and policyholders) money, including the impacts the changing financial landscape has on their money. Through this PAC Stewardship Report, we provide an overview of the sustainability and stewardship activities that PAC has delivered on during 2023 and what this means for our policyholders and clients. This Report includes details of initiatives we have been involved in, and gives examples of how we continue to deliver on our Environmental, Social and Governance (ESG) and stewardship responsibilities.

I'm aware that stewardship may have different meanings for people. The Financial Reporting Council defines stewardship as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society". For clarity, in the context of this Report, stewardship means we take a responsible approach when we invest our clients' money, from asset allocation through to oversight of those investing the funds. This approach also includes the focus on long-term value with wider sustainable benefits, based on responsible and ethical investing.

Within the Report, we also describe how we continue to enhance our stewardship practices in line with the Financial Reporting Council's UK Stewardship Code 2020. This is an important Code as it looks to drive better stewardship outcomes across financial services; including safeguarding the interests of clients.

As the asset owner business of M&G plc, PAC includes, for example, the Prudential With-Profits Fund, of which £54.8 billion is our market-leading PruFund fund range. The With-Profits Fund continues to invest in the real economy (such as production, products and services), and includes several innovative companies that are seeking to contribute towards a positive impact on the world around us, while also generating sustainable long-term financial returns.

During 2023, PAC continued to build on our monitoring of engagement activity across our assets, conducted by our appointed asset managers.

Our M&G plc and PAC stated purpose is the same – to give everyone real confidence to put their money to work. As PAC, we act in the best interest of our policyholders and clients, and we continue to improve transparency within our disclosures to ensure that our policyholders' and clients' needs are being met.

PAC considers the material impacts of ESG factors to the economy, the environment, and to society as a whole. We believe a crucial part of this is maintaining high standards of effective stewardship.

We hope you will find this Report of interest, and that it gives you some useful insights into our asset owner stewardship activities, our progress made in 2023 against our sustainability aspirations, and how we continue to put our customers and clients at the heart of everything we do.

We intend to continue to improve our reporting capabilities in response to feedback from the Financial Reporting Council, and from you. So we'd really welcome your feedback on this Report, and you can contact us at StewardshipFeedback@MandG.com

Best wishes,

Clive Bolton,
Chief Executive Officer, M&G Life on behalf of
Prudential Assurance Company Limited

Introduction

UK Stewardship Code 2020

The UK Stewardship Code 2020 (the Code) sets high stewardship standards for those investing money on the behalf of UK savers, pensioners and those that support them. The Code emphasises the importance of active engagement and encourages investors to consider environmental, social and governance (ESG) factors and sustainable business practices.

Stewardship is the responsible management, allocation and oversight of capital to generate long-term value for clients and beneficiaries, leading to a more sustainable economy, environment and society. The Code has four main sections: **Purpose and Governance, Investment Approach, Engagement and Exercising Rights & Responsibilities,** which are spread across 12 voluntary principles. The Code imposes an 'apply and explain' approach as all organisations have varying methods that are aligned with their own unique business model and strategy to meet the expectations of the Code.

About M&G plc

M&G plc is a leading international savings and investments business, managing money for more than 4.6 million retail clients and more than 900 institutional clients in 26 markets.

As of 31 December 2023, we had £343.5 billion of assets under management and administration.

With a heritage dating back more than 170 years, M&G plc has a long history of innovation in savings and investments, combining asset management and insurance expertise to offer a wide range of solutions.

Our purpose is to give everyone real confidence to put their money to work.

Our new structure combines Asset Management, Life and Wealth, with all three segments working together to offer balanced long term investment and insurance advice.

This is how we create financial products and solutions that give our clients real confidence.

The relationship between the asset owner and the internal asset manager

M&G plc owns a group of financial brands and companies (the Group). Two of the segments are discussed in this report: the M&G Life segment of the Group includes, the asset owner – Prudential Assurance Company (PAC) whilst the other distinct segment of the Group is the asset manager – M&G Investments (internal asset manager).

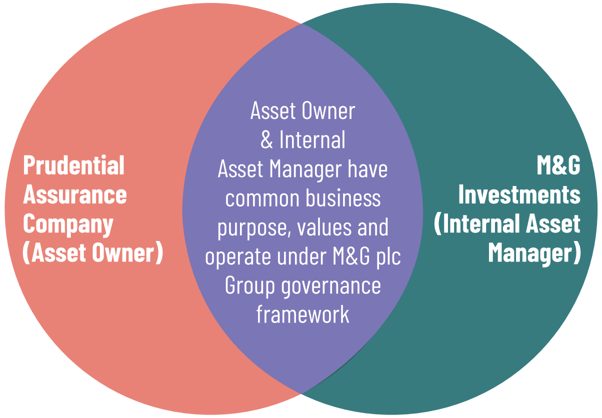
The asset owner's main responsibilities include the sale of savings and investment products and has a direct relationship with the policyholder. The asset owner also leads on designing, sourcing and distributing financial products to a number of different types of clients, including retail clients, institutional investors such as pension schemes, and investment platforms. These products include with-profits policies, annuities, and unit-linked funds. The investment strategies for these products vary since each strategy has been tailored to the needs of each product. They may include multiple asset classes and regions/geographies spread across a number of mandates or investment vehicles.

The asset owner is also responsible for appointing skilled asset managers in order to manage diversified investment portfolios, which better suit the client's needs, for an appropriate fee. The asset owner may appoint the internal asset manager or there is also an option to appoint external asset managers*; we look to appoint asset managers that have expertise in generating sustainable risk-adjusted returns, net of fees, over the long-term, for a particular asset class or investment strategy.

The internal asset manager in turn can, and does, manage assets for third-party clients that are not the asset owner. Indeed, while the asset owner is an anchor investor in many of the internal asset manager's investment strategies, it does not make use of every investment strategy that it offers.

The relationship between the internal asset manager and the asset owner is carefully managed to ensure that clients receive the best possible outcome. The asset owner endeavours to treat the internal asset manager as it would an external manager.

Pru
part of M&G plc



M&G
Investments

While we believe there are benefits in using an internal asset manager, such as having a common purpose and an alignment in values and priorities, they are required to meet specific criteria prior to being appointed (in line with the appointment criteria of all asset managers), including having to meet the minimum threshold of being considered a top quartile investment proposition within their investment universe.

Furthermore, the asset owner also broadly corresponds to the old Prudential UK Life business (and continues to trade under the Pru name), while the asset manager corresponds to M&G Investments. The asset owner and the internal asset manager function independently, but both parties have a common business purpose, values and commitments, and operate under a Group governance framework, all defined at the level of M&G plc.

As both asset owner and internal asset manager, we (M&G plc) report our stewardship activities in line with the UK Stewardship Code 2020.

** For further details regarding our external managers, please refer to Principle 2, Page 36.*

2023 Prudential Assurance Company (PAC) Stewardship Report

In line with the UK Stewardship Code 2020, the asset owner has committed to update its Stewardship Report on an annual basis. The 2023 PAC Stewardship Report specifically outlines how we adhere to the 12 principles, within the Code, with a greater focus on environmental, social and governance (ESG) and stewardship activities and their related outcomes. We have presented this through appropriate evidence such as case studies and our policies.

The 2023 PAC Stewardship Report has been subject to a thorough governance review process as outlined in Principle 5, as found on page 60.

Note: the Report is intended for use by a wider audience including investors, policyholders, regulators and our clients. This is a detailed, complete Report for those who would like to have the full information provided. We have also created a high level Executive Summary document containing an overview of the content of the Report. This PAC Stewardship Report, its Executive Summary and the full With-Profits Fund Stewardship Report can be found on our **PAC Responsible Investing website**.

Financially advised clients can also contact their advisers with any questions they might have on how the Stewardship Report relates to their policy and how stewardship and ESG are considered and/or integrated within their policy.

The UK Stewardship Code 2020 Principles

Purpose and Governance

1. Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
2. Signatories' governance, resources and incentives support stewardship.
3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.
4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
5. Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Investment approach

6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8. Signatories monitor and hold to account managers and/or service providers.

Engagement

9. Signatories engage with issuers to maintain or enhance the value of assets.
10. Signatories, where necessary, participate in collaborative engagement to influence issuers.
11. Signatories, where necessary, escalate stewardship activities to influence issuers.

Exercising rights and responsibilities

12. Signatories actively exercise their rights and responsibilities.

Source: Financial Reporting Council

Disclosure by Principle

The upcoming sections set out how the asset owner has demonstrated compliance with the principles of the UK Stewardship Code 2020.

The Report is laid out Principle by Principle and case studies are used to support how the asset owner has complied with each Principle.

Where applicable, some Principles will include sections which pertain to both the asset owner and M&G plc, as the asset owner shares and adopts the position of M&G plc, in addition to its own.

Where applicable, case studies (including those related to engagement) have been structured under Objective, Approach and Outcome subheadings, and additional notes have been added to differentiate case studies on the engagement and voting activities that have been carried out by the appointed internal and external asset managers (as collated via our Engagement Templates).

Case studies included in the Report are all inherent to/provide a view of the activities that have been undertaken in 2023, or the progress made across existing activities in 2023, unless otherwise stated.

Where there are references to 'we' or 'our', it is in reference to the asset owner business or M&G plc, dependent on the section and/or the applicability of the context to both entities.

Throughout the Report, we refer to 'customers' using the broader term 'clients' that describes most audiences, except where a specific context means the term customer is required.

Principle 1: investment beliefs, strategy and culture

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society

M&G plc

Purpose

M&G plc's (M&G) purpose is to give our clients real confidence to put their money to work. Our clients trust us with their assets and investments. We help them transform their wealth to deliver positive returns, including an opportunity to invest to have a positive impact on society and the planet.

Our new purpose reflects where we are as a business and our future ambitions. It is underpinned by our values and behaviours, which guide how we work, and leads our strategy.

Culture and Values

Our values guide what we do, the decisions we make and the way we respond to opportunities and challenges. By bringing our values to life through our behaviours, we are delivering progress on our strategy, and achieving our new purpose.

Our culture is the values, behaviours, beliefs and attitudes that the organisation shares, defining how people collaborate and work together, and what is expected from everyone day-to-day. Above all we:

- **Act with care** – treating clients and colleagues with the same level of respect we would expect for ourselves. We also invest with care, making choices for the long-term
- **Act with integrity** – empowering colleagues to do the right thing, to honour their commitments to others and act with conviction. The business is built on trust and it does not take that lightly

ESG, sustainability and stewardship priorities

M&G believes that a well-governed business, run in a sustainable manner, with consideration of environmental, social and governance factors, delivers strong and resilient investment returns in the long-term. A key step on our journey has been to strengthen our overall sustainability resource and governance. In November 2023, we appointed our first Chief Sustainability Officer (CSO), Kathy Ryan, who will lead M&G's Group Sustainability Strategy.

To enable its sustainability-driven objectives, M&G continues to prioritise climate change, along with diversity and inclusion:

- **Climate change:**
  - M&G is committed to achieve a near term carbon emissions reduction of 46% across its operations (Scope 1, 2 and Scope 3 travel) by 2030 at the latest[1], and to achieve net zero carbon emissions across its investment portfolios by 2050 in aggregate to align with the Paris Agreement on climate change
- **Diversity & Inclusion:**
  - committed to achieving greater representation of gender and ethnicity in senior leadership (Executive Committee and their direct reports) with the goal of achieving 40% female representation and 20% representation from Black, Asian and minority ethnic backgrounds by 2025 in the Group's senior leadership roles

[1] *Previously we had described our operational target as Net Zero 2030. While our ambition has not changed, we have updated the articulation of the commitment to be in line with the latest industry guidance.*

- **Diversity & Inclusion continued**
  - as an asset owner, to evaluate the diversity policy of asset managers that manage assets on its behalf, and how asset managers challenge investee companies to improve and maintain diversity and;
  - to continue to meet its external benchmarks, including the National Equality Standard and LGBT Great Equality Index

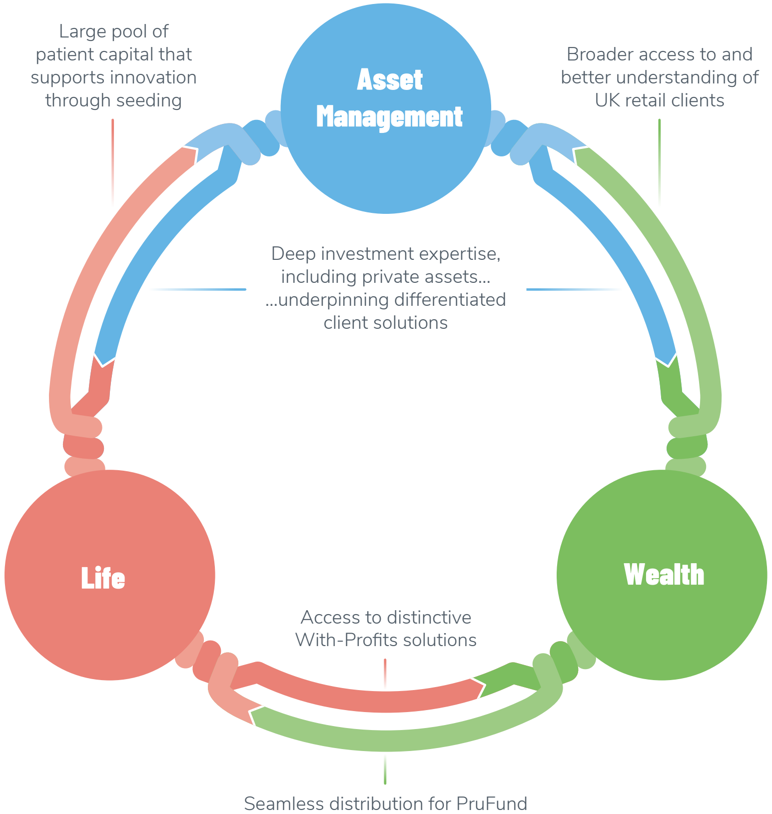
Business model

M&G plc is an international savings and investment business offering a range of financial products and services through Asset Management, Life and Wealth (which incorporate our retail and savings business). All three operating segments work together to deliver attractive financial outcomes for our clients, and superior shareholder returns.

Our three business segments are structured to work in harmony to direct our strategic priorities and deliver distinctive investment solution.

- **Our Asset Management business** is an international active asset manager with differentiated, high-value 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. Our Asset Management business powers the investment solutions we offer to clients
- **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 our Asset Management business to build new propositions to enhance financial outcomes
- **Our Wealth business** provides holistic and accessible advice to individual clients in the UK and access to our Asset Management and Life products through strong intermediary relationships. This in turn gives individuals in the UK access to our multi-asset solutions, including the PruFund range

M&G plc uses its financial strength, scale and long-term investment horizon to provide security to its clients and enable its investment teams to build new capabilities that enhance financial outcomes.



As reported in the 2023 M&G plc Annual Reports and Accounts

Strategy

M&G has made real progress in delivering our strategy, building on our strengths to shape a strong, focused business with a clear purpose.

We offer a broad and distinctive set of savings and investment propositions across Asset Management, Life and Wealth. The three pillars of our strategy are centred on our new purpose: to give everyone real confidence to put their money to work.

The strength of our differentiated business model is helping us to deliver our strategy. By combining our deep understanding of client needs, international footprint, compelling products and services, investment capabilities and expertise, we are transforming M&G, delivering good operational and financial performance, and targeting superior client outcomes.

Our ability to generate long-term value is also dependent on how we address environmental and social issues through the investments we make on behalf of our clients, as well as our business operations.

See **2023 M&G plc's Annual Reports and Accounts** for more information.

Our Strategy

Maintain our financial strength	Simplify our business	Deliver profitable growth
Ensuring our clients can depend on us, while rewarding shareholders.	Becoming more nimble and efficient in how we work to best serve our clients	Building on our strengths to better anticipate and address our clients' needs

Asset owner

Our investment beliefs

We, as the asset owner, have a set of investment beliefs that are aligned to our principles and values and to the internal asset manager's investment beliefs. A summary of these are illustrated in Figure 1 opposite.

Long-term approach	Offers availability of broader investment set, looks through short-term volatility and has the flexibility to cater for the investment time horizon and liquidity requirements of specific funds
Diversification	Combining different assets in a portfolio to improve an investors' risk-adjusted return, limit impact of volatility and increases the probability of an investor achieving their investment
Active management	Our belief in active management is dependent on the characteristics of each asset class and our manager selection skills
Importance of value and asset valuation	Valuation of an asset remains an important consideration in determining the risks and returns which we can achieve by investing in that asset
Illiquidity premium	Some less liquid asset classes may attract an additional premium, and provide beneficial risk-return characteristics for a multi-asset portfolio
Harvesting a credit risk premium	The concept of a credit risk premium intuitively explains that investors are rewarded for bearing the risk that the issuer of debt may at some point default on its obligations
Evolving asset mix and new asset classes	As part of our Strategic Asset Allocation, we review and update our asset allocations on a regular basis and our response to structural changes in the market
Importance of ESG factors and risks	We take ESG factors into consideration in investment decisions and their potential to materially impact our clients and investment outcomes. In our role as an asset owner, we believe that businesses and behaviours that reflect ESG best practices, and which are aligned with our values of care and integrity, are better-positioned to deliver sustainable outcomes over time horizons that meet present and prospective client needs

Figure 1: Asset owner investment beliefs

These beliefs are the foundation of our investment strategy, and ultimately we aim to take a long-term, multi-generational approach to investing on behalf of our clients. We take ESG factors into consideration in investment decisions and their potential to materially impact our clients and investment outcomes.

We are long-term investors across our with-profits, annuities and unit-linked businesses. In our role as an asset owner, we believe that businesses and behaviours that reflect **ESG best practices**, and which are aligned with our values of care and integrity, are better-positioned to deliver sustainable outcomes over time horizons that meet present and prospective client needs.

We therefore aim to invest in ways that promote our values in line with our own ESG investment principles (as defined within the **PAC ESG Investment Policy** – to the right), and to actively direct our investee companies towards more sustainable practices.

We expect our underlying managers to take active ownership and engage with investee companies and carry out responsible stewardship.

As discussed in Principle 9, we use our Engagement Framework to ensure that our managers comply with the standards set out in **Shareholder Rights Directive II (SRDII)** and the **UK Stewardship Code 2020**. Whilst we encourage sustainable practice, we are aware that we cannot always achieve the desired outcomes, some of which are due to the nature of an investee company's business or nature of the investment activities or behaviour that breaches our core value and subsequently assess the investee company under our exclusion process. In these instances where we believe engagement and voting has been ineffective in influencing positive change, we may reduce our exposure or exclude the company from our portfolios.

PAC ESG Investment Policy

In 2020, the asset owner published its PAC ESG Investment Policy (the Policy) which sets out the asset owner's ESG principles, commitments and targets.

Given that stakeholders' expectations are dynamic, as well as the broad array of ESG issues, the Policy does not prescribe the investment treatment of each ESG-related issue. Instead, the Policy sets out our principles-based approach to addressing ESG matters in investing, and policies for specific ESG matters that must be applied by the PAC across all investment portfolios.

For more details, the Policy can be viewed **here**.

Meeting our clients' needs

M&G offers a range of client solutions with varying risk tolerances and asset allocations and their own time horizon to meet client's needs. The asset owner ensures that there is adequate asset-liability management in order to ensure that clients achieve desired investment outcomes. The mandate design takes into consideration an array of factors to facilitate the investment outcomes to match the requirements of the liabilities. These requirements may be defined along several dimensions, for example meeting of guarantees, time horizon, lapse rates and maximum levels of risk – with reference to the needs of those clients whom the asset owner has written the business for.

We also measure our success in meeting client needs in a number of different ways. For our with-profits clients, we meet their needs if we construct portfolios that give financial returns that meet their expectations, at a reasonable level of risk. The needs of our annuity clients and our unit-linked clients are met if they receive the outcomes defined for them when they bought the product. More specifically, the annuity clients' outcomes are met if they receive the income that had been promised to them upon purchase, whilst the needs of the unit-linked clients are met if the investment objectives that had been set are adhered to. Those are overseen by the **M&G Life Executive Investment Committee** (M&G Life EIC). The interests of our with-profits and our corporate pensions clients are represented on an ongoing basis by two independent sub-committees, the **With-Profits Committee** (WPC) and the **Independent Governance Committee** (IGC).

M&G Treasury & Investment Office is responsible for the strategic allocation of funds, fund manager selection and oversight for the asset owner. As reported in 2021, there continues to be greater focus on how the asset owner's investment strategies can be made more sustainable, and in particular how climate risk can be mitigated going forward. As a result of these discussions, and in keeping up with the evolving nature of ESG data, since 2021 we are shifting focus to measuring results.

Please refer to Principle 6 on page 62 for further information on how we meet our clients' needs and aim to serve in the best interests of our clients and beneficiaries.

Our fund offerings

Our PruFund and PruFund Risk Managed product ranges offer a large variety of products at varying levels of risk, client's appetite for investment risk and ethical and sustainability preferences.

For example, clients may select our PruFund Planet range, which aims to exclude companies and projects in areas that harm the planet whilst proactively looking for opportunities with positive contributions to ESG related factors. Alternatively, our PruFund Risk Managed range has pre-defined investment risk levels, that also incorporates ESG factors across a range of multi-asset funds.

We set our Strategic Asset Allocation (SAA) for our PruFund range with respect to the required risk levels and our clients' preferred time horizon. The latter is generally medium to long-term, as our clients purchase PruFund as a savings vehicle for retirement. Furthermore, our PruFund investment strategy is multi-asset, investing globally across equities, fixed income, property and alternative assets. This diversifies our investment strategy and allows us to calibrate the level of investment risk appropriately. The SAA process includes a forward looking approach to climate risks via the internal climate scenario modelling.

Our PruFund range has a long-term track record of delivering consistent returns to policyholders. Since its inception, almost 20 years ago, PruFund Growth has consistently delivered the returns defined by PAC. It has done this by taking a sensible and balanced, medium to long-term view to investing, whilst continuing to embed and enhance stewardship through our policies and approaches. This includes the M&G plc Thermal Coal Position which has thresholds and a screening criteria for coal related investments. PruFund Growth has mandates that invest in solutions that we believe will provide tangible benefits to the economy, environment and society (for example, with the development of M&G Catalyst*).

We demonstrate our ESG investment beliefs through our PAC ESG Investment Policy. This policy includes description of our ESG exclusions and how they are applied. This includes setting thresholds and screening criteria for specific exposures this includes Thermal Coal, Tobacco, Controversial Weapons and United Nations Global Compact (UNGC) violators focusing on anti-corruption, human rights and labour standards. Please refer to the **PAC ESG Investment Policy** for further detail.

***Please refer to Page 70 for more information on M&G Catalyst team.**

Enabling effective stewardship

We have continued to further integrate ESG within our Investment Due Diligence Process:

- As part of the Investment Due Diligence (IDD) process conducted by Manager Oversight on our appointed investment managers, the team conduct quarterly IDD meetings with key members of the investment team. These meetings are intended to discuss performance, attribution and market outlook.
- In 2023, the IDD meetings increasingly involved members of the ESG & Regulatory team to also include an ESG agenda to the quarterly IDD meetings. This has contributed to our understanding of how managers are managing ESG within their investment processes and have provided an opportunity for the ESG & Regulatory team to flag short-term concerns.

Moreover, we have also enhanced our approach to the oversight on equity fund managers and their policies, by assessing whether their approaches align with the PAC Shareholder Engagement Policy. For example, we have added in a number of ESG-related questions to our Shareholder Rights Directive II (SRDII) to improve the scope of the questionnaire that supports the SRDII review.

See Principle 8 and 9 for further detail on how we ensure that we have enabled effective stewardship.

Case study: Mansion House Compact

During 2023, M&G plc became a founding signatory of the Mansion House Compact (the Compact) to support further private investments in the UK economy for long-term savers within our Prudential With-Profits Fund. The Compact is a voluntary expression of intent by founding signatories to take meaningful action to achieve better outcomes for UK long-term savers by facilitating access to the higher net returns that can arise from investment in unlisted equities as part of a diversified portfolio.

As a signatory of the Compact, M&G is committing to:

- Increase the proportion of UK pension and other relevant assets, including Defined Contribution default funds, invested in unlisted equities
- The aim to allocate at least 5% of Defined Contribution default funds to unlisted equities by 2030

Case study: PruFund Planet

M&G launched a sustainable PruFund Planet range in July 2021 to capture different client needs. This enables clients to have access to a bespoke range which aims to exclude companies and projects in areas that do harm to the planet eg, controversial weapons, such as anti-personnel mines and cluster munitions, and proactively looking for opportunities that focus on Environmental, Social and Governance (ESG) factors. This supports our continued focus on developing solutions that allow our clients to invest in impact-focused strategies.

Outcome

As stated above, M&G plc is strongly driven by its purpose, which in turn is underpinned by a clear set of values, strategy and business model. We remain committed to our sustainability priorities of Climate Change and Diversity & Inclusion to further enhance our stewardship practices.

As an asset owner, our investment beliefs, supported by the PAC ESG Investment Policy and its underlying principles, continue to facilitate our direction towards ensuring that we continue to meet customers' needs and enable effective stewardship.

Principle 2: governance, resources and incentives

Signatories' governance, resources and incentives support stewardship

M&G plc

Governance structure

M&G plc's governance structure is designed to support delivery of our strategy. The Board has responsibility for the oversight, governance, direction, long-term sustainability and success of the business and affairs of M&G, and is responsible to shareholders for creating and delivering sustainable shareholder value.

The Board is specifically responsible for a range of matters, which include:

- approving the Group's strategic aims and objectives
- setting our purpose, standards, and culture
- approving the annual Group financial budgets
- approval of effective risk management and internal control processes
- taking strategic decisions
- the approval of specific matters

The matters that require Board approval are contained in a Schedule of Matters Reserved for the Board.

In discharging its responsibilities, the Board is supported by management and ensures a clear division of responsibilities between the Chair, the Group Chief Executive Officer, the Senior Independent Director and the Non-Executive Directors.

The Board delegates specific responsibilities to Board Committees, which operate within clearly defined terms of reference approved by the Board. In compliance with the Code, the Board has established an Audit Committee, a Nomination and Governance Committee and a Remuneration Committee. We have also established a separate Risk Committee. The Terms of Reference for each Board Committee are reviewed and approved annually by the Board and are available to view on our website.

Sustainability governance

Board oversight

M&G's Board has responsibility for the oversight of the long-term sustainability and success of the business, and is responsible for creating and delivering sustainable shareholder value. This includes setting the Group's sustainability strategy and its values and principles.

The Board delegates specific duties to sub-committees as follows:

- Reporting in the Annual Report and Accounts and any other material public documents in respect of climate change and sustainability matters (for compliance with relevant regulations, legislation and standards) is included in the Audit Committee's terms of reference
- Assessment of sustainability and ESG risk within the Group Risk Management Framework, including climate-related stress and scenario testing. The reporting of climate-related risk disclosures and provision of advice to the Board in setting M&G's sustainability strategy, is included in the Risk Committee's terms of reference

Sustainability governance continued

Regular Risk and Compliance reporting is provided to both the **M&G Risk Committee** and **the Board** through the **Chief Risk and Compliance Officer's report** – setting out current risk issues, events in the period and an assessment of key risks against appetite. This includes consideration of sustainability and ESG risks. The Risk Committee also undertook a number of assessments relating to sustainability-related risk during 2023. See **2023 M&G plc's Annual Reports and Accounts** for more information.

In discharging its responsibilities, including setting M&G's sustainability strategy, the Board ensures a clear division of responsibilities between the Chair, the Group Chief Executive Officer, the Senior Independent Director and the Non-Executive Directors through their membership of the sub-committees. The Board is also supported by executive management.

Management's role

Executive management, as members of the Group Executive Committee, report directly into the Group Chief Executive Officer, allowing material climate and other sustainability issues and policy decisions to be escalated to the Board.

In discharging their responsibilities, executive management attends various committees, such as the **Executive Sustainability Committee (ESC)** and the **Executive Risk Committee**, to enable information sharing between business units and to monitor sustainability-related issues.

Responsibility for sustainability strategy, policy, commitments, resourcing and governance model is assigned to our Chief Financial Officer (CFO). As our CFO is a member of both the Board and Group Executive Committee, she facilitates communication between the Board and management.

During 2023, the CFO presented sustainability-related updates to the Board. These included the importance of sustainability when considering our strategic initiatives, enhancing our approach to sustainability through formation of the **Central Sustainability Office**, and assessment of sustainability focus areas and risks across M&G.

In November 2023, our first Chief Sustainability Officer (CSO), Kathy Ryan, joined us, and she will lead M&G's Group Sustainability Strategy. Our CFO has delegated responsibility for leading the M&G Sustainability Programme to the CSO. This covers overall responsibility for Group sustainability strategy, policy, commitments, resourcing and governance model. It also includes communicating to relevant Senior Managers their direct responsibilities for defining and managing their own sustainability strategies, policy, commitments and accountabilities in alignment with our approach.

The Central Sustainability Office, created in 2022 and overseen by the CSO, has taken a number of actions during the year to advance our Group-wide sustainability governance. These include:

- Promoting and driving a collaborative sustainability approach across the firm
- Evolution of sustainability governance including working groups to support execution of sustainability strategy with local expertise
- Developing and implementing a **Sustainability Communications Control Model** and engaging with key internal stakeholders on material sustainability topics to increase awareness across M&G

Sustainability governance continued

Over 2023, we have continued to embed our recently formed **Executive Sustainability Committee**, which is chaired by our CSO. This cross-functional committee supports the oversight of sustainability-related risks and opportunities across the Group and recommends to the **Group Executive Committee** and/or Board as needed, supporting the successful execution of the firm's sustainability strategy, policy, public sustainability commitments, material communications and disclosures.

The CEOs of our Asset Management, Life and Wealth divisions all attend the Executive Sustainability Committee and are responsible for its implementation in their respective business units.

To ensure visibility across all our business segments, the ESC receives reports from various bodies across the Group, including the **Sustainability Steering Committee** and **Commitments Working Group**.

Sustainability disclosures and reporting considered material to the Group are presented to the **Management Disclosure Committee** (MDC), which has responsibility for external reporting and disclosure, before submission to the **Audit Committee**. The MDC is also chaired by the CFO.

Consideration of sustainability-related investment decisions is managed at Executive management level within each of our operating segments.

Group sustainability governance structure

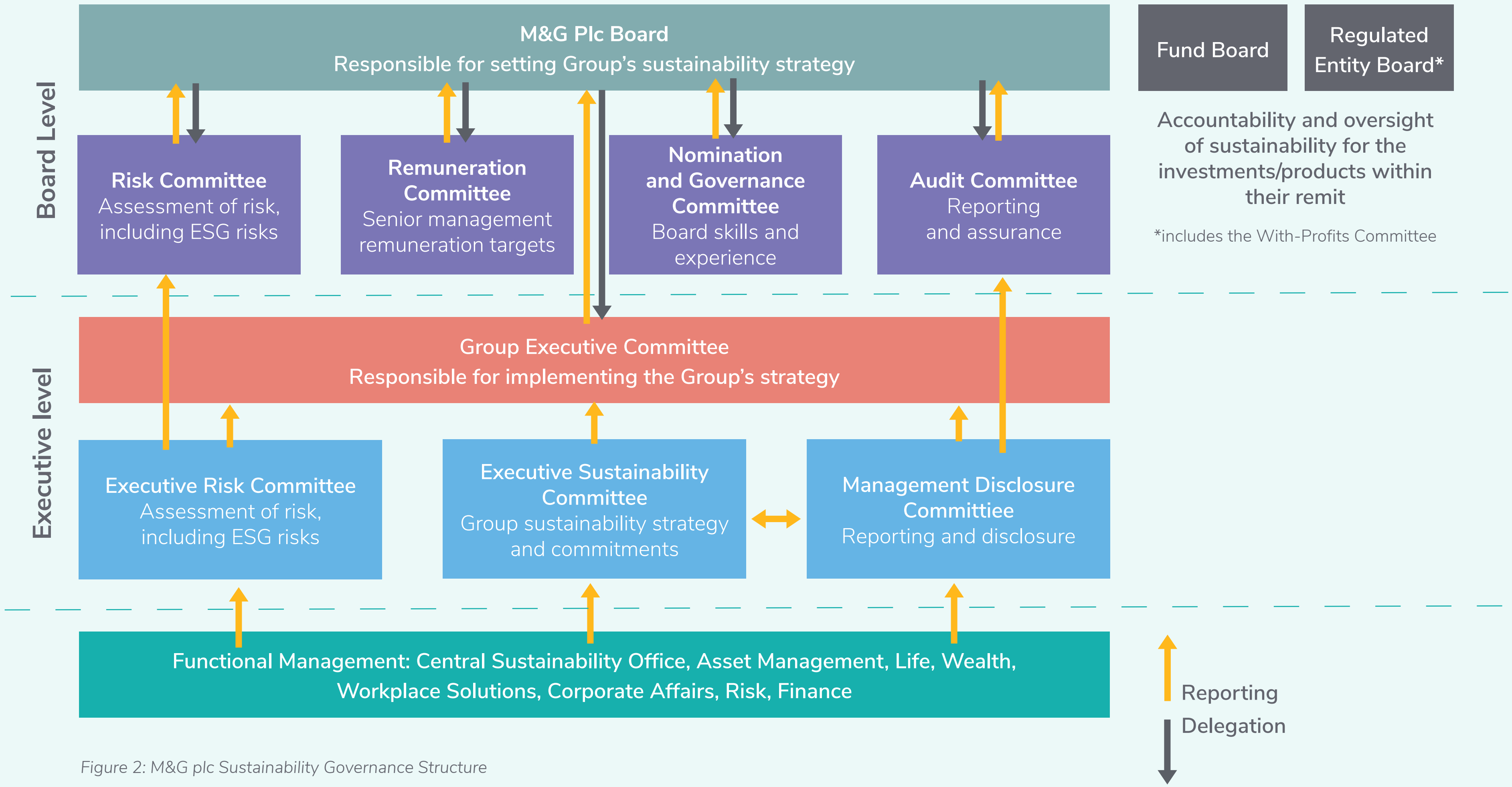


Figure 2: M&G plc Sustainability Governance Structure

Training and resources

In line with M&G's and the asset owner's ESG and sustainability ambitions and principles, it is key that our staff have an understanding and appreciation of what sustainability means for the company. Sustainability and key ESG topics, including ESG risks are included in formal, all-staff training modules. Other ESG topics are delivered in multiple parts throughout the year (see case study opposite) for specific roles across the firm.

Bespoke training sessions are also often provided in each business segment at M&G to upskill employees in specific roles, including but not limited to: ESG Risk Forum and thematic sustainability training.

To add, the company sponsors professional qualifications for employees, wherever needed such as the CFA accreditation and the CFA Institute's Certificate in ESG Investing, and external personal development courses such as the University of Edinburgh's Climate Change Risk in Finance course.

M&G's Sustainability Hub provides a centralised hub for information related to sustainability information. The site also includes guidance on processes for both communications and sustainability initiatives. The guidance provides staff with a view as to which key stakeholders should be engaged for either changes to new or existing changes or communications to provide an appropriate level of governance and oversight. In line with the objective of streamlining sustainability training, employees now have access to internal sustainability-related resources to gain a greater understanding and embed awareness of M&G's community objectives which are aligned with Group Governance and reporting requirements.
(For more information on M&G's approach to community investment, please see our **Community Investment Policy**).

Anti-Greenwashing mandatory training

In Q3 2023, M&G launched all-staff mandatory training on anti-greenwashing to be completed to help ensure that our sustainability-related content accurately reflects the actions that we are taking to meet the needs of our clients, and to help drive real-world positive change.

In addition to this, M&G launched three follow up anti-greenwashing deep dive training modules, which were mandatory for certain teams across the business (who were automatically enrolled). This training was also available to anyone else who could enroll manually.

Some topics that have been covered include:

- **Governance and risk framework:** Understanding how anti-greenwashing risk fits into M&G's wider risk management framework
- **Communications and disclosure:** Understanding the types of communications, disclosures and statements from which greenwashing risk can arise
- **Product design and investment process:** Understanding the regulatory landscape surrounding product classification and labelling, and why this is important to M&G

Third-party service and research providers

In addition to the data that we receive from investment managers, third party research providers such as MSCI, ISS, etc, are also used as a resource for ESG and stewardship data. Third-party screening systems provide the relevant data used to identify securities and companies that require specialist ESG and Stewardship review. Third-party ESG service providers are also used for the integration of ESG, and reputational risk monitoring of actual and potential portfolio and fund companies.

A list of some of our key service providers (non-exhaustive) is illustrated below. Regular meetings are held with the providers to review the quality of their services, and ongoing dialogue is maintained to review any identified issues or required improvements. See Principle 8 on page 78 for more information on how M&G manages third-party service providers.

MSCI	MSCI is a provider of portfolio, ESG and climate analysis and data tools. Services provided and used by M&G include the provision of ratings, metrics, reports, research and other such data across a range of geographies and asset classes.
ISS	ISS ESG provides M&G solutions across a range of sustainable and responsible investment issues including corporate ratings, screening, ESG data and quality scores. ISS voting platform is used to build M&G a custom voting service that reflects our public voting policy.
Bloomberg	Bloomberg is a data provider for financial markets. Bloomberg's (ESG Data) dataset that M&G uses, offers ESG metrics and ESG disclosure scores for more than 14,000 companies in 100+ countries. The product includes as-reported data and derived ratios as well as sector and country-specific data points.
Refinitiv	Refinitiv is a provider of transparent, accurate, and comparable (ESG) data and analytics for the financial industry. ESG Scores that Refinitiv provides to M&G are designed to objectively measure a company's relative ESG performance, commitment and effectiveness across 10 main themes based on publicly-reported data.
Sustainalytics	Sustainalytics is a provider of ESG research, data and ratings to institutional investors. Sustainalytics provides M&G solutions and services including ESG and ESG risk ratings, controversies coverage, and screening.
CDP	CDP is a not-for-profit charity that runs the global disclosure system for investors, companies and regions to manage their environmental impacts. CDP accredits leading environmental service providers around the world to help disclosing organisations find high-quality support as they transition to environmental leadership. M&G uses company disclosure and their scores from CDP.
Macrobond	Macrobond is a data provider that provides instant access to timely, accurate macroeconomic and financial time-series data from over 2,500 global sources – more than any other data provider. M&G used the Category data provided by Macrobond.

Incentives

At M&G, compensation decisions are based on a holistic appraisal process with appropriate objectives set according to the role. In 2023, investment professionals of the asset owner and the internal asset manager had an ESG-related objective which requires each person to take into account ESG considerations in their day-to-day work. Achieving this objective forms part of the annual performance assessment, and success here is crucial to both a good performance rating and remuneration.

The M&G plc ESG Risk Policy, which sets out the requirements for managing ESG risks on an ongoing basis (see Principle 4 on page 45), includes specific requirements to ensure ESG commitments/targets are considered as part of the annual review of the **M&G plc Remuneration Policy** for senior executives and Board members.

Asset owner

Governance structure

In addition to the overarching structure at the Plc level, the asset owner has our own governance structure which enables sustainability-related matters to be integrated into our business activities.

The PAC Board is responsible for interpreting and applying the Group strategy and ensuring it is appropriate for the PAC's business and customers. The PAC Board delegates specific duties, including sustainability-related matters to sub-committees:

- **With-Profits Committee** advises the PAC Board to ensure that the interests of With-Profits policyholders and issues are considered within the PAC governance structures
- **Independent Governance Committee** is responsible for ensuring that we offer our workplace pensions customers value for money in their plans. The committee also represents the customers' interests by overseeing relevant processes
- **Risk Committee** supports the PAC Board in its risk activities, providing leadership, direction and oversight
- **Audit Committee** assists the PAC Board in meeting its responsibilities for the integrity of financial reporting

Meanwhile, governance over our investments is managed through **the Treasury & Investment Office**. The Treasury & Investment Office makes its decisions via a number of different mechanisms. There are delegated authorities extended by PAC Board to personnel at various levels.

The exercise of these delegated authorities is overseen by the **M&G Life Executive Investment Committee (M&G Life EIC)**. The M&G Life EIC is chaired by the M&G Life CEO and provides oversight and governance of the investment portfolios of Prudential Assurance Company (PAC), and Prudential Pensions Limited (PPL).

In 2023, the M&G Life EIC terms of reference (ToR) were updated to outline explicit responsibilities with respect to ESG and Stewardship. Papers that are submitted to the M&G Life EIC typically now include a section on ESG considerations, whereby authors demonstrate that the PAC ESG Investment Policy and other related ESG targets/ commitments have been considered.

Investment decisions that are influenced by ESG, sustainability and stewardship considerations are channelled through this governance structure, and ultimately, through the M&G Life EIC, which in turn, reports to **the PAC Board**. This covers any ESG/sustainability-related matters, including ESG policies and external disclosures. Where appropriate, ESG disclosures will also be channelled through our Group level governance forums, such as the **Management Disclosure Committee** and **Executive Sustainability Committee**. See Principle 5 on page 56 for a detailed example on the governance process on the PAC Stewardship Report.

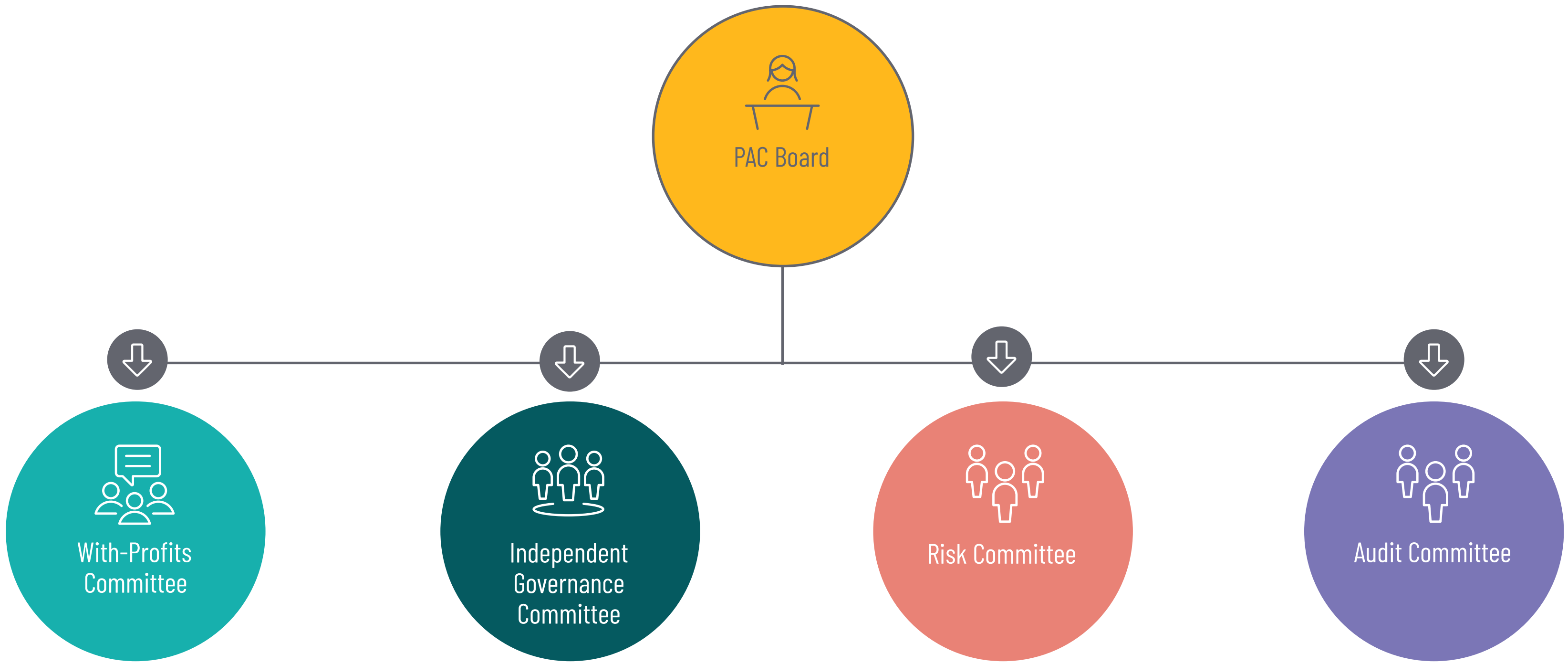


Figure 3: High-level asset owner governance structure

The Asset Owner ESG Working Group

In 2020, we set up the Asset Owner (AO) ESG Working Group, chaired by a member of the ESG & Regulatory team. The purpose of the AO ESG Working Group is to have a dedicated forum to support M&G and the asset owner to meet their sustainability and ESG-related goals and commitments, by facilitating information sharing and collaboration on key ESG-related matters and activities pertinent to asset owner business. It may also include the review of the wide suite of ESG-related initiatives including ongoing stewardship activities.

The attendees of the AO ESG Working Group include representatives across the Treasury & Investment Office function, and Risk and Compliance function. It also includes representatives from M&G plc Central Office Sustainability function to enable active exchange on the business' sustainability initiatives and their link to the delivery of the Group's ESG commitments and wider sustainability strategy. Any key risks, issues and decisions raised at the working group are escalated through the appropriate governance channels, including oversight and approval at the M&G Life EIC where required.

Since September 2023, we have been reviewing our commitments and targets made within our policies and disclosures on a quarterly basis to ensure we are making sufficient progress in meeting them. Commitments/targets are given a red/amber/green (RAG) rating to assess our progress, and the results are presented to the AO ESG Working Group to discuss any remediated measures that would be required to accelerate progress (if required). This has ensured that we are monitoring our progress against our ESG commitments on an ongoing basis.

Resources

Within the Treasury & Investment Office, a number of teams collaborate together with the aim to ensure clients receive good financial outcomes. The overall business area comprises of approximately 62 people, with additional support, oversight and advice provided by Risk & Compliance functions. A schematic showing the role, organisation and component teams of the Treasury & Investment Office is illustrated in Figure 4 on page 27.

Management by the Treasury & Investment Office

- All portfolio positions have appropriate Risk & Compliance oversight
- Portfolios are managed in compliance with Group Standards and Legal/Regulatory requirements

Risk & Compliance Oversight

Liability Driven Portfolio Management

- Efficient portfolio implementation to ensure annuity funds and overlay hedging programmes are managed in line with objectives and guidelines
- Recommendation of new approaches for portfolio optimisation

ESG & Regulatory

- Set and embed ESG principles into our investment decisions, portfolio and risk management processes
- Drive and implement asset owner ESG strategies, including portfolio decarbonisation efforts

Client Portfolio Management

- Explains the 'who', 'why', 'what' and 'how' for our funds to achieve business objectives for growth and retention

Manager Oversight

- Rigorous oversight of all underlying managers to ensure outcomes are aligned with our needs
- Leverage the skillsets of underlying managers for the benefit of portfolios
- Selection of high quality investment managers

Long Term Investment Strategy

- Recommending the SAA for the funds managed by Treasury & Investment Office
- In depth Capital Markets and Economic research to form medium and long-term views
- Capital Markets Modelling and scenario analysis, feeding into the wider business

Multi-Asset Portfolio Management

- Efficient portfolio implementation to ensure funds are managed in line with asset mix and hedging objectives and guidelines
- Client reporting to inform clients on portfolio positioning

Annuities & Derivatives Portfolio Management team has had its name changed to Liability Driven Portfolio Management in 2024.

Whilst every Treasury & Investment Office team has a responsibility for embedding stewardship and ESG considerations in their work, the ESG & Regulatory and Manager Oversight teams have primary responsibility of managing key ESG and stewardship processes.

Figure 4: Treasury & Investment Office organisation structure and component teams

The ESG & Regulatory team is responsible for devising ESG Investment strategy and ESG/Stewardship policies and standards at the asset owner level, and drives these into portfolio allocations, benchmarks and positions, alongside the establishment of **ESG due diligence processes** (see Processes section on page 35). The team comprises of eight full time investment professionals (an increase from seven in 2022)[1] and receives ongoing support by other resources in the form of secondees and/or graduates. The ESG & Regulatory team also works collaboratively with the M&G plc Central Sustainability Office, and the internal asset manager's Stewardship & Sustainability team, to ensure a consistent and aligned approach across the related ESG and stewardship principles, policies and reports (where appropriate and/or required), and to the wider M&G sustainability strategy and commitments. To further enable this, two members of the ESG & Regulatory team hold dual roles within the asset owner and internal asset manager teams whilst conflicts of interest are carefully managed (see Principle 3 on page 40).

The Manager Oversight team is responsible for the selection and ongoing oversight of all investment managers that we award mandates to based on the best interest of our policyholders in line with the management of conflicts of interest. As part of this process, the Manager Oversight team also conducts initial and ongoing due diligence of the investment managers' stewardship teams to determine their competence in being able to conduct successful engagement. This includes a review of the investment managers' ESG investment capabilities, their management of risks, and whether ESG is properly embedded within their processes (with support from the ESG & Regulatory team). The team comprises nine full-time investment professionals.

[1] *Adding one more full-time employee compared to the previous year, and two half-full-time employees (who hold dual roles in our team, and the internal asset managers Stewardship & Sustainability team).*

Jin Wee Tan (Head of ESG & Regulatory)

Years at M&G: 10 Years of Professional Experience: 22

Jin Wee has led the ESG & Regulatory team for 4 years. Jin Wee has worked at the nexus of life insurance and asset management for many years, and has previously held roles in investment, asset allocation, operations and projects. Jin Wee holds a first class degree in Economics from the London School of Economics, and is a CFA Charterholder.

Laura O’Shea*

Years at M&G: 9 Years of Professional Experience: 17

Laura joined M&G in 2015 as an investment analyst in the Manager Oversight Team and has been in the ESG & Regulatory team since 2022. Prior to joining, Laura worked as a manager research analyst at BlackRock. Laura holds a Masters in Economics from the University of Warwick and a first class honours BSc in Business Economics and Finance from Loughborough University. Laura is a CFA Charterholder and was awarded the CFA Institute Certificate in ESG Investing.

Agata Wolk-Lewanowicz

Years at M&G: 2 Years of Professional Experience: 16

Agata joined M&G in 2022 as a manager in the Policy & Disclosure team and she currently works as a regulatory manager in the ESG & Regulatory team within the M&G Treasury and Investment Office. Agata’s previous professional experience involves managing a variety of cross sectoral, environmental challenges. Agata joined M&G from Carbon Disclosure Project (CDP). Agata has a Master’s degree in Business Administration and Management.

Henrietta Irving**

Years at M&G: 3 Years of Professional Experience: 13

Henrietta joined M&G in January 2021 and started in the ESG & Regulatory team in 2024. Prior to joining, Henrietta has broad experience in investment management, operations, and project works in relation to life and unitised funds re-structures by working in asset management and asset owner businesses. Henrietta holds a Master’s degree in International Finance, BA degree in Economics, and was also awarded CFA Institute Certificate in ESG Investing and an Investment Management Certificate.

** Laura O’Shea holds dual roles in the ESG & Regulatory team and the internal asset manager’s Stewardship & Sustainability team*
*** Henrietta Irving is the maternity cover for Camille Le Pors in the ESG & Regulatory team*

Treasury & Investment Office ESG & Regulatory Team

Michelle Chen***

Years at M&G: 6 Years of Professional Experience: 10

Michelle joined M&G in 2018 and started in the ESG & Regulatory team in 2024. Michelle has worked in several ESG focused roles internally including in the 2nd line Risk & Compliance and in the 1st line Stewardship & Sustainability and impact research. Prior to M&G, Michelle worked as credit analyst at banks and asset management. Michelle holds a MSc in Investment Finance and Banking, BA in Economics and was awarded the CFA Institute Certificate in ESG Investing.

Guy Rolfe****

Years at M&G: 9 Years of Professional Experience: 9

Guy joined M&G in 2014, in 2019 he began his focus on ESG, formulating ESG investment strategy, methodology and analysis on behalf of both asset owner and the internal asset manager. Guy had previously held roles in portfolio management and risk. Guy holds a first class BA degree in Economics and Politics from the University of Exeter. Guy is a CFA Charterholder and was awarded the CFA Institute Certificate in ESG Investing.

Camille Le Pors

Years at M&G: 2 Years of Professional Experience: 8

Camille joined the ESG & Regulatory team in April 2022, with a focus on Social Issues. Prior to this, Camille worked in the non-profit sector, where she led the Corporate Human Rights Benchmark. Camille has a BA in International Politics from King's College London and a Master's degree in International Affairs from the Geneva Graduate Institute.

**** Michelle Chen is the replacement for the ESG manager role*

***** Guy Rolfe holds dual roles in the ESG & Regulatory team and the internal asset manager's Stewardship & Sustainability team*

Sarah Biria

Years at M&G: 3 — Years of Professional Experience: 3

Sarah joined ESG & Regulatory team in 2023 from M&G's Apprenticeship Programme, having joined M&G in 2021. Sarah has a degree in Chemistry from the University of Kent and has obtained the Investment Management Certificate qualification.

Freddie Jenkins

Years at M&G: 2.5 — Years of Professional Experience: 2.5

Freddie joined M&G in 2021 as an ESG analyst in the ESG & Regulatory team. Freddie has experience working across the 3 pillars of ESG, with a focus on climate and decarbonisation. Prior to joining M&G on a permanent basis, Freddie worked as a data analyst for a graduate consultancy. Freddie holds a Bsc in Biological Sciences from the University of Exeter.

Ha Linh Pham (Apprentice)

Years at M&G: 1.5 — Years of Professional Experience: 1.5

Ha Linh joined M&G in 2022 as part of the Apprenticeship Programme, and has been in the ESG & Regulatory team since September 2022. Ha Linh studied 4 A-Levels, including Geography, Government & Politics, History and Business Studies.

Treasury & Investment Office Manager Oversight Team

Ben Hamilton (Head of Manager Oversight)

Years at M&G: 8 Years of Professional Experience: 8

Ben joined the Treasury and Investment Office in May 2016 from M&G's Graduate Scheme, having rotated within the team as part of the scheme since September 2015. Ben focused on manager research and multi-manager portfolio construction across both public and private markets before stepping up to lead the team in 2024. Ben studied History at Durham University and is a CFA Charterholder.

Ian Pledger

Years at M&G: 25 Years of Professional Experience: 25

Ian joined Prudential in 1999 and transferred to the Treasury & Investment Office in 2010. Prior to this Ian had a number of roles within Finance including Unit Pricing Manager. Ian has a BSc in Accountancy and Law from Kingston University and is a Fellow Chartered and Certified Accountant.

Nick Ridgway

Years at M&G: 7 Years of Professional Experience: 15

Nick joined M&G in 2017. Prior to that Nick headed up the Investment Research Team at Buck Consultants, a pensions consultancy, and before heading the team he led the research efforts across Real Estate and Multi-Asset & Alternative solutions while also covering public markets funds. Nick has a BA (Hons) in Business Studies from Sheffield Hallam University.

Treasury & Investment Office Manager Oversight Team

Adam Porter

Years at M&G: 1.5 Years of Professional Experience: 15

Adam joined M&G and the Manager Oversight team in September 2022. Prior to that Adam worked at Hymans Robertson. Adam has an Economics and Accounting degree from the University of Edinburgh and a Master's degree in Investment Analysis from the University of Stirling. Adam is a Chartered Alternative Investment Analyst and was awarded the Certificate in ESG Investing and Investment Management Certificate qualifications.

Amerita Vassaramo

Years at M&G: 4 Years of Professional Experience: 8

Amerita joined M&G in 2020 as a Property Research Analyst within M&G Real Estate before transitioning to the Manager Oversight Team in 2023. Prior to joining M&G, Amerita worked at Avison Young (formerly GVA), a real estate adviser as a researcher and NHS Property Services. Amerita has a first class BSc (Hons) in Economics from Loughborough University and holds and Investment Management Certificate.

Sam Payne

Years at M&G: 6 Years of Professional Experience: 6

Sam joined Manager Oversight in 2018 from M&G's Graduate Scheme, having joined M&G in 2017. Sam has a degree in Economics, Politics and Spanish from Exeter University, during which he completed a Year in Industry at M&G. Sam has obtained the Investment Management Certificate qualification.

Olivia Trevor

Years at M&G: 5 Years of Professional Experience: 5

Olivia joined Manager Oversight in 2019 from M&G's Graduate Scheme, having joined M&G in 2018. Olivia has an Economics degree from Durham University and is a CFA Charterholder.

Rob McIlroy

Years at M&G: 1.5 Years of Professional Experience: 5

Rob joined M&G and the Manager Oversight team in 2022. Prior to that, Rob worked at Investec as an associate Investment Manager. Rob has an Economics degree from Royal Holloway and is a CFA Level 1 candidate.

Kate Russell

Years at M&G: 4 Years of Professional Experience: 4

Kate joined Manager Oversight in 2021 from M&G's Graduate Scheme, having joined M&G in 2019. Kate has a degree in Natural Sciences from Durham University and is a CFA Charterholder.

Processes

ESG investment strategy

The ESG & Regulatory team is accountable for developing the overall ESG investment strategy for the asset owner. This encompasses establishing ESG investment principles, conducting investment research, and providing thought leadership. The implementation of these high-level strategies and positions on specific ESG issues is carried out by the Manager Oversight team in collaboration with the ESG & Regulatory team and other stakeholders. This ensures that ESG and sustainability factors are taken into consideration across all relevant investment activities.

In accordance with the above, the ESG & Regulatory team is responsible for creating and maintaining the **PAC ESG Investment Policy** (refer to Principle 1 on page 9). This policy outlines various ESG investment principles and investment requirements, which subsequently guide stewardship practices and are implemented by the Treasury & Investment Office where possible. Notably, the ESG investment principles require the Treasury & Investment Office to clearly articulate the impacts of ESG considerations on risk, return, and the interests of clients.

Manager selection

The Manager Oversight team holds the responsibility of appointing and overseeing underlying asset managers. This initial due diligence process takes into account various factors, including but not limited to: investment philosophy, key risks, key employees, investment process and execution, stewardship process, investment performance, risk management, reputation, integration of ESG issues, and the infrastructure supporting the investment teams.

Additionally, the team reviews the asset managers' engagement and voting policies to ensure alignment with our own approach and policies. All monitoring of our asset managers' engagement activity with investee companies adheres to our **PAC Shareholder Engagement Policy** and the **PAC Voting Standard** (the Standard).

As part of this process, the team assesses the ESG investment practices and integration of ESG into the investment process of each asset manager to try to ensure alignment with the asset owner's practices. The Manager Oversight team reviews the asset managers' strategies in accordance with the Treasury & Investment Office ESG Product Framework. They ensure that the selected managers are, at the very least, integrating ESG considerations and continuously work with them on the incorporation of ESG factors into their investment philosophies and processes. The Manager Oversight team also provides guidance to delegated asset managers on sustainability issues and identified risks during the investment research and analysis process.

To ensure a comprehensive review and selection of asset managers, taking into account their ESG priorities and alignment with the PAC ESG Investment Policy, an additional **ESG-specific Request for Proposal Due Diligence Questionnaire** was introduced in 2022. This questionnaire is completed by all asset managers as part of the selection process, providing valuable insights for their evaluation. For more information, please refer to the case study on page 38 titled "Embedding our ESG & Stewardship due diligence process".

2023 appointed external asset managers

In 2023, the external asset managers that the asset owner appointed for the With-Profits Fund are:

- BlackRock Investment Management
- Columbia Threadneedle Investments
- EARNEST Partners
- Goldman Sachs Asset Management
- Granahan Investment Management
- Invesco Canada Investment Management
- Lazard Asset Management
- MFS Investment Management
- Pictet Asset Management
- Robeco Sustainable Asset Management
- Value Partners
- Wellington Management
- Matthews Asia Investment Management
- William Blair
- Manulife Investment Management

Mandate design

The Manager Oversight team formulates mandates that align with the objectives of the fund and the skill sets of the managers. The team considers various factors, including risk and return considerations, liquidity, practical, regulatory factors and ESG considerations, among others. Additionally, the Manager Oversight team conducts regular reviews of the investment guidelines with the underlying asset managers. This ensures that the mandates remain up-to-date and in line with the desired investment parameters.

They possess the capability to collaborate with internal asset managers to develop strategies that align with the requirements and objectives of the asset owner. This close working relationship allows for the design of tailored investment approaches that cater to the specific needs of the asset owner. In the case of segregated mandates, the Treasury & Investment Office has the flexibility to incorporate its own asset owner's **PAC ESG Investment Policy**, in addition to the customised investment guidelines. This allows for the inclusion of specific provisions and by doing so, the mandates are designed to fully reflect the asset owner's priorities and considerations.

Ongoing manager investment due diligence

The Manager Oversight team conducts ongoing due diligence reviews of existing asset managers to assess their continuing ability to provide expected investment and sustainability outcomes. Ongoing due diligence comprises of:

- Regular face-to-face meetings or conference calls
- Face-to-face meetings and site visits (when appropriate)

ESG is a standing item on the formal agenda of quarterly meetings, ensuring consistent focus and attention. This is further supported by the review of the **ESG Due Diligence Monitoring Questionnaire**, as highlighted in the case study "Embedding our ESG & Stewardship due diligence process" on page 38. The engagement activities undertaken by asset managers are reviewed quarterly as part of the regular review cycle and annually as part of the SRDII process.

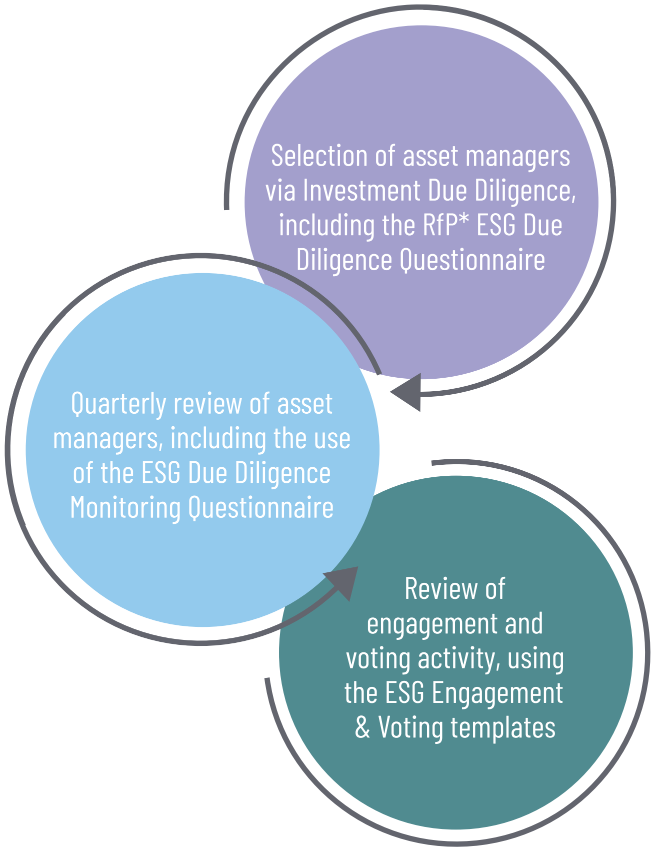
In the event that the Manager Oversight team identifies significant concerns regarding the ongoing suitability of an existing asset manager, appropriate mitigating actions are recommended. These may include amending investment guidelines to introduce additional constraints on the mandate, increasing allocation to passive or complementary managers to achieve diversification benefits, or, as a last resort, divestment and relocation of assets. Such proposed changes are presented through the relevant governance channels for consideration and decision-making.

Investment performance monitoring

The Manager Oversight team conducts continuous monitoring of asset managers' performance against established benchmarks. In the event that the team identifies significant concerns regarding an asset manager's ability to generate future investment returns or effectively manage sustainability risks and opportunities, they will undertake a thorough investigation.

The Manager Oversight team strives to foster strong relationships with asset managers to facilitate comprehensive reviews and gain insights into their performance profiles. This includes assessing the level of alignment with our expectations, including performance benchmarks, as well as understanding the investment style adopted by the managers. By building this deep understanding, the team can effectively evaluate and monitor the performance of asset managers.

PAC's ESG Selection & Monitoring Process



*RfP: Request for Proposal

Embedding our ESG & Stewardship due diligence process

Over the course of 2023, the ESG & Regulatory team in collaboration with the Manager Oversight team worked on embedding a rigorous stewardship due diligence process that was developed in 2022.

- **Request for Proposal (RfP) ESG Due Diligence Questionnaire** – we have a responsibility to ensure the effective consideration of our ESG priorities and issues in the selection process for our asset managers. In order to do this, we have created a dedicated ESG-specific RfP Due Diligence Questionnaire which now informs the selection process for asset managers managed by the Manager Oversight team. In doing so, we now score managers on their ESG credentials based on their responses and internal research during the selection process to enable an appropriate review of managers' alignment against our values and our ESG priorities outlined in our PAC ESG Investment Policy
- **Annual Letter of ESG Priorities** – since 2022, we have issued an annual letter of ESG priorities to our asset managers, which communicates our areas of ESG focus for the upcoming year, and outlines the support we will require from the asset managers in achieving our ESG ambitions and goals
- **ESG Due Diligence Monitoring Questionnaire** – to ensure the effective monitoring of our appointed asset managers with respect to key ESG areas and priorities, we have developed an ESG Due Diligence Monitoring Questionnaire, to be completed and issued by our appointed managers on a regular basis to disclose any material changes in their ESG activities, and to inform necessary escalation actions. The responses we receive from managers inform our monitoring of managers, and have allowed us to raise any ESG concerns with them during the manager meeting cycle (where at least one representative from the ESG & Regulatory team attends)
- **ESG Engagement Template** – in 2022 we created and issued our ESG Engagement Template to collate quantitative and qualitative data with respect to the engagements conducted by our appointed asset managers (both internal and external) across the year. Over the course of 2023, we have used this data to build our Manager Information, and monitor how engagement is being conducted on our behalf. We monitor: how much engagement is being conducted, which themes/topics the engagements fall into, where the engagements are taking place, and how successful the engagements are (for engagement case studies, see Principle 9: Engagement). This, paired with the ESG Due Diligence Monitoring Questionnaire, can allow us to highlight any ESG concerns at Quarterly meetings. We review the template on an annual basis to ensure we are receiving all relevant information from our asset managers
- **Quarterly ESG Screening Process** – to ensure the appropriate review of broader ESG issues and risks within our investment portfolios we have implemented a quarterly ESG screening process. This is characterised by reviewing our holdings against external and/or client benchmarks and monitoring their exposures and performance against ESG-specific areas

As we continue to embed these processes, our focus will now be on enhancing these processes based on responses we receive from our appointed and prospective managers, and feedback (both internal and external).

Outcome

The collective expertise, experience, and diversity of our teams, ensure comprehensive subject matter knowledge in all aspects of sustainability, ESG, ESG risk management, and stewardship activities. Ongoing training programs and incentives across the organisation, input from reputable third-party service providers, and streamlined processes further support our management of the ESG strategy.

We believe that our governance structure effectively considers stewardship and sustainability. For more details on our governance and assurance processes, please refer to Principle 5 and the Conclusion.

The enhancements made to our ESG and Stewardship due diligence processes and documents in 2022 have been embedded over the course of 2023, and continue to be enhanced with each year. This reflects our commitment to embedding our policies, commitments, and goals throughout all our activities, particularly in effectively overseeing our asset managers. Going forwards, we will continue to enhance and develop these processes on an annual basis.

Principle 3: conflicts of interest

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

M&G plc

It is a fundamental requirement for a financial services firm to identify and manage conflicts of interest. This is central to the duty of care we owe to our clients. M&G will use all reasonable endeavors to identify conflicts of interest and then take steps to either avoid, or manage, them effectively and to treat clients fairly.

At M&G, a conflict of interest is defined as "a situation, decision, or arrangement where competing obligations or motivations may damage the interests of a client". M&G acknowledges the importance of having appropriate controls and systems in place to effectively identify and manage potential and actual conflicts of interest.

Management of conflicts of interest

M&G takes reasonable steps to prevent conflicts of interest arising, to protect the interests of all M&G plc's customers, clients and end investors. The business manages this risk effectively by providing all staff and colleagues with sufficient training to ensure awareness and an understanding of how conflicts could arise and to enable staff to identify, report and adequately manage such conflicts. **The Policy Governance Framework (PGF)** is a core component to the overall system of risk management and internal control. In addition, the expectations for managing conflicts of interest are denoted within the **M&G plc Code of Conduct**.

The Group-wide **M&G plc Conflicts of Interest Policy** is applied to all aspects of the M&G business and is implemented by all areas across the business at a Group and material subsidiary level, such as internal asset manager and the asset owner. The policy also sets out the Group-wide approach and requirements of how conflicts should be escalated, recorded and managed and to ensure compliance with regulatory requirements. Under the Policy, if any employee has the knowledge of a potential or actual breach of the Policy, the employee must report the breach.

An array of resources are made available to all employees to familiarise themselves with their personal responsibility for managing risks and internal controls. A network of **Conflict Representatives** are established from every business function to provide a first point of contact for any employee who wishes to report and escalate an identified conflict of interest. In support of this, the Conflicts of Interest intranet site allows employees to find details of the Conflicts Representative where a range of material and useful information is also available.

The M&G plc Conflicts of Interest Policy is reviewed at least annually, or where there is a material update that requires addressing, which ensures that the policy remains effective for the ongoing management of conflicts of interest.

Relevant governance committees review and approve any changes made to the Policy and all business areas are expected to comply with the Policy. In particular, each M&G plc Executive member is specifically accountable for ensuring that all areas under their remit appropriately adhere to the Policy requirements, and they have specific responsibilities in relation to identifying, controlling and assessing conflicts of interest. A key update of the Policy in 2023, is the transfer of ownership from Compliance to first line of defence.

M&G plc employee forum update on information barriers

In November 2023, a corporate wide communication was released by the Chief Compliance Officer, focusing on employees' responsibilities to protect our information barriers. Information barriers are defined as "a virtual or physical barrier intended to block the exchange of information between departments if it might result in a conflict of interest". M&G currently operates information barriers across three areas: Public Markets, Private Markets and Infracapital.

The information barriers are present in efforts to protect our investment desks and their respective clients' interest, effective separation is made by way of physical barriers, such as restricted access to Private Markets and Infracapital. This shows clear proportionate controls are in place to minimise the flow of information and helps us to protect other areas, such as Public Investments and their fund managers from being restricted in any way. The Information barriers are viewed as a key control to help protect the interest of our clients and fund managers and are applicable to all corporate functions within M&G headquarters and colleagues visiting from other locations.

Preventing Conflicts of Interest

The M&G plc Conflict of Interest Policy details the procedures implemented to control the exchange of information between parties that may potentially harm the interest of one or more clients. In cases where conflicts cannot be avoided, M&G believes that all necessary steps must be taken to prevent a conflict of interest, such as avoiding or controlling activities that may create conflict, in order to prevent the detrimental impact to clients.

Reporting Conflicts of Interest

To manage the conflict of interest risk, employees are required to identify and disclose any personal associations that may actually or potentially cause a conflict of interest. The Conflicts of Interest Policy has outlined the many different layers of reporting that can help the leadership team and non-executive directors on the Boards, to focus on the more material conflict risks and ensure that adequate steps are being taken in a timely manner to improve the control environment. Any reporting associated with conflicts of interests must be aligned to the **Risk Controls Self-Assessment** (RCSA), with biannual updates. This reflects the fact that in many cases, the teams involved in RCSA processes are also responsible for coordinating updates to the Conflicts Register, which provides detailed information on a full range of conflict scenarios across the Group, from very high to low risk.

Asset owner

Governance and policies

The M&G plc Conflicts of Interest Policy is applied to all M&G business, including the asset owner. The asset owner is responsible for identifying conflicts of interest and ensuring that they are clearly reported and articulated, whilst also ensuring that the detail on the underlying conflict is well-documented.

The Conflicts of Interest Register is crucial to enable ongoing monitoring and resolution.

We recognise the importance of effectively managing conflict so we have ensured that explicit references are included in a variety of key stewardship policies or documents, including:

- **Our PAC Shareholder Engagement Policy** states our expectations of asset managers on our behalf. We expect asset managers to communicate with shareholders and relevant stakeholders of investee companies so that they can effectively manage conflicts of interest that may arise from their engagement. Any material communication and coordination, as well as significant conflicts of interest may be escalated to M&G for information and support with resolution
- The PAC Voting Standard states that any conflicts of interests that may arise in shareholder voting considerations should be identified, managed and disclosed effectively (for example, where an issuer may also be a client of the asset manager)

Types of conflicts of interest

The asset owner recognises that a conflict of interest may arise when exercising our active ownership responsibilities since this is important to the asset owner, different groups of clients and wider stakeholders such as the shareholders. We take into account the following types of conflicts of interest:

- Firm vs Client – whether any M&G entity is likely to make a financial gain or avoid a financial loss at the expense of the client
- Individual vs Client – whether a client is disadvantaged or making a loss when an employee/connected person to an M&G entity makes a gain
- Client vs Client – where a client makes a gain or avoids a loss whilst another client makes a loss or is disadvantaged
- Intra group conflict – whether an M&G entity, employee or fund benefits at the expense of another M&G entity or fund

Further identification and management of these conflicts are set out in our **Principles and Practices for Financial Management** (PPFM) document, for With-Profits Business and **Prudential's Statement of Unit-Linked Principles and Practices**, for unit-linked business.

Our PPFM document outlines how competing or conflicting interests of different groups and generations of policyholders, and shareholders, are managed so that each group is treated fairly. In alignment with our culture and values, treating customers fairly is a significant aspect of our investment processes. Therefore, we take into consideration how clients are treated in every investment decision, to ensure that they receive a fair and balanced outcome. These customer advocates include our **With-Profits Actuary and our With-Profits Committee** for with-profits business, and our Independent Governance Committee for our workplace pensions business. A particular strength of the With-Profits Committee is the ability to discuss and give direction to the asset owner company Board on sufficiently material investment matters.

Our investment portfolios are comprehensively managed using well defined decision-making principles to ensure that conflicts arising are adequately monitored and resolved. We ensure that different groups of clients are included such as policyholders and shareholders, well defined conflicts may be alternately managed using frameworks and processes specially drawn up for that purpose.

Asset owner vs internal asset manager

Since both entities are part of the same Group, conflict may occur with the internal asset manager. There are procedures in place to manage these types of situations as we ensure that governance, operations and investment decisions are kept separate from each other by carefully monitoring the flow of information between the asset owner and the internal asset manager. The investment activities of the asset owner and the internal asset manager are run as two separate businesses, with independent governance structures.

However, the inherent conflicts of interest are still managed in accordance with the M&G plc Conflicts of Interest Policy. We require that information sharing only occurs on investment portfolios that the internal asset manager manages on behalf of the asset owner. In situations where a general collaboration is necessary, the internal asset manager and asset owner may collaborate and discuss principles in generic and hypothetical terms, with the key aim of ensuring alignment with both M&G's corporate values and with each other.

As part of our fiduciary duty to our clients, we seek to collaborate with the internal asset manager for the development and implementation of the PAC ESG Investment Policy and underlying positions on specific ESG issues (Climate Change and Diversity & Inclusion). To this effect, two ESG colleagues now straddle between both the Treasury & Investment Office ESG & Regulatory team and the internal asset manager as both parties share the same purpose and value. There is efficient collaboration between the two areas, however conflicts of interests are carefully registered and managed. Support functions, such as Human Resources, Legal, Accounting, Marketing, and Risk & Compliance are also shared functions.

Outcome

The M&G plc Conflicts of Interest Policy was updated in 2023 and enables the effective identification and management of conflicts of interests in the pursuit of putting the best interests of clients and beneficiaries first.

During the annual policy refresh, ownership has transitioned from Compliance to the first line of defence (1LOD). This also ensures that the most material conflicts of interests are resolved through the appropriate course of action and employees are equipped with the knowledge and resources to manage future conflicts.

We aim to continue to ensure that the M&G plc Conflicts of Interest Policy remains clear and straightforward so that it can be applied to all areas across the Group, including our asset owner business. An example of how M&G and the asset owner have addressed a potential conflict can be seen in the following case study.

Case study: Manager selection

Objective

Following the departure of a number of key investment personnel from the previous asset manager that we appointed, The Treasury & Investment Office's investment due diligence view of their capabilities significantly deteriorated, which ultimately led to the reassessment of this mandate. Subsequently, the internal asset manager built out an Asian Fixed Income investment capability of its own.

The Treasury & Investment Office recognises that there can be significant benefits to investing in internal propositions, including greater transparency, ability to influence the mandate or team if required, and ability to negotiate a competitive fee rate; as a result, asset manager's capabilities were included in this reassessment.

As with all selection processes, the Treasury & Investment Office recognises the potential conflict of interest between the asset owner and asset manager.

Approach

To ensure that all selection decisions are made in the best interests of policyholders, the Manager Oversight team within the Treasury & Investment Office is committed to following its established selection framework that requires selection of managers that are in the top quartile relative to its peer group.

As a result, the Treasury & Investment Office undertook thorough face-to-face due diligence in Asia with:

- Our incumbent manager
- M&G and
- a shortlist of high-quality external Asia Fixed Income managers

All managers were assessed on the quality of their propositions and ultimately the Treasury & Investment Office's conviction in their ability to generate long-term returns for our policyholders.

Outcome

Having established that M&G's capabilities were considered to be top quartile within the Asia Fixed Income peer group, the Treasury & Investment Office recommended that M&G be awarded two Asia Fixed Income mandates, one in local currency and one in hard currency. Following the investment due diligence, an external asset manager with a strong presence in Asia was appointed to run allocations in China bonds and sustainable Asia bonds.

Following engagement with Risk and Compliance to corroborate our recommendations, these allocations were approved by the M&G Life Executive Investment Committee. The transition of assets to M&G and the external manager took place over 2023, protecting long-term returns and giving our policyholders access to specialist Asia and China Fixed Income expertise from teams based in the region.

Principle 4: market-wide and systemic risks

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

M&G plc

We believe that effective risk management capabilities are both a requirement and a differentiator in the marketplace. To promote well-functioning markets and recognising the potential that all emerging risks including sustainability related risks can undermine our ability to deliver and create value for our clients and our other stakeholders. M&G plc have embedded robust frameworks and processes across the business to effectively identify and respond to market-wide and systemic risks, in line with the business' fiduciary requirements. These continue to be reviewed and will evolve accounting for the fast-changing and evolving nature of systemic risks.

Risk governance

The Board maintains ultimate responsibility for managing risks across M&G plc, overseeing effective group risk management and internal control processes that we use to identify and respond to relevant market-wide and systemic risks. Our Executive Management are entrusted to provide further leadership and direction to colleagues in respect of risk management/risk controls. There are also several Risk & Resilience functions established which play a crucial role in assisting the Board in its oversight of risk.

M&G plc Risk Committee	Advises the Board on risk strategy and reviews M&G plc's risk management framework and its overall effectiveness. The Risk Committee also take into account the current and prospective macroeconomic and financial environment and draw on financial stability assessment such as those published by relevant industry and regulatory authorities, including the Bank of England, the Prudential Regulation Authority (the "PRA"), the Financial Conduct Authority (the "FCA") and other authoritative sources. Ensures that risk management is properly considered in Board decisions and will also assess risks related to ESG matters.
M&G plc Audit Committee	Assists the Board in meeting its responsibilities for the integrity of financial reporting, including obligations for the effectiveness of the internal control and our Risk Management Framework.
M&G plc Remuneration Committee	Ensures that compensation structures place appropriate weight on all individuals adopting the required risk culture and behaviours.

M&G plc's risk governance which supports the Board, Risk and Audit Committee is based on the principles of the Three Lines of Defence model (see page 56 for further detail).

Risk culture

M&G plc has an effective corporate risk culture that reflects M&G plc's values and behaviours' when managing risk. The Board oversees the embedding and maintenance of a supportive risk culture across the Group.

This risk culture is centred around an enterprise-wide programme of "I Am Managing Risk", which requires colleagues to take personal responsibility and accountability for identifying, assessing, managing and reporting risk, allowing us to do the right thing for clients, wider stakeholders and the business.

Our risk culture promotes appropriate conduct and deploys adequate and appropriate training, skills and resources in respect of risk management. **The M&G plc Operational Risk Framework** standardises the requirements for Risk & Controls and processes for the "I Am Managing Risk" culture across business functions.

Risk Management Framework

The M&G plc Risk Management Framework (RMF), supported by a suite of risk policies and standards, explains how M&G plc defines and manages risk by providing a disciplined and structured process. This enables the business to make better decisions for its clients and shareholders.

In alignment with the RMF, M&G operates an effective risk management cycle in maintaining the ongoing process of identifying, measuring, assessing, managing, monitoring and reporting current and emerging risks.

1. **Risk identification** – Regular bottom-up and top-down risk identification processes are undertaken to identify risks to which M&G is currently, or could be exposed to in the future

2. **Risk assessment** – Risks are firstly measured using appropriated metrics. Risk monitoring is also an ongoing process to track the status of risks is undertaken by both risk owners and through oversight and assurance activities undertaken by Risk, Compliance and Internal Audit

3. **Risk management** – Risks are evaluated, treated and managed against the defined risk limits, triggers and indicators in order to establish whether the business is operating within risk appetite

4. **Risk reporting** – To ensure timely and appropriate decision making, both the asset owners and internal asset manager are provided with accurate and timely risk reports

ESG Risk Management

Sustainability and ESG, including potential environmental, health, social and corporate governance issues are identified as principal risks to our business.

In recognition of the complex range of sustainability related risks, M&G have developed (and will continue to evolve as appropriate) a tailored framework for the identification, assessment and management of ESG risks to be embedded in line and supported with the M&G plc RMF set out on the previous page.

The framework is supported by the M&G plc ESG Risk Policy, which articulates M&G's ESG risk appetite and sets out key requirements, applicable to all business areas, for the management of ESG risk in a manner consistent with the risk appetite. ESG risks are escalated within risk reporting provided to the Executive and Board Risk Committees, with further escalation to the Board as required.

In 2023, we carried out structured activity to assess the effectiveness of greenwashing risk mitigation controls and strengthen these where appropriate. This has included the rollout of mandatory anti-greenwashing training across the business.

Strengthening systems and controls in ratings and data products

With increasing demands for sustainable investment and the growing importance of being able to acquire high quality and reliable ESG data to support investment decisions. M&G have played a key role in the ESG Data and Ratings Code of Conduct Working Group (DRWG) established by the FCA. The Head of Sustainable Investing as one of the co-chairs of the DRWG Steering Group and the team played an active role in developing a new globally recognised Code for how ESG data products and rating services can be made more reliable and more transparent.

As such the code strives to enhance market integrity due to current uncertainty of formal powers overseeing the sector.

Figure 5: Overview of the ESG Risk Management Framework

Establishing clear roles and responsibilities is key to a robust RMF, so as part of this, M&G plc have defined these across the Three Lines of Defence. See Principle 5 for more detail.

Asset owner
Market-wide and systemic risks

As an asset owner, we equally adhere to the risk management frameworks and processes, and Three Lines of Defence model established at the Group level (see Principle 5 on page 56). Our role as a significant investor across various products (including With-Profits Fund and Annuities) further emphasises our responsibility to consider and meet the needs of all our clients and policyholders in order to safeguard them against any material risks. Every employee within the company is therefore tasked with identifying, assessing, managing and reporting risks within their area of responsibility.

In line with the RMF, we have a robust and effective risk identification process in place that identifies both micro / security-specific risks and macro / market-wide and systemic risks. The mechanisms through which we identify such risks include horizon scanning, frequent and regular risk reviews, and sizing of risk appetites. Where we identify macro risks, we may choose to work with industry bodies, regulators and market participants to create a risk mitigation solution.

Case study: Asset owner greenwashing risk review & assessment

Over the recent years, we as an asset owner have made a number of public commitments on ESG and stewardship to support our strategy and purpose. To ensure we are on track to meet these commitments, and that these continue to be aligned with our evolving sustainability approach, we conducted a review of any potential misalignment and greenwashing risk, as well as associated controls to ensure any potential risks can be effectively identified and addressed. As part of the review, Controls were awarded a Red, Amber, Yellow and Green (RAYG) rating status dependent on any identified action for resolution and in light of the extent of the identified gap.

By Q4 2023, a number of control improvements were made across:

1. Commitments, Disclosure and Reporting
2. Governance & Oversight
3. Investment Process
4. Proposition, Distribution and Marketing

Embedding climate risk

For both M&G and the asset owner, climate change is one of the most important environmental issues facing the world today. We believe that climate change will have a material impact on our clients' investment returns. With this being the case, identifying the specific risks of climate change is crucial to minimise or mitigate the impacts.

Therefore, scenario modelling is a key tool in the management of climate risk. The Long Term Investment Strategy (LTIS) team model the financial risks posed by climate change with a focus in scenario modelling on physical and transition risk. The team uses bespoke top-down modelling to apply impacts of different climate scenarios at the economy and portfolio-level, combining output from climate integrated assessment models with estimates of portfolio emissions and physical risk exposures through our capital markets building block framework.

In 2023, the team further evolved their climate scenario sets, considering impacts to the portfolio if physical impacts prove to be at the tail end of modelled distributions in scenarios where little is done by policymakers to arrest climate change.

There are a number of workstreams that the LTIS team contribute to in order to embed climate risk, these are:

- Setting appropriate climate-aware capital market assumptions via a Risk Categorisation Framework
- Adjusting our benchmarks where applicable to factor in exposures on ESG metrics, including climate risk
- Creating climate scenarios to gauge portfolio exposures to different climate outcomes

Our PAC ESG Investment Policy outlines a set of key principles that further enable the identification and management of key ESG, and wider relevant market-wide and systemic risks. We take into account various ESG factors when determining risks but given the broad array of ESG issues and their dynamic nature, these ESG factors may change time to time and the Policy does not prescribe the investment treatment of each ESG issue. Instead, the Policy sets out our principles-based approach to addressing ESG matters in investing, and policies for specific ESG matters that must be applied by the asset owners across all investment portfolios.

Upon the relevant principles, we state that:

- We take into consideration ESG factors that have the potential to have a material financial impact and incorporate them into our investment analysis and decision-making processes. For all investments, 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
- We take a long-term approach, keeping in mind customer time horizons and the urgency of individual ESG issues and delivery of the firm's ESG priorities and commitments
- We identify ESG issues, risks and opportunities, and incorporate them into our general risk management process

The PAC ESG Investment Policy can be found **here**

Case study: Bank of England's system-wide exploratory scenario (SWES) exercise

During late 2023, M&G participated in the Bank of England's SWES exercise. This exercise was launched by the Bank in order to better understand the "behaviour of bank and non-bank financial institutions during stressed financial market conditions and how those behaviours might interact to amplify shocks in UK financial markets that are core to UK financial stability."

As part of this exercise, the largest banks, insurers and fund managers in the UK market were asked to provide a detailed analysis of the impact of a stress scenario loosely modelled on the September/October 2022 Liability Driven Investment (LDI) episode and the market turmoil associated with the COVID-19 pandemic in March 2020, sparking a global "dash for cash".

In order to complete the response, we conducted the analysis and provided:

a) the expected impact on the asset pools of the stressed scenario

b) detailed information about the expected response to those in terms of asset sales or other actions designed to raise liquidity, and

c) detailed information about collateral and margin requirements resulting from the stress

This information was collated into templates provided by the Bank, which will allow them to aggregate and analyse responses. A second round scenario, likely to be more severe, is planned for May 2024.

Integration of market-wide and systemic risks

Once the key market and systemic risks have been identified, these are then considered and aligned within our investment process. **The Treasury & Investment Office Long Term Investment Strategy Team** recommends the asset allocation of the asset owner's fund ranges.

Market and systemic risks are integrated into the Strategic Asset Allocation process through the following main channels:

- **Economic and capital markets research:** Our process starts with an understanding of the structural and cyclical forces influencing the global economy, informing our forward-looking expectations for economic growth, inflation and the fiscal & monetary policy environment. We also consider developments in the capital markets and their impacts on asset class valuations. The output of this work is documented in our monthly research publications
- **Capital market assumptions and building block framework:** Interactions between the real economy and financial markets are translated into a set of capital market assumptions using a building block approach, supplemented by volatility and correlation assumptions
- **Capital markets modelling (including scenarios modelling):** Risks to our body assumptions are considered via tracking of emerging risks as outlined in our monthly research publications, scenario analysis and a set of stress assumptions

ESG factors are integrated into the SAA process across three main channels:

- **Sensitivity analysis:** This is a subset of our capital markets modelling process, and we use sensitivity analysis to explore a number of different themes for both short-term (for example, inflation) and longer-term (for example, climate risk). Portfolio exposures to climate risk are assessed in terms of their physical and transition impact
- **Country risk categorisation:** Within our capital market assumptions, we calibrate the required risk premia across countries and regions based on factors such as empirical volatility, market depth and economic development. We also include ESG factors in the framework, which helps to ensure we consider these factors when apportioning the risk budget within the allocation
- **Bottom-up factors:** There is material dispersion of ESG characteristics of companies within any index constituent and stock selections are delegated to the individual fund managers. In certain cases, we also may also consider the geographical split within the benchmark and tailor to allow for ESG factors. For example, in the case of carbon exposures, a significant amount of benchmark exposure is contributed by a small number of constituents, offering opportunities to reduce exposures with limited impact on tracking error

Case study: Changing macroeconomic environment

Objective

The onset of the pandemic brought about a marked shift in the interest rate environment. With the intent to rein in inflation, most central banks around the world have been undertaking an aggressive tightening cycle over the past two years. This saw bond yields reaching levels not seen since the onset of the global financial crisis (GFC).

Against this backdrop, we continue to observe great geopolitical instability. Following the conflict in Eastern Europe, the recent developments in the Middle East have renewed cause for concern; both from an immediate risk of escalation and regional spillovers. From an economic perspective, this could result in further trade disruptions and macro uncertainty.

Approach

With central banks shifting to the final stage of the hiking cycle, we continue to monitor and analyse potential impact of the rate increases on global economies and the financial market. Since monetary policy works with a lag, our analysis focuses on the current state of the economy, identifying potential areas of resilience and weakness. On the geopolitical front, whilst it remains unclear whether the impact of the conflict will be contained, it prompted us to accelerate the timing of 2023 Strategic Asset Allocation (SAA). Our view on the ongoing macroeconomic development including the geopolitical events, are periodically updated and shared widely with relevant stakeholders.

This approach has helped to identify and revisit some of our key capital market and economics assumptions, which ultimately feeds into the SAA. For example, interest rates assumptions are a keystone of our capital market assumptions building block framework, filtering down to expected return assumptions of all asset classes. In 2023, we conducted a detailed review of our interest rates assumptions, resulting in a meaningful adjustment. For completeness, we have also explored new empirical evidence and reviewed other important aspects of our long-term assumptions including inflation, correlations and risk premium.

Our assumptions work is presented to the Assumptions Committee on a quarterly basis, where updates to any assumption is approved.

Outcome

Given the dynamic shifts in the macroeconomic environment together with the significant geopolitical uncertainties, in 2023, we acted to bring forward a number of elements from a future SAA. For example, our analysis supported further rotation into higher yielding fixed income, and away from equity markets.

The proposal was accepted by the relevant committees, being implemented by the portfolio management team. In the business's view the SAA process and proposal continue to provide a good risk-adjusted outcome for our customers that is suitable in the current market environment. This case study is an example of our well-established approach to setting strategic asset allocation to changing macroeconomic environment.

Work with other stakeholders to improve the functioning of financial markets

We recognise the critical importance of economy-wide transformation to tackle the climate crisis and that this requires stronger policy and regulatory signals, as well as collaboration with peers and third-party associations to promote best practice and support practical implementation across the financial services industry.

Public policy advocacy

M&G continues to engage constructively with UK and EU policymakers on a wide range of ESG public policy topics. We do this individually and through a variety of membership bodies. Throughout 2023, our climate advocacy involved contributing to the UK government's Green Finance Strategy, the work of the Transition Plan Taskforce to set out a best-in-class template for corporate disclosure on climate, HM Treasury's thinking on regulating ESG rating providers, the FCA's Sustainability Disclosure Regime (SDR) and the European Commission's proposals to review Sustainable Finance Disclosure Regulation (SFDR). M&G also co-chaired the FCA-convened Working Group to develop a Code of Conduct for ESG data and ratings providers.

We have called for a comprehensive policy framework that sets out a reliable forward look for investors and market participants. Such a framework would contain, among others:

- ambitious, and mandatory, high quality disclosure requirements from both public and private companies, creating long-term clarity for investors' decision-making
- proper incentivisation of climate solutions (ensuring critical technologies reach competitive commercialisation quicker)
- support for credible transition activities
- meaningful prudential regulation reform and
- broader policy action to capture nature and biodiversity loss

We recognise that closing the climate financing gap requires direct deployment of capital towards solutions, and we have worked with UK policymakers on ways to increase institutional investors' allocation to private assets. M&G was a co-founding member of the government's Mansion House Compact, putting patient capital to work to the benefit of both innovative businesses and individual savers.

Industry collaboration

Through collaboration, membership of and engagement with various industry initiatives, we believe that we can gain a better understanding of the wider industry events and issues that we are facing.

M&G plc and the asset owner engage with, participate in, and in some instances chair, a number of different associations, initiatives and their working groups, including but not limited to:

Trade bodies & Third-party Associations	
Association of British Insurers (ABI)	The ABI is the leading trade association for insurers and providers of long-term savings in the United Kingdom. M&G has a seat on the ABI Board, participates in relevant committees, and actively contributes to the ABI's public policy thinking.
International Regulatory Strategy Group (IRSG)	The IRSG is a body comprising of leading UK-based figures from the financial and related professional services industry. It is one of the leading cross-sectoral groups in Europe for the industry to discuss and act upon regulatory developments. M&G sit on the IRSG Board and Council and has previously chaired the IRSG's ESG Committee.
The Investing and Saving Alliance (TISA)	TISA's ambition is to improve the financial wellbeing of UK consumers by bringing the financial services savings industry together to promote collective engagement, to deliver solutions and to champion innovation for the benefit of people, our industry and the nation. M&G sit on their various committees and feed into their policy thinking.
The Investment Association (IA)	IA is a trade body that represents asset managers and asset management companies in the UK. M&G has a seat on the IA Board and, participates in a large number of committees and actively contributes to the IA's public policy thinking.
TheCityUK	TheCityUK is an industry advocacy group that champions UK-based financial and related professional services industry. M&G are part of the Leadership Council of TheCityUK and actively participate in relevant committees and meetings with policymakers.

Climate Financial Risk Forum

The Climate Financial Risk Forum (CFRF) is an industry-led forum with an aim to build the financial sector's capacity to address climate-related financial risk as well as the development and sharing of best practices.

This year, our climate Subject Matter Expert (SME) at M&G have been actively contributing to both the Short-term Climate Scenario workstream and Nature workstream of the Financial Resilience Working Group as part our involvement with the CFRF.

For the Short-term Climate Scenario Working Group, we have been contributing with content and review, specifically with regards to but not limited to:

- Producing industry guidance on short-term climate scenarios and embedding in operational procedures
- Research and analysis to identify areas for research and progress
- We will continue to participate in the discussions with CFRF and other industry-led forums where possible.

Outcome

We fully understand the importance of creating our outlook over the medium-term and ensuring we have robust processes in place to effectively identify and respond to market-wide and systemic risks. In 2023, such risk factors that required ongoing monitoring was the economic slowdown, Ukraine, Covid trajectory, inflation developments and climate change policy. We have increasingly sought to work and engage more with UK and EU policymakers, as reflected in our involvement with the FCA and UK government green finance strategy. Overall, in 2023 we have made good progress in simplifying and embedding our risk and control frameworks as well as enhanced our risk culture across the business.

Principle 5: review, assurance and assessment

Signatories review their policies, assure their processes and assess the effectiveness of their activities

M&G plc

The M&G plc Group Governance Framework (GGF) is key in ensuring the appropriate assurance of policies and processes within the wider business. The GGF comprises a suite of Group-wide governance policies and sets out the roles and responsibilities across the Group in relation to policy development, maintenance, implementation and compliance. Group-wide policies are part of the M&G plc Policy Governance Framework, a core component of the GGF, which supports the overall system of risk management and internal control.

The establishment of a strong governance structure across the business is also key to ensure the effective review and challenge of processes and policies. Throughout 2023, we have continued to embed the recently formed Executive Sustainability Committee which was established to track the progress and delivery of the Group wide sustainability public commitments and targets.

Internal and external assurance

Internal Assurance

In alignment with the M&G plc Risk Management Framework (see Principle 4 on page 45), M&G's management of risks is underpinned by the 'Three Lines of Defence' model to risk governance, supporting the Board, and its underlying committees. This model provides an effective way to clearly illustrate how responsibilities to managing risks (including in the process of assurance) are separated:

1. **First line of defence (1LOD)**
The first line of defence business areas seek to identify and manage risks and are overseen by the second line of defence Risk and Compliance functions

2. **Second line of defence (2LOD)**
The second line is structurally independent of the first line. 2LOD functions facilitate and monitor the implementation of effective risk management practices by the first line. This includes providing proactive and reactive advice and challenge to the first line

3. **Third line of defence (3LOD)**
The third line, Internal Audit, is empowered by the Audit Committee to provide independent assurance on the design and operating effectiveness of the internal controls, including 1LOD and 2LOD functions

The 1LOD responsibilities are carried out by the Product/Proposition, Marketing, Customer & Distribution and Investment teams, Operations, Finance, Technology and other Central functions who also have ultimate accountability for the business' systems of internal control and risk management. Specifically, the 1LOD functions develop processes and procedures to integrate risk management principles into day-to-day compliance of risk management policies, mandates or instructions.

The 2LOD responsibilities are carried out by the Risk and Compliance teams. Aside from contributing advice and guidance, second line functions provide independent oversight and challenge of first line activities. This is achieved by monitoring and reviewing first line of defence compliance with alignment to the Risk Management Framework. An aggregate view of M&G's risk profile is provided additionally to the Board with support in identifying and assessing emerging risks which could potentially threaten the successful achievement of M&G's objectives.

The 3LOD is provided by Internal Audit. The primary objective of Internal Audit is to provide independent and objective assurance to the **M&G plc Board Audit Committee (BAC) and Executive Management** on the adequacy of the design and effectiveness of the organisation's systems of internal control, thereby helping them to protect the assets, reputation and future sustainability of the Group. This is achieved by assessing whether all significant risks are identified and appropriately reported by management to the BAC and Executive Management, assessing whether they are adequately managed, and by challenging Executive Management to improve the effectiveness of governance, risk management and internal controls.

External assurance

In 2022, PwC provided limited assurance on the total community investment spend and selected operational emission metrics outlined in the 2022 M&G plc Annual Reports and Accounts. This year, PwC has continued to provide assurance on our Annual Report and Accounts and extended to include assurance on selected financed emissions metrics in the 2023 M&G plc Annual Reports and Accounts. More information can be found **here**.

Three lines of defence

1

Risk identification and management

- Identify, own, manage and report risks
- Execute business plan and strategy
- Establish and maintain controls stress/scenario modelling
- Operate within systems and controls
- Ongoing self-assessment of control environment effectiveness

2

Oversight, advice and challenge

- Oversight, advice and challenge
- Owner of Risk and Compliance Framework
- Stress/scenario setting and oversight
- Regulatory liaison
- Proactive and reactive advice and guidance
- Risk and compliance monitoring and assurance activities
- Risk and compliance reporting

3

Assurance

- Independent assurance of first line of defence and second line of defence
- Independent thematic reviews and risk and controls assessment

→ Risk and Audit Committees → Board of Directors

Asset owner

As an asset owner, we ensure the appropriate review of our stewardship activities and reports. We do this by complying with and embedding the same frameworks (including the GGF) and 'Three Lines of Defence' model set at the Group level.

As illustrated in Principle 2, the asset owner also has its own independent governance structure to ensure appropriate oversight and approval of the asset owner's specific activities. Central to this is the M&G Life Executive Investment Committee (EIC) constituted by the M&G Life CEO. The EIC reviews and considers specific matters, including policy changes and approves key asset owner reports such as the PAC Stewardship Report (see page 60).

Oversight is also integrated further when we report periodically to a number of asset owner company Boards, including to our With-Profits Committee and Independent Governance Committee.

Where appropriate, specific processes and policies will undergo review by the M&G plc governance structure.

Review and assurance of our business policies

Our ESG and stewardship-related policies and standards are reviewed at least annually or when necessary, and are subject to the established asset owner (and where applicable Group-wide) governance review process.

As part of our governance review process, once created, our policies or key documents are reviewed and approved by the PAC Board or other relevant sub-committees (M&G Life EIC). Following approval, the policies are then subject to an annual review process. Any material changes made to policies and processes must receive approval from the M&G Life EIC or delegated approver or forum. The M&G Life EIC may escalate these changes further to the PAC Board where deemed appropriate.

For any sustainability-related disclosures within the asset owner, input from the Asset Owner Information Disclosure Working Group (IDWG) may be sought; for those public ESG disclosures which are of significance to the M&G group and published externally, the M&G plc ESG Disclosure Panel is required to review and approve to ensure these are accurate and meet regulatory requirements. For some material ESG public disclosures, M&G plc Management Disclosure Committee (MDC) and board level approval may be required. The MDC is to ensure that the Executive Sustainability Committee (ESC) is kept briefed.

Having a dedicated governance review process for disclosures helps to guarantee an additional level of scrutiny and review of our policies and reports when targeted or available to external stakeholders, and ensures that the reports are accurate, fair and not misleading.

Input and independent oversight is sought by Risk and Compliance throughout the review process. Risk and Compliance will also provide their independent views through a respective risk opinion when submitting documents to formal Committees.

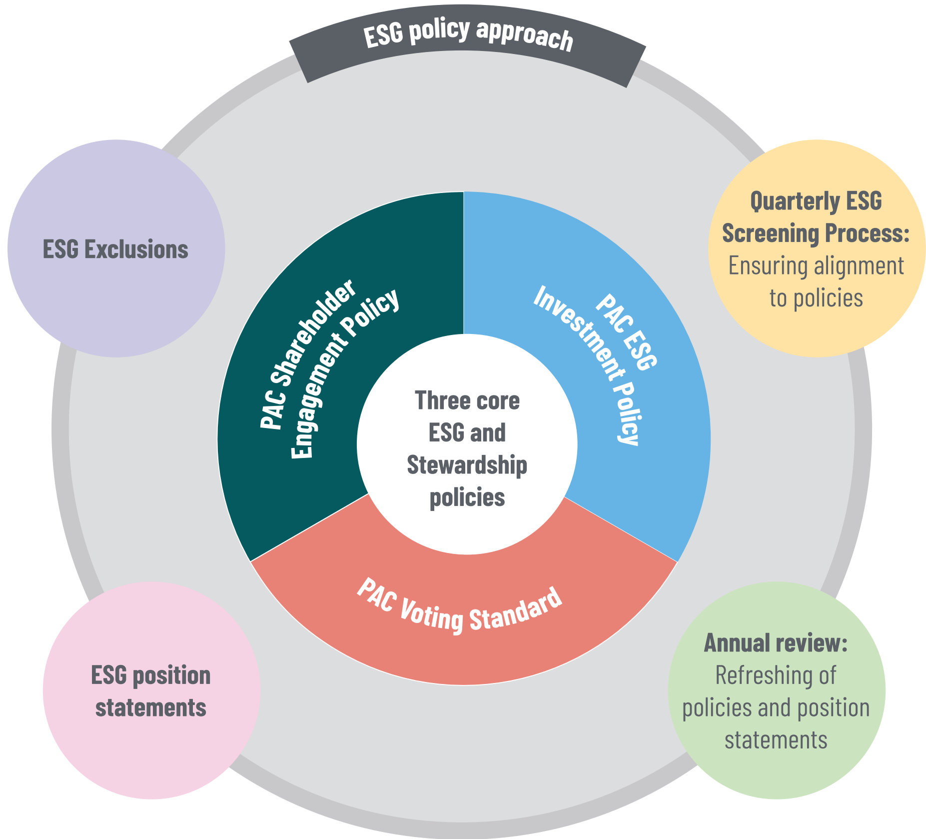
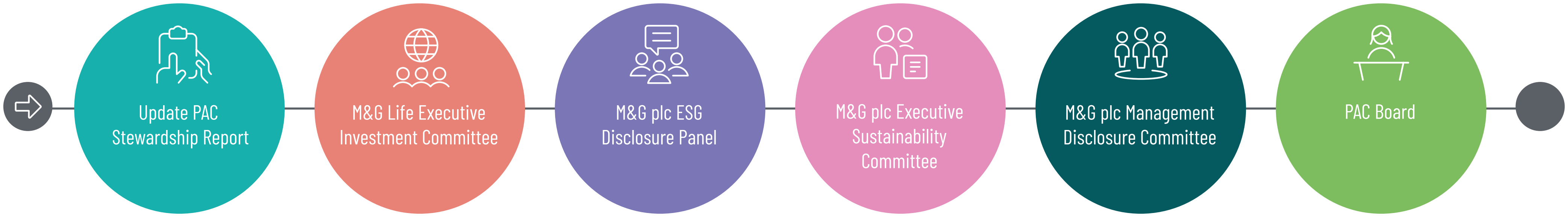


Figure 6: Summary of the asset owners strategic ESG policies and procedures

PAC Stewardship Report review process

Following our previous submissions of the **PAC Stewardship Report (the Report)**, the approval process for our Report has since become more simplified whilst still maintaining the extensive review and due diligence process from key stakeholders and internal forums.

We take a proactive approach to Stewardship Assurance: firstly, our PAC Stewardship Report is reviewed at a team-level by ESG & Regulatory. Once the ESG & Regulatory team have performed a roundtable review of the document, the Report is submitted for review to a number of stakeholders (including Manager Oversight, M&G plc Central Sustainability Office and Risk & Compliance). The Report is then governed through a number of key committees and ultimately approved by the PAC Board.



Continuous review and input is sought from key stakeholders and forums including Risk & Compliance, External Communications and Marketing Compliance

Figure 7: High-level overview of the review and governance process undertaken for the 2023 PAC Stewardship Report

Outcome

The implementation of the **'Three Lines of Defence'** model enables an appropriate and ongoing level of control, risk management and oversight, whilst ensuring the effective independent review of internal processes and controls. As different business functions have their own responsibility in reviewing, managing, and providing oversight on reports and processes, this ensures that there is a holistic coverage of risks and controls across all areas of the business. The establishment of independent governance structures and review processes at both the asset owner and Group-level enable effective oversight, review and approval of key decisions, documents and processes, in line with the management of conflicts of interest, whilst ensuring alignment and input from stakeholders across the different entities (where appropriate).

The development of working groups, forums and committees dedicated to disclosures, overlayed by input by the **Marketing Compliance** and **External Communications** teams, allow for further independent review of any material that is targeted for external publication and wider consumption, a key additional level of oversight that is fundamental when communicating work to our clients and wider stakeholders.

We believe that our internal assurance process provides an effective level of independent check and challenge, and we continue to seek input from the wide range of internal stakeholders to improve our processes. We will continue to assess ways in which to improve our assurance processes, reviewing insights from industry and regulatory bodies such as the FRC, to ensure that we continue to submit a reflective and accurate account of our stewardship and ESG activities through the year. We appreciate that our stakeholders, including Board directors, are requesting more reporting on complex stewardship matters to evidence the outcomes of such activities. To this effect, we endeavour to meet these requests, as well as our stakeholders' evolving needs through implementation of effective stewardship and assurance processes. See the conclusion on page 110 for further insights.

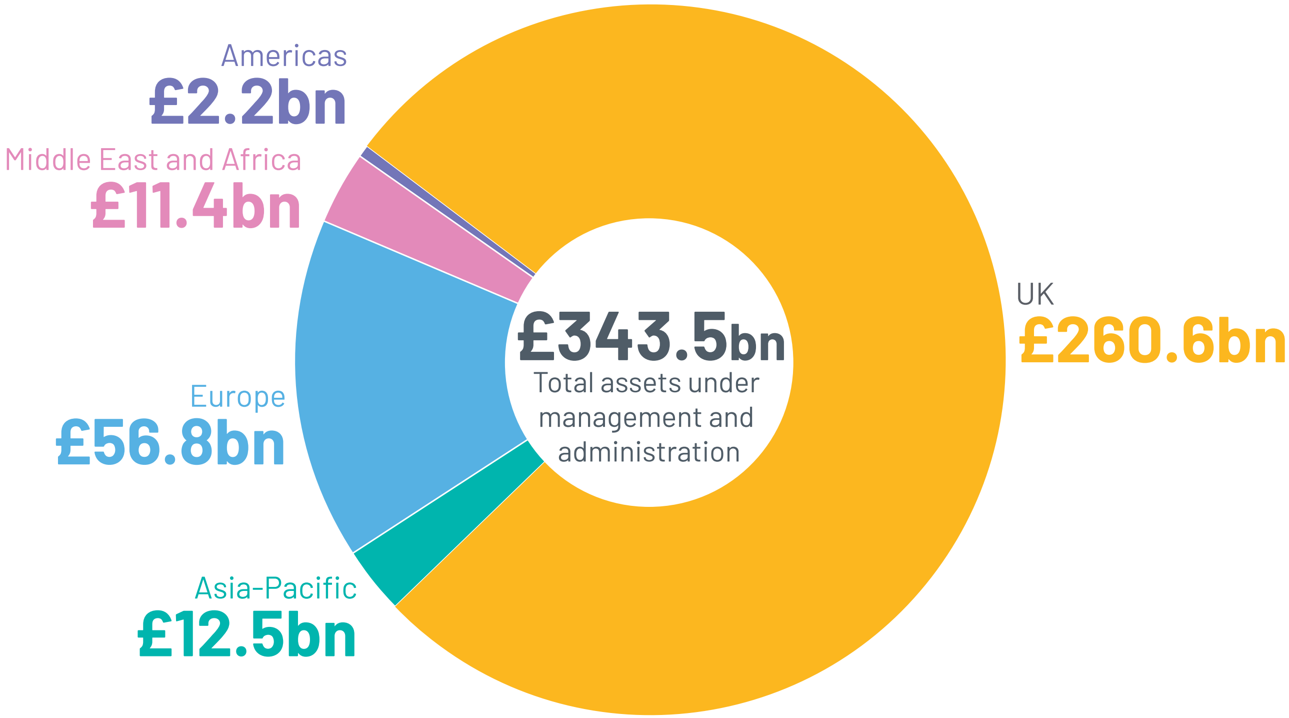
Principle 6: clients and beneficiaries

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

M&G plc
Financial overview

As at 31 December 2023, the assets under management and administration for M&G as both asset owner and manager increased to £343.5 billion (2022: £342.0 billion).

Assets under management and administration (AUMA) by geography are illustrated in the below table, based on the country of the underlying client.

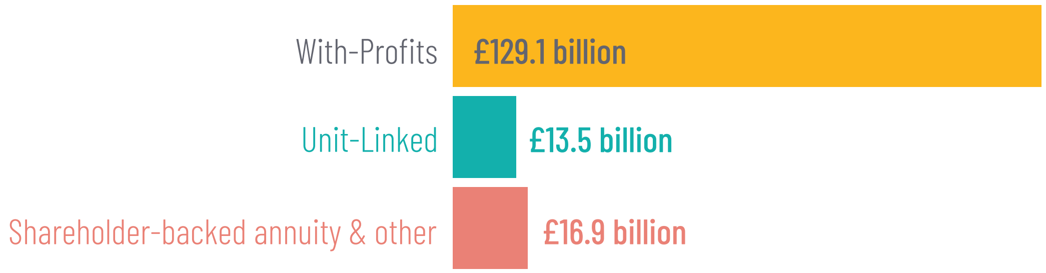


Assets under management and administration split by geographies (totals in the graphic may not sum as a result of rounding; included in total AUMA of £343.5 billion (2022: £342.0 billion) is £14.1 billion (2022: £12.7 billion) of assets under advice).

Source: M&G plc Annual Report and Accounts 2023

Asset owner
Financial overview

The asset owner's funds under management break down is:



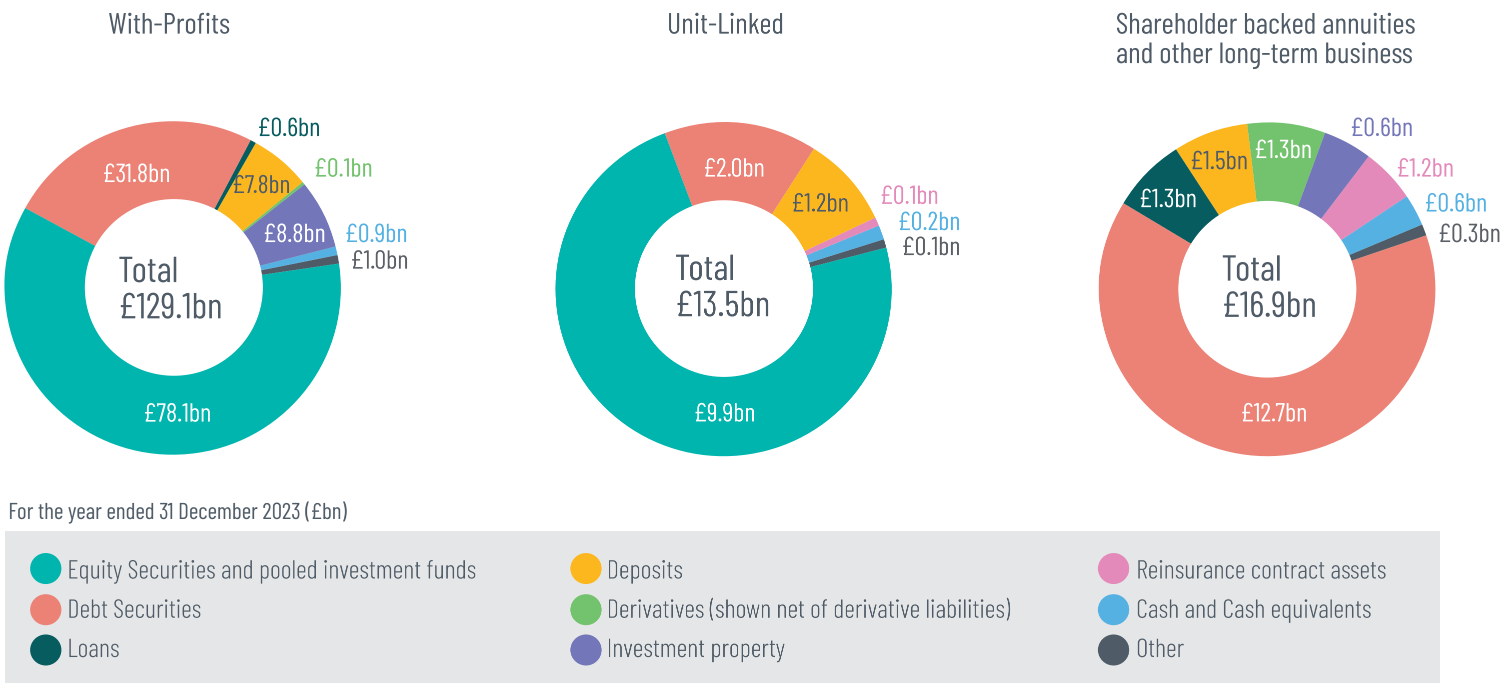
Source: M&G Annual Report and Accounts 2023 (other AUMA is a subset of reported figures, see also graphic on following page). Please note numbers are on a group basis.

PruFund's (the investment solution offered to clients of both Wealth and Other M&G Life) assets under management and administration equated to £54.8 billion (net client inflows of £0.9 billion in 2023).

The asset owner's total number of in-force policies as at February 2024 was 4,804,330 (this excludes heritage PIA and Rothesay annuities). The average age of clients with an active policy across the listed systems is 67.

The asset owner's funds under management broken down by asset class is shown in the following graphic.

Asset owner funds under management split by asset class (totals in the graphic may not sum as a result of rounding). Please note the numbers are on a group basis.



Source: M&G Annual Report and Accounts 2023

The "Other AUMA" (£21.6 billion from M&G Annual Report and Accounts 2022) was removed from the table in 2023, as a result of a change under new business model. The "Other AUMA" is no longer part of M&G Life business.

Meeting client needs

As an asset owner, we predominately distribute our products through **UK financial advisers**. We place a strong emphasis on engaging with UK financial advisers, policyholders and third parties to continuously enhance our understanding of client needs, expectations and perspectives. Our primary tools employed to gather valuable insights are surveys and forums. These methods allow us to gather feedback and evolve our offerings in order to better serve our clients. Open-ended responses are also encouraged within surveys and via forums in inviting more detailed insight.

In addition, we run an extensive programme of both technical and investment seminars (mostly online) for advisers. Attendance at these events often accumulate in the thousands. Feedback on the content is also deemed crucial for the business to ensure that we deliver the right information and cover the most relevant topics in future events. This allows us to gain insights from both professionals and members of the public, enabling us to develop a comprehensive understanding of their requirements. Whilst adviser insights allow us to tap into the expectations and views of the clients, further enriching our understanding of their needs.

Case study: Addressing feedback on the Task Force on Climate-Related Financial Disclosure (TCFD) and achieving better client outcomes

The Task Force on Climate-Related Financial Disclosure (TCFD) provides clients with climate-related information at a fund level so that they can make informed decisions. The disclosures set out a range of different climate metrics that can be used to assess climate related risks and opportunities associated with the fund that underpins their retirement or insurance products.

Objective

As the data is of a technical nature and the disclosure in June 2023 was the first time we had done so, it was considered a challenge to make the data meaningful to a retail audience. Therefore, it was crucial to gain an understanding on how effective the data was being delivered and understood by our clients.

Approach

We conducted client testing in November 2023 to validate whether we were being successful in communicating the necessary facts in a meaningful and useful way. The testing was conducted within the consumer duty framework. As expected, clients found it a challenge to understand what the data results and improvements were suggested.

Outcome

Within the sustainability programme, the TCFD project is still in place to manage the disclosures for year end 2023 (by June 2024) and handover to business as usual (BAU). The TCFD project has acted on these suggestions to explain certain facts more clearly in the disclosure reports and in the supporting FAQs, glossary and web pages which constitute the overall customer journey. The changes have been managed with the input from key stakeholders across the business, including Prudential, with the aim to achieve the best client outcome.

Case study: Resolving client concerns on exposures to traditional Chinese medicine products

In Q4 2023, a news article reported that a number of financial institutions were investing in three pharmaceutical companies that were producing traditional Chinese medicine containing endangered animal parts.

Objective

Following the release of the article, we screened all portfolios (where portfolio holdings data is available) to understand where we had any exposure, if at all. In cases where we are invested in pooled funds and therefore not able to look into the portfolio holdings, we contacted all managers to ask for confirmation if they had exposure to any of the named companies.

Approach

As part of our communications with managers on the matter, we also engaged to understand the following:

1. Rationale for holding / not holding these names
2. Work done to assess the animal welfare risks associated with these companies or other pharmaceutical names
3. Their outlook on the names and sector in light of the news article

Outcome

As a result of the review, we found that we had a small amount of exposure to one of the pharmaceutical companies in one of our active portfolios (the position accounted for less then half a percent of our dedicated China assets).

Following this and our review of the exposure, we requested that the underlying manager sell out of these positions and communicated that we were wanting to ensure that we do not gain any investment exposures to the pharmaceutical companies mentioned in the article. Going forward and as more information becomes available, we will review the appropriateness of these restrictions and screen for companies producing traditional Chinese medicine.

Client communications on stewardship and investment activities

We continually aim to communicate regularly with our clients, and at different intervals depending on the product type. Our communications will show clients their investment performance and what they are invested in. In terms of accessing information, we understand that our clients have unique preferences and differing requirements. Recognising this, we aim to tailor our approach to our clients accordingly and where possible.

The PruFund range

In 2023, the monthly reports that were created for PruFund Growth and PruFund Cautious back in 2022, have continued to help provide advisers with insight into the positioning and performance of the fund ranges, as well as continuing to improve the transparency we are able to provide to clients. Monthly adviser webinars and Unit Price Adjustment commentary were introduced as additional support as part of our continued commitment to supporting advisers with their service commitments to clients and ensuring the right message was being delivered.

The PruFund range of funds follow a successful time proven approach and 19+ year track record of delivering returns for clients with lower levels of volatility through their established smoothing mechanism. The range now has over 450,000 clients invested.

Our website is just one avenue through which our clients may access the information they need. This provides an expansive range of information tailored to our different audiences, including, but not limited to, professional, private and institutional investors to ensure the right level of support and information is provided. Through our dedicated sustainability section on our main website, applicable policies and reports can be accessed. This also includes access to M&G plc's Sustainability Report, which outlines M&G's approach to sustainability (M&G plc's Sustainability Report can be found **here**). We also have adviser focused resources including articles, videos and webinars to help advisers support and inform our clients across both investment and sustainability related topics.

We also ensure that ESG-related information is communicated to our adviser base when appropriate, and are aiming to provide updates on a quarterly basis. The Treasury & Investment Office Client Portfolio Management team have taken onboard feedback from clients and have increased information availability, both in general and for ESG matters specifically, through new written material, WebExs, regular adviser webinars and podcasts.

Investment time horizons

Throughout our investment and stewardship activities we prioritise incorporating the needs of our clients whilst considering the appropriate investment time horizon.

We firmly believe in adopting a long-term approach to investing, as we believe it leads to optimal financial outcomes for our clients and enables us to effectively address sustainability issues.

Our With-Profits portfolios are invested on a medium to long-term time horizon in line with our Strategic Asset Allocation (SAA), utilising projections and assumptions over timeframes of 5-10 years and longer (this is communicated to our clients via our corporate website to ensure transparency and availability of information). The approach looks through short-term volatility and drawdowns while seeking to optimise medium to long-term risk-adjusted performance in line with our clients' financial needs.

Our Unit-Linked funds are invested in line with our belief in a long-term approach to investing. While we do not have contractual long-term liabilities arising from our unit-linked funds, we do have an open-ended unit-linked business, with clients investing for the long-term. Investment into equities is a core part of our investment strategy, as we believe that equities are a suitable asset to invest in to capture medium and long-term returns; they allow us to both capture the equity risk premium over the long-term, and retain flexibility to make meaningful tactical decisions over a shorter time horizon.

For our Annuities funds, individual policies are aggregated and investment time horizons are managed in a cash flow matching basis to ensure liabilities are effectively met across the annuities business.

With-Profits Fund Stewardship Report for UK clients

As a result of continuing client requirements regarding improving the transparency of how their money is being managed, the asset owner continues to provide a With-Profits Stewardship Report. The Report provides an insight into where clients' money is being invested; how Pru manages money; who is managing the money; and the corporate sustainability goals and strategy. This Report was first developed in 2021, is updated annually with the most recent being the 2023 report, which can be found **here**.

Case study: Meeting client needs through new investment propositions

Objective

With climate change and technological innovation driving one of the greatest periods of transition in modern history, the appetite for more responsible investment products is ever-growing and our clients are increasingly demanding ways in which these environmental and social challenges are addressed.

Approach

M&G Catalyst is a global international private assets team of close to 40, based in London, New York, Singapore and Mumbai, and are responsible for providing the long-term flexible capital to tackle environmental and social challenges. Key areas of focus include Climate, Health and Inequality. Since the launch of M&G Catalyst in 2021, the team's strategy has been applying long-term institutional investment to support transformational innovation with impact and to support private businesses and the potential of their innovations. M&G Catalyst look to engage with their investees to manage ESG risks and drive impact which can be measured and reported on investee companies and platform partners.

Outcome

£1.83 billion was deployed as at 30 September 2023 with a further £900 million committed. M&G Catalyst has so far invested in 60 companies. For example, in 2023, a £40m investment into Pragmatic semiconductors was made, a company who have fully automated the semiconductor manufacturing process. This technology can identify, sort and re-use plastic bottles reducing volumes of landfill.

Case study: Prudential Dynamic Growth funds adding real assets

The Treasury and Investment Office are responsible for setting the long-term Strategic Asset Allocation (SAA) of all multi-asset funds including for the Work Place Pensions Default funds, and the Prudential Dynamic Growth funds (PDGs).

Objective

Relatively high inflationary conditions have added pressure on traditional equities and bonds to provide good customer returns. As a result, the SAA of the PDGs was reviewed with the desire to include Real Assets (property plus alternative assets) as a way to provide some protection in high inflation market conditions. The proposal was designed to improve long term customer outcomes but had to consider liquidity requirements and impacts on the costs.

Approach

To achieve the required mix of liquidity and low costs, the revised SAA required new building blocks for property, infrastructure, and private equity. A review was carried out within the Treasury and Investment Office to identify suitable new funds that could be used within the PDGs and across other unit-linked funds. The proposal was discussed with a key customer of PAC, its Independent Governance Committee ('the committee'), to gauge their view on the proposal prior to implementation. The committee were supportive of the plans and the desire to improve long term customer outcomes.

Outcome

The SAA was updated, and new building blocks were added during Q4 2023, with further funds to be added in 2024 once fully set up. The new SAA added Real Assets that were sufficiently liquid and at a suitable cost to achieve the desired customer and company outcomes. Once fully agreed, the changes were implemented in a very short period to protect customer outcomes and an update will be provided in customer literature.

Outcome

Overall, this year we remained transparent about our efforts. We have also continued to seek feedback and views from our clients through surveys and forums to ensure our investment proposition continue to evolve in line with client requirements. We will continue to assess the evolving requirements of our clients and aim to address the themes identified as important to them and their well-being. To add, we seek to maintain a careful equilibrium between financial performance and non-financial considerations such as ESG factors as we take into consideration of the implications for both society and the environment whilst taking into account the requirements of our clients.

Principle 7: stewardship and investment integration

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

Asset owner

Ensuring integration

As disclosed in Principle 2, the Treasury & Investment Office are a team of in-house investment experts within PAC who are responsible for setting the strategic asset allocation, asset manager selection and oversight. The function ensures that the investment strategies are appropriately managed by a suitable asset manager that is capable of managing all risks, including ESG risks.

The Treasury & Investment Office is well-resourced with a team that includes investment professionals with the expertise in capital market research, investment strategy design, liability management, derivatives and portfolio management. This facilitates the integration of financial and non-financial factors, including ESG risks and opportunities in the investment thesis and research.

Through investment mandates awarded by the Treasury & Investment Office, our expectations of ESG integration are clearly communicated. These disclose the time horizon, target return and desired risk levels for each asset manager. Key ESG and stewardship requirements and restrictions are also specified and embedded within the investment mandates for which we have control, especially where a product may have an explicit ESG focus or strategy.

On an annual basis, expectations are clearly communicated via the **Annual Letter of ESG Priorities**.

The Annual Letter of ESG Priorities outlines the key areas of focus on ESG and is shared to all appointed asset managers with key supportive ESG-related documentation, including the PAC ESG Investment Policy.

Stewardship and investment integration process

The Treasury & Investment Office Manager Oversight team are responsible for identifying top quartile asset managers that could generate financial returns for the asset owner. This is achieved through rigorous investment due diligence as part of the selection and appointment process, as well as ongoing due diligence as part of their stewardship activities on asset managers who are employed in running mandates for the wider multi-asset class client funds.

The team will monitor their performance and adherence to objectives over time. This includes the consideration and evaluation of the managers' ESG-related skillsets.

Reports of asset managers' performance are regularly submitted to the M&G Life EIC, and the PAC Board. As such, material breaches of mandate requirements and updated due diligence views are amongst the matters that are covered at the Boards.

As Manager Oversight appoint new investment capabilities, these are aligned to suit the needs of the asset owner by actively working with the asset managers. All asset managers are required to have appropriate ESG and stewardship policies which are assessed for alignment with the PAC ESG Investment Policy and ESG priorities (including climate change and D&I). The ESG & Regulatory team will assess a manager's alignment and any clear misalignments are reviewed accordingly. This helps to inform the selection and actions if required against the asset managers. The investment due diligence process is an iterative process, whereby regular follow-ups and reviews are conducted to ensure that policies continue to align to our requirements.

In the selection phase, Investment due diligence meetings heavily feature ESG-led questions, which form an important part of the decision-making process. This includes discussions on ESG at the firm-level, dedicated ESG resource within investment teams and integration throughout their investment process. In recent selections, certain managers have been removed from consideration due to insufficient rigour when integrating ESG into their investment process.

The assessment of any material breaches of mandate requirement is identified as part of the ongoing monitoring of manager performance against expectations and periodic due diligence. Having clear expectations on ESG and stewardship factors alongside financial performance factors allow the team to identify where asset managers fall short of these expectations. If this is the case, we will consider withdrawing the mandate if engagement is deemed ineffective in influencing change.

As part of **our ongoing due diligence responsibilities**, we have an ESG section as part of our standing agenda for quarterly oversight meetings with managers, which enables conversations on how ESG integration has fed into investment decisions (see Principle 2 page 18). Relationships with asset managers are further managed through **Quarterly Reporting**, where managers are also required to submit quarterly performance reports. All equity asset managers are required to share voting records, including case studies of when they have voted against management. In addition, asset managers need to provide examples of engagement, where they have worked with an investee company to influence its activity/behaviour and have created an improved ESG outcome. Delegated asset managers will also need to demonstrate action in areas that they have been asked to engage on by the asset owner. These datapoints enable the Manager Oversight and ESG & Regulatory teams to assess the degree of effectiveness of the asset manager's stewardship and ESG risk practices and alignment with our expectations of sufficient stewardship activities on an ongoing basis.

We are aware that for fixed income, opportunities for effective stewardship may be more challenging or less common given the lack of engagement channels such as shareholder voting so we do expect our manager to enact engagement as and where appropriate. For other asset classes such as property and alternative assets, standardised methods for exercising stewardship are replaced by a more nuanced approach of engagement given the nature of the asset class.

Updates to the Request for Proposal ESG Due Diligence Questionnaire

The Request for Proposal (RfP) ESG Due Diligence Questionnaire, developed in 2022, has helped to enhance the asset manager selection process by including ESG investment-focused questions. These questions seek to understand whether the asset managers have the people, process and expertise in place to meet the ESG ambitions specified by the asset owner. Such ESG areas included: Diversity & Inclusion, climate change, social issues and stewardship.

In Q4 2023, the ESG & Regulatory team performed a review of the RfP ESG Due Diligence Questionnaire and added additional questions to further enhance the scope of the questionnaire by asking asset managers on how ESG considerations are integrated into their investment processes. This has enabled the ESG & Regulatory team to understand how robust an asset managers' ESG integration process is during the evaluation and assessment process.

Outcome

With our clients and other stakeholders increasingly expecting asset owners to consider ESG factors in their investment decisions, we are ensuring that we meet these expectations by improving our ESG integration in our investment analysis and selection process. We have also recognised that ESG integration further contributes to our risk management processes, supporting the appropriate consideration of any ESG-related risks. To this end, we will continue to seek opportunities to further embed ESG into our investment decision-making.

Case study: Modern slavery engagement

As an asset owner, we expect our underlying asset managers to appropriately manage modern slavery risks. The two case studies below demonstrate how our asset managers have sought to manage and monitor modern slavery risk in their investments.

The internal asset manager engaged with a UK hospitality company on the theme of modern slavery risk in the supply chain.

Objective

To encourage UK hospitality provider to disclose its approach to managing modern slavery risk in its supply chain.

Approach

In Q2 2023, the Internal manager met with senior management to make their requirements known.

Outcome & next steps

The company's Chief Operating Officer explained that there had been significant progress over the previous six months with regards to supply chain reviews, both from the perspective of policies and people management. The company confirmed that it had not found any incidence of modern slavery in its supply chain to date.

The recently appointed Head of Risk and Compliance was tasked with ensuring that supply chain assurance was up to a high standard. The company uses external platform provider Sedex to supplement its own supply chain due diligence and monitoring. The company confirmed that 80% of its supply chain is Sedex certified, and it is working with the remaining 20%, predominantly smaller local suppliers, to increase this by helping them to become Sedex certified.

The company confirmed that its use of agency staff is the exception rather than the norm. The majority of the staff are on the company's payroll, including the building staff who build and kit out the sites. The company confirmed that it had stringent right to work checks and that workers travel to work under their own steam, i.e. workers are not dropped off and collected en masse by minibus or similar. The company confirmed that it had a grievance process in place – 'The Voice', which is open to all workers and can be anonymous if requested – while the Chief Operating Officer confirmed that she was the executive member responsible for supply chain and, ultimately, management of modern slavery risks.

Case study: Modern slavery engagement

The internal asset manager engaged with a Japanese electronics company on the theme of social disclosure with a focus on modern slavery.

Objective

The company was identified by the internal asset manager as a candidate for engagement on modern slavery as it operates in an industry of high risk and we are unable to find adequate information on how the company manages this risk for us to be reassured that they have measures in place to mitigate this risk. The internal asset manager requested that the company reviews and provides information on its social disclosure, with a specific focus on measures to prevent/manage instances of modern slavery within its large and complex supply chain.

Approach

Internal asset manager had a call with management representatives from the company to make expectations known.

Outcome & next steps

The internal manager's engagement is considered partially successful, as the engagement is ongoing. The company is aware of the UK Modern Slavery act and is willing to make the necessary disclosures. They have not identified any instances of human trafficking or modern slavery within their operations or their supply chain. The company has a Human Rights Policy, which was approved by the Board in 2022, and a Modern Slavery statement, which was approved by the Board in 2020.

In addition, the company has introduced a human rights policy/guidelines for its suppliers, which is part of the supplier agreement/contract. Any suppliers (including their subcontractors) found to be in breach will have a set time window in which to address and remediate. If after the period they, or their subcontractors, continue to be in breach of the guidelines the company will terminate the contract and stop working with the supplier. Their engineers visit partner sites to check that they are abiding by the supplier code of conduct (eg, conduct interviews with employees etc).

In terms of next steps, the internal asset manager will follow up with the company in 12 months to request an update on the remediation process and third-party audit, since the company is yet to introduce a formal remediation process and third party audits.

Principle 8: monitoring of service providers & asset managers

Signatories monitor and hold to account managers and/or service providers

M&G plc

Third-party service and research providers

M&G ensures that third-party service and research providers are engaged in order to support the ESG integration. As outlined in Principle 2, at M&G, and within the asset owner, we use third-party service providers including Sustainalytics and MSCI to help inform the investment teams' activities and to help us carry out ESG and stewardship activities (see Principle 2 for our non-exhaustive list of service providers, page 23). M&G has regular communication with our service providers to ensure that they deliver appropriate services, in line with our expectations.

Monitoring of third-party service and research providers

The M&G plc Market Data team is responsible for monitoring the ongoing relationship with the service and research providers and for reviewing the overall quality of service provided. Research providers are monitored and scrutinised for accuracy and regular meetings are held to suggest new areas of improvement. Any issues raised by the business will be followed up by the M&G plc Market Data team until an appropriate resolution has been achieved. M&G have divided providers into Strategic and non-Strategic partners. Those that are strategic and of high value are monitored with regular service reviews on a monthly and soon on a quarterly basis due to the nature of the data and the demand to monitor the services.

Those that are not considered strategic, the M&G plc Market Data team continues to oversee them and are the point of escalation for the business should any questions or issues with the service or data arise. The Strategic partners include MSCI, Sustainalytics, ISS, Morningstar, Refintiv and Bloomberg.

Monitoring process

As mentioned above, the M&G plc Market Data team holds monthly meetings with the strategic partners, to provide constructive feedback and provide an opportunity to determine whether any improvements are necessary as well as information on new products and services that may be of interest to the business. Where there are multiple services provided by one provider i.e. Bloomberg and Refinitiv, the M&G plc Market Data team produces monthly 'packs' which log all the engagements and issues raised during the month and these are reviewed during the meeting.

Comparatively, for non-strategic providers, periodic check ins are more suited depending on the business requirement. Any issues raised are dealt with, by the M&G plc Market Data team as they aim to ensure that the data provider is monitored for escalation/service level review. Non-strategic contracts are renewed on an annual basis, to understand what progress has been made in terms of data quality and service. The team also hosts meetings with non-strategic data providers to discuss feedback and next steps, if any amendments are required to the existing contract.

Overall M&G is satisfied with the services provided by its service providers but it understands that improvements could be made with the ongoing engagement and communication with third-party service providers. M&G strives to find ways to enhance its monitoring processes in respect to the wider consideration of ESG and stewardship. Formal quarterly service reviews with the ESG vendors will be introduced where a pack, detailing discussion points, engagement with M&G throughout the previous quarter and any technical challenges, will be reviewed and key strategic updates from both M&G and the vendor will be discussed. The M&G plc Market Data team is also working to produce data quality metrics to enable M&G to understand data coverage and gaps from the vendors so it can use these metrics to further hold the vendors to account.

Case study: Vendor partnership

Objective

M&G wanted to purchase a biodiversity dataset to facilitate research and analysis within our Climate team, however, given some of the current challenges around the investment decision-usefulness of existing nature-related data sets, there were few options to choose from.

Approach

The provider approached M&G to ask if they would like to participate in their Biodiversity Beta program which gives select Asset Managers the opportunity to use and review their data at no cost. In turn, M&G will provide valuable feedback to the provider on the quality and usability of their data so that, in joint partnership, a better product can be released to the market later in the year. This is an example of the strong relationship M&G has with the provider and the ongoing commitment to continue that partnership.

Outcome

This trial is currently progressing, with weekly calls between M&G and the provider discussing the data in detail. Furthermore, the provider will develop the data set based on feedback over the coming months.

Case study: Poor research quality

Objective

A large group of users at M&G consider the research quality of a data provider to not be detailed enough to use, thus leading to a large portion of users to no longer use the provider.

Approach

M&G escalated to the provider and scheduled several one on one sessions with M&G users to understand their point of view. After discussions with senior leadership, it has been agreed to scale down our contract with the provider as M&G feel that there is a lack of value for money and their data is no longer needed for the majority of users. M&G can however rely on multiple other ESG data vendors.

Outcome

Following the regular communication with the provider and senior ESG leaders, M&G is renegotiating our contact with the provider and we are scaling down access to only those users within M&G who need to retain access.

Asset owner
Monitoring of asset managers

Monitoring and maintaining oversight and ensuring asset managers are in alignment with our purpose and values is a fundamental aspect to our stewardship ambitions.

The Manager Oversight team conducts thorough **Investment Due Diligence** (IDD) as part of the selection and monitoring process of internal and external asset managers. IDD considers a number of relevant factors such as investment philosophy, key risks, stewardship process and more. Although an established process for monitoring asset managers is used, certain asset classes may require additional work and our views will continue to evolve as we learn more about each asset manager whilst the market environment changes. The Manager Oversight team ensures that quantitative and qualitative factors are assessed to ensure the ongoing suitability of managers.

As part of the ongoing due diligence, in the event that the Manager Oversight team identifies significant concerns regarding the ongoing suitability of an existing asset manager, appropriate mitigating actions are recommended. These may include amending investment guidelines to introduce additional constraints on the mandate, increasing allocation to passive or complementary managers to achieve diversification benefits, or, as a last resort, divestment and relocation of assets. Such proposed changes are presented through the relevant governance channels for consideration and decision making.

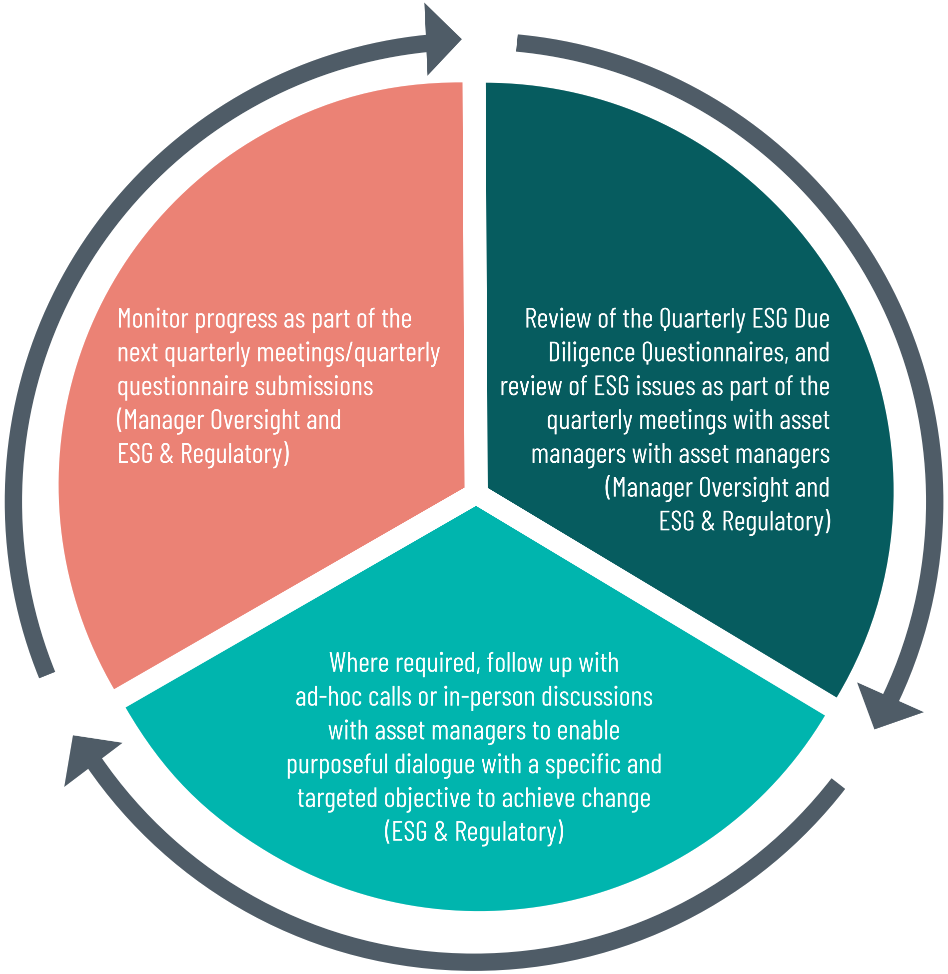
Request for Proposal (RfP) ESG Due Diligence Questionnaire

The team also uses a **Request for Proposal (RfP) ESG Questionnaire**, which consists of ESG investment focused questions. The questionnaire covers a plethora of ESG areas such as climate change, social issues and stewardship in order to see how well asset managers align with our ESG values, purpose and commitments. The RfP ESG Questionnaire consists of five key sections with each section aiming to address specific ESG issues, which is then assessed with a scoring system. Lastly, we allocate a weighted score with varying weightings for different ESG priorities as outlined within the PAC ESG Investment Policy. As part of our ongoing due diligence, we have an ESG agenda point in the quarterly meetings with managers to work on setting key priorities for this section.

ESG Due Diligence Monitoring Questionnaire

The ESG Due Diligence Monitoring Questionnaire was created to ensure that appointed asset managers were monitored effectively with respect to key ESG activities and priorities over the quarter. The questionnaire covers a wide variety of ESG themes and issues which allows us to raise any ESG concerns that may need to be escalated. Furthermore, the questionnaire provides asset managers an opportunity to provide examples or to describe any changes to its ESG policies or processes.

The questionnaire will be requested and collated before Quarterly meetings held by the Manager Oversight team (see Principle 2 on page 18). The ESG & Regulatory team are responsible for analysing the completed ESG Due Diligence Monitoring Questionnaires, and the findings will help determine the ESG agenda within the Quarterly meetings. Any significant changes may lead to ad hoc meetings to challenge or discuss the asset managers' activity.



The Manager Oversight team also conducts quarterly meetings with asset managers to discuss performance, attribution, market outlook and ESG considerations to gain a more comprehensive view. In order to achieve this, asset managers are expected to submit a completed **ESG Due Diligence Monitoring Questionnaire**, ahead of the meeting, which are then reviewed by the ESG & Regulatory team.

Shareholder Rights Directive (SRDII)

The SRDII establishes specific requirements in order to strengthen shareholder engagement and increase transparency. According to the PAC Shareholder Engagement policy, it is the asset owner's responsibility to work closely with our asset manager to ensure that there is sufficient engagement with investee companies. The Manager Oversight team are tasked with the duty of reviewing our funds and ensuring that managers are in alignment with the PAC Shareholder Engagement policy and the PAC ESG Investment Policy.

The PAC With-Profits Fund is designed to spread investment risk by investing in a variety of different assets whilst also using a smoothing mechanism that aims to reduce the impact of market movements over the short term. The Prudential Assurance Company (PAC) funds incorporates life and annuities businesses to serve Prudential policyholders and shareholders, whereas Prudential Pensions Limited (PPL) provides investment solutions for corporate pension clients and Prudential International Assurance (PIA) offers a distribution pathway for PAC business across UK and Europe.

The 2023 SRDII review is the fourth annual review through which PAC With-Profits plus PAC, PPL and PIA Unit-Linked funds were reviewed. This process included all equity managers of segregated and pooled accounts, where policies, voting record, engagement and incentivisation are scrutinised.

The review was carried out by the Manager Oversight team, through questionnaires that cover both company and fund specific disclosure required under the SRDII. Whilst we have the capacity to steer asset managers within the parameters of our voting and engagement policies if deemed necessary, it should be left for the asset manager to decide on the most effective method of engagement.

As we expect our asset managers to engage on our behalf, we evaluate shareholder engagement policies in addition to their ESG policies and review their voting practices against our own voting standards as part of our SRDII reporting. This ensures alignment with our key policies and standards.

Outcome

Through escalated service reviews, the M&G plc Market Data team continues to hold M&G's third-party data providers to account to continuously provide improved services.

As outlined in Principle 2 and detailed above, we continue to strive to conduct ongoing investment and ESG due diligence with appointed asset managers. Discussions on voting and engagement are part of the quarterly due diligence meetings, and are supported by the completion of the **ESG Due Diligence Monitoring Questionnaire** and the **ESG Engagement Template**. As ESG related regulations and requirements have evolved and continue to evolve, work is ongoing to confirm responsibilities for the relevant tasks across the Treasury & Investment Office and how these can best be actioned; the SRDII process is included in these discussions.

The fourth SRDII review included 130 funds with direct equity holdings that are managed by 28 different asset managers, including segregated mandates and collectives managed by the internal asset manager alongside a number of collectives managed by external managers.

As a result of the review, we found that the responses were in alignment with our expectations for the 26 out of 28 managers. Following the third review, we incorporated the feedback accordingly by modifying the existing questions to be clearer in order to avoid ambiguity in the responses from the asset managers. Additionally, further questions were added, including detailed questions on climate policies and voting.

Case study: Key findings from the 2023 Shareholder Rights Directive II (SRDII)

The review confirmed that responses were aligned for 26 asset managers out of total 28 managers reviewed. Discussions are ongoing with the remaining two managers to provide the required details to fully review their policies and practices. Each manager is awarded scores across several areas as well as an overall score. The 26 managers were awarded a "Positive" or "Neutral" rating overall, demonstrating that they all met or exceeded the base line requirements. Most individual scores were also "Positive" or "Neutral" with a few areas that were rated negatively but no further action was deemed necessary due to understandable reasons for the approaches taken or other offsetting positive approaches.

- There was a variance in the level of detail provided regarding the ESG and Shareholder Engagement Policies of the in-scope firms, including the frequency of updates which we consider to be an important metric for our assessment. Firms who provided more detail and regularly update their policies were rated more highly than firms with limited detail and infrequent updates.
- Aligned with the previous SRDII annual review, the voting engagement remained very high with just one manager falling below the 85% participation of eligible votes (a reduction from two in the previous review). As a result, most managers scored very highly in this area. In an update to the process, mangers were requested to split out voting on company and shareholder resolutions to provide useful insight into how managers vote on shareholder resolutions as well as resolutions from the company. A further change to the process was the inclusion of questions on climate voting to assess how managers consider the impact of climate change on their policies and practices. The level of detail provided varied by manager but most managers were well aligned to the Group's priority on climate change.
- Active ownership through voting continues to focus on governance issues but good examples were provided on key votes on environmental and social issues. Most fund managers reported detailed examples of non-voting engagements across the length and breadth of environmental (climate change/biodiversity), social (gender diversity, labour rights) and governance issues. Managers are usually part of collaborative groups that aim to use collective engagement to achieve change but a small number, mostly the US based managers, do not engage with other shareholders but may consider doing so in the future. The remuneration policies of most managers are designed to align the financial interest of fund managers with positive long-term customer outcomes but this is not the case for all managers.

Engagement

Principle 9: engagement

Signatories engage with issuers to maintain or enhance the value of assets

Asset owner

Engagement policy

Engagement is a crucial part of enhancing our long term value of investment for our clients. In order to effectively fulfil our fiduciary and stewardship duties, we believe it is our responsibility, to work closely with asset managers that engage with investee companies, including ESG related issues.

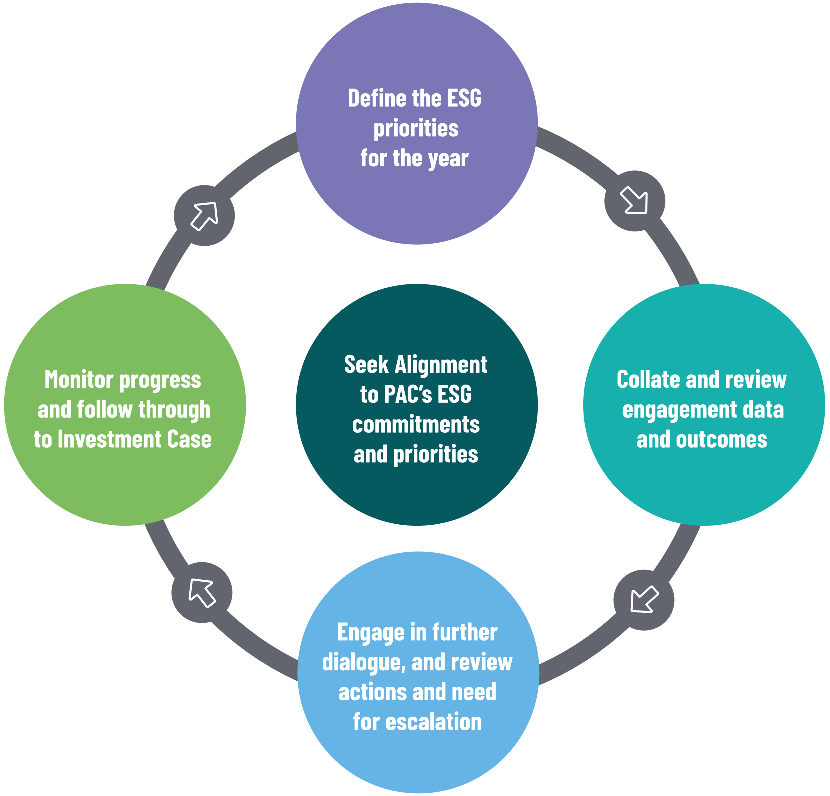
We aim to ingrain effective engagement in the underlying investment processes, where appropriate, to benefit our clients' long-term savings and financial security. In alignment with the PAC ESG Investment Policy, we believe in active ownership in both active and passive management. We require the asset managers that we appoint to carry out active engagement and responsible stewardship with investee companies on our behalf. They do this with the use of our financial ownership across both active and passive mandates. This is aimed at influencing their behaviour and expand sustainability-related disclosures to transparently communicate actions towards shifting to more sustainable business models and outcomes. Additionally, we expect ongoing communication with our asset managers to report on the progress and results of their engagement activities and voting records. Information on engagement successes and updates on failed engagements with escalation steps are also required.

Our PAC Shareholder Engagement Policy and the PAC Voting Standard clearly set out our expectations for asset managers in conducting effective engagement and in exercising effective shareholder voting in conjunction with SRDII. This includes details on the ideal outcomes regarding active engagement, responsible stewardship, the development and implementation of clear engagement escalation policies, and active participation in shareholder voting. The PAC Shareholder Engagement Policy can be found **here**.

Active strategies

For active investment strategies, our chosen asset managers' investment processes are designed to select companies expected to outperform the relevant benchmark indices over the long-term. We expect our asset managers to conduct effective monitoring of a company's business strategy, financial performance, capital structure, non-financial performance and any other associated risk factors. Moreover, we also expect our asset managers to monitor ESG risks and act on these where appropriate, in line with their respective policies, to drive active engagement and responsible stewardship.

PAC's ESG Engagement Approach



The diagram displays our engagement life cycle. Whilst we do not engage directly with investee companies, we rely on our asset managers to directly engage on our behalf. The asset owner maintains accountability for the framework for engagement with investee companies, and in turn commits to engage with its asset managers to deliver on its desired outcomes.

Engagement expectations

Our managers are expected to establish a clear engagement objective for the engagement of activity and consider in advance any internal escalation which may be required if initial engagement efforts are unsuccessful. A clear engagement escalation process should be followed, including defining the objective and the outcome of the escalation.

Asset managers are expected to communicate with shareholders and any other relevant stakeholders of investee companies to effectively manage any conflicts of interests or issues arising from their engagement. M&G offers further information and support for any significant conflicts of interest cases.

In 2022, we created the **ESG Engagement Template** (the Template) (see case study on the following page). The Template collates both quantitative, such as the number of engagements deemed successful, and qualitative data, such as examples of individual engagements, across the year. The ESG Engagement Template requires regular updates from appointed managers on their engagement activities, in line with the expectations detailed above.

We expect asset managers to actively participate in shareholder voting, on our behalf (in line with the Voting Standard) in keeping with their respective policies and regularly report the results of their voting to us. This is to ensure that asset managers are acting in line with our expectations, outlined in our **Voting Policy guidelines**, across the range of shareholder issues. We expect asset managers to make voting decisions in the best interests of our clients (both theirs and ours).

During the voting process, asset managers should consider and assess the impact on the value of the investment and the long term interests of our clients. This voting approach should focus on supporting real world positive outcomes, as systemic risks, such as climate change and inequitable social structures, threaten the long-term performance of the investment portfolios as well as the world in which our clients live. Asset managers should have a detailed voting policy in place and declare any Proxy Voting Service providers used.

Case study: ESG Monitoring

Objective

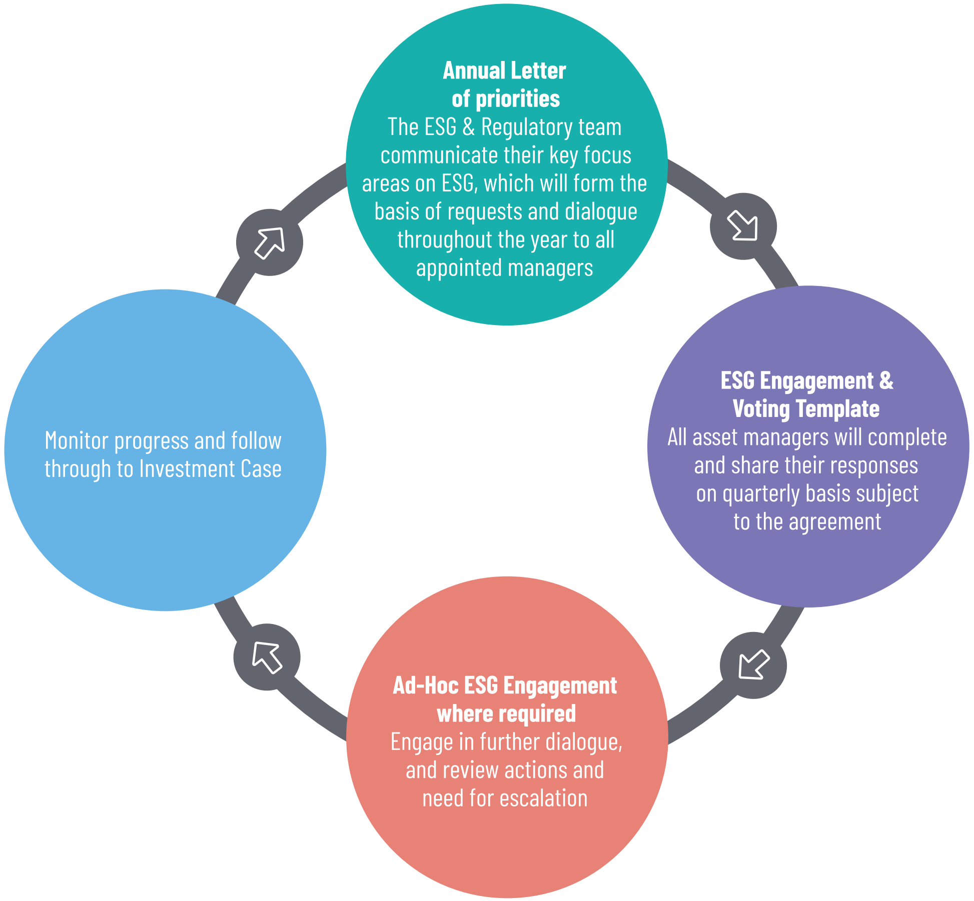
In 2022, we established an Engagement Framework, finalised in 2023. The Engagement Framework takes a robust and structured approach towards monitoring both quantitative and qualitative data on the engagements conducted by our appointed asset managers (both internal and external) across the year to ensure engagement behaviours align and comply with our policies (PAC ESG Investment Policy, Shareholder Engagement Policy and Voting Standard).

Approach

The ESG Engagement Template (the Template) was distributed to all underlying managers to ensure we would have insight on their engagement efforts. The Template is split across two sections to collate both quantitative and qualitative data. The appointed asset managers are expected to fill it out on a quarterly basis, or as per the agreed timelines (recognising the differing level of maturity in reporting engagement).

Outcome

The ESG & Regulatory team demonstrate ongoing oversight as they conduct analysis on the responses provided to ensure managers are performing aligned with expectations. When conducting reviews on engagement responses, it will be acknowledged that the manner in which engagements are carried out will vary between managers (including differences in defining what a successful engagement entails, and differences in prioritisation of ESG issues), and that specific engagements may involve a longer process, so objectives and outcomes may be achieved over longer time horizons (which may reflected across both quantitative and qualitative submissions). The qualitative engagements undergo a Red, Amber, Green (RAG) rating to record progress against engagements.



Passive strategies

We also use passive investment strategies, where the asset manager is required to track the portfolio against a specific benchmark index. Similarly, we would still expect the asset managers' engagement and voting policies to continue to apply, and we would expect the asset managers to vote responsibly on our behalf. Whilst the purpose of the portfolio is to recreate the financial return arising from the benchmark index at a minimum cost, we believe that effective stewardship is still important as it would help to improve companies' financial performance and hence investment returns, for both passive and active portfolios.

Portfolio monitoring

The Manager Oversight team and the ESG & Regulatory team review the funds on an ongoing basis to ensure the underlying managers are aligned with the PAC ESG Investment Policy. The appointed asset managers take ownership of their engagement and implement the most effective route of engagement, although we do possess the capacity to steer asset managers within the parameters of our voting and engagement policies if deemed necessary, for passive mandates, where we do not have control, we engage with the asset managers by communicating our desired engagement and voting activities.

As highlighted within Principles 2 and 8, policies, voting record, engagement and incentivisation are all reviewed on an annual basis in line with Shareholder Rights Directive II (SRDII). Additional engagement is undertaken on a quarterly basis, where asset managers are reviewed on performance, positioning, outlook and any ESG-related developments at both a fund and investment level. The ESG Engagement Template allows for the analysis of the asset managers' engagement efforts to ensure that they align with our expectations and to enable suitable oversight and prompt further engagement when necessary.

Outcome

In order to meet our fiduciary duties, there is ongoing engagement with our appointed (internal and external) asset managers to ensure we meet client needs and enhancing the value of their assets. The ESG Engagement Template is useful in allowing us to facilitate our oversight objectives, and allows us to identify when there are areas of concern or opportunities with respect to our appointed asset managers' ESG and engagement activities, including the need for escalation. As we continue to review and enhance our due diligence processes, we will aim to increase the amount and quality of case studies from both our internal and external asset managers for future reporting.

To further strengthen this process, there is ongoing development of an **Engagement Dashboard** to systematically review the engagement data, to ultimately have a standardised assessment of our appointed asset managers' engagement efforts.

Engagement theme: Environmental

Engagement in action

Source: External Asset Manager

Environmental focused engagement with water utilities company

Objective

The external manager engaged in efforts to minimise risk and enhance corporate management of water and waste issues in areas some of which include: emergency preparation and response, prevention of future breach and waste management.

Approach

After engaging with the company for one year, since December 2022, the external manager continued engagement with the company via emails and successfully had two engagement meetings with the Director of Customer Operations.

Outcome & next steps

The external manager was able to successfully close all engagement objectives as the company confirmed to reduce sewage spillages to an average of 20 per year by 2025. The company is also among the companies with the fewest "Total and Serious pollution incidents" in the entire sector according to the Environmental Agency (EA) assessment. The company has also set a target on leakage spills and is currently innovating its treatment processes to treat for PFAS (per-and poly fluoroalkyl substances) in drinking water. The EA confirmed that the company has obtained the highest score in the sector for four consecutive years.

Engagement theme: Environmental

Engagement in action

Source: Internal Asset Manager

Environmental focused engagement with an international retailer

Objective

The internal asset manager met with the French, Spanish and South American based retailer Carrefour, to ask it to disclose its ambition and targets, and explain the governance, in relation to natural capital.

By way of background, best practice in this area includes – **Ambition:** publicly commit to minimise contributions to key drivers of nature loss and to conserve and restore ecosystems at the operational level and throughout value chains by 2030. **Targets:** set time-bound, context-specific, science-based targets informed by risk assessments on nature-related dependencies, impacts, risks and opportunities for palm oil, soy, paper and beef. **Governance:** establish board oversight and disclose management's role in assessing and managing nature-related dependencies, impacts, risks, and opportunities.

Approach

In Q4 2023, the internal asset manager met with members of the investor relations and sustainability teams.

Outcome & next steps

Carrefour is developing an ambition by talking to key stakeholders and is in a working group with the Science Based Targets Network and other companies. The company is looking to come up with something in relation to nature, similar to climate's net zero. Its main focus areas for nature are sustainable agriculture (reducing pesticides) and fishing, deforestation and plastics. Certification targets have been set for palm oil, soy, paper and beef, and updates will continue. In terms of governance, the Company's Executive Committee defines the Corporate Social Responsibility (CSR) strategy, policies and objectives, and measures CSR performance, while the CSR committee, with five members of the board, approves the strategy.

Engagement theme: Social

Engagement in action

Source: External Asset Manager

The External manager engaged with a Chinese electronic components manufacturer due to some media allegations that may cause reputational damage

Objective

The external manager engaged with the Chinese electronic components company to improve their disclosure on their Responsible Business Alliance audits to ensure that there is no labour violations, as the company media faced allegations of involvements with Uyghur labour transfer programs. The external manager also asked the company to pursue a majority independent board.

Approach

The external manager's Global Stewardship Team and Fundamental Equity team had a bilateral engagement meeting with the sustainability and investor relation teams of the company at the beginning of Q1 2023.

Outcome & next steps

The company refuted the allegation and stated all employees are hired directly and that they will implement a human rights policy. The manufacturing sites were also audited either through the Responsible Business Alliance or directly by customers to ensure there are no labour violations. The company has also agreed to improve public disclosure on third-party audits and details on the audit results. The company is also planning to increase independent directors to bring board independence. The external manager will continue to monitor their progress on our behalf and the company has met the established objectives.

Engagement theme: Social

Engagement in action

Source: Internal Asset Manager

Diversity and Inclusion focused engagement with a Chinese state-owned manufacturer of power generators and power station projects

Objective

The internal manager encouraged the Chinese state-owned manufacturer to increase their board-level gender diversity.

Approach

In Q2 2023, the internal asset manager met with representatives of the company to make their requirements known.

Outcome & next steps

The company had an all-male board. The company stated that it was committed to improving board diversity. It confirmed that it had a number of female candidates in the candidate pool, however, it was unable to confirm the timing of any changes to board composition. One of the challenges it faces to improving diversity, not only on the board but also in the wider workforce, is the current composition of the talent pool within the sector. The sector in which the company operates is manufacturing-heavy and continues to be male dominated, which has resulted in there being a limited pool of senior females. With this in mind, the company confirmed that it was looking to other sectors, such as finance and the legal profession, to identify diverse candidates with the appropriate level of seniority and skill set. The company explained that it was also taking measures to nurture and develop existing female talent, with a focus on the development of female managers and the female board members within its subsidiaries.

While the company does not currently meet our minimum expectations on board diversity, we felt there was sufficient evidence to suggest that the company was taking positive steps with regards to workplace diversity. Next steps are to monitor upcoming announcements for news of the appointment of additional board member/s.

Engagement theme: Governance

Engagement in action

Source: External Asset Manager

The external manager engaged with a South Korean company which manufactures and markets automotive service components due to corporate governance concerns

Objective

The external manager asked the company to improve their governance structure, including to increase the independence of the compensation committee and the board, the gender diversity of the board, and to add non-executive director on the audit committee.

Approach

In Q2 2023, the external manager held a meeting and directly engaged with the Independent Board Director and the Investor Relation team of the company to discuss concerns raised with regards to the compensation committee's lack of independence and the significant power held by the Chairman over the company. The Board's bylaws were also raised which allow the possibility of a non-executive director on the audit committee and gender diversity on the Board level.

Outcome & next steps

The company acknowledged the concerns raised and highlighted plans to make the committee fully independent over time. In regards to gender diversity, they expressed difficulty in finding a suitable female candidate with relevant experience for the Board.

As a result of the engagement, the outcome was partially successful because of the request to update the Board's bylaws to require a fully independent Audit Committee. This will be considered by the director, who will consult with the Board and the company's legal advisers. Therefore, the engagement is deemed as on-going as the external manager will continue monitoring the company's progress of improving their governance.

Engagement theme: Governance

Engagement in action

Source: Internal Asset Manager

Internal asset manager requested asset management company to improve controls

Objective

The internal asset manager met with a North American healthcare company to ensure that allegations of bribery in Japan had been effectively dealt with, and that processes had been put in place to help ensure this didn't happen in future.

Approach

In Q2 2023, the internal asset manager met with the Head of Investor Relations and the Company Secretary.

Outcome & next steps

The company confirmed that this was to do with Foreign Corrupt Practices Act (FCPA) violations in Japan concerning dealings with healthcare professionals. This had been discovered by the company, and was not the result of a whistle-blower. The company informed the government it was investigating, and docked bonuses across the Group to demonstrate that such behaviour was unacceptable at the company. While it does not believe this is a pervasive problem, the company took an 'if it affects one it affects all' approach. The internal asset manager was satisfied that the company had taken the issue in hand.

Principle 10: collaborative engagement

Signatories, where necessary, participate in collaborative engagement to influence issuers

Asset owner

As outlined in Principles 8 and 9, the asset owner sets expectations for our asset managers to engage on our behalf as we believe that they will act in line with our expectations. However, the asset owner is still held accountable for effective stewardship and may provide guidance where necessary or appropriate. We expect our selected investment managers to engage and exercise their position with investee companies when necessary. We believe that this form of active ownership is critical to generate long-term investment performance for our customers.

To fulfil our fiduciary and stewardship duties to all our clients, we believe it is our responsibility as a long-term investors to work closely with our appointed asset managers to ensure they engage effectively with investee companies. This includes undertaking collaborative engagements where appropriate.

We also welcome evidence of collective engagement from our underlying asset managers. Whilst not a requirement, we encourage our managers to use different tools of engagement to drive positive change and view collaborative engagement as a useful method. The ESG & Regulatory team uses the ESG Engagement Template to assess and differentiate which engagements have made use of collective or collaborative initiatives (as discussed in Principle 9).

The table below highlights some of the initiatives we engage with (not an exhaustive list), including some of those supported or led by M&G plc or the internal asset manager, which have a direct influence on the asset owner.

Collective Engagement/Initiative	Summary	Involvement
UN-convened Net-Zero Asset Owner Alliance (NZAOA)	The asset owner joined the UN-convened NZAOA in 2021, the global institutional investor group is committed to transitioning their investment portfolios to help limit global warming to 1.5°C in line with the Paris Agreement.	Member
UN-backed Principles for Responsible Investing (PRI)	The asset owner is a member of PRI to provide transparency on how we are delivering on our climate commitments. We have become a signatory of the PRI, the UN-backed organisation promoting the integration of environmental, social and governance factors in asset ownership decisions.	Member
United Nations Global Compact (UNGC)	M&G plc became a signatory of the UNGC in March 2021, a non-binding United Nations pact to encourage businesses and firms worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The first Communication of Progress (COP) explains the current position from which M&G, as a corporate entity (plc), long-term savings and annuity business (asset owner) and as an asset manager is seeking to play its part as a UNGC signatory.	Signatory

Collective Engagement/Initiative	Summary	Involvement
Powering Past Coal Alliance (PPCA)	M&G plc joined PPCA in March 2021, at the same time as publishing an ambitious and comprehensive commitment to phase out all thermal coal from its portfolios by 2030 in the OECD and EU, and 2040 in developing countries. M&G is working with investee companies exposed to coal to transition away from thermal coal. This is aligned to the internal asset manager's Thermal Coal Investment Policy and our PAC internal coal policy.	Member
Carbon Disclosure Project (CDP)	CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. In 2023, M&G plc responded to the CDP annual questionnaire as an independent listed business for the fifth time, in recognition that measurement and disclosure is one of the first steps to improve on performance with respect to emissions and other climate-related factors.	Signatory

Outcome

As highlighted under Principle 4, we are also a member of a number of other associations and initiatives designed to improve collaborative efforts, and we aim to actively engage, support and learn from these industry bodies in order to progress our sustainability and stewardship ambitions. Across 2023, we have progressed our collaborative initiatives with the Climate Action 100+.

Case study: Mining company on climate and nature (CA100+ Engagement)

Source: Internal Asset Manager

Objective

To request an update from an international mining company (the company) on the delivery of its 2025 Scope 1 and 2 emission reduction targets, asking how the company can future proof its iron ore supply, raising concerns over the use of nature-based solutions (NBS) and offsets and again to ask the company to set a scope 3 target for its carbon emissions.

Approach

The internal asset manager, as co-lead for CA100+, met the Head of Investor Relations and the Head of Climate with the other CA100+ co-leads.

Outcome

On Scope 1 and 2 reduction, the company continues to experience delays in planning and procurement of electrical equipment such as boilers. In terms of iron ore, new higher grade iron ore sites at some of its locations are being developed. The company re-assured the internal asset manager that decarbonisation is more important than NBS' aims as the benefits of NBS won't come into effect until after 2030. On Scope 3, the company has disclosed a graph of expected steel-mill customer projected emissions based on national pledges, which don't show a significant reduction until after 2040, but the company is still not ready to commit to a Scope 3 target. We will continue to press the company on this.

Case study: Engagement with a chemical company on climate

Source: Internal Asset Manager

Objective

To press a multinational chemicals company (the company) to add Scope 3 to its existing Scope 1 & 2 carbon emission reduction targets, and add climate Key Performance Indicators (KPIs) to management remuneration and publish an updated lobbying report by the end of 2023.

Approach

With the other CA100+ co-leads, the internal asset manager met with the Chief Executive, Head of Corporate Sustainability and Head of Investor Relations.

Outcome

The day before the meeting, the company announced a 15% reduction for Scope 3 upstream emissions by 2030. This means that 66% of the company's emissions are now covered by a target. The company has been working with the SBTi to develop a methodology for measuring Scope 3 downstream emissions, but it is considered timely and there are difficulties in tracking products to end of life. In terms of remuneration, there are some Scope 1 and 2 KPIs included and there will be Scope 3 in time, once the verified level of emissions increases from the current 25% level. Subsequent to the meeting the company published its latest lobbying report.

Working with NZAOA towards our climate change priority

In 2023, we continued to work alongside 87 institutional investors, with $9.5 trillion AUM, towards the joint goal of aligning portfolios with a 1.5°C scenario in accordance with the Paris Agreement.

The NZAOA aims to drive the development of industry best practices and the catalysation of global economy decarbonisation. The NZAOA works in tandem with other initiatives including CA100+, of which the internal asset manager is a signatory.

The NZAOA Target Setting Protocol represents individual and collective target setting and reporting, with coverage of emission reduction, sector, engagement and financial transition targets that in combination with other asset owners will help to influence issuers and align with Net Zero emissions by 2050.

In 2022, we published our Net-Zero Asset Owner disclosure, which details our targets that align with our commitments to the NZAOA. In 2023, we reported our targets, as well as progress made against these targets, directly to the NZAOA, and will continue to do this on an annual basis. We also began working on implementing our engagement strategy, where we will prioritise engagements with our highest emitters who have not disclosed credible Net Zero targets in line with the NZAOA Target Setting Protocol. We expect this engagement strategy to support our overall decarbonisation strategy across our asset book.

Engagement

Principle 11: escalation

Signatories, where necessary, escalate stewardship activities to influence issuers

Asset owner

We believe that active ownership that drives and furthers positive corporate behaviour is imperative to achieving favourable investment performance in the long-term for our clients. We rely on our appointed asset managers to carry out engagement and voting with investee companies on our behalf. Consequently, we purposefully appoint asset managers who will seek to positively influence corporate behaviour.

Engagement with investee companies would usually take the form of active ownership practices (either bilaterally or collaboratively) and shareholder voting.

Through continuous dialogue with our asset managers, we ensure that our standards and expectations of stewardship activities are well aligned and implemented accordingly (see Principle 2 on page 18).

Escalation of stewardship activities

We understand escalation to mean the need to intensify engagement efforts (for example, using more than one type of engagement and/or using different types of engagement) or to take stronger action in the form of voting and exclusions to reach our desired outcome.

Our asset owner **PAC Voting Standard** details the use of shareholder voting to achieve an ESG target as part of an escalation strategy where other engagement is not achieving the required outcome in the set timeframe. For example, if various other forms of engagement have not been successful over a prolonged period, the asset manager may vote against a company's management at a general meeting to help drive the required change.

Where appropriate, we may work closely with the relevant asset manager to exert influence on a particular issuer to elicit a desired behaviour. This is done only where deemed appropriate and where our involvement is deemed to be beneficial to help achieve the desired outcome.

In addition, if one of our appointed asset managers is not carrying out responsible stewardship in line with our expectations, then we would employ our own escalation measures to reach a desired outcome. (See case study page 100 on Modern Slavery engagement).

Escalation of ESG issues

As previously outlined within the PAC Stewardship Report, and as disclosed within the PAC ESG Investment Policy, we have identified **two ESG priorities, climate change and diversity & inclusion**, given their importance for the long-term sustainability of our environment, businesses and society as a whole. We have implemented a suite of policies, approaches and exclusion criteria to address these priorities, as well as other ESG issues that we deem to be material. Ensuring alignment with our policies and processes can involve the use of escalation measures.

Our thermal coal position (which is consistent with the Group's position on thermal coal and is stricter than the internal asset manager's respective Policy as a result of our adherence to the NZAOA requirements) outlines our stance on thermal coal and highlights the respective thresholds and expectations with regard to escalation and divestment for flagged companies as appropriate. Importantly, thresholds are not absolute, and given our preference for active ownership and engagement wherever possible, companies with credible plans to end coal mining or energy companies that plan to transition their business to below set thresholds (or complete phase out of coal) are not excluded, and we instead continue to influence our managers to actively engage. Divestment is seen as an appropriate escalation only when we foresee that further engagement practices will fail to yield the desired results.

With respect to our commitments to the UN Global Compact (UNGC), the asset owner, in conjunction with the internal asset manager created a centralised list of companies that are deemed to be in violation of UNGC. This was aimed at reducing monitoring overhead and operational risk and to facilitate communication with external managers. The list is monitored on an ongoing basis by the UNGC Committee, who review the list of companies and discuss any proposed changes, escalations or resolutions. In 2023, there were no material escalations taken at this committee.

Case study: Engagement on the topic of Modern Slavery

Objective

In January 2023, the asset owner communicated our ESG priorities within an annual letter to our asset managers. Within this letter, we outlined our ESG areas of focus for the year, one of which was driving engagement on the topic of Modern Slavery.

Approach

The Asset Owner identified 21 companies that we deemed to be at high risk of Modern Slavery incidence in their supply chains, and in January 2023, asked our appointed asset managers that hold these names to engage with them on the topic to reduce this risk.

Throughout the year, members from the ESG & Regulatory team attended quarterly meetings with these managers and follow-up on the status of these engagements and also ask for progress updates. Asset managers would then take the time to explain any extra due diligence they have carried out on these names, including ESG analysis & direct engagements with the investee companies. However, some managers had not made any progress with this engagement by the end of Q2, which we decided to follow-up on.

Outcome

After the quarterly meeting cycle with asset managers, follow-up calls were scheduled with managers both to understand their Modern Slavery risk management approach, and to drive engagement with the high-risk companies that they hold on our behalf.

One particular manager (who held two of these companies on our behalf), reached out to both companies, and provided us with an update during the follow-up meeting. They had a meeting scheduled with one company, and undertook detailed research on the other company (whom was less responsive to direct engagement). The manager shared their research findings with us after the call, and agreed to increase their focus on Modern Slavery engagements in the second half of the year.

Outcome

We outline **our escalation strategy within our stewardship policies** (available **here**). As an asset owner we have set an engagement approach, as well as exclusion criteria on a variety of ESG issues, which inform our approach to escalation. This includes thresholds and screening criteria for coal-related investments, exclusions or restrictions in companies involved in the production of tobacco, or companies with an ownership in these companies, and exclusions in companies involved in controversial weapons, specifically anti-personnel mines, chemical weapons, cluster munitions, biological weapons, depleted uranium, non-detectable fragments and non-proliferation treaty nuclear weapons.

We believe that exclusion of any company from our portfolio on the basis of their excessive carbon emissions is an action of last resort, that should only be taken if we are certain that engagement will not change the company's behaviour. As part of our commitment to engage with our top emissions contributors, we are planning our engagement strategy, and with that, potential escalation measures to support progress towards our Net-Zero targets. Potential escalation actions for engagement targets may include time-bound engagement to set credible Paris aligned net-zero targets, specific voting actions and/or portfolio allocation actions.

We also abide to the principles of the **UNGC**, which commits us to the ten principles of good practice in human rights, labour, the environment, and anti-corruption, which we report on annually, and which have previously led to escalation measures relating to specific holdings.

As an asset owner, we have the ability to provide direction to our appointed asset managers as means of escalation where a priority issue has been identified (see Case study: **Engagement on the topic of Modern Slavery** on pages 76 and 77 for examples of this).

As detailed in earlier Principles, going forward we look to continuously improve our engagement approach with our external asset managers, and in doing so, to monitor how specific matters have been escalated on our behalf. We also will continue to escalate matters with our asset managers where they are not conducting effective stewardship in line with our expectations.

See the following case studies for examples of our internal asset manager, and an external asset manager's escalation activities, in line with the expectations detailed in the Principle.

Case study: Engagement with a multinational electronics manufacturer relating to labour rights

Source: External Asset Manager

Objective

A multinational electronics manufacturer was included on the MSCI UNGC fail list as a result of concerns regarding the use of Uyghur labour. Following thorough analysis by the asset manager, they assigned the company an internal Red rating, which involved numerous engagements to escalate their concerns to the company.

Approach

The asset manager began by conducting a thorough analysis of the MSCI UNGC report, the company's disclosures as well as supply chain disclosures from their largest customer. Despite the company's denial of the allegation and the company's own audit of its labour practice, it is on the basis of this initial analysis that the asset manager assigned this company a Red rating.

Through a number of engagements throughout Q1 and Q2, including an onsite visit as part of a trip to the company headquarters, the company was questioned on a number of factors by the asset manager analysts. Such challenges included the robustness of the company's third party audit, the simplicity of the company's policies and the limited disclosure on the implementation of its human rights policy.

Outcome

The asset manager found the responses received as part of the engagement satisfactory, and additional comfort was given that the majority of the company's customers are Fortune 500 companies who have their own policies to audit supply chains. Following an 8-month review, involving engagement with both the company and MSCI, the asset manager re-rated the company to Green. The company was also re-rated by MSCI to the watchlist (rather than fail). The asset manager expects to review the issues on an ongoing basis to assess any further action by the company to address the risks.

Escalation action

Following initial engagements with the company, the company was assigned an internal Red rating, which was followed up with an onsite visit, and further engagement during the 8-month review period, before re-rating them to Green.

Next steps

The asset manager expects to review the issues on an ongoing basis to assess any further action by the company to address the risks.

Case study: Listed Investment Trust

Source: Internal Asset Manager

This case study offers an example of responsible stewardship exhibited by the M&G Private Equity team, who engaged company management, and subsequently advocated for a change in board composition by way of voting action at an Annual General Meeting (AGM).

Objective

A listed private equity trust went through a liquidity issue which forced an unexpected dividend suspension, and consequently share price underperformance. The M&G Private Equity team attributed the need to suspend the dividend to a failing of the trust's board. The M&G Private Equity team engaged with both the board and the investment manager to investigate the suspected failings.

Approach

After a series of interactions with the trust's board, investment manager, and broker, the M&G Private Equity team concluded that the board was inadequate and had failed to effectively communicate with the investment manager. The team engaged with the board and the manager representative to make this view clear, and advocate for a change in board composition. This request was successfully incorporated as an AGM voting item.

Outcome

The majority of shareholders voted in favour of the item, and subsequently the Chairman stepped down. The M&G Private Equity team continued to be engaged throughout the Chairman selection process, meeting with the interim Chair and advocating for a Chair with specific experience. The new Chair has recently been announced and has been very positively received by the market.

Principle 12: exercising rights and responsibilities

Signatories actively exercise their rights and responsibilities

Asset owner

Engagement expectations

As an Asset Owner, we do not directly engage with investee companies. Instead, **we entrust our selected asset managers to engage with them on our behalf**, ensuring that they align with our own ESG and stewardship expectations.

As noted in Principle 11, our favoured approach to engaging with investee companies is active ownership practices, such as shareholder voting, utilising exclusions only as an action of last resort. We believe that active ownership in order to influence positive corporate behaviour is essential to generating long-term investment performance for our clients. We therefore appoint asset managers that aim to positively influence corporate behaviour where appropriate.

To ensure a consistent and clear stance, we have formulated the asset owner's PAC Voting Standard (the Standard) which sets out our expectations for our asset managers in exercising effective shareholder voting in conjunction with the SRDII. The Standard supports the asset owner's PAC Shareholder Engagement Policy, and both reflect the expectations we have for active engagement.

As detailed in these reports, we expect our asset managers to conduct effective monitoring of investee companies in line with their respective policies, establish constructive dialogues, drive active engagement and responsible stewardship and exert influence where appropriate. We expect our asset managers to vote on all relevant shareholder resolutions at general meetings across both our active and passive holdings, assessing the impact on the value of the investment and the long-term interests of our customers when determining how to vote. Asset managers should align voting to support real world outcomes in line with our PAC ESG Investment Policy, and address factors that threaten the long-term performance of our portfolios and wider society more generally, such as climate change and inequitable social structures.

Reporting expectations

As part of the annual review required by the SRDII, asset managers should evaluate the effectiveness of shareholder voting activity and the outcomes achieved by exercising votes, following a consistent set of guidelines or criteria. This evaluation should review the connection between voting and the desired outcome of other forms of active engagement to enable clear and consistent messaging to a company on an ESG issue. To ensure voting and engagement is in line with our policies and expectations, we use the asset managers' voting and engagement records to monitor engagement with investee companies on our behalf, with this due diligence forming an integral part of our ongoing oversight process. Further reporting expectations for voting activity, as outlined in the PAC Voting Standard, include:

1. Asset managers should report their shareholder voting records in a comprehensive and timely manner, in line with our specific request for voting information, including a link to their website if appropriate
2. In relation to votes highlighted as significant by an investment manager in the voting record, a clear explanation of the criteria for a vote to be considered should be provided
3. Voting records should always provide a clear explanation of votes against a company's management resulting from the dissatisfaction of management action in relation to an ESG issue or risk
4. Asset managers should provide specific explanations of key sustainability-related votes, particularly where these pertain to the asset owner's current ESG priorities

As part of our annual SRDII review, highlighted in Principle 8, we request company specific disclosures covering policies, voting record, engagement and incentivisation.

This process includes the collation and evaluation of voting decisions including those against company boards; where there were votes against shareholder resolutions; and where a vote was withheld. We review voting records to ensure voting is being carried out in accordance with asset manager policies, mandate design and strategy.

These allow us to review engagement on a manager-by-manager basis. Additionally, non-voting engagement is reviewed to determine engagement coverage and if this is in line with our expectations.

Proxy voting service providers

The appointment and use of a proxy voting service provider is accepted. However, where managers have chosen to use these services, this should be clearly set out in the asset manager's Voting Policy. We also expect managers to conduct appropriate oversight to ensure that voting occurs in a manner that achieves the best long-term value for our customers and aligns with the investment manager's position on sustainability, which in turn should support the asset owner's ESG priorities and targets. Additionally, investment managers should be able to take an independent view, dissimilar to the Proxy Voting Service Provider if necessary.

Use of proxy services are reviewed as part of our annual SRDII reporting, with data collected regarding use of proxy advisers for corporate engagement, the services provided and the impact of the adviser on voting decisions. In the case of proxy advisers not being used, detail is requested on the reasoning behind this.

Stock lending

The annual SRDII reporting questionnaire reviews stock lending and reviews if securities are lent, and if so, the respective firms' engagement policy for lent stocks.

These responses form a scored sub-area within our wider analysis, and if we view these policies as misaligned to our own policies, engagement will be sought with asset managers as appropriate. This has been included in our PAC Voting Standard published in March 2023.

Client alignment

Across segregated or pooled mandates, we trust our managers to vote on our behalf in line with our clients' best interests. We may request that our asset managers vote in a particular way to improve a particular aspect of corporate behaviour and further our ESG priorities and targets. In this scenario, we will evaluate the outcome of the directed shareholder vote and instruct further action if required, including divestment, if appropriate. As part of our ongoing asset manager oversight activities, we influence our asset managers' stewardship to align more closely with our policies, priorities and areas identified as concern to our clients, where necessary. We may replace an asset manager if their voting policies and processes do not comply with our own, and if we are unable to obtain a service that meets our requirements.

Fixed income

We rely upon our chosen asset managers to engage in relation to term and condition amendments, trust deed information requests, impairment rights and documentation review. We expect our managers to conduct effective monitoring, establish constructive dialogues, drive active engagement and responsible stewardship and exert influence where appropriate for fixed income holdings. Where appropriate, the asset owner may work closely with the relevant asset manager to exert influence on a particular issuer to elicit a desired behaviour.

Listed equity assets

Similarly to other asset classes, we monitor listed equity assets in line with SRDII and we rely on our asset managers to vote on our behalf.

Outcome

As stewards of our customers' assets, we exercise our rights and responsibilities by making investment decisions that deliver the best outcome for customers over the long-term. As an asset owner, we do this (in part) by delegating voting activities to our appointed asset managers, who are expected to vote on all shareholder resolutions at general meetings in the best long-term interests of our customers. This ensures we are appropriately exerting influence as an asset owner which in turn helps us to manage ESG risks, and be responsible stewards of our assets on behalf of our clients. Additionally, we exercise our rights and responsibilities by carrying out due diligence on our asset managers. For example, we monitor the voting activity of our asset managers to review whether the outcomes remain aligned to our principles and to the PAC Voting Standard. See the below case studies for evidence of our review of manager voting activity in accordance with SRDII, how we monitor our asset manager's governance practices, and how our managers carry out shareholder voting on our behalf.

Case study: Voting engagement

Approach

The level of active engagement of our underlying asset managers is monitored formally on an annual basis. In the 2023 SRDII annual review, voting engagement tended to be very high, with almost no managers falling below a threshold of 90% participation of eligible votes, resulting in most asset managers scoring very highly in this area. There was one exception to this, where we followed up with the asset manager in question. Details of this engagement are included below:

Outcome

Manager A (58% participation of eligible votes) – this manager was rated as Negative on this metric due to the low voting participation ratio at 58% that has marginally declined from recent years, ranging between 61-62% over 2022 & 2021. We acted as an asset owner to engage with this asset manager to understand the reason for the low score, to assess the impact of their voting record on PAC, and to try and influence the asset manager's behaviours to improve their voting record above the 90% threshold in the future. The manager confirmed to us that they vote on all UK holdings plus overseas holdings where they have significant exposure, voting on 100% of eligible votes within the UK equity fund where PAC has exposure. Through this engagement, we were reassured that the manager's voting engagement is high with respect to PAC exposure, and so our customers are not negatively impacted by the lower overall score.

Case study: Regional Asian Fund Investment

Source: Internal Asset Manager

This case study demonstrates the due diligence we carry out on our asset managers, whereby we successfully engaged with them to improve their governance and compliance practices.

Objective

Due diligence of a regional-focused Asian Private Equity manager in relation to a potential fund investment in their growth equity strategy.

Approach

M&G's Private Equity due diligence process revealed a number of key governance deficiencies including a lack of a formal compliance manual, cybersecurity policy and firmwide compliance training. M&G's Internal asset manager engaged with the manager to request a resolution to these deficiencies with the appointment of a Chief Compliance Officer and engagement of a third-party compliance consultant to assist with development and improvement of the relevant manuals and policies.

Outcome

The manager agreed to these actions prior to investment. During an on-site follow-up 18 months later, the manager confirmed that a formal compliance manual was now in place including a cybersecurity policy, and that firmwide compliance training had been carried out in September 2023.

Case study: Board quality and effectiveness

Source: External Asset Manager

Objective

To engage with the company (Indian automotive manufacturer) to better understand the company's governance and strategy, as well as their approach to board composition and refreshment. This particular engagement spans across multiple years.

Approach

In 2023, the asset manager engaged with the company on board and committee independence matters in relation to the director election proposals at the August Annual General Meeting (AGM) and November Extraordinary General Meeting (EGM). The asset manager considered a variety of factors that they believe supports the board's performance in effectively overseeing and advising company management, including the independence of directors, as well as levels of independence on boards and committees.

In the company's 2021 & 2022 AGM's, the asset manager raised concerns about board independence, voting against the election of the company's CEO due to their role on the audit committee. Prior to the 2023 AGM, the manager engaged further to reiterate the concerns above.

Outcome

The company committed to taking steps to address shareholder concerns (including from the asset manager) on the need to enhance both overall board and audit committees independence. Before the 2023 AGM, the company announced that they would review the number of independent directors on the board and the composition of their board committees. The asset manager subsequently voted in support of the election of two new independent directors at the 2023 EGM.

Conclusion

Better aligning our strategy with the new purpose

With the aim to implement our refreshed strategy and clearly reflect our long-term ambition as a business, we implemented a new purpose: to give everyone real confidence to put their money to work. This is strongly linked to how we can better deliver our strategy to maintain our financial strength, simplify our business and deliver profitable growth. Throughout 2023, the Life business and asset owner remain focused on meeting and serving client needs by delivering improvements in client service in order to reduce business complexity. We achieved this by actively resolving client outcomes and further improving our communications on stewardship and investment activities such as maintaining the monthly report for PruFund and updating the With-Profits Stewardship Report.

Stewardship Integration

Throughout 2023, we have continued to use the following stewardship processes, as outlined by the PRI, to ensure that we have conducted thorough and consistent monitoring of the asset managers since this is a critical aspect. This has allowed us to ensure that the asset manager has the necessary people, process and expertise in place to meet the ESG requirements specified by the asset owner.

Furthermore, we also aim to improve our ESG and stewardship integration in other areas of the business. As outlined in Principle 1, our strategic focus ensures that we consider stewardship and sustainability effectively within our governance structure, by enhancing decision making processes and improving governance. M&G has successfully improved our ESG and stewardship processes by embedding enhancements that were highlighted in 2022 and we will continue to enhance and develop these processes on an annual basis.

Improved monitoring and oversight

We believe in active ownership aligned with both active and passive management. Although we rely on our appointed asset managers to carry out stewardship activities (such as voting and engagement) with our investee companies on our behalf, we as an asset owner are accountable in upholding a high standard of responsible stewardship.

Throughout 2023, we have embedded a number of processes that have improved our ongoing oversight of our asset managers and their engagement activities. The monitoring of our managers via our ESG Due Diligence Monitoring Questionnaire and ESG Engagement Template gives us confidence that they are adhering and aligning with the PAC ESG Investment Policy, PAC Shareholder Engagement Policy, and PAC Voting Standard, and informs our discussions with asset managers (via quarterly meetings), where we have an opportunity to escalate any ESG or investment oversight concerns that we may have. In addition, we have embedded our Quarterly ESG Screening process throughout 2023, which adds an extra layer of due diligence by allowing us to screen our portfolios for exposure to various ESG risks.

The value of our oversight processes has been demonstrated throughout the year, where we were able to drive progress toward engagement on the topic of Modern Slavery, which we outlined as one of our priorities in our Annual Letter to asset managers in Q1 2023. As the reporting of voting and engagement activity improves over the course of 2024, we expect to be able to exert more influence as an 'active' asset owner, and continue to deliver long-term value on behalf of our clients.

Enhanced engagement framework to hold asset managers accountable

The asset owner does not itself engage directly with investee companies, instead relies on its chosen asset managers to do so on its behalf. Although engagements are led by its appointed asset managers, the asset owner maintains accountability for the framework for engagement with investee companies, and in turn commits to engage with asset managers to deliver on desired outcomes. Having a robust process and approach in place to effectively engage with asset managers is therefore key. As of Financial Year 2023, the ESG & Regulatory team participated in the Manager Oversight Quarterly Manager meetings to discuss and monitor engagements. Examples of topic areas of discussion included engagements conducted with regards to the 21 companies the asset owner identified that we deemed to be high risk Modern Slavery held by our appointed managers and gender diversity at senior and board levels.

Glossary

Climate change

A variation in climate usually longer than a decade. Often now used to mean changes in climate attributed to human activity that alters the composition of the atmosphere – greenhouse effect

Collective engagement

Form of engagement carried out alongside other investors. Sometimes also referred to as collaborative or cooperative engagement, but collective is usually used as the broadcast term. Collective engagement can be either formal coalitions of investors or informally through coordination between individual fund management houses

Emissions

Pollution discharged into the atmosphere

Environment

The sum of all external conditions effecting life, development and survival of an organism

Engagement

Engagement more broadly refers to interactions between the firm and its stakeholders. Engagement may be undertaken by the firm with stakeholders including policy makers, industry bodies, other asset managers, and asset owners with the aim to exchange views and improve consistency or business practices, and with clients and customers to determine and support their needs and/or establish permission for specific actions

Environmental, Social, Governance (ESG)

The grouping for a range of underlying issues, where those that are material will impact the long-term business performance of a company and influence its attraction as an investment

ESG Risk

The risk that M&G plc, through its strategy, executive of business objectives, communication approach and/ or response to internal/external ESG events, fails to meet its stakeholders' ESG expectation, impacting on the Group's reputation and stakeholder trust, undermining our financial, non-financial performance and ability to deliver/ create value for clients

Escalation

Process whereby an investor takes increasingly strong steps to advance their engagement agenda. This can involve seeking additional meetings, going public, working with others

ESG Integration

The inclusion of ESG considerations within financial analysis and investment decisions. This may be done in various ways, tailored to the investment style and approach of the fund manager

Exclusion(s) list

A formal list of companies (in some cases sectors) that an investment institution may not invest in. These companies/sectors are said to be excluded

Fiduciary

Anyone with expertise or a special skill who is vested with care of assets on behalf of another

Fiduciary duty

The responsibility borne by a trustee, or any investor charged with looking after assets on behalf of another. At its core is the responsibility to always act in their clients' best interests and with due care

Glossary continued

Greenhouse effect

Gases including CO², water vapour, methane, nitrous oxide and other trace gases. Scientific evidence suggests that this builds up, allowing light from the sun's rays to heat the earth but prevents a counterbalancing loss of heat

Mitigation

Measures taken to reduce adverse impacts on the environment

Principles for Responsible Investment (PRI)

UN linked initiative by investors to emphasise the importance of ESG matters and to support and encourage their peers to incorporate ESG considerations into their investment processes

Proxy voting

Most institutional investors do not attend Annual General Meetings they are represented through proxy votes – through which they instruct someone who is usually attending to vote in a certain way

Risk Control Self-Assessment (RCSA)

This exists to improve risk-based decision making across M&G plc by providing a structured and consistent approach to identifying, assessing, managing and reporting risk, in line with policy and regulatory expectations

Risk appetite

The amount of risk that M&G plc is willing to take in pursuit of its strategic objectives

Reputational risk

The risk that M&G, through its activities, behaviours, and/or communication, does not meet stakeholders' expectations in ways which adversely impact trust and M&G plc's reputation – potentially leading to a decline in revenue, increased costs, the loss of key personnel and/or adverse regulatory reaction

Shareholder rights directive

EU law implemented in June 2019 into the local laws of each member country. It sets the standards for treatment of shareholders by European countries

Social issues

Issues that affect business more directly such as violations of human and labour rights, issues regarding occupational health and safety of employees and product recalls due to product safety

Stewardship

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society

Sustainability

At M&G, Sustainability is defined as the ability for an organisation to maintain a balance of resources and relationships, with the objective of meeting the needs of current generations without compromising the ability of future generations to meet their own needs

Sustainable Investment

Sustainable Investment means an investment in an economic activity that contributes to an environmental objective or social objective, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices

Sustainable Investing

Sustainable Investing involves making investment decisions incorporating Environmental, Social and Governance (ESG) factors whilst trying to have a positive effect, or reduce negative effects, on the environmental and society through active ownership and/or portfolio construction

United Nations Global Compact (UNGC)

UN initiative for businesses seeking to ensure that they avoid poor business behaviours in the areas of human rights, labour relations, the environmental and anti-corruption

Acronyms and abbreviations

1LOD	First Line of Defence
2LOD	Second Line of Defence
3LOD	Third Line of Defence
ABI	The Association of British Insurers
AO	Asset Owner
BAC	Board Audit Committee
CA100+	Climate Action 100+
CDP	Carbon Disclosure Project
CFO	Chief Financial Officer
D&I	Diversity & Inclusion
EA	Environment Agency
EGM	Extraordinary General Meeting
ESG	Environmental, Social, Governance
EU	European Union
FCPA	Foreign Corrupt Practices Act
FRC	Financial Reporting Council
GGF	Group Governance Framework
IA	The Investment Association
IDD	Investment Due Diligence
IDWG	Information Disclosure Working Group

Internal asset manager	M&G Investments
IRSG	The International Regulatory Strategy Group
KPI	Key Performance Indicator
MDC	Management Disclosure Committee
M&G Life EIC	M&G Life Executive Investment Committee
NBS	Nature Based Solutions
NZAMi	Net-Zero Asset Managers Initiative
LTIP	The Long Term Incentive Plan
NZAOA	Net-Zero Asset Owner Alliance
OECD	Organisation for Economic Co-operation and Development
PAC	Prudential Assurance Company
PIA	Prudential International Assurance
PPCA	Powering Past Coal Alliance
PPFM	Principles and Practices of Financial Management
PPL	Prudential Pensions Limited
PRA	Prudential Regulatory Authority
PRI	Principles for Responsible Investment
RCSA	Risk and Control Self-Assessment
RfP	Request for Proposal

Acronyms and abbreviations continued

RMF	Risk Management Framework
SAA	Strategic Asset Allocation
SBTi	Science Based Target initiative
SRDII	Shareholder Rights Directive II
the Board	The M&G plc Board
the Report	The PAC Stewardship Report
the Standard	The PAC Voting Standard
the Template	The ESG Engagement Template
TISA	The Investing and Saving Alliance
ToR	Terms of Reference
TCFD	Task Force on Climate-Related Financial Disclosure
TNFD	Task Force on Nature-Related Financial Disclosures
UNGC	United Nations Global Compact

pru.co.uk

GENM100230704 06/2024_WEB