



# Executive Summary of The Prudential Assurance Company Stewardship Report 2022

# Welcome



## Welcome by the Head of Treasury & Investment Office

On behalf of the Prudential Assurance Company (PAC), welcome to this Executive Summary of the 2022 PAC Stewardship Report.

This Executive Summary (the 'Summary') is intended to provide you with an overview of the contents of the 2022 PAC Stewardship Report ('the Report').

For those who might be unfamiliar with the term stewardship: it simply explains how we manage your money against responsible investment practices, seeking to create long-term sustainable value. For example, this includes considering Environmental, Societal and Governance (ESG) issues when investing.

Part of this is applying a set of guidelines designed by the Financial Reporting Council (FRC) known as Principles; there are 12 in total. These form the FRC UK Stewardship Code 2020 ('the Code') to provide organisations with guidelines to follow for effective stewardship. To become a signatory to the Code, organisations must submit to the FRC a Stewardship Report demonstrating how they have applied the Code's Principles in the previous 12 months.

We produce the Report every year, with this one covering the progress we made with our stewardship in 2022. However we're aware the Report is a large document so we've created this Summary as a high level overview of the main Report.

This Summary gives you

- a high level description of what's covered in the Report
- a selection of mini case study summaries
- links included in the Report, that take you to sources of further information

You'll find the full versions of the case studies in the Report, along with detailed information for all sections outlined in the Summary.

In the Report, we demonstrate how we have built sustainable thinking into our business practices, and provide an update on how we have continued to improve our stewardship responsibilities in line with the Code. This Summary gives an overview, and lets you know where you can find out more.

We mention different companies within M&G plc ('the Group'), founded in 2019, across both the Report and this Summary. M&G plc owns a group of financial brands and companies, including PAC, with significant heritage dating back 175 years. The Group's brands include Prudential (also known as Pru), M&G Wealth and M&G Investments (the investment company of M&G plc), M&G Real Estate and Infracapital. PAC is a subsidiary of M&G plc and is part of the Pru brand.

Within the Group, the Treasury & Investment Office, our in-house investment strategy manager, manages your PAC investments. Together with the Treasury & Investment Office, PAC's focus on stewardship will enable us to help deliver positive change for the economy, environment and society while supporting M&G plc's purpose, values and commitments.

If you have any feedback, you can write to us at [StewardshipFeedback@MandG.com](mailto:StewardshipFeedback@MandG.com).

A handwritten signature in black ink, appearing to read 'D. King', written in a cursive style.

David King

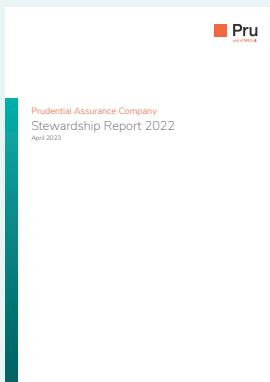
Head of Treasury & Investment Office,  
on behalf of the Prudential Assurance Company Limited

# Eight key things we hope you'll take from the Report and Summary:

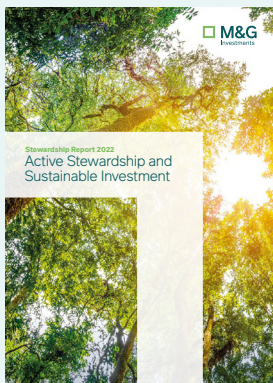
- 1.** We work together within the Group, and collaborate with outside organisations, to help manage risks in the financial sector. This is to help reduce the likelihood and severity of future financial crises which could cause severe economic downturn. Through this collaboration, we help ensure a strong financial system (for example, this includes financial markets, financial services, investments etc.)
- 2.** We make sure all the third party organisations we engage with, such as service providers and asset managers, are fully accountable for the outcomes of their activities. For example, we rely on our appointed asset managers to act on our behalf, and expect them to adhere to our policies and reporting requirements. This is a key part of our established selection and monitoring process
- 3.** Considering the impacts of ESG factors to the economy, society and the environment as a whole remains a key priority for our business. In 2022, we demonstrated our continuous efforts in developing and embedding ESG activities across our business, including those relating to effective stewardship
- 4.** We've achieved greater ESG integration across the Group and PAC, which enables us to better manage and minimise potential ESG risks and to make use of opportunities
- 5.** The progress we've made on our sustainability priorities including Climate change
- 6.** We have a strong Governance framework aligned to a common business purpose, values and commitments, all defined at the level of M&G plc including PAC. We have independent committees to ensure our clients' needs are taken into account
- 7.** Our aim is to be focused on clients, providing strong investment expertise and savings and investment opportunities including when we aim to deliver superior shareholder returns
- 8.** We have review and assurance processes in place that help us manage some of the risks. We continually look to improve these, to ensure all of our material is fair, balanced and understandable

The continued implementation of our stewardship priorities remains key for us in our long-term approaches to delivering value to our clients and business, and the move to a more sustainable economic environment. We recognise we can always do more, and we aim to continue to enhance our processes and activities for effective stewardship by taking onboard feedback from the FRC.

PAC and M&G Investments each have their own Stewardship Reports which you can review below:



[PAC Stewardship Report \('the Report'\) here](#)







[M&G Investments Stewardship Report here](#)

## How PAC has complied with each of the 12 Principles

The Report is laid out Principle by Principle, describing how PAC has demonstrated compliance with the 12 Principles of the UK Stewardship Code 2020, and the progress we've made in 2022.

This process of setting out how we've complied and made progress, is referred to as disclosure. You'll find references to disclosure by Principle in the Report.

The 12 Principles sit under four core subjects. The diagram below summarises these topics and Principles:

The UK Stewardship Code 2020 Principles for asset owners and asset managers			
Purpose and Governance 	Investment approach 	Engagement 	Exercising rights and responsibilities 
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.	6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	9. Signatories engage with issuers to maintain or enhance the value of assets.	12. Signatories actively exercise their rights and responsibilities.
2. Signatories' governance, resources and incentives support stewardship.	7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	10. Signatories, where necessary, participate in collaborative engagement to influence issuers.	
3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	8. Signatories monitor and hold to account managers and/or service providers.	11. Signatories, where necessary, escalate stewardship activities to influence issuers.	
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.			

Source: Financial Reporting Council

## Overview of how we've complied and progress made with each Principle

In the following tables we give an overview of the progress we've made for each of the Principles, and you'll see mention of the terms asset owner and asset manager.

PAC is an asset owner within the Group. As the asset owner, PAC sells savings and investments products (known as policies) and has a direct relationship and liability to policyholders. The stewardship activity that PAC carries out, must align with and support the delivery of the Group's purpose, priorities and commitments. As a result, some of the Principles include sections that relate to both us as PAC, and to the Group. That's because PAC shares and adopts the position of M&G plc, in addition to its own.

PAC appoints asset managers to manage its investment portfolios for an appropriate fee. One of these asset managers is M&G Investments, known as the internal asset manager, which can, and does manage assets for third parties.

Case studies and examples are presented in the Report to illustrate how we deliver on our ESG commitments and stewardship responsibilities. In this Summary, we've included (shortened) mini case studies for many of the Principles. The Report provides a variety of case studies for each of the Principles on the types of activity we undertake on your behalf.

We're also aware there are terms used in this Summary which you may not be used to. The Report has a Glossary section covering definitions of these key terms which you may find of use.



## Purpose and governance

### 1 Investment beliefs, strategy and culture: pages 9 to 17 in the Report

#### M&G plc

M&G's purpose is to help people manage and grow their savings and investments, responsibly

#### Culture and Values of the Group (including PAC as the asset owner)

Above all, we:

- Act with care
- Act with integrity

#### Environmental, Social, Governance (ESG), sustainability and stewardship priorities

We believe that a well-governed business, run in a sustainable manner, delivers strong, more resilient investment returns in the long-term for clients and shareholders, creating better outcomes for society

- We also acknowledge the importance of the variety of ESG issues, and have implemented investment strategies, policies and engagement activities to address them
- Our key priorities for ESG, sustainability and stewardship:
  - Climate change – what we're doing to improve/lessen our impact in this area
  - Diversity & Inclusion – the positive changes we're making in the Group

M&G plc has a 10 point sustainability plan. Please see the **M&G plc Sustainability Report**

#### Business model

- M&G plc splits its business into Asset Management and Retail & Savings which reflects the different range of propositions and services we offer to our clients. For the purpose of this Summary, we will mainly be referring to Retail & Savings which covers long-term savings, investments and retirement solutions for clients in the UK and Europe
- As an international savings and investments business M&G plc manage and administers £342 billion of financial assets for the benefit of its clients, as reported in the **2022 M&G plc Annual Report and Accounts**

#### Strategy

We want to build on our strengths and generate profitable growth, in line with our purpose:

- **Maintain financial strength** – ensuring our clients can depend on us, while rewarding shareholders
- **Simplify the business** – becoming more nimble and efficient in how we work to best serve our clients
- **Deliver profitable growth** – building on our strengths to better anticipate and address our clients' needs

Please see the **2022 M&G plc Annual Report and Accounts**



## Purpose and governance

### 1 Investment beliefs, strategy and culture continued

#### PAC

##### Asset owner investment beliefs

- Long-term approach (giving broader investment options by looking beyond short term changes)
- Diversification (spreading investments across different asset types)
- Active Management
- Importance of value and asset valuation
- Illiquidity and complexity premium (gaining higher returns for those investments that are more difficult to sell)
- Harvesting a credit risk premium (investors rewarded for bearing risk of debt)
- Evolving asset mix and new asset classes (making the most of opportunities and reducing risk)
- Importance of ESG factors and risk

The PAC ESG Investment Policy is our business policy which sets out our ESG principles, commitments and targets. You can view the Policy [here](#)

##### Meeting our clients' needs

- PAC ensures that client needs are taken into account with our management of clients' money
- Our Fund offerings (referred to as 'product(s)' in the Report) are available at a number of different risk levels, reflecting our clients' appetite for investment risk and ethical and sustainability preferences





## Purpose and governance

### 2 Governance, resources and incentives: pages 18 to 34 in the Report

#### M&G plc

##### Governance

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

##### Sustainability governance

- The Board is ultimately responsible for all of M&G's stewardship, providing oversight and setting the firm's culture
- The Chief Financial Officer is responsible for sustainability strategy, policy, commitments and governance model, including climate change
- A Central Sustainability Office was created in 2022 to implement a group-wide sustainability governance operating model, shape the Group's sustainability strategy and policy and oversee delivery of its commitments
- An M&G plc Executive Sustainability Committee was established and supports sharing of information between the asset owner and the Group

More information can be found in **M&G plc Annual Report & Accounts**

##### Training and Incentives

- The Group actively
  - sponsors professional qualifications for employees, including ones specific to key ESG topics such as the CFA certificate in ESG Investing
  - holds Sustainability Lunch & Learn sessions
  - has well-structured incentive policies and approaches for all parts of the Group

#### PAC

##### Governance structure

- PAC has its own Board which has independent, effective governance systems, separate to the Group. It has overall responsibility for our With-Profits Fund's long term success and looking after our policyholders interests. The PAC Board has a number of additional committees and boards that sit under it
- The PAC Board, and its committees, ensures discussion and decision making carried out at the appropriate level
- Investments are managed through the Treasury & Investment Office
- There are delegated authorities overseen by the Retail & Savings Executive Investment Oversight Committee which provides oversight and governance of investment portfolios of PAC



## Purpose and governance

### 2 Governance, resources and incentives continued

#### **Mini case study summary – Asset owner ESG governance**

(see the Report for the full case study)

- In 2020 we set up the Asset Owner ESG Working Group with the aim of having a dedicated forum for the review of the wide suite of ESG-related initiatives undertaken across PAC, including ongoing stewardship activities
- In 2021, we joined the Net-Zero Asset Owner Alliance (NZAOA) with the aim of working towards the goal of aligning portfolios with a 1.5°C scenario in accordance with the Paris Agreement. A NZAOA Target Setting Working Group was then set up with the aim of having a dedicated forum to review our progress against the targets

#### **Resources**

Everyone within Treasury & Investment Office has obligations to deliver stewardship, with the ESG & Regulatory and Manager Oversight teams having primary responsibility.

Included in this responsibilities is ensuring they have robust processes and resources in place to deliver stewardship effectively. As an example

#### **Third-party service and research providers**

(see the Report for more information)

- Our ESG & Regulatory and Manager Oversight teams utilise data provided by the external asset managers they oversee, in combination with data from third-party data providers, to assess and fulfil the relevant ESG and Stewardship activities

#### **In the Report, the following processes are covered in detail:**

- ESG investment strategy
- Investment due diligence
- Manager selection
- Mandate design (creating a set of instructions for asset managers)
- Investment performance monitoring
- Ongoing manager investment due diligence



## Purpose and governance

### 3 Conflicts of interest: pages 35 to 38 in the Report

#### M&G plc

M&G is committed to find ways to prevent conflicts of interest to protect its clients and employees. This is in line with its duty as a financial services firm to act in the best interests of its clients and beneficiaries, known as fiduciary duties.

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

The full report covers how we manage, monitor and control conflicts of interest:

- Management of conflicts of interest
- M&G plc Conflicts of Interest Policy, updated in 2022 (made more operational, allowing the business to focus more on material conflict of interest as well as meeting client needs)
- Preventing conflicts of interest
- Reporting conflicts of interest

#### PAC

For PAC, as asset owner, the Report covers additional information on our:

- Governance and policies
- Types of conflicts of interest, including those related to our clients PAC and internal asset manager potential conflict management



## Purpose and governance

### 4 Market-wide and systemic risks: pages 39 to 45 in the Report

#### M&G plc

What we mean by market-wide and systemic risks, is the possibility that an event inside or outside the company could cause instability in the industry or economy.

M&G recognise these risks could adversely impact clients' funds and investment processes and has implemented a variety of frameworks and processes to manage these, in line with the business' fiduciary requirements. This enables the business to meet its commitments to its clients, comply with legislation and regulation, whilst appropriately managing and mitigating key systemic risks including ESG-related risks such as climate change.

#### The Report covers:

- Our Risk Management Framework
- Our ESG Risk Management

#### PAC

For market-wide and systemic risks, we adhere to our Risk Management Framework and processes, and have what's known as a Three Lines of Defence model established at the Group level.

As a significant investor across various funds, including our With-Profits Fund and annuities, we have a responsibility to consider and meet the needs of all our clients, and to safeguard them against any material risk:

- Every employee within the company is tasked with identifying, assessing, managing and reporting risks within their area of responsibility
- We have a robust and effective identification process
- 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

#### Climate Change

For both M&G and PAC, we consider climate change emergency to be one of the most important environmental issues the world faces today. We believe that climate change will have a material impact on our clients' investment returns. Identifying the specific risks of climate change is crucial to minimise or mitigate the impacts on our clients' portfolios.



## Purpose and governance

### 4 Market-wide and systemic risks continued

#### Mini Case study summary – Quarterly ESG Screening Process

(see the Report for the full case study)

- **Objective:** embedding ESG considerations into our investment processes to deliver long-term sustainable and resilient returns for our future and current clients
- **Approach:** in Q4 2022, the ESG & Regulatory team implemented quarterly screening reviews to ensure the appropriate review of broader ESG issues and risk within its investment portfolios
- **Outcome:** this has enabled an additional level of oversight for ESG risks and issues

#### 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 processes.

One of the ways we do this is within the Treasury & Investment Office's Long Term Investment Strategy Team. They recommend the asset allocation of the asset owner's (PAC) fund ranges.

#### Working with other groups within financial services

M&G and PAC engage with other stakeholder to improve the functioning of financial markets, such as:

- TheCityUK
- International Regulatory Strategy Group
- Net-Zero Asset Owners Alliance & Net-Zero Asset Managers Initiative
- The Investing and Saving Alliance
- The Investment Association
- Prudential Regulatory Authority
- Association of British Insurers



## Purpose and governance

### 5 Review, assurance and assessment: pages 46 to 51 in the Report

#### M&G plc

The Group Governance Framework is key to ensuring the appropriate assurance of policies and processes within the wider business.

#### Internal Assurance

As part of the Group's own governance, we have the 'Three Lines of Defence model' that stems from the Financial Conduct Authority model. This makes sure we effectively manage risks:

- First Line of Defence: business areas seek to identify and manage risks
- Second Line of Defence: independent of the First Line, facilitate and monitor implementation of effective risk management by First Line
- Third Line of Defence: internal audit of internal controls including First and Second Line

#### External Assurance

- M&G have previously engaged with external professional assurance providers to look non-financial assurance and how that could be used with technical knowledge. More information can be found [here](#)

#### PAC

We ensure the appropriate review of our stewardship activities and reports by complying to the same framework and 'Three Lines of Defence' model set at Group level.

#### Review and Assurance of our Business Policies

Our ESG and stewardship related policies and standards are reviewed annually or when necessary, and are subject to the PAC and where applicable Group-wide governance review process.

For externally disclosed ESG related documents we also seek input from Marketing Compliance and the External Communications teams. Alongside this we have various Disclosure-focused Committees / Forums that review and/or approve the documents. This ensures that these documents are accurate, fair and not misleading.



## Purpose and governance

### 5 Review, assurance and assessment continued

#### PAC Stewardship Report Assurance

We take a proactive approach for our PAC Stewardship Report, as shown by the review process we follow below:

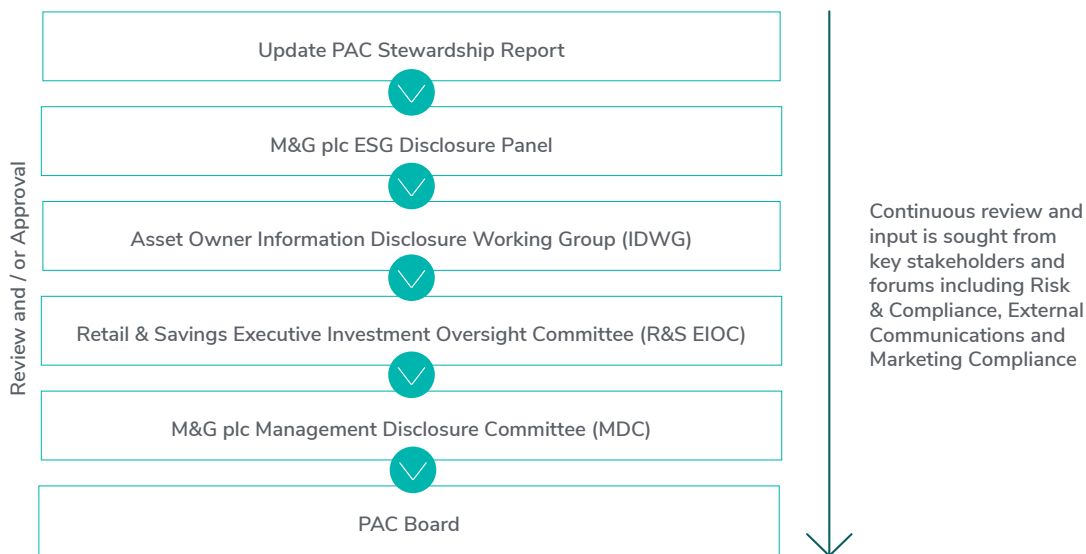


Figure 4 in the main Report: High-level overview of the review process undertaken for the 2022 PAC Stewardship Report



## Investment approach

### 6 Clients and beneficiaries: pages 52 to 57 in the Report

#### M&G plc

##### Financial overview

The assets under management and administration for M&G as both asset owner and manager, as at 31 December 2022, were £342 billion. In this Report what we mean by assets or funds under management is the total market value of any investments managed by the Group on behalf of its investors.

#### PAC

##### Financial overview

Within the Group's asset under management total of £342 billion, PAC's funds under management break down is:

With-Profits	£128.9 billion
Unit-Linked	£13.9 billion
Shareholder-backed annuity and other	£16.4 billion
Other AUMA	£21.6 billion

##### Meeting client needs

As an asset owner, we distribute our products predominately through UK financial advisers.

Through engagement with UK financial advisers, policyholders and via third parties, we continue to build and evolve our understanding of client needs, expectations, and views; the primary tools used are surveys and forums.

##### Client communications

We understand our clients have differing requirements when it comes to accessing information, and we aim to tailor our approach to our clients wherever possible.

- PAC Responsible Investing webpage can be found [here](#)
- With-Profits Fund Stewardship Report for UK clients – 2022 can be found [here](#)

##### Mini Case Study Summary – Meeting client needs through investments (M&G Catalyst)

(see the Report for the full case study)

The appetite for more responsible investments is ever-growing and our clients, quite rightly, are increasingly demanding ways in which these environmental and social challenges are addressed:

- M&G Catalyst is a global international private assets team responsible for providing the long-term flexible capital to tackle such issues. Key areas of focus include Climate, Health and Inequality
- £1.33 billion was deployed as at 31 December 2022 with a further £800 million committed. M&G Catalyst were also responsible for investing in 50 companies. In early 2022, the M&G Catalyst team acquired a majority stake in a sustainable housebuilder, whose energy efficient homes lock up more carbon than is emitted over their lifetime, including during construction





## Investment approach

### 7 Stewardship and investment integration: pages 58 to 61 in the Report

#### M&G plc

As active, long-term stewards of clients' money, the Group takes a proactive approach to managing its clients' funds through responsible governance and business models to ensure long-term investment returns.

The Group, including PAC, has taken a continued stand on climate change and diversity & inclusion as the two firm-wide ESG priorities.

#### PAC

#### Ensuring integration

Our integration approach spans the breadth of the Treasury & Investment Office. They ensure investment strategies are appropriately managed by a suitable asset manager that is capable of managing all risks, including ESG ones.

#### Mini Case Study Summary – Modern Slavery

(see the Report for the full case study)

As an asset owner, we expect our underlying asset managers to be appropriately managing modern slavery risks.

- **Objective:** in 2022, we developed a Modern Slavery screening methodology to identify holdings we consider to be at highest risk of modern slavery, so our appointed asset managers could target engagement with companies on our behalf
- **Approach:** identifying companies for engagement in industries known for high risks of modern slavery but that don't demonstrate taking steps to manage this risk
- **Outcome:** our appointed asset managers are encouraged to refer to resources with guidance, known as the Find It, Fix It, Prevent it initiative. Our appointed asset managers are expected to demonstrate taking steps to initiate engagement on modern slavery with the companies identified and to report back on progress
- You can see our M&G Modern Slavery Statement [here](#)



## Investment approach

### 8 Monitoring of service providers & asset managers: pages 62 to 66 in the Report

#### M&G plc

##### Managing third-party service and research providers

At M&G and within PAC, we use third-party service providers for a variety of services.

M&G expects its service providers to deliver these services appropriately, and strives to undertake open and ongoing communication with them on a regular basis to enable this.

The M&G plc Market Data team is responsible for managing the ongoing relationship with the service and research providers and for reviewing the overall quality of service provided.

##### Mini Case Study Summary – Green Bond flags

(see the Report for the full case study)

An internal business stakeholder asked the M&G plc Market Data team to source a particular data provider's definition of a 'Green Bond'. This is because the definition provided initially did not give the right level of clarity:

- The M&G plc Market Data team held monthly service reviews with the data provider and ensured constant engagement by email
- Following regular communication, the provider rewrote its definition and was committed to producing a data dictionary which allowed the understanding of its data and ultimately better informed decision making

#### PAC

##### Monitoring of asset managers

The Manager Oversight team conduct thorough Investment Due Diligence as part of the selection and monitoring process of internal and external asset managers. This means they research, benchmark and monitor to ensure ongoing suitability of these asset managers.

Also, to gain a greater overall view of an asset manager, the Manager Oversight team will conduct quarterly meetings to discuss performance, portfolio management, ESG activities and market outlook. Ahead of quarterly meetings, asset managers are expected to submit their completed Quarterly ESG Due Diligence Monitoring Questionnaire reviewed by the ESG & Regulatory team.

##### Shareholder Rights Directive (SRDII)

The SRDII EU directive aims to strengthen shareholder engagement and increase transparency by establishing specific requirements in active ownership practices and encourages shareholder engagement, particularly over the long-term.

We aim to complete our **SRDII review** on an annual basis.



## Engagement

### 9 Engagement: pages 67 to 72 in the Report

#### PAC

##### Asset owner engagement policy

Engagement forms a crucial part of our investment approach.

To fulfil our fiduciary and stewardship duties to all our clients, we believe it is our responsibility, as a long-term investor, to work closely with asset managers that engage with investee companies (investee meaning the companies that receive an investment) to ensure this is done effectively. This should include recognition of the importance of ESG considerations to support the transition to a more sustainable and fair economy. PAC may provide direction to delegated asset managers for engagement on any ESG issue that it identifies.

As examples, our PAC Shareholder Engagement Policy and PAC Voting Standard are documents that set our engagement and voting activity expectations.

- You can find our current PAC Shareholder Engagement Policy [here](#)

**Note the Policy and Standard have been updated in 2023 as part of their annual review process. The changes will be reflected in the 2023 PAC Stewardship Report, to be published in 2024.**

##### 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 also monitor ESG risks.

To facilitate monitoring of our asset managers' engagement activity, in 2022 we created the ESG Engagement Template.

##### Passive strategies

These are used where the asset manager is required to track the portfolio against a specific benchmark index. We also expect our asset managers to continue to monitor these.

##### Portfolio monitoring

Manager Oversight team review funds on an ongoing basis to monitor and ensure our underlying asset managers are aligned to the PAC ESG Investment Policy.



## Engagement

### 9 Engagement: pages 67 to 72 in the Report continued

#### Mini Case Study Summary – Environmental focused engagement with waste specialist company

(see the Report for the full case study)

Source: Internal Asset Manager

- **Objective:** the internal asset manager met with a US waste specialist company ('the company') to discuss its acquisition of hazardous waste specialist US Ecology
- **Approach:** the internal asset manager asked the company to engage with the various ESG rating agencies to avoid a potential ratings downgrade which could impact the share price
- **Outcome:** the company provided the full history of due diligence, and the acquisition allowed for a single servicing point for clients. The company understood the nature of the ESG ratings and how downgrades could result from lack of understanding



## Engagement

### 10 Collaborative engagement: pages 73 to 76 in the Report

We assess engagement activities on an ongoing basis with our underlying asset managers to ensure that what they do is in line with our stewardship requirements.

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

Below are some of the bodies we engage with, including some of those supported or led by M&G or the internal asset manager, which have a direct influence on the asset owner:

- UN-convened Net-Zero Asset Owner Alliance (NZAOA)
- Powering Past Coal Alliance
- Carbon Disclosure Project
- UN-backed Principles for Responsible Investing
- Climate Action 100+
- United Nations Global Compact (UNGC)
- Taskforce for Nature-related Financial Disclosures

#### **Mini Case Study Summary – Working with the NZAOA towards our climate change priority** (see the Report for the full case study)

In 2022, we developed our pathway to reaching the targets we committed to when we joined the NZAOA in 2021:

- The NZAOA aims to drive the development of industry best practices and the acceleration of global economy moving towards decarbonisation. The NZAOA works with initiatives including Climate Action 100+, 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 align with net zero emissions by 2050
- One of our key goals as the asset owner is to establish a robust pathway to net zero for investments we make on behalf of our clients and policyholders. We have published our Net-Zero Asset Owner disclosure which you can find [here](#)



## Engagement

### 11 Escalation: pages 77 to 81 in the Report

#### PAC

Our interpretation of escalation is 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.

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. Consequently, we purposefully engage asset managers who will positively influence corporate behaviour.

Engagement with investee companies would usually take the form of active ownership practices such as shareholder voting, rather than strict restrictions of investment opportunities through exclusion. It is our preference to engage and affect positive change rather than exclude, where this is possible. We appoint asset managers to complete our engagement or escalation of stewardship activities.

#### Escalation of ESG issues

Our two ESG priorities are Climate Change and Diversity & Inclusion. For these two, as well as other ESG issues, we have a range of policies, approaches and exclusion criteria used to ensure alignment with these goals. These includes clear objectives for how we escalate engagement efforts.

#### Mini case study – establishment of M&G-wide approach to UNGC Exclusions

(see the Report for the full case study)

- **Objective:** in 2022, the asset owner, in conjunction with the internal asset manager, took forward a proposal to enhance M&G's approach from directly relying on external vendor's UN Global Compact (UNGC) violation assessments, to creating a single M&G Group-wide UNGC Exclusion List. For the asset owner, the creation of a centralised list consistent with that of internal asset manager, aimed to reduce operational risk and facilitate communication with external asset managers
- **Approach:** establishing the unified approach required careful management of conflicts of interest, with a process to reconcile divergent views that may arise. The approach has been built with early engagement and collaboration from M&G, asset owner and internal asset manager representatives, in line with wider conflicts of interest management processes
- **Example of escalation in action:** in 2022, a company was added to the M&G UNGC Exclusions List due to allegations of forced labour in its operations in China. It was considered that engagement was not a viable alternative, given that the company had previously publicly stated it was financing labour transfer programmes



## Exercising rights and responsibilities

### 12 Exercising rights and responsibilities: pages 82 to 87 in the Report

#### PAC

##### Engagement expectations

- For some investments, the asset manager is required to track against specific benchmarks (known as passive strategies), and vote responsibly on our behalf
- For other investments, we believe that active ownership, in order to influence positive corporate behaviour, is essential to generating long-term investment performance for our clients. These are known as active strategies
- We appoint asset managers that positively influence corporate behaviour
- Our PAC Voting Standard provides supplementary details specifically on voting are described, which supports the asset owner's PAC Shareholder Engagement Policy

##### Reporting expectations

- As part of the annual review required by 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

##### Proxy voting service providers

- While use of proxy voting service providers is accepted, their use should be clearly set-out in the asset managers' voting policy. Appropriate oversight should be conducted to ensure voting is consistent with achieving the best long-term value for our clients, and aligns with the asset manager's position on sustainability, which in turn should support our own ESG priorities and targets

##### 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

##### Client alignment

- Across segregated (separately managed) or pooled mandates, we trust our managers to vote on our behalf in line with our clients' best interests

##### Fixed income

- We rely upon our chosen asset managers to engage in relation to term & condition amendments, trust deed information requests, impairment rights and documentation review

##### Listed equity assets

- We monitor listed equity assets in line with SRDII and we rely on our asset managers to vote on our behalf



## Exercising rights and responsibilities

### 12 Exercising rights and responsibilities: pages 82 to 87 in the Report

#### Mini Case Study – ESG-wide engagement with a Danish stone wool insulation company

(see the Report for the full case study)

Source: Internal Asset Manager

Governance Strategy, Finance and Reporting – Risk management:

- **Objective:** to request that the company provide full transparency and reporting on how funds (for reconstruction of Ukraine), would be given out and the governance mechanisms in place to ensure those funds are used appropriately
- **Approach:** the company called an Extraordinary General Meeting to seek shareholder approval that the board be authorised to make donations to support reconstruction of Ukraine. Before the vote, the internal asset manager raised concerns about adequacy of disclosure and the potential for unintended consequences. The internal asset manager voted against the resolution
- **Outcome:** the resolution was passed, and the internal asset manager awaits details of how the funds will be distributed and the governance around it. The engagement is ongoing, and the internal asset manager will follow up in due course



# Summary Conclusion

In the PAC Stewardship Report, the conclusion highlights some of the things we've already achieved, and also our key plans for improvement, under the following headings:

- Maintaining a focus on stewardship and sustainability
- Focusing on enhanced review and assurance processes
- Taking into account client and beneficiary needs
- Monitoring, engaging with and holding to account our asset managers

You can find full details in our PAC Stewardship Report and you can also find out more on our stewardship hub [here](#).

If you're a financial adviser client, you can contact your adviser with any questions you might have about how stewardship relates to your policy.

We hope you found this Summary informative and has given you an insight into how we build sustainable thinking into our business practices and how we have continued to improve our stewardship responsibilities in line with the Code.



If you have any feedback, you can write to us at [StewardshipFeedback@MandG.com](mailto:StewardshipFeedback@MandG.com)