Submission to Net Zero Asset Management Initiative

Name of Asset Manager	M&G Investments
Total AUM (USD)	M&G assets under management: £296bn as of 30-6-21 aligned with M&G June 2021 interim results presentation. In US$ this represents $408.9bn AUM at $ rate of 1.3815.
Proportion of AUM to be managed in line with net zero initially (expressed as a % of total AUM, and provide USD total currently implied)	**Proportion of AUM: 20%** **USD total: £58bn ($80bn)** (Based on above $ rate of 1.3815) **This represents the value of the funds committed to being managed in line with net zero.** These funds are public equity and public corporate debt mandates, which will have small proportions of other asset classes, such as collective funds, private credit, derivatives, and cash.
If less than 100%, briefly explain why this proportion is the maximum achievable and	M&G Investments' October 2021 disclosures are based on the commitment of public equities and public corporate debt portfolios managed on behalf of Prudential UK, the internal Asset Owner within M&G plc and also our largest client.

the actions to be taken to increase the proportion over time	These asset classes represent a portion of the £296bn managed by M&G Investments. With the agreement of our external clients we will expand our commitment over time. The above proportion ($80bn) represents 40% of AUM M&G Investments manages for the internal client. For M&G Investments, when split by asset class this represents: • 53% of total equities • 11% of total fixed income The proportion of corporate fixed income included is lower as M&G Investments has other sub asset classes within fixed income such as private credit, loans, securitisation, mortgages, as well as having a large institutional fixed income business with external clients. The other sub asset classes of fixed income are awaiting development of detailed methodology and emissions data to manage to net zero. We will look to include more of these asset classes, including real estate, in the future. Going forwards, we will work in partnership with our external clients to secure their consent for more extensive climate targets in relation to their assets under management.

The targets represent a significant step forward. But there is more to do. Methodologies to enable alignment of a broader set of asset classes are still developing.

This will enable the expansion of the Net Zero Investment Framework, and proportion of assets committed in the future – ensuring a clear and sustainable transition pathway is key to our principle of balancing ambition with accountability.

Increasing proportion over time

Achieving net zero across all of our portfolios by 2050 is a significant undertaking, with far reaching implications for our customers and our business. We are taking important steps to meet this challenge by scaling our capability over time.

1. **We will enhance our operating model** with continued investment in our Stewardship and Sustainability infrastructure and resources.
2. **We will embed the Net Zero Investment Framework (and climate scenario modelling outputs of the future) into analysis and investment decision making.** As we scale our climate capability, it will be key to embed this into our investment teams' day to day processes, including appropriate supporting actions.
3. **We will continue to enhance our climate capability across people, processes, technology and data.** Considerable work is required to develop a scalable set of data and processes that support the Net Zero Investment Framework and broader climate methodologies over time. For example recalculation of baseline emissions and support to evaluate and set bottom up climate targets

	per fund/mandate. In particular, M&G will continue to work with the IIGCC, and Paris Aligned Investment Initiatives (PAII) working groups, as well as evaluating the possibility of the SBTi framework as preferred by our internal client. 4. **We will scale client engagement in support of transition.** We will use detailed analysis of portfolios' starting position, and projection, to develop potential management options to reduce emissions through bottom up portfolio targets. We will also engage and advocate with a growing proportion of segregated and pooled clients to consider climate risk and portfolio target setting, with a view to securing their implicit or explicit support as necessary. Further opportunities may exist to convert pooled mandates into SFDR Article 8 and 9. 5. **We will advocate for positive change** by running our own coal and climate engagement programmes, and leading and engaging in industry collective initiatives for advancement of ambition and accountability. As an example, we actively participate in Climate Action 100+ lead roles to help collectively address the most material corporate emitters.
Target Year (e.g. 2030)	2030
Baseline Year (e.g.2019)	2019

Quantified Target(s) to be achieved by target year (this may include more than one target type if relevant to the methodology used, or if using a combination)	50% emissions reduction by 2030 (based on enterprise value including cash (EVIC) financed emissions / AUM). M&G Investments intends to develop this plan to evolve and show progress for the following necessary NZIF assessments: 1) portfolio coverage, (investments that are net zero, aligned or aligning to 1.5 degrees C) 2) Climate engagements coverage of 70% coverage of financed emissions for the portfolios. and disclose this in due course.
Baseline Year Performance for the target metric(s) (if possible/relevant) (e.g. xxtCO2/$ invested)	The baseline performance metrics below relate to the listed equities and corporate debt within the portfolio of funds that make up the AUM to be managed in line with net zero as of 31/12/2019. | | Finance Emissions / AUM (tons CO2 / million USD) |

	<table><tr><td>Listed Equities</td><td>65.91</td></tr><tr><td>Public Corporate Fixed Income</td><td>35.75</td></tr></table>Baselining the ‘alignment’ of the portfolios has begun, using the SBTi membership categories of ‘Targets set’ and ‘Committed’. We will be evaluating and adding further datasets such as the Transition Pathway Initiative and CA100+ benchmarks. Since the baseline, the AUM of the portfolios has doubled, as well as expanding into other geographic regions where emissions intensity is higher. In the future, numbers will require re-baselining to reflect changes in composition since 31/12/2019, on which we will work to develop methodology in tandem with the IIGCC going forwards.
Methodology used to set target(s)	We prefer a more detailed decarbonisation approach in order to align, as much as possible, with real world decarbonisation, whilst avoiding potential unintended consequences of linear reduction methodologies.

	M&G Investments has therefore used the Net Zero Investment Framework to help classify portfolio assets into a climate transition taxonomy, and to develop our approach with real world carbon reduction in mind. We believe this is fundamental to enable the carbon transition and to finance real world change.
Confirm and describe coverage of Scope 1,2 and extent of Scope 3 coverage of financed emissions.	Scope 1 and 2 emissions. M&G Investments intends to phase in scope 3 emissions as per the PAII NZIF methodology guidance in 2023.
Underlying science-based net zero scenario(s)/pathway(s) from which target(s) is derived	Sectoral analysis was conducted using IEA 1.5 degree sector pathways plus IPCC P1 scenario. Regional analysis was conducted using scenarios from Climate Action Tracker. The Climate Action Tracker methodology can be found here: https://climateactiontracker.org/methodology/cat-rating-methodology/modelled-domestic-pathways/
Brief description of how the asset manager considers the target to be consistent with	The analysis was conducted for included public equities and public corporate bonds.

delivering a fair share of the 50% global reduction in CO2 emissions by 2030 identified as a requirement in the IPCC special report on global warming of 1.5°C.	Analysis was conducted on both the sector and region splits of financed carbon emissions, which concluded that the range of required emissions reduction of the assets between -44% and -54%. The financed carbon emissions, calculated using EVIC and Scope 1+2 emissions data, are proportioned into sectors using GICS Industries and proportioned into regions using their risk country classification. Where these sectors are not available, or there is no pathway present, a 7.6% year on year reduction as recommended by the UN Environment Programme was used. Where the regions are not available, or there is no pathway present, the IEA P1 scenario is used.
If not using one of the recommended methodologies, please explain rationale and how it sufficiently rigorous and consistent with the target setting commitment	M&G Investments' approach is consistent with the recommended methodology under Net Zero Investment Framework.
Information on target for operational emissions, if set	We have set a net zero by 2030 carbon emissions target for our corporate activities. This target is science based and aligned with a 1.5C warming scenario, which means we are seeking a 4.2% per annum reduction across our scope 1 and 2 emissions

	and applicable scope 3 emissions e.g. business travel and waste. For emissions associated with our supply chain we have set an engagement target, which covers at least 68% of these emissions. • We are committed to RE100 and in 2020 procured 100% renewable energy for the offices we occupy, either via direct procurement or energy attribute certificates. We will continue to dual report on electricity use for transparency. • We are focusing on absolute emissions reduction where possible and will be looking at energy and resource use in our buildings, reducing travel impacts and collaborating with our supply chain partners. • We acknowledge that some off-sets may be required to achieve our net-zero target, but will continue to reduce absolute emissions where possible. We currently purchase Verified Carbon Standard (VCS) and Gold Standard off-sets to address our unavoidable business travel emissions.
Confirm whether the organisation adopted a science-based policy on coal and other fossil fuel investment (Yes/No)	Yes - thermal coal.

	If yes, provide a link to information on this policy (or a very brief summary, and indicate the scope of AUM to which the policy applies. In March 2021, M&G Plc committed to phase out thermal coal from its public assets by 2030 for developed countries, and 2040 for emerging markets. For M&G Investments, this commitment will need to delivered in partnership with clients, and is a key building block in the Net Zero Investment Framework, as well as providing a foundation for approaching other contentious carbon investments in the future, such as tar sands and fracking. M&G Investments' approach to delivering coal phase out evaluates exposure in both relative and absolute threshold terms (30%, 10GW capacity, 20Mt p/a extraction), excluding new expansion. In addition, we undertake analysis to enable a forward looking view of the credibility of companies' coal phase out plans and how they consider a just transition. We aim to use our influence as a global investor and asset owner to drive positive change, to decarbonise the energy system and increase energy and resource efficiency. By adopting a forward-looking approach as an active investor, we can support companies to phase out coal from the energy system in line with the IPCC timelines, and finance the necessary investments to get to net zero.
If no, please include any information available on plans to develop such a policy.	Link to the overview of our position on coal investment: Coal – M&G plc (mandgplc.com)

	Our position on thermal coal was evaluated by Reclaim Finance this year and ranked no.5 in Europe out of 29, and number 1 in the UK. https://reclaimfinance.org/site/wp-content/uploads/2021/04/Slow_Burn_RF_FINAL_ENG.pdf (page 19).