

Executive Summary of The Prudential Assurance Company (PAC) Stewardship Report 2023

You can find the full Report [here](#)



Welcome to this Executive Summary of the 2023 PAC Stewardship Report. This Summary is intended to provide you with an overview of the contents of the 2023 PAC Stewardship Report (the Report).

Through the 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.

In the context of the 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 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. The Code has four main sections: **Purpose and Governance**, **Investment Approach**, **Engagement and Exercising Rights & Responsibilities**, which are spread across 12 voluntary Principles.

Purpose and Governance



Investment approach



Engagement

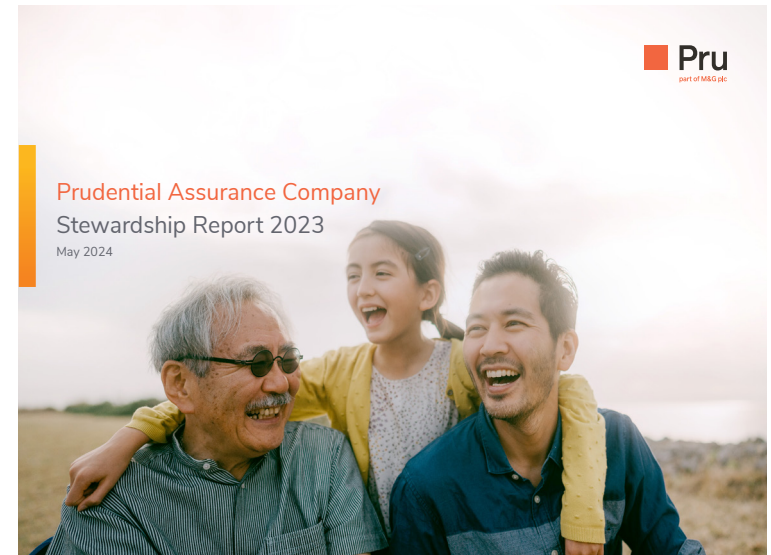


Exercising rights and responsibilities



This Summary gives you

- a high level description of activity against each of the Principles
- some of the links included in the Report, that take you to sources of further information. Please see the Report for all of the links; you can access this via the link on the right



You can find the Prudential Assurance Company Stewardship Report 2023 [here](#)

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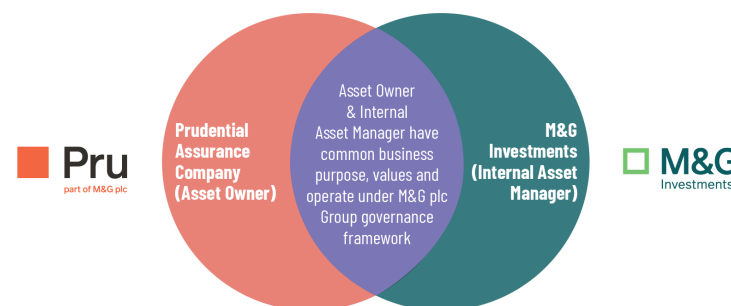
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|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Introduction | <ul style="list-style-type: none"> • The Prudential Assurance Company (PAC) 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. PAC is also responsible for appointing skilled asset managers in order to manage diversified investment portfolios • PAC is one of a group of financial brands and companies, owned by M&G plc (the Group), an international savings and investments business offering a range of financial products and services <p>The business is split into three segments. Two of these segments are discussed in the main PAC Stewardship Report:</p> <ul style="list-style-type: none"> • the M&G Life segment of the Group includes PAC, also called the asset owner • the other segment of the Group referenced is the asset manager – M&G Investments (internal asset manager) • PAC may appoint either the internal asset manager (M&G Investments) or external asset managers to manage portfolios • The relationship between M&G Investments and PAC is carefully managed to ensure that clients receive the best possible outcome |
| Disclosure by Principle | <ul style="list-style-type: none"> • The Report sets out how the asset owner has demonstrated compliance with the 12 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 include sections about both the asset owner PAC, and M&G plc, as the asset owner shares and adopts the position of M&G plc, in addition to its own position |

PAC Structure

Prudential Assurance Company (PAC) is part of M&G plc. PAC is subject to the M&G plc group-level policies, and also has its own policies reflecting its asset owner business model.

Therefore throughout the Summary we will mention a) M&G plc, where the points being made are Group-wide, b) PAC (also known as Asset Owner), where the information applies to PAC only and c) M&G Investments, also part of M&G plc (known as the Internal Asset Manager).

The relationship between the asset owner and the internal asset manager



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Principle 1: Investment beliefs, strategy and culture

Purpose and Governance



Principle 1

- PAC shares M&G plc's purpose to give our clients real confidence to put their money to work. Our clients trust us with their assets and investments
- For PAC as part of M&G plc, 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 and integrity
- Environmental, Social and Governance (ESG), sustainability and stewardship priorities: To enable its sustainability-driven objectives, PAC along with M&G plc continues to prioritise climate change, along with diversity and inclusion
- PAC has a set of investment beliefs that are aligned to our principles and values and to the internal asset manager's 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 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, below), and to actively direct our investee companies towards more sustainable practices.

PAC ESG Investment Policy



In 2020, we published our PAC ESG Investment Policy (the Policy) which sets out our ESG principles, commitments and targets.

For more details, the Policy can be viewed [here](#).

Please see the Report for case studies e.g.



- Our fund offerings: **Our PruFund and PruFund Risk Managed product ranges on page 15**



- Enabling effective stewardship: **We have continued to further integrate ESG within our Investment Due Diligence Process, page 16**



- Case study: **Mansion House Compact, page 17**



- Case study: **PruFund Planet, page 17**

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Principle 2: Governance, resources and incentives

Purpose and Governance



Principle 2

- **The M&G plc Board** has responsibility for the oversight of the long-term sustainability and success of the business
- **PAC governance structure:** In addition to the overarching structure at the plc level, PAC has its own governance structure which enables sustainability-related matters to be integrated into our business activities
- **The Prudential Assurance Company's (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
- **Resources: Our Treasury & Investment Office** is responsible for the strategic allocation of funds, fund manager selection and oversight for the asset owner. Within the Treasury & Investment Office, a number of teams collaborate together with the aim to ensure clients receive good financial outcomes. 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
- **Processes:**
 - The **ESG & Regulatory** team is accountable for developing the overall ESG investment strategy for the asset owner
 - The **Manager Oversight** team holds the responsibility of appointing and overseeing underlying asset managers
- 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. Please see page 38 of the Report for details
- In Q3 2023, M&G plc launched all-staff mandatory anti-greenwashing training
- In addition to the data that PAC receives from investment managers, **third party research providers** such as MSCI and ISS, are also used as a resource for ESG and stewardship data
- 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

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Principle 3: Conflicts of interest

Purpose and Governance



Principle 3

- 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 plc will use all reasonable endeavours to identify **conflicts of interest** and then take steps to either avoid, or manage, them effectively and to treat clients fairly
- **The Group-wide M&G plc Conflicts of Interest Policy** is applied to all aspects of the M&G plc 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, PAC
- **Governance and policies:** The asset owner is responsible for identifying conflicts of interest and ensure 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**
 - **The PAC Voting Standard**
- As with all selection processes, the Treasury & Investment Office recognises the potential conflict of interest between the asset owner and asset manager. Please see page 44 of the Report for a manager selection case study

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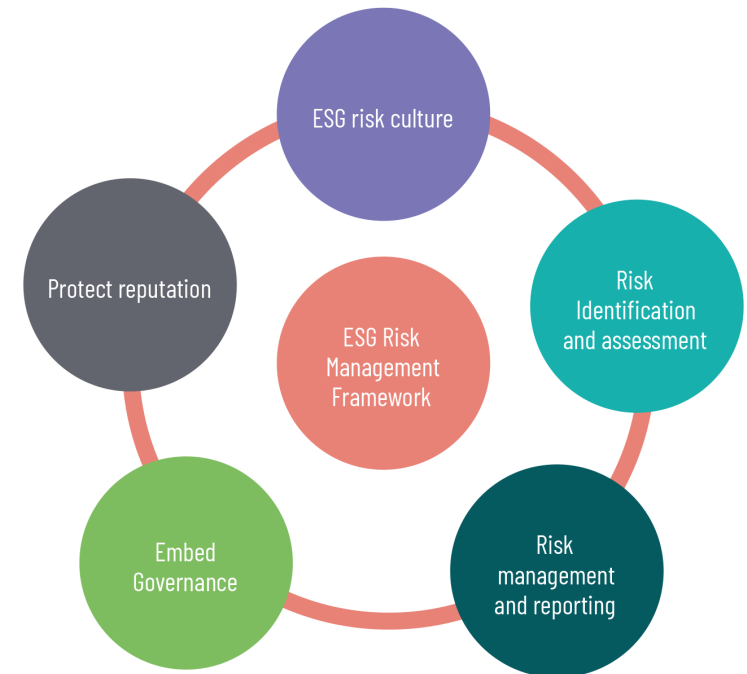
Principle 4: Market-wide and systemic risks

Purpose and Governance



Principle 4

- 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
- The M&G plc Board maintains ultimate responsibility for managing risks across M&G plc including PAC, overseeing effective group risk management and internal control processes that M&G plc uses to identify and respond to relevant market-wide and systemic risks
- **Market-wide and systemic risks:** PAC adheres to the risk management frameworks and processes, and Three Lines of Defence model established at the Group level
 - Please see the Report page 48 for the case study: **Asset owner greenwashing risk review & assessment**. Over recent years, we have made a number of public commitments on ESG and stewardship to support our strategy and purpose
- **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
- Please see the Report for case studies, including:
 - **Bank of England's system-wide exploratory scenario (SWES) exercise** on page 50
 - **Changing macroeconomic environment** page 52
- **Industry collaboration:** 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



Overview of the ESG Risk Management Framework

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Principle 5: Review, assurance and assessment

Purpose and Governance



Principle 5

- In alignment with the **M&G plc Risk Management Framework** our 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
- As an asset owner, PAC ensures the **appropriate review of our stewardship activities and reports**. We do this by complying with and embedding the same frameworks and 'Three Lines of Defence' model set at the Group level
- **Review and assurance of our business policies:** Our PAC 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. Please see summary in graphic below right

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

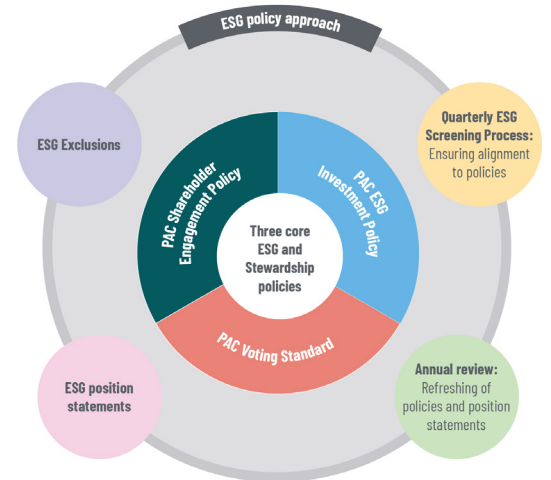


Risk and Audit Committees



Board of Directors

Summary of the asset owner's strategic ESG policies and procedures



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Principle 6: Clients and beneficiaries

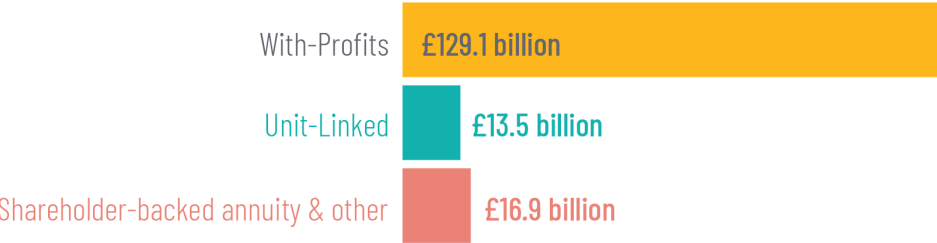
Investment approach



Principle 6

- **M&G plc Financial overview:** £343.5 billion (2022: £342.0 billion) assets under management and administration, as at 31 December 2023
- **Asset owner (PAC) Financial overview:**
 - PruFund (the investment solution offered to clients of both Wealth and 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 just over 4.8m (this excludes heritage PIA and Rothesay annuities). The average age of clients with an active policy across the listed systems is 67
 - PAC total funds under management were £159.5 billion as shown in the chart on the right
- **Meeting client needs:** As an asset owner, **PAC** mostly distributes 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
- **Investment time horizons:** Throughout our investment and stewardship activities we prioritise incorporating the needs of our clients whilst considering the appropriate investment time horizon
- Please see the main Report for **case study examples** for Principle 6 including:
 - Addressing feedback on the Task Force on Climate-Related Financial Disclosure (TCFD) and achieving better client outcomes, page 66
 - Resolving client concerns on exposures to traditional Chinese medicine products, page 67
 - Meeting client needs through new investment propositions, page 70

Asset owner (PAC) funds under management breakdown is:



Source: M&G Annual Report and Accounts 2023 (other AUMA is a subset of reported figures); Please note numbers are on a group basis

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Principle 7: Stewardship and investment integration

Investment approach



Principle 7

- **Integration** – 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 Environmental, Social and Governance (ESG) risks
- **Updates to the Request for Proposal ESG Due Diligence Questionnaire:** This has enabled the ESG & Regulatory team to understand how robust an asset managers' ESG integration process is during the evaluation and assessment process
- As an asset owner, PAC expects our underlying asset managers to appropriately manage modern slavery 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. Please see the Report for two case studies about internal asset manager engagement:
 - with a UK hospitality company on the theme of modern slavery risk in the supply chain, page 76
 - with a Japanese electronics company on the theme of social disclosure with a focus on modern slavery, page 77

Principle 8: Monitoring of service providers and asset managers

Investment approach



Principle 8

- **Third-party service and research providers** - at M&G plc, and within the asset owner PAC, 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
- **The M&G plc's 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
- **Monitoring and maintaining oversight** and ensuring asset managers are in alignment with our purpose and values is a fundamental aspect to our PAC 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
 - The team also uses a **Request for Proposal (RfP) ESG Questionnaire**, which consists of ESG investment focused questions. The questionnaire covers many 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 **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
 - As of Financial Year 2023, the ESG & Regulatory team participated in the Manager Oversight Quarterly Manager meetings to discuss and monitor engagements.
- **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's the asset owner's responsibility to work closely with our asset manager to ensure that there is sufficient engagement with investee companies

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Principle 9: Engagement

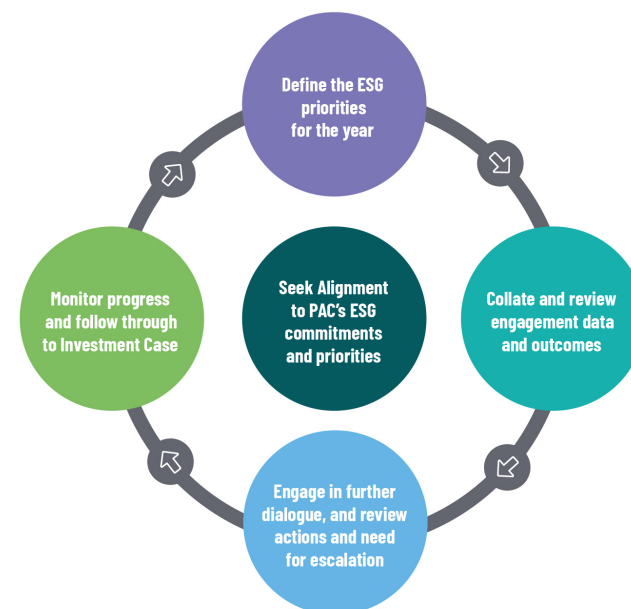
Engagement



Principle 9

- **Engagement policy:** Engagement is a crucial part of enhancing the long term value of our investment for our PAC clients. 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 Environmental, Social and Governance (ESG) related issues
 - 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
- Our **PAC Shareholder Engagement Policy** and **PAC Voting Standard** clearly set out our expectations for asset managers in conducting effective engagement and in exercising effective shareholder voting in conjunction with Shareholder Rights Directive II. The PAC Shareholder Engagement Policy can be found [here](#)
- **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, including ESG risks and act on these where appropriate, in line with their respective policies, to drive active engagement and responsible stewardship
- Our managers are expected to establish a clear timeframe for engagement activity with a clear escalation process which would be required if initial engagements are unsuccessful
- **ESG Monitoring** is carried out using an Engagement Framework to ensure managers are performing aligned with expectations. Please see the case study on page 88 of the Report
- We also use **passive investment strategies**, where the asset manager is required to track the portfolio against a specific benchmark index
- 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
- Please see the Report where you'll find two case studies for each of the three engagement themes:
 - Environmental, page 91
 - Social, page 92
 - Governance, page 93

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.

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Principle 10: Collaborative engagement

Engagement



Principle 10

- As PAC, we believe it's our responsibility as a long-term investor **to work closely with our appointed asset managers to ensure they engage effectively with investee companies**
- 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. The ESG & Regulatory team uses the ESG Engagement Template to assess and differentiate which engagements have made use of collective or collaborative initiatives
- Please see the Report for example case studies including: Engagement with a chemical company on climate, page 97

Principle 11: Escalation

Engagement



Principle 11

- We purposefully appoint asset managers who will seek to positively influence corporate behaviour
- Through **continuous dialogue** with our asset managers, we ensure that our standards and expectations of stewardship activities are well aligned and implemented accordingly
- Our **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
- 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
- Our **PAC thermal coal position** outlines our stance on thermal coal and highlights the respective thresholds and expectations with regard to escalation and divestment for flagged companies as appropriate
- Please see the Report for case studies including:
 - Engagement with a multinational electronics manufacturer relating to labour rights, page 102
 - Listed Investment Trust, page 103

Principle 12: Exercising rights and responsibilities

Exercising rights and responsibilities



Principle 12

- **Engagement expectations:** 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 Environmental, Social and Governance and stewardship expectations. 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 positive outcomes in line with our PAC ESG Investment Policy
- **Reporting expectations:** 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

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Conclusion

Key things we hope you'll take from the Report and Summary

- **Better aligning M&G plc's strategy with the new purpose:** With the aim of implementing our refreshed strategy and clearly reflecting our long-term ambition as a business, we implemented a new purpose: to give everyone real confidence to put their money to work
- **Stewardship Integration:** Throughout 2023, we have continued to use the stewardship processes, as outlined by the Principles for Responsible Investing, to ensure that we have conducted thorough and consistent monitoring of the asset managers
- **Improved monitoring and oversight:** We believe in active ownership aligned with both active and passive management. Throughout 2023, we have embedded a number of processes that have improved our ongoing oversight of our asset managers and their engagement activities:
 - Monitoring of our managers via 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
 - 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
- **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. 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:
 - As of Financial Year 2023, the ESG & Regulatory team participated in the Manager Oversight Quarterly Manager meetings to discuss and monitor engagements

In conclusion, the activity covered by the PAC Stewardship Report and condensed in this Executive Summary aligns to the four main sections of the stewardship code:

Purpose and Governance



Investment approach



Engagement



Exercising rights and responsibilities



