Pru
part of M&G plc

Prudential Assurance Company

# Shareholder Engagement Policy

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# 1. Introduction

## 1.1 Scope

1.1.1 This Policy sets out the Prudential Assurance Company (PAC) shareholder engagement principles and incentivisation arrangements relating to all aspects of the M&G plc asset owner business (PAC) and all wholly owned subsidiaries including Prudential Pensions Limited (PPL) & Prudential International Assurance (PIA) and other smaller entities, herein referred to as PAC.

1.1.2 The Policy is owned by the Chief Investment Officers (CIOs), Prudential UK.

1.1.3 For the purposes of this Policy, "Funds" means, but is not limited to, any with profit fund, non-profit fund, unit-linked fund (where the asset owner has investment control), non-participating fund, matched fund or other fund or portfolio of assets belonging to the relevant asset owner entities of M&G plc.

1.1.4 The Policy is subject to and does not supersede the Asset Owner Investment Policy, the PAC ESG Investment Policy, the M&G plc ESG principles or M&G plc's Code of Conduct, and all relevant regulation.

1.1.5 The Policy will be reviewed on an annual basis and periodically as required to incorporate additional regulatory developments related to engagement, or the latest thinking on active shareholder engagement and voting processes. Any changes proposed as a result of the review will require approval at the M&G Life Executive Investment Oversight Committee (EIOC). The M&G Life EIOC may escalate any changes the Chair (CEO, M&G Life) deems material to the PAC Board for final approval. The chair of the M&G Life EIOC has in turn delegated authorities to the Co-Heads of the Treasury and Investment Office (T&IO), including responsibility for implementing the PAC Shareholder Engagement Policy. Appropriate governance is followed with respect to subsidiary entities.

1.1.6 We also carry out due diligence and monitoring in respect of active ownership and engagement. Any significant issues or conflicts are expected to be escalated to the M&G Life EIOC for further consideration.

## 1.2 Context

1.2.1 Engagement forms a crucial part of our investment approach. As the stewards of our customers' assets, we aim to make investment decisions that deliver the best outcome for customers over the long-term (10 years or more).

1.2.2 To fulfil our fiduciary and stewardship duties, we believe it is our responsibility to work closely with investment managers that engage effectively with investee companies. This should include recognition of the importance of environmental, social and governance (ESG) considerations to support the transition to a more sustainable and fair economy.

1.2.3 We trust that having effective engagement ingrained in the underlying investment processes where appropriate is positive for customers' long-term savings and financial security.

1.2.4 We as the asset owner do not engage directly with investee companies, instead relying on our chosen investment managers to do so on our behalf. We favour our investment managers engaging with investee companies by utilising active ownership practices such as shareholder voting, utilising exclusions only as an action of last resort.

1.2.5 We believe that active ownership is essential to generating long-term investment performance for our customers. We therefore appoint investment managers that positively influence corporate behaviour where appropriate.

# 2. Principles for Engagement

## 2.1 Engagement Principles

2.1.1 For active investment strategies, our chosen investment managers' investment processes are designed to select companies expected to outperform the relevant benchmark indices.

2.1.2 We assess our investment managers' investment processes periodically, including a review of their relevant policies covering shareholder engagement, voting and ESG.

2.1.3 Included in the investment process, we expect our investment managers, at a minimum, to conduct effective monitoring of a company's business strategy, financial performance, capital structure, non-financial performance and any other associated risk factors.

2.1.4 We expect investment managers to monitor ESG risks in line with their respective policies, establish constructive dialogues, drive active engagement and responsible stewardship and also to exert influence where appropriate.

2.1.5 We expect our investment managers to set a clear engagement objective for the engagement 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.

2.1.6 We welcome evidence of collaborative engagement from our underlying asset managers. Whilst not a requirement, we expect underlying managers to aim to maximise the impact of their engagement activities to drive positive change, and we view collaboration to be an important element of this.

2.1.7 To enable effective engagement we also encourage investment managers, on our behalf, to communicate with shareholders and other relevant stakeholders of investee companies; potentially cooperate with shareholders and 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 us for information and support with resolution.

2.1.8 ESG factors, including those inherent to Principle Adverse Impacts (PAIs), are considered within the context of our annual ESG / engagement priorities and ESG integration processes. As detailed within the PAC ESG Investment Policy, we expect our investment managers to carry out engagement with our investee companies to mitigate the impact of climate change within their operations, to improve diversity, and with a view to managing the risk of modern slavery.

2.1.9 For our portfolios that are in scope of the EU Sustainable Finance Disclosure Regulation (SFDR), where applicable or appropriate, we will conduct reviews on the impact of our engagement on PAIs for our investee companies no less frequently than annually. When there is insufficient progress, we will adapt our engagement approaches accordingly, as well as the processes during engagements including our escalation strategy. We believe that, over time, engagement in this way should reduce the severity of PAIs.

2.1.10 We also use passive investment strategies, where the investment manager is required to match the portfolio to a specific benchmark index. Here, we expect the investment manager's Engagement and Voting Policy to continue to apply and vote responsibly on our behalf. While the purpose of the portfolio is to recreate the financial return arising from the benchmark index at a minimum cost, we believe effective stewardship improves companies' financial performance and hence investment returns, for both passive and active portfolios.

2.1.11 In Q1 of each year, we communicate our ESG priorities and expectations to our investment managers. We expect investment managers acting on our behalf to accordingly prioritise investee companies on which to focus their stewardship efforts.

2.1.12 Investment managers should actively participate in shareholder voting on our behalf, in line with our PAC Voting Standard where relevant, in keeping with their respective policies, and report the results of their voting to us.

2.1.13 In relying on our investment managers to vote on our behalf, we require that they make voting decisions in the best interests of our customers. We use our managers' voting records to monitor how effectively they are engaging with company management. The due diligence activities we perform are also an integral part of our ongoing oversight process.

# 3. Investment Strategy and Arrangements with Managers

## 3.1 With-Profits funds

3.1.1 We believe in taking a long-term approach to investing. Our with-profits portfolios are invested on a long-term time horizon, looking through short-term (up to 5 years) volatility and drawdowns while seeking to optimise long-term risk-adjusted performance, in line with our customers' financial needs.

3.1.2 Broadly, our with-profits customers only bear a portion of the investment risk due to the impact of smoothing and guarantees, and the most appropriate time horizon for most customers to be exposed to investment risk is for the medium to long-term, (5 to 10 years or more).

3.1.3 We believe that equities are a good asset to invest in to capture medium – and long-term returns, as investing a major proportion of our with-profits portfolios in equities allows us to capture the equity risk premium over the long-term, whilst at the same time retaining flexibility to make meaningful tactical decisions over a shorter time horizon. We monitor listed equity assets in line with SRDII and we rely on our investment managers to vote on our behalf.

3.1.4 Similarly to equity, 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 investment manager to exert influence on a particular issuer to elicit a desired behaviour.

3.1.5 We may invest in equities either via a segregated mandate or via a collective investment scheme. The choice between these methods hinges on:

A. achieving appropriate investment performance,

B. the relative risks,

C. the cost of investing,

D. the size of the mandate in question.

We seek to optimise these variables to achieve the best investment outcome for customers.

3.1.6 For our with-profits funds, we invest in equities using our internal investment managers, M&G Investment Management (MAGIM), including M&G Investments Southern Africa (previously Prudential Investment Managers South Africa (PIMSA)), plus external fund managers. PAC manages any conflicts of interest while acting in the best interest of our investors.

3.1.7 For the with-profits funds, MAGIM manages both segregated mandates and collectives, while M&G Investments Southern Africa manages collectives. We employ a number of different equity strategies, across several geographic jurisdictions. We believe that investing in a broad spread of equity strategies and geographies creates diversification benefits, and ensures that our customers are not over-exposed to any particular set of risks over the medium to long-term.

3.1.8 We select active investment strategies across large and small cap that are underpinned by robust investment processes, which include active engagement with investee companies as a key element in selecting equities that are expected to outperform the relevant benchmark index.

3.1.9 We primarily use a base fee arrangement to incentivise our investment managers. The base fee is expressed in basis points of assets under management, and is accrued on a monthly basis. All our equity mandates, across all investment managers have an associated base fee. Some of our mandates also have a performance fee arrangement. None of our passive investment strategies employ a performance fee, as the investment objective of a passive portfolio is to replicate the returns of a particular benchmark index, rather than to outperform it. A performance fee would not incentivise the manager of a passive equity strategy to meet the investment objective.

3.1.10 For active investment strategies (that is, where the manager is expected to outperform a particular benchmark index), we may use a performance fee arrangement where the manager is paid the performance related fee (PRF) if the three year annualised fund performance exceeds the three year annualised benchmark performance. The PRF is subject to a fee cap and a performance cap. There may be separate fee arrangements for collectives and segregated mandates investing into the same type of investment strategy, due to different administration costs. We expect managers to integrate non-financial factors into their security analyses and investment cases when selecting equities, and we expect to receive this service as part of the same fee arrangement.

3.1.11 We believe that the use of a performance fee aligns the manager's incentives towards making decisions that result in sustained good investment performance over time. The manager has a portion of the remuneration from the equity mandate contingent on three year investment performance above three year benchmark performance, and the only way to consistently capture this portion is to outperform the benchmark index as required, over a rolling three-year period. The rolling nature of the performance fee arrangement incentivises the manager to outperform over the medium to long-term. The fee and performance cap are designed to disincentivise the manager from taking excessive risk in order to outperform the benchmark in order to earn the PRF.

3.1.12 We review each manager regularly, in order to verify that any investment performance was achieved using the agreed investment process, subject to all relevant restrictions, including restrictions on turnover costs. We may agree remedial actions with our investment managers to ensure that we continue to achieve investment performance that meets our customers' needs.

3.1.13 Both base and performance fee arrangements for all mandates are reviewed approximately once every three years. The review is based on comparison of the fee arrangements against available market data, as well as the results of our ongoing monitoring of our investment managers over the previous three years. Our investment management agreements with our investment managers have no fixed term, but may be terminated with notice. They are also reviewed on an ongoing basis to ensure they remain appropriate.

3.1.14 We expect our managers to engage in trading activity consistent with their investment mandate and investment strategy. We expect our managers to report and explain portfolio turnover and associated costs regularly. We can impose turnover limits for each mandate that are consistent with the manager's trading style, as well as the level of risk taken in each mandate. Each manager is required to report on compliance with these turnover limits. If turnover in a particular period exceeds an agreed turnover limit, the manager is required to explain why this occurred. If we believe that the increased turnover is due to an underlying issue with the investment process, we would agree a remedial action with the manager to ensure that the investment process remains robust. Nevertheless, there may be good reasons why turnover in a particular period may exceed pre-agreed limits.

## 3.2 Unit-Linked funds

3.2.1 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 open-ended unit-linked business, with customers investing for the long-term. We believe that our customers select those funds because they believe in our investment approach. Investment into equities is a core part of our customer proposition, as we believe that equities are good assets to invest in to capture medium – and long-term returns, as 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.

3.2.2 Our unit-linked funds may be invested in another collective investment scheme, or into a segregated mandate. Here we seek to optimise the trade-offs between cost, risk and investment performance. Our unit-linked funds invest in equities managed by MAGIM and external managers. As part of our customer proposition, we offer a number of different equity strategies, both active and passive, across several geographic jurisdictions. We also seek to ensure that our unit-linked customers have access to similar strategies as our with-profits customers.

3.2.3 We monitor our unit-linked funds to ensure that they are invested in line with their stated investment objectives and mandates, against various criteria. Our Watch List process flags individual funds for further investigation, where we will carry out in-depth due diligence to identify the root cause of any investment performance issues. Where appropriate, we will agree remedial actions with the investment manager, or where we believe remedial actions are unlikely to be effective, we would close the fund or the fund link.

3.2.4 For our unit-linked funds, we use a base fee arrangement, expressed in basis points of assets under management. We do not use performance fee arrangements for our unit-linked funds because we do not believe a performance fee arrangement, which is most effective when measured over a three-year time horizon, should be applied to daily priced funds. However, our manager selection and oversight strategy is the same for our unit-linked funds as for our with-profits funds. We select investment strategies appropriate for the medium – to long-term, underpinned by robust investment processes, where active engagement with investee companies is a key element. We expect to receive all elements of the investment process we pay for via the base fee.

3.2.5 We seek to review these fee arrangements when required. Our unit-purchase agreements and investment management agreements with our investment managers have no fixed term, but may be terminated with notice, and are also reviewed when required.

3.2.6 We review each manager on an ongoing basis, in order to verify that any investment performance was achieved using the agreed investment process, subject to all relevant restrictions. We may agree remedial actions with our investment managers to ensure that we continue to achieve investment performance that meets our customers' needs.

3.2.7 As with our with-profits funds, we expect the managers of our unit-linked funds to engage in trading activity consistent with their investment mandate and investment strategy. There are no turnover limits for our unit-linked mandates, but we monitor turnover data when provided and would require the manager to explain any anomalies.

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