

Prudential Assurance Company
ESG Investment Policy
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1 Introduction

1.1 Scope

- 1.1.1 This Policy document sets out the Environmental, Social and Governance (ESG) investment policy relating to all aspects of the M&G plc asset owner business (the Prudential Assurance Company (PAC)).
- 1.1.2 The Policy is owned by the Chief Investment Officer (CIO), Prudential UK.
- 1.1.3 Assets managed by PruCap, held at the M&G plc level or own / third party funds managed by M&G Investments Limited (MAGIM) are not in scope and are covered by separate but closely aligned policies. The degree of alignment between the policies is monitored constantly. The assets in scope are the assets held and controlled by the life company which is the asset owner.
- 1.1.4 For the purposes of this Policy, “Funds” means, but is not limited to, any unit-linked fund, with-profit fund, non-profit fund, non-participating fund, matched fund or other fund or portfolio of assets belonging to the relevant asset owner entities of M&G plc.
- 1.1.5 The first version of the Policy will be approved by the PAC Board or a relevant sub-committee thereof. The Policy will be refreshed at least annually. Any changes proposed as a result of the refresh will require approval at the PAC and Prudential Pensions Limited (PPL) Executive Investment Committee (EIC)¹. The EIC may escalate any changes the Chair (Managing Director, Retail and Savings, M&G plc) deems material to the PAC Board for final approval.

- 1.1.6 The Policy is subject to and does not supersede the Asset Owner Investment Policy, the M&G plc ESG principles, M&G plc’s Code of Ethics, the M&G plc ESG Risk Policy, the M&G plc Reputational Risk Policy, and all relevant regulation.

1.2 Context

- 1.2.1 M&G plc’s stated purpose is to help people manage and grow their savings so they can live the life they want, making the world a little better along the way. We deliver our purpose through addressing our savers’ requirement for good financial returns while regarding the wider needs of society through considering the material impacts of ESG factors to the economy, society and the environment as a whole.
- 1.2.2 As the asset owner business of M&G plc, the objectives of PAC activities must be consistent with delivering the group’s purpose, priorities and commitments.
- 1.2.3 This document sets out the ESG investment policy for the asset owner.
- 1.2.4 M&G plc prohibits, across the entire group, any activity or investment that is against the law in any of the countries in which it operates. We comply with all relevant regulation in the jurisdictions in which we operate.
- 1.2.5 M&G plc is politically neutral. M&G does not donate to political parties and has no direct affiliation with any political party in any country.

¹ The Executive Investment Committee is constituted by the M&G plc Managing Director of Retail & Savings and provides oversight and governance over the strategy, and significant decisions over the investment portfolio of Prudential Assurance Company and Prudential Pensions Limited.

- 1.2.6 M&G plc is committed to working with our suppliers and stakeholders to help fight slavery, human trafficking, child labour or any other abuse of human rights. M&G believes in supporting human rights and acting responsibly and with integrity in everything it does, and its policies are guided by the Universal Declaration of Human Rights and the International Labour Organisation's core labour standards.
- 1.2.7 As a group M&G plc has identified two ESG priorities, given their importance for the long-term sustainability of all businesses and society as a whole. These are climate change and diversity & inclusion, detailed in section 2.3 and 2.4.
- 1.2.8 Certain ESG issues can have material implications for the risk / return profile of individual investments or whole sectors, with ramifications for financial investment returns, as well as wider stakeholders' wellbeing as a consequence of their social or environmental impact. Furthermore, the materiality of ESG issues to different stakeholder groups can also vary over time. As a result, the inappropriate treatment of these ESG issues for investment purposes can be a source of controversy.
- 1.2.9 Given that our customers' and wider stakeholders' expectations are dynamic, as well as the broad array of ESG issues, the policy does not prescribe the investment treatment of each ESG issue. Instead, this 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.
- 1.2.10 This policy is also intended to support the asset owner's delivery and commitments to the various ESG targets including the asset owner's and plc's net zero carbon emissions targets individually and in aggregate.

2 Policy Requirements

2.1 Governance

- 2.1.1 Responsibility for ESG across all the Group's activities lies with the M&G plc Executive Committee (ExCom).
- 2.1.2 The EIC will review this Policy on an annual basis and periodically as required. The Chair of the EIC has various delegated authorities from the PAC Board to take certain investment decisions, including those relating to ESG investment policy and practice. The chair of the EIC has in turn delegated certain authorities to the CIO, Prudential UK, including responsibility for implementing asset owner ESG investment policy.
- 2.1.3 Major changes to the ESG investment policy may be escalated to the PAC Board or a relevant sub-committee thereof for final approval. The decision on whether a particular policy change is sufficiently material for the Board to consider is for the Chair of the EIC.
- 2.1.4 The CIO, Prudential UK, may further delegate certain authorities to other personnel in the Investment Office, where appropriate.
- 2.1.5 The Investment Office will also work in a cross-functional fashion across the various business areas of M&G plc, to ensure that our ESG frameworks and thinking are kept up to date, and are always relevant to all aspects of investment strategy.

2.2 ESG Investment Principles

- 2.2.1 This section sets out the ESG investment principles which we use to inform and guide any ESG investment practice. These principles are consistent with M&G plc's ESG principles, and reflect the firm's purpose and values of Care and Integrity, as well as the business principles of Impact, Inclusion and Innovation.

- 2.2.2 For avoidance of doubt, these principles support, and do not supersede, our overall objective to optimise long-term investment returns for our customers for an appropriate level of risk.

Principles

- 2.2.3 Our ESG investment principles are set out below:
 - A. We take into consideration environmental, social and governance (ESG) factors that have the potential to have a material financial impact and incorporate them into our investment analysis and decision-making processes.
 - B. 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.
 - C. 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.
 - D. We take a multi-generational approach, where we consider the outcomes for current customers and future generations.
 - E. Where there are no specific targets, our default objective is to create the best customer outcome in terms of general well-being in line with our fiduciary duty, taking into consideration financial security.
 - F. We identify ESG theme and risk factors and incorporate them into our general risk management process.
 - G. We will require the investment managers that we appoint to engage with and influence investee companies on our behalf, to achieve more sustainable business models and change their behaviour or escalate where appropriate. We also expect our investment managers to report on the results of their engagement activities.

- H. We believe in active ownership aligned with active management. Active ownership that focuses on transitioning companies towards the creation of a more sustainable economy is possible and desirable across all types of investment mandates. We expect our investment managers to report on their voting records and other aspects of active ownership.
 - I. As an investor we are politically neutral, we do not engage in political contributions, nor do we have a direct affiliation with any political party in any country. We are committed to working with our stakeholders, including our investee companies, to help fight slavery, human trafficking, child labour or any other abuse of human rights. Therefore, we take into consideration politics where they impact human rights, the rule of law, fairness and equality, and where local and/or geo-political risk impacts the risk return profile of an investment. In addition, the nature of the investments must be legal in the countries in which we operate.
 - J. We believe in fostering innovation via our investment and seeding process in order to contribute effective solutions to global problems.
 - K. Where an investment, either by the nature of its business or by the nature of the investee company's activities or behaviours, breaches our core values, we will assess the investment under our exclusion process. Where we believe engagement and voting has been or will be ineffective in influencing positive change, we may exclude the company from our portfolios.
- 2.2.4 These ESG investment principles allow us to approach any ESG issue with a general mode of thinking that enables us to derive an appropriate investment strategy. They apply to all books of business that are in scope, and across all our investment strategies.
- 2.2.5 However, certain categories of ESG issues may require specific targets in order to ensure that we are producing the best customer outcomes. The current issues with specific targets are climate change, and diversity and inclusion. These are set out in Sections 2.3 and 2.4.
 - 2.2.6 Certain other ESG issues may require specific frameworks to ensure that we have considered all pertinent information, interpreted our ESG principles consistently for similar ESG issues, and correctly emphasised customer outcomes.
 - 2.2.7 We explicitly take into account various ESG factors when determining the risk and return assumptions that enable us to set our strategic asset allocations, mandate constructions and portfolio benchmarks. These ESG factors may change from time to time.
 - 2.2.8 The specific ESG targets set out in Sections 2.3 and 2.4 are also taken into account, and are integrated into the processes for setting strategic asset allocations, mandate constructions and portfolio benchmarks.
 - 2.2.9 We expect, where possible, all investment managers to carry out active engagement and responsible stewardship on our behalf, using our financial ownership across both active and passive mandates to influence corporate behaviour.
 - 2.2.10 We seek to provide customers with suitable investment products to meet their ethical and sustainability preferences as well as long-term financial needs.
 - 2.2.11 We may also develop more stringent ESG targets for certain ESG-themed products. For example, such products could make greater use of company and sector exclusions, or have investment strategies targeted at creating specific ESG outcomes. In these cases, these products will still comply with the ESG principles set out here.

2.2.12 We aim to provide full and clear disclosure of the ESG investment strategy, positioning and performance of the funds our customers invest in.

2.3 Climate change

2.3.1 We believe that climate change is the most important environmental issue facing the world today. The risks posed by climate change are multi-faceted and far reaching, and the implications on our environment and society profound.

2.3.2 Our ESG Investment policy seeks to minimise the impact of climate change on our customers' financial security and wellbeing. This can be done by identifying the specific risks of climate change to our investment portfolio, as well as the opportunities that may arise, whilst at the same time engaging with our investee companies to reduce their carbon footprint. We will also invest in innovative solutions that reduce, minimise or mitigate the impact of climate change.

Our Climate change targets

2.3.3 As asset owner, we commit to making our portfolios carbon neutral by 2050 in aggregate, in line with the commitments made by the Net-Zero Asset Owner Alliance (NZAOA). This is also in line with the commitments made by M&G plc.

2.3.4 This requires us to transition all our investment portfolios to net zero greenhouse gas (GHG) emissions by 2050 in aggregate, through a combination of advocacy, engagement with our investee companies, and action. We also commit to halving our portfolios' weighted average carbon intensity (defined as GHG emissions per unit revenue), by 2030. PAC became a member of the NZAOA in September 2021 and we expect to publish our interim quantitative targets in 2022.²

2.3.5 We rely on our investment managers to engage with the investee companies to change their behaviour and reduce their emissions, as well as allocating our capital towards lower emission sectors of the economy and towards technological solutions that mitigate the impact of climate risk. We will tilt our portfolios away from investee companies that are not on sufficiently ambitious emissions reduction paths by instructing our asset managers to act on our behalf.

2.3.6 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 their behaviour.

2.4 Diversity and inclusion

2.4.1 We believe that over the long term diverse organisations perform better financially, are better at managing risks, and are more representative of society. Diversity is therefore something we want to support and encourage as part of our investment strategy.

2.4.2 We believe diversity encompasses many axes, and it is important not to reduce the concept to a number of representation targets along gender and ethnicity lines. Diverse organisations strive to include the greatest possible number of different viewpoints for consideration in the day-to-day running of their business.

2.4.3 M&G plc is committed to achieving year on year improvement in the representation of gender and ethnicity / nationality in senior leadership with goals of 40% women and 20% ethnicity / nationality by 2025.

² Note that having joined the NZAOA we are now in the process of reviewing our emissions reduction targets in line with our membership commitments.

2.4.4 These goals define M&G plc's commitments to the requirements set out in the Hampton Alexander Review, HM Treasury's Women in Finance Charter, the 30% Club and the Race at Work Charter, and will be underpinned by a range of initiatives that fundamentally shift the way we recruit, retain and progress M&G plc employees through their careers.

Our Diversity & Inclusion targets

2.4.5 We believe the best way of improving diversity and inclusion in our investee companies is through our investment managers. If our investment managers are themselves diverse organisations, they are more likely to be able to propagate diversity in the companies they invest in on our behalf.

2.4.6 We believe that we should work with investment managers that have a commitment to improving and maintaining an appropriate level of diversity in their management, employee population and business model.

2.4.7 Diversity and inclusion is much more multi-dimensional than just a gender balance, and therefore we believe that aiming to comply with the 30% Club requirements is only a starting point. By complying, an investment manager is signalling a commitment to improving diversity in its business. We encourage our investment managers to exceed this requirement.

2.4.8 As our investment managers are based in different countries around the world, where the composition of ethnic diversity may be different from that in the UK, we will not require our investment managers to comply / aim to comply with an ethnic diversity target.

2.4.9 We will evaluate each investment manager's diversity policy as part of our initial and ongoing due diligence, and specifically, consider how an investment manager challenges its investee companies to improve and maintain diversity in their business models. It is important that our investment managers' diversity policies align with ours, and that they strive to help their investee companies align also.

2.4.10 If the investment managers are not compliant with our diversity targets we will engage with them in line with our engagement policy.

2.5 Watchlists

2.5.1 From time to time, as asset owner we will maintain a company watchlist, where we monitor specific companies closely from various ESG perspectives. The purpose of this monitoring is to gather more information that may inform or prompt specific action on the companies or sectors being monitored. We also run policies on specific ESG issues, which are separate to the aforementioned watchlists.