M&G plc
Sustainability Report 2021/22

Our purpose is to help people manage and grow their savings so they can live the life they want while making the world a little better along the way. **One M&G.**

About our reporting

This report provides an update on the progress we have made in delivering our 10 point sustainability plan since it was launched in May 2021 as part of our first Sustainability Report.

The Sustainability Report is an opportunity for us to add more depth to the high level progress set out in our Annual Report and Accounts, and to provide additional information on our climate metrics and scenario analysis. It aims to complement the Taskforce on Climate-related Financial Disclosures (TCFD) reporting embedded in our 2021 Annual Report, which were prepared on a basis consistent with the four pillars and eleven recommended disclosures as set out in June 2017 by the Financial Stability Board's TCFD.

The Sustainability Report and the Annual Report are complemented by a range of additional sustainability related disclosures which can be found on our website.

Find out more

You can find more details of our work on sustainability and M&G's corporate strategy and performance here:

- Annual Report
- Investors
- Sustainability
- Climate-related Financial Disclosures
- Climate transition plan
- Reporting Criteria

Welcome to our 2021/22 sustainability report

Eighteen months ago we committed to embedding sustainability into everything we do at M&G to help ensure a better long-term future for our customers, our shareholders and for the planet, and a few months later we published our ten point sustainability plan setting out how we are going to achieve this ambition.

With a global business of over 5,500 colleagues managing and administering more than £370 billion of assets, this is no small undertaking.

However as you'll read in this, our second Sustainability Report, I feel remarkable progress has already been made thanks to the enthusiasm of our people and the support of our many stakeholders; enabling us as a business to embrace this positive change.

As a major global investor, the most significant difference we can make is through our actions and our investment decisions. Over the past year we have focused enormous effort on putting a plan in place to deliver our long-term commitment of achieving net zero carbon emissions across our investment portfolios by 2050, in line with the goals of the Paris Agreement on Climate Change.

To that end, in November 2021 we published our first interim targets towards net zero for our asset management portfolio, which you can read about on page 11. We will soon be adding more assets to those targets, as well as interim targets for our asset owner.

As with all the investment decisions we make on behalf of our customers, we're guided by care and integrity in setting these targets. We think it's better to set credible targets with a robust plan behind them and reliable methods of measurement, and evolve and grow these along the way. Our head of Stewardship and Sustainability for Asset Management, Rob Marshall, explains more about this, and our plan to phase out thermal coal investment, on page 5.

But the last year has not just been about making long-term plans, crucial though that is. Across M&G we've been taking steps to increase the amount of capital we channel into sustainable investments; to widen the choice of sustainably focused products for our customers and clients; and to improve the tools and data which sit behind our investments, all the while considering the footprint and impact of our own business operations. Some of the most exciting progress has been in private assets investment, where we can deploy long-term patient capital to invest in truly transformative solutions to social and environmental challenges.

Since its inception in January 2021, our Catalyst early-stage private assets strategy has now deployed over £650 million into sectors such as sustainable housebuilding, carbon capture and storage, recycled materials, clean transport and biotechnology. We've recently added to this capability with the acquisition earlier this year of responsAbility, an emerging markets impact investing specialist based in Switzerland.

We have also made some good progress on diversity and inclusion this year, which alongside climate is one of our top sustainability priorities. In particular, I'm pleased to see the percentage of senior leadership roles filled by women increase to 35%, getting us closer to our target of 40% by 2025. In common with most of the financial services industry, there is a lot still to do to ensure diverse perspectives and backgrounds are represented in every part of the business. However we are genuinely committed to sustaining these efforts, which you can read more about on pages 32 and 33 of this report.

Given the scale and significance of our work on sustainability, much work has been done this year on communicating to our customers what we are doing and what this means for their savings and investments. Among many initiatives, this year saw publication of our first Prudential With Profits Fund Stewardship Report, which aims to give our five million with-profits policyholders and their advisers greater understanding of how and where their money is invested.

Further improving clarity, transparency and accessibility in the fast changing, complex and crucially important area of sustainability will remain a key focus for our Retail and Savings and Asset Management businesses over the coming year, as well as for us as a public-listed company.

Thank you for taking the time to read this report, and I hope you enjoy reading about our progress.

John Foley
Chief Executive, M&G plc

One M&G

Placing sustainability at the heart of our investment process

In May we completed the acquisition of Swiss-based responsAbility Investments AG, a leader in impact investing focused on private debt and private equity across emerging markets.

The combination of responsAbility's specialist capabilities and our scale and breadth is a powerful proposition in an area where we are seeing strong and growing client demand.

Rochus Mommartz, Chief Executive Officer of responsAbility, says: "By leveraging M&G's partnership, we will be able to accelerate our most pioneering projects, whether it be helping to drive the transition to net zero emissions, finding solutions to invest in sustainable food or increasing access to finance through the latest developments in FinTech."

Our approach to sustainability

Does sustainability still matter?

In a world where humans were already consuming more resources than the planet can sustain, the COVID-19 pandemic and war in Ukraine have highlighted our vulnerability to supply shocks and their impact on social and economic resilience. The Russian invasion of Ukraine, in particular, has exposed the sustainability challenges of a global energy system dependent on fossil fuels.

There are clear indications – such as the European Commission's recent REPowerEU plan - that governments are recognising the benefits of accelerating the transition to more sustainable and secure sources of energy.

However, given the long lead times required to build new energy infrastructure, governments faced with rising costs of living and the risk of fuel shortages will bridge the gap by extending the life of existing nuclear facilities and the increased use of thermal coal in the short term.

How does this affect our thinking as an investor? For us, this is an example of how moving to a more sustainable way of life will involve change for everyone, with some people more vulnerable to these changes than others. We believe the costs and benefits of the transition to a low carbon economy should be shared fairly between generations, regions and communities.

As investors, we can see the complexity of this transition: its risks and opportunities; different competing needs and time horizons; and interdependencies with other issues such as biodiversity, water use and air quality. Our job is to consider and balance these for our customers and clients, shareholders, and wider society.

We have also published our positions on biodiversity and a "just transition" to a sustainable world, both of which can be read in full on our website.

Read more
www.mandgplc.com

Our commitments and principles

To help us navigate these issues in a fast changing landscape, we have some overarching commitments and principles which guide us in our decision-making as an asset manager, asset owner and in our own business operations.

We have identified two priorities which we think are particularly important for the environment, society and our long-term sustainability as a business.

Our sustainability priorities

In March 2020 we decided to prioritise two areas for action: climate change, and diversity and inclusion, and to hold ourselves accountable with specific commitments in these areas. These are:

Commitments on climate change:

- To achieve net zero carbon emissions for our own operations by 2030 at the latest.
- To achieve net zero carbon emissions across our investment portfolios by 2050 to align with the Paris Agreement on climate change.

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Commitments on diversity and inclusion:

- To achieve 40% female representation and 20% representation from Black, Asian and minority ethnic backgrounds in our senior leadership team by 2025. As an asset owner, we aim to regularly evaluate the diversity policy of the investment managers that we have appointed to manage our assets.
- To achieve external benchmarks including the National Equality Standard and LGBT Great equality index.

Read more
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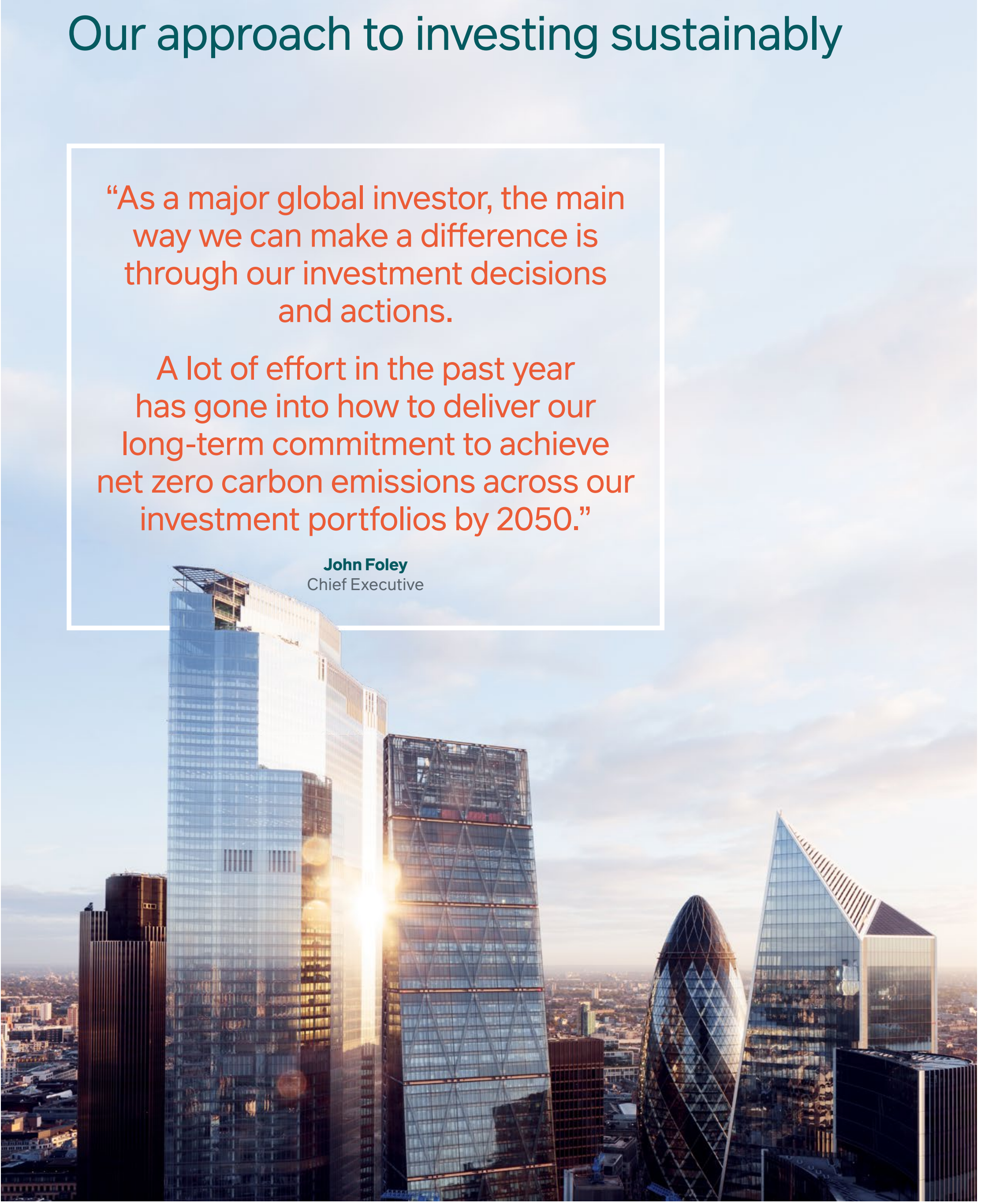
Our sustainability principles:

- We will consider sustainability and ESG factors when determining our corporate strategy and new business initiatives.
- We will embed sustainability considerations throughout our business.
- We identify and incorporate ESG risk factors into our general risk management process.
- We consider the interests of our stakeholders and aim to ensure their views on sustainability are consistent with our long-term approach.
- We will manage our businesses to the same principles of acting responsibly that we hold our investee companies to account on.
- We review our sustainability thinking regularly in order to align with scientific improvements, and changes in the global economy, ethics and consumer preferences.
- We aspire to be a thought leader, to innovate, and to advance understanding of sustainability issues.
- We aim to use our influence as a global investor and asset owner to drive positive change in sustainability policy and corporate standards.
- We believe in active asset ownership and management which encourages companies to transition towards a sustainable future.

Our approach to investing sustainably



"As a major global investor, the main way we can make a difference is through our investment decisions and actions.

A lot of effort in the past year has gone into how to deliver our long-term commitment to achieve net zero carbon emissions across our investment portfolios by 2050."

John Foley
Chief Executive

We believe a well governed business run in a sustainable way delivers stronger, more resilient returns for customers, clients and shareholders, and better outcomes for society and the environment.

At M&G we recognise that delivering real world positive change is more than simply making ambitious climate commitments. It will involve taking thoughtful and determined action to deliver on these commitments whilst balancing financial returns and supporting a just transition to a more sustainable, lower carbon economy. A just transition to us means a transition of the global economy and society to sustainable consumption in a way in which costs and benefits are shared fairly between generations, communities and regions.

As an investor and steward of our customers' assets, we must grapple with the fact that many long-term sustainability considerations are not fully reflected in asset values today. This is an obvious risk - but also an opportunity. With the patient capital within our £143 billion Prudential With-Profits Fund, and the long-term investment horizons we work with for our external institutional clients, we are well positioned to act responsibly for the long-term: channelling capital to new solutions, adaptations and mitigations.

In our sustainable investment approach, we are forward-looking, pragmatic and holistic.

We do not focus only on carbon reduction: we are also starting to consider water and land use, the implications for biodiversity and natural capital, minimising pollution, promoting social equality and supporting a sustainable transition across our investee entities, their supply chains and their communities.

Our role as an asset owner

We serve as an asset owner on behalf of Prudential With-Profits Fund policyholders, and our pensions and annuity customers. Our task is to create the best customer outcome in terms of general well-being in line with our fiduciary duty, taking into consideration financial security. To do this, we make decisions about how to allocate assets, potential financial and sustainability requirements for our investment mandates, and which asset manager should manage them.

Our role as an asset manager

We invest as an asset manager on behalf of individual end investors and large asset owner clients. As at 31 December 2021, we manage over £169 billion of internally owned assets and £157 billion on behalf of external clients. We act on behalf of our clients including our asset owner, to meet their required investment objectives. As an asset manager, we must follow the mandates set out in fund objectives or agreed with institutional clients. Sometimes mandates from external institutional clients will have sustainability policies which differ from those we apply as an asset owner.

While our values of care and integrity and a set of common principles (see page 3) inform all our sustainability work, the asset manager and asset owner are separately regulated businesses with independent Boards and governance processes, and their policies may diverge on occasion.

Achieving net zero across our investments – a Q&A

Rob Marshall, Head of Stewardship and Sustainability for Asset Management, answers some of the most common questions about our approach to net zero as an investor.

With an energy crisis on our hands, why does M&G think it's necessary to phase out coal now – why not leave it for a few years?

Rob: It's tempting. But it wouldn't be the right thing to do. Thermal coal is one of the biggest contributors to global warming and we can't afford to ignore it. It is going to take a lot of long-term investment for the economy to transition out of coal, so we need to make sure the companies we invest in have credible plans for transitioning to alternative energy sources and are getting on with implementing them. That's why we've set a deadline of 2030 for coal phase-out in developed countries.

Why don't you sell all your coal assets right away then?

Rob: That's tempting too! If we did that, it would very quickly reduce our own carbon emissions as an investor. But the emissions themselves wouldn't go away: it wouldn't stop mines from extracting coal, the power plants from burning it, factories from using it. We think it's more responsible to use our influence as a shareholder to persuade companies to find better ways, and support them with the finance to transition rather than making it someone else's problem.

It's all very well for rich countries, who can afford investment in renewable infrastructure – but what does your stance mean for developing countries, who still rely heavily on coal and oil?

Rob: That's a very good point. We need to make sure the costs and benefits of climate transition are shared fairly between regions, communities and generations. That is why we don't expect all countries to move at the same speed on decarbonisation, or to finance new infrastructure on their own. For example, one of our most recent investments has been into an off-grid solar energy company in Africa, which has already saved over 22 million tonnes of carbon emissions and saved people over $4.4 billion in energy costs.

Why have you focused on coal and not other fossil fuels like oil and gas?

Rob: We started with coal because of its disproportionate contribution to the problem. We're now looking at investment policies for other fuels and technologies – including nuclear energy, which seems increasingly likely to be a key part of our future low-carbon energy mix.

Are you going to commit to the Science Based Targets initiative (SBTi)?

Rob: Our focus is to support the decarbonisation of the economy and support real world positive change. We share the SBTi ambition to align investments to 1.5 °C and to do so with a science-based approach to emissions targets. We have set and published science-based carbon reduction targets within the Net Zero Asset Managers Framework and are currently setting targets under the Net Zero Asset Owners Alliance Framework, which will expand our AUM coverage significantly. We are encouraged by the success of the SBTi and we engage with many of our investees to set SBTs. The SBTi recently published a Net Zero Foundations for Financial Institutions paper which will pave the way for the SBTi's Net Zero Standard for Financial Institutions, due to be launched in early 2023. This will help to inform any future decisions we make on whether to join SBTi.

> "It's more responsible to use our influence as a shareholder to persuade companies to do better than to make it someone else's problem."
>
> **Rob Marshall**
> Head of Stewardship and Sustainability for Asset Management

When you say you want to halve the carbon emissions of your portfolios committed to the Net Zero Asset Management Initiative by 2030, what do you really mean?

Rob: Our main target measure is carbon intensity, which focuses us on reducing carbon emissions per dollar of investment. All other things being equal, we prefer reductions on like-for-like investment, reflecting real change in the economy. Otherwise we are incentivised to reduce investments outright, or to drop out of the difficult sectors where engagement and innovation are most needed. We don't believe that we help the environment by shrinking our investment footprint or ducking stewardship responsibilities.

Why are Say on Climate votes important?

Rob: As investors, we think the companies we invest in should be transparent about their climate plans and give us the chance to vote on them: that's at the heart of our strategy to engage and influence companies to decarbonise. And of course, that means as a public listed company we need to hold ourselves to the same high standards.

It's important to emphasise that we don't pretend to have all the answers at this stage: there is so much new science, new data and new regulation that anyone who does claim to have all the answers on climate transition now has probably misunderstood the question. But companies (including ourselves) can be transparent, can be honest, and can make commitments that are ambitious but for which we are also accountable.

Financing a more sustainable world

One of the most powerful things we can do as an investor is to channel capital to innovative businesses around the world which are tackling the biggest environmental and social issues of our times.

With the long-term patient capital available to us through the Prudential With-Profits Fund, we're able to become very early investors in breakthrough technologies and start up ventures. But we also invest in well-established companies which have focused on transforming their businesses for the needs of the future.

Tier

Niranjan Sirdeshpande
M&G Catalyst early stage private assets team

"According to the European Commission, transport is the main source of air pollution in cities: but the UN projects that 68% of the world's population will be living in cities by 2050. Our investment in Tier will help to scale up its clean micro-mobility transport solutions as a complement to existing public transport networks, helping cities reduce pollution and noise, improving quality of life and protecting people's health."

Jibu

Brandon Cheah
Investment Officer, responsAbility

"Jibu is a for-profit company we hold in our Social Bond portfolio. While providing affordable access to safe drinking water and other essential products in south-east Africa, Jibu's franchise model is also about financial inclusion: giving women and men in the region the opportunity to become entrepreneurs and create wealth. It's a really interesting example of why and how you do business is as important as what you do."

Helios Towers

Thembeka Stemela Dagbo
Manager of the M&G Diversity and Inclusion Fund

"Reliable mobile infrastructure is essential to social inclusion and economic development - Helios enables key communications services to be delivered to millions of sub-Saharan Africans, by providing telecom towers to regions with among the lowest mobile penetration on the continent. The group's co-location business model (where up to four operators can share a mobile tower) also results in lower costs for its customers and reduces their carbon footprint. Helios takes its role in society seriously as it invests in ways of undertaking its activities in a more sustainable way, with climate action, diversity and inclusion and community engagement being its key priority areas."

Recharge Infra

Christophe Bordes
Infracapital

"Recharge is a leading public electric vehicle charge point operator in the Nordics, the most advanced EV market in Europe. Infracapital acquired a 63% controlling stake in 2020 and in June 2022, signed an agreement to acquire the remaining stake. EV will play a critical role in the decarbonisation of the transport sector and, ultimately, in the journey to net zero. We are thrilled to be working with Recharge to grow the business substantially in what is a high-growth sector full of potential."

Schneider Electric

Randeep Somel
Manager of the M&G Climate Solutions Fund

"Improving building efficiency is incredibly important to reducing emissions: in terms of new builds, retrofits and modernising the grid itself. Schneider Electric is one our favourite investments in our impact portfolio because their components and technology can drastically reduce electricity consumption from lighting, temperature control and grid management. As of last year, their products had already saved or avoided 347 million tonnes of CO_2 emissions since 2018."

Our alignments and memberships

We think it is important to stay engaged with the market, and we pride ourselves on being dynamic members of industry associations, working groups and committees, actively participating in remuneration, corporate governance and sustainability committees.

We are willing to act collectively with other UK and overseas investors where it is in the interests of our clients to do so, and we are supportive of collaborative engagements organised by representative bodies.

This year, we are proud to have added formal accreditation as a Living Wage employer to our existing corporate accreditations in diversity, inclusion and social mobility. Our work on the Living Wage in recent years is already having a positive ripple effect across our supply chain and numerous other employers.

M&G plc

CDP Discloser 2020 | Gold Standard 2022 | disability confident Leader

Women in Finance Charter | Living Wage Employer | bsi ISO 14001 Environmental Management Certified

NES National Equality Standard | UN Global Compact | PPCA Powering Past Coal Alliance

We're proud to have signed up to the Race at Work Charter | RE100 Climate Group CDP

TCFD Task Force on Climate-Related Financial Disclosures | Signatory of: PRI Principles for Responsible Investment

BWAM Black Women in Asset Management | TNFD Taskforce on Nature-related Financial Disclosures

Asset Manager

30% Club Growth Through Diversity | BBP Climate Commitment Signatory | BPF British Property Federation

Climate Action 100+ | Climate Bonds Initiative | IPF Investment Property Forum

The Green Bond Principles | ICGN | IIGCC Institutional Investors Group on Climate Change

The Investment Association | UKSIF UK Sustainable Investment and Finance Association | Signatory of: UK Stewardship Code 2021

The Investor Forum | Race to Zero

Asset Owner

UN-convened Net-Zero Asset Owner Alliance | Signatory of: UK Stewardship Code 2021

Achieving our ambition

Our plan to achieve our sustainability ambitions and targets

In May 2021 we launched our 10 point sustainability plan, providing a clear roadmap that will guide us in transforming our business and our investments to meet the needs of the future.

Since its launch we have already made good progress. However we remain cognisant of the difficulty in achieving our overall goal of becoming a fully sustainable business as the sustainability landscape and stakeholder requirements are evolving and expanding. So while this section outlines our achievements since the sustainability plan was launched and progress against each point in our 10 point plan, we acknowledge that we still have a way to go.

1 Develop our pathway to net zero 2050

Why this matters

Our net zero 2050 ambition remains unchanged

The risk of insufficient action today increases the need for much greater policy action in the future and the likelihood of a disorderly transition and market shocks.

As a steward of long-term capital, we acknowledge that to limit global warming to 1.5°C, world-wide emissions need to reach net zero by 2050 at the latest. We have therefore publicly committed to achieve net zero across our portfolios by 2050.

We do not believe the path to net zero should or will be linear, but we remain absolutely committed to taking the necessary action to achieve the end goal.

Pathway to Net Zero

Our journey towards our target of net zero by 2050 has four main tracks:

- Engaging with investees to adopt and implement science-based carbon transition plans aligned with the goals of the Paris Agreement on Climate Change (Paris Agreement).
- Working with clients to develop new fund mandates and fund objectives that are Paris Agreement-aligned, and supporting clients to transition existing funds to align with the objectives as per the Paris Agreement.
- Increasing capital directed to climate solutions, companies and projects.
- Transitioning portfolios, including contentious carbon companies, to align with our net zero ambitions. Where investee companies cannot or will not align they become candidates for divestment.

These will be supported by:

- Working in collaboration with regulators and other organisations to improve corporate climate data reporting and to standardise measurement methodologies.
- Collective action to accelerate investee alignment to Paris Agreement climate goals.
- Working to support product development and guide fund mandates and objectives.
- Continuous development of our own people, processes, data and client reporting to enable us to deliver effectively and accountably.

Real Estate pathway to Net Zero

As one of the world's largest real estate fund managers, we recognise that our business activities have wide-ranging social, environmental and economic impacts, with the built environment contributing over 40% of global carbon emissions. This is why M&G Real Estate has committed to achieve net zero by 2050 across our £36.2 billion AUM, as of 31 December 2021.

Our journey to achieving net zero by 2050 across our real estate portfolio differs from that of our other investments and has three main tracks:

- All assets will be powered by renewable energy.
- All assets operated by our occupiers will be powered by renewable energy.
- All refurbishments and developments will be net zero whole life carbon.

We have also set interim targets for our real estate operations to guide our initial steps towards net zero, as set out below.

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Our real estate interim targets

	2020 – 2025	2025 – 2030	2030 – 2035
Data, verification and certification	Full carbon footprint for all funds; >75% carbon footprint based on real data	>50% AUM with green building certification; >90% carbon footprint based on real data	>90% AUM with green building certification
Operating efficiently and powered by renewables	Developed fund level net zero carbon pathways with fund specific internal targets	Sourcing 100% landlord renewable electricity; Scope 2 target	Transition away from any fossil fuels usage across our portfolio
Taking our occupiers on the net zero journey	Engage occupier to connect data and understand their net zero carbon plans	Implement mechanisms to drive occupier net zero progress →	→
Low carbon construction and refurbishment	Update Sustainable Development and Refurbishment framework with operational and embodied carbon targets →	→	Evidence reductions in embodied carbon emissions
Offsetting	Offsetting will form part of our approach where we cannot reduce - guidelines were developed during 2021 and will be reviewed on a continual basis		

Funds will have their own pathways and may be more accelerated

1 Develop our pathway to net zero 2050

What we have achieved so far

In 2020 we articulated ambitions to align our influence as a global investor and asset owner with the Paris Agreement, and use it to drive positive change, to decarbonise the energy system and increase energy and resource efficiency. These are medium to long-term ambitions, and we have made good progress towards achieving them over the past year.

Progress as an asset owner

As at 31 December 2021 the Prudential With-Profits Fund contains £143 billion of highly diversified assets held on behalf of Prudential policyholders, which along with our annuities portfolio and unit-linked products, we have committed to net zero carbon emissions by 2050 to align with the Paris Agreement. In 2021, we began the process of setting portfolio emissions reduction targets. As an asset owner, we became a signatory to the UN Principles for Responsible Investment (PRI), and then a member of the UN-convened Net Zero Asset Owner Alliance (NZAOA) in September 2021 which is the global institutional investor group acting to help limit global warming to 1.5°C as outlined by the Paris Agreement. As an NZAOA member we are committed to the transition of £128 billion of our investment portfolios to net zero carbon emissions by 2050 in line with the NZAOA framework, and to set five-yearly interim targets to reduce our portfolio carbon emissions to zero by 2050. Further asset classes will be included as the NZAOA framework develops.

We are currently determining our interim emissions reduction targets for assets in scope using the NZAOA framework. This framework requires asset owners to set targets on absolute emissions or emissions intensity, for real estate, equities and fixed income, in three out of the following four areas: portfolios and sub-portfolios, industrial sectors, engagement or financing a just transition. Once targets are set, we will instruct our asset managers to work to reduce emissions in our invested portfolios, and report their progress on an annual basis. Any emissions reduction targets set will take into account existing commitments in place within our business as an asset manager as well as setting targets for our external asset managers. We aim to publish our first set of NZAOA interim targets this year.

Progress as an asset manager

In November 2021, as part of the Net Zero Asset Manager Initiative, we committed to reduce carbon emissions by 50% by 2030 for £58 billion in public listed equities and bonds, managed within our asset manager business (representing 20% of asset manager assets under management, managed on behalf of our asset owner business). This is an intensity based target, with a 31 December 2019 baseline.

We will continue to add assets to this commitment over time with further internal and external client consent and as availability of private asset carbon data improves.

By focusing initially on this pool of assets, we will develop best practices in alignment to net zero and be in a good position to add further assets under management to our interim target.

Net Zero Investment Framework

Our new Net Zero Investment Framework (NZIF) is our approach to achieving these ambitious targets and draws on our work as a member of the Paris Agreement aligned Investor Initiative and the Institutional Investors Group on Climate Change (IIGCC) to establish actions, metrics and methodologies to enable us to decarbonise our portfolios, reduce climate related risk and allocate more to climate solutions. We recognise the pitfalls of a linear approach to decarbonisation which can create unintended consequences: such as incentivising divestment to pass the problem onto others, and missing out on transition related opportunities. We believe that encouraging intensive emitters to develop and implement robust transition plans and invest in climate solutions is a more responsible and effective approach. There will be a need to reconfigure the baselines of portfolios to account for divergence from the original make up of the portfolio to further aid comparability on metrics (see page 41).

Investee engagement

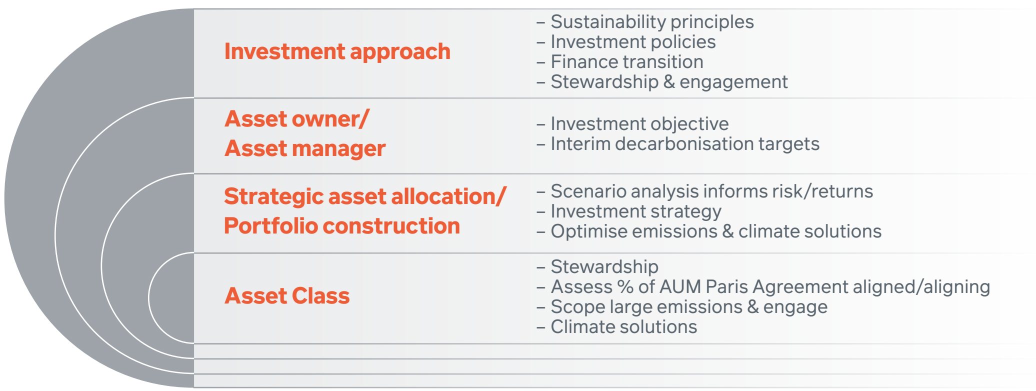
Central to our Net Zero Investment Framework are our dedicated Climate Hotlist and thermal coal engagement programmes to encourage investee companies to adopt science based emissions targets and publish credible transition plans to achieve these. We also work through the Climate Action 100+ programme (CA100+) of leading institutional investors to engage collectively with major emitters. You can read more about our work with CA100+ on page 27.

Real Estate

As signatories to the UK Better Buildings Partnership's (BBP) Climate Change Commitment initiative our 2050 target includes operational emissions: Scope 1, 2 and 3 (including whole building emissions associated with our tenants' activities) and embodied carbon emissions from developments, refurbishments and fit-out works. Real estate assets will also be incorporated into our future interim targets as detailed above.

We were also the first chair of the BBP's Net Zero working group which has aimed to set standards and share guidance amongst the BBPs membership and wider industry on delivering net zero carbon.

Overview of the Net Zero Investment Framework



1 Develop our pathway to net zero 2050

Supporting clients

We are committed to supporting our clients to make informed climate decisions and increasing the number and proportion of those committed to net zero 2050 and interim portfolio target setting, which will in turn enable us to meet our net zero targets.

A number of our segregated clients have set or are setting net zero commitments for their assets at scheme level, and we are working with them to achieve this for their mandates. A growing number of wholesale bank distribution partners are joining the Net Zero Banking Alliance which we expect to feed through into future requests.

Coal

In March 2021, we set out our Position on Thermal Coal investments. It is informed by our purpose and aligned to climate science and the delivery of our 2050 net zero carbon investment commitment across our asset owner and asset manager businesses.

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Scenario analysis

Over the past year we have significantly enhanced our scenario modelling capabilities with the appointment of industry-leading third parties, Baringa Partners and Marsh, to undertake asset and counterparty level climate scenario analysis.

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Bank of England Climate Biennial Exploratory Scenario Exercise (CBES)

In 2021, we participated in the Bank of England's CBES exercise which explored how the values of our assets and liabilities might be impacted by the transition and physical risks emerging across three different climate pathways over a 30-year time horizon.

In conducting this exercise, we used our existing in-house macroeconomic climate scenario model and the equities and bond model output from the scenario analysis conducted by Baringa Partners. We then further incorporated consideration of impacts on non-market risk factors, in particular lapses, expenses and longevity.

We also considered a number of climate scenarios, consistent with the CBES scenarios, as part of our Own Risk and Solvency Assessment (ORSA) process.

The scenario analysis results demonstrated that due to our strong capital position, the M&G balance sheet remains resilient under each of the climate scenarios considered. Nonetheless, we hope the management actions we are taking as part of our sustainability strategy, in particular counterparty engagement and stewardship, reducing exposures to contentious carbon assets, identifying and investing in climate solutions and improving our research and analysis capability, should mitigate the financial risks of climate change and improve balance sheet resilience further.

The Bank of England's published findings are largely in line with our own view that scenario modelling is a useful, if imperfect, tool and more work needs to be done to develop modelling capabilities and improve data sources.

These exercises have provided us with an initial overview of our climate risk exposures across asset classes, geographies and sectors, and potential management actions that could be taken in advance of or in response to climate risks materialising.

We intend to develop our scenario modelling capability further, while also working to address identified limitations in the work conducted to date, to ensure that climate scenario modelling can play an ever increasing role in the decision making process.

We hope to achieve this by:

- Iteratively enhancing our scenario analysis modelling, including extension of the model to other asset classes, development of our own bespoke climate scenarios, and a focus on our most at-risk physical assets.
- Embedding the assessment of climate risk exposure and impact into the investment decision-making process.
- Improving data completeness and robustness through identification of additional data sources.

How we will measure our progress

- We will continually monitor our progress to net zero through tracking and monitoring of performance against our interim targets.

Next steps

- Publishing interim net zero targets for our asset owner, which will incorporate and build on the commitments made by the asset manager in 2021.
- Working to add £10 billion of real estate investments managed on behalf of the asset owner to our Net Zero Asset Manager Initiative interim targets.
- Implementing our thermal coal investment policy.
- Integration of the NZIF and output from our climate scenario modelling into analysis and platforms across our investment teams, aiding integration into decision-making.
- Working to expand science based targets across our investments using the Net Zero Investment Framework methodologies where methodologies for asset classes exist.
- Continuing to develop new tools and approaches for integrating sustainability considerations in private assets, such as ABS.
- Continuing our engagement with companies holding thermal coal assets, and with those on our Climate Hotlist.
- Continue to work with expert organisations and initiatives to build our capability and industry knowledge of sustainability issues including climate, nature and biodiversity.

1 Develop our pathway to net zero 2050

Spotlight on Coal

The Inter-Governmental Panel on Climate Change (IPCC) has concluded that to keep global warming under 1.5°C, CO_2 emissions will have to be cut by 45% between 2010 and 2030 and reach net zero by or before 2050. Thermal coal is the single largest source of CO_2 in the power sector and one of the largest contributors to climate change. In order to limit global warming to 1.5°C, the IPCC recommends that combustion of thermal coal needs to be phased out by 2030 in EU and OECD countries and by 2040 (latest) in the rest of the world, with around 80% of the reduction occurring within the next decade.

Expansion of unabated coal power, mining and associated infrastructure is not aligned to this given the typical operational life of a plant is 30 to 40 years, therefore there is no capacity for new coal infrastructure in the 1.5°C carbon budget.

Our coal position

Coal is a priority in our climate planning because of its material impact on the environment and because it represents a prominent stranded asset risk in the transition to net zero. Our position, as set out in March 2021, is to phase out investment in thermal coal by 2030 for OECD and EU countries and 2040 for developing countries: a forward-looking approach to enable real world, positive change, recognising that the financial sector has a pivotal role in financing a just transition.

Following the release of this position we engaged with a large number of clients and customers before adoption of our Thermal Coal Investment Policy in April 2022, which defines how we will take action and is now being implemented by our asset manager. We have also placed restrictions on coal-related investments, detailed in our coal position, which you can read in full here:

Read more
www.mandgplc.com

In summary:

- We seek credible public disclosures and 2030/2040 phase-out plans for coal from our investee companies.
- We prioritize engagement to influence companies to adopt credible coal phase-out plans.
- If companies cannot or will not do so, we will divest.

In setting a later target year for coal phase-out in developing countries, we are recognising that the effects of climate change, and of addressing climate change, should not be disproportionately borne by the poorest. We believe in a just transition where the costs and benefits of the transition to a lower carbon, more sustainable economy should be shared fairly between generations, communities and regions.

Our asset owner business first considered certain thermal coal divestments in 2020, resulting in c£400million of exclusions across our shareholder annuity and with-profits funds, the majority of which were implemented by the end of 2021. Since then the asset owner has updated its coal exclusions to align with the Thermal Coal Investment Policy, with further divestments taking place throughout 2022.

We encourage companies to define coal phase out plans that include:

- The deadline for closure of each individual facility needs to be specified in coal phase-out plans, to ensure that workers, communities and governments are informed of the timeframes by which just transition plans must be adopted to support plant decommissioning.
- Commitments to comprehensive and early assessment of local and regional economic implications, needs, and opportunities, as well as explicit transition planning at the plant and mine level.
- Plans for environmental clean-up and commitments to assist workers with retirement, training, and transition assistance.

A net zero commitment or a science-based target is not an acceptable substitute for a credible coal phase-out plan.

Our engagement plan

As an active investment manager we engage proactively with our investee companies, with a targeted engagement programme to support our thermal coal policy. Engagement is crucial as simply divesting is highly unlikely to achieve the necessary real world changes required for a Paris Agreement aligned carbon budget. Under our policy we have taken responsibility to engage with 18 investee companies to influence them to shut down their coal earlier than planned, rather than immediately divesting. These companies, accounting for 470 million tonnes of the world's Scope 1 & 2 CO_2e emissions (around 350,000 tonnes per annum of our financed carbon emissions), are now subject to time-bound engagement with clearly defined objectives to improve and align their transition plans.

However, with temporary exceptions such as these, if companies do not deliver expectations in the time period they will be subject to divestment.

Engagement action: Origin Energy

Objective: To ask Australian energy company Origin to publicly announce, by March 2022, that it will be shutting down coal by 2030.

Action: M&G met with the company to explain our coal policy and to make our request known.

Outcome: At the time of engagement, Origin's public target to exit coal-fired generation was by 2032. Since then, the company has informed the market that it proposed to accelerate its exit from coal-fired generation, and is intending to retire the Eraring Power Station from 2025. As more renewables come into the market, the economics of coal-fired baseload generation will become increasingly challenged. Regulations in Australia require 42 months' notice to close a plant, and Origin intends on placing battery storage on the site. The company is currently working through how closing the single largest power-generating unit in the country will be replaced with adequate capacity, and we will continue to monitor the situation. Further, the company is committed to updating its emissions reductions targets consistent with a 1.5°C pathway

Further detail on our coal engagements during 2021 can be found in the M&G Investments 2021 Annual Stewardship report.

Read more
2021 Annual Stewardship report

2 Integrate ESG into our investments and accelerate engagement

Principles of ESG integration across our business

ESG integration recognises both our role as stewards of our clients' assets and our role in responsibly allocating, managing and providing oversight of capital to create long-term value for clients and beneficiaries. The intended outcome of these roles is to deliver benefits for our clients, the economy, society and the environment. Across our business, we subscribe to the UN PRI-endorsed definition of ESG integration as being the explicit and systematic inclusion of ESG factors in investment analysis and investment decisions. Our implementation of these principles rests on three pillars:

1. Integration of ESG issues into investment research.
2. Integration of ESG issues into investment decision-making and portfolio construction.
3. Portfolio construction, overseen through periodic ESG portfolio reviews.

The following pages set out how we aim to do this across our business considering our role as an asset owner and an asset manager, and within our real estate and infracapital businesses.

Why integration matters

We believe that holistic, fundamental, forward-looking analysis which integrates financial and non-financial factors...

Holistic research

...drives informed investment decision-making and better outcomes

Better outcomes

We believe that well-governed businesses, run in a sustainable way, can deliver more resilient returns for investors...

Resilient returns

...and that harnessing our strong relationships to influence decision-making and foster best practice can bring about change

Driving change

ESG integration driving sustainable and financial outcomes

2 Integrate ESG into our investments and accelerate engagement

Asset Owner

Why this matters

As an asset owner, sustainability is a key part of our decision-making. Our belief is that businesses and behaviours that reflect ESG best practices, including proper consideration of climate related risk and opportunities, are better positioned to deliver sustainable success over time horizons that meet the needs of our savers and policyholders.

What we have achieved so far

Engagement as an asset owner

We aim to invest in ways that promote our values and group-wide ESG principles, in line with our own ESG investment principles (as defined within our asset owner's ESG Investment Policy set out on page 22), and to actively steer our investee companies towards more sustainable practices. To do this, we rely on our investment managers to actively engage with our investee companies on our behalf and to protect and enhance the long-term value of our assets, whilst assessing their engagement processes and ensuring they comply with the standards set out in the Shareholder Rights Directive II (SRDII) and the UK Stewardship Code. However, we recognise that we cannot always effect the change we wish to see and there are certain behaviours with which we do not wish to be associated. In such instances, we may exclude a particular company from the portfolio in question.

Use of asset managers

This year we are instructing our asset managers to implement a thermal coal investment policy in line with M&G plc's public position, to phase out of thermal coal across our investment portfolios by 2030 for companies in developed markets and by 2040 for companies in developing markets, a process which has already begun. We may also employ techniques such as portfolio exclusion (e.g. companies deemed to be in breach of the United Nations Global Compact Principles on the environment), and encourage engagement from our asset managers with companies we invest in to change their behaviour to reduce their exposures to climate risk.

Investment strategies that integrate ESG considerations

We have introduced certain investment strategies that integrate ESG considerations directly into our asset owner portfolios. For example, our With-Profits Fund has invested into the M&G Catalyst investment strategy, as part of our alternatives portfolio. In Catalyst, climate and sustainability risk considerations are reflected directly in investment selection. Where climate risk is a primary consideration, the portfolio manager invests in companies that explicitly reduce emissions or operate business models that are zero or low emissions, such as an urban transportation business that offers scooters for rental via app.

Mandate focus

On the private assets side, our £5 billion Catalyst mandate from the With-Profits Fund deployed over £650 million in sustainability-focused private investments by the end of 2021, with a further £633 million committed, to be deployed as soon as possible depending on market conditions. These include investments in carbon-neutral transport, carbon capture and storage, and climate positive thermoplastics.

How we will measure our progress

- Our asset managers are monitored in terms of success of engagement according to their individual engagement methodologies and processes, but a key success metric is whether or not the manager's engagements result in real world positive change in investee company behaviours.
- Engagement is a multi-year process, and success may come after a number of years where little progress appears to be made. We consider each manager's key engagements on an individual basis.
- We align our engagement strategy with the requirements of the UK Stewardship Code.

Next steps

- We intend to bring more consistency to the engagement data produced by the managers that we have appointed.
- We intend our managers to give us engagement data that are specific to the portfolios that they manage for us.
- We intend our managers to give us better narrative on key engagements within their investment mandates, particularly those that align with our key business priorities.
- We intend our managers to measure and report success according to real-world changes in company behaviour, rather than by measuring engagement activity.

2 Integrate ESG into our investments and accelerate engagement

One M&G

Cutting carbon emissions and reducing fuel bills

One of the most exciting recent investments made on behalf of the Prudential With-Profits Fund this year is in Greencore Construction, an innovative UK company building ultra-energy efficient homes which also have a negative carbon footprint, locking up more carbon than they emit in both construction and operation.

The investment, which was made through M&G's Catalyst early stage private assets strategy, will enable Greencore to scale-up nationwide and build more high quality climate positive homes, supported by an additional pledge of up to £500 million in co-development funds from M&G's real estate investment team.

2 Integrate ESG into our investments and accelerate engagement

Asset Manager

Why this matters

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 customer.

We are active investors and believe in active management, preferring stock selection, engagement and voting (where relevant) over exclusion. Our aim is to invest in the solution not the problem, therefore as a responsible investor we seek to support companies transitioning towards the creation of a more sustainable economy. Consequently we aim to ensure ESG issues are integrated into company research and portfolio decisions, where possible.

What we have achieved so far

Sustainable Finance Disclosures Regulation (SFDR)

To reflect the new EU SFDR effective from March 2021 and January 2023, we have launched new funds within our product framework, including our Planet+ range of funds, and transitioned existing funds from Article 6 (funds which do not integrate any kind of sustainability into the investment process) to Article 8 (where a financial product promotes environmental or social characteristics) or Article 9 (where a financial product has sustainable investment as its objective). So far 10 funds have transitioned, with more expected to transition in Q4 2022 and 2023.

More information on our Planet+ range
Page 20

Proprietary ESG tools

During 2021, we have continued to develop our suite of internal ESG tools, which are now used by investment teams across asset classes. We have developed an ESG Portfolio Analytics Tool that allows fund managers to analyse and screen portfolios using both internally produced ESG research, such as our ESG scorecards, and information from external data providers. It provides daily ESG analytics and insights for over 400 portfolios and benchmarks across Equity, Fixed Income, Converts and Multi Asset by combining a number of internal and external data points to provide a holistic portfolio view.

It also integrates internal scorecard research data, internal company engagement data, internal coal policy overlays and portfolio/security screening data taken from our internal proprietary screen tool. In addition to this the tool intergrates 60 core ESG metrics from external vendors including MSCI, SBTi, CDP, FTSE, Refinitiv Financial Solutions and ISS.

All ESG data points are provided at security/issuer level and are further combined with non-ESG data points (sectors, risk analytics, fundamentals, security static) allowing for completely customisable aggregation and subsequent drilldown.

The Portfolio Analytics Tool sits alongside our other proprietary ESG applications which include our Scorecard App and ESG Dashboard. Together, these bring a consistent framework to how we plan to integrate ESG considerations, capturing our approach of rigour, judgement and perspective and embed them at each stage of our investment process.

Private assets

In order guide our transition towards net zero, we need to be able to assess and monitor portfolio level carbon emissions closely. As major investors in private assets, this is a particular challenge because private companies generally do not disclose detailed financial and environmental data. To help address this problem, in 2021 we built the “Carbonator” tool that combines multiple machine learning models based on the business features and reported emissions of public listed companies to estimate Scope 1 & 2 emissions for a variety of asset types such as leveraged loans, CLO, Social Housing, Ground Rents and RMBS. Armed with this information, our analysts can compare the estimates against the relevant peer group and use the results as a basis for climate engagement with an investee company. This helps with research, decision-making and provides a basis for climate engagement with target companies.

Climate hot list

Climate change is a central focus of our top-down engagement programme for investee companies, focusing on strategy, disclosure, goals and targets to achieve decarbonisation. We maintain a targeted engagement “hot list” of 100 companies based on highest emissions and largest M&G Investments-wide exposure. This was updated during 2021, resulting in 24 new names joining the list. For each company, we devise a specific engagement strategy with clear objectives, key performance indicators to determine progress to delivery, and a timetable for engagement. Overall, we expect companies to commit to reaching net zero in line with the Paris Agreement, with science based targets and to provide credible climate transition plans.

How we will measure our progress

- Our portfolio analytics tool will enable us to measure our progress in integrating ESG factors into our investment on a fund level against our peers and industry averages.
- We will measure the impact of engagements undertaken by benchmarking progress against objectives set across both Public and Private assets.
- The estimated emissions data generated by the Carbonator tool will be continually reviewed against any new information published to market, to measure accuracy and completeness. The accuracy of this data is what will drive our research and decision-making in private assets.

Next steps

- We are continuing our engagements around emissions exposure, to understand and advocate for improvements to climate transition plans and where possible using our vote to encourage alignment to Paris goals on climate change.
- We will transition further funds to Article 8 and 9, and prepare for Level 2 SFDR disclosures in January 2023.
- We continue to build out and enhance our proprietary toolkit, expanding their application and capability.
- We are developing new methodologies for estimating private asset emissions data.

2 Integrate ESG into our investments and accelerate engagement

Real estate

Why this matters

We take a long term, active approach to investing in property. Responsible investing is a key aspect of this and we aspire to creating and managing exceptional places that enrich the lives of people and communities to deliver long-term value for our investors, society and the environment.

Through our ESG strategy for our real estate portfolio, our long-term aim is to deliver:

Environmental excellence – Meet net zero carbon targets, drive environmental improvements, independently certify performance, future-proof our assets.

Social benefit – Our assets should seek to deliver positive social outcomes for our occupiers, local communities and wider society.

Good Governance – Strong governance and accountability in relation to our ESG strategy through robust implementation and reporting of performance.

What we have achieved so far

Enhanced ESG data management capability

M&G Real Estate have invested in a sector leading data and performance management system, SIERA, managed by an external specialist real estate consultant. We mobilise all managed assets under this system to support ESG data collection. This enables the business to understand assets' individual impacts on the ESG performance of the portfolio, so that appropriate actions can be taken where required. Key metrics measured at an individual asset and portfolio level include energy, greenhouse gas emissions, water, waste and social (people reached and events held) performance data.

External validation

We submit our fund data to the Global Real Estate Sustainability Benchmark (GRESB) on an annual basis to understand our performance against ESG best practice and our peers. We are pleased to report that, as at December 2021, £25.3 billion of AUM achieved a GRESB 4 rating or above, with three funds achieving the highest 5 star rating.

Embedding net zero carbon and climate resilience

We have been enhancing our approach to addressing climate-related risks and opportunities by working towards embedding climate into our investment decision-making processes.

Our focus areas in the past year have been to:

- Develop a bespoke net zero pathway for each fund under management. We have completed significant technical studies on the carbon and energy performance of some of our largest real estate funds to identify 'at risk' assets as well as estimate the cost involved in reaching net zero. These findings are fed into the establishment of interim targets, ensuring we achieve our commitment to net zero carbon by 2050.
- Appoint a physical climate-related risk modelling provider to support us in screening our global portfolio for exposure to a range of climate-related impacts including flooding and storm damage.
- Strengthen our ESG due diligence requirements to include greater consideration of climate-related risks affecting real estate assets. By integrating the review of these issues at the point of investment, the financial cost of maintaining climate resilience can be better understood and managed through the holding period. Challenges do exist in integrating these requirements, for example, there is not an agreed market definition of net zero carbon.

Delivering future proofed assets

We have recently launched the M&G Sustainable Development and Refurbishment framework for European commercial and residential development. The framework sets new minimum ESG build and practice standards as well as sector leading targets in individual markets. It is a critical tool in ensuring that our investment teams can engage with third party vendors and developers on ESG issues to deliver best in class assets.

How we will measure our progress

- We will continue to monitor the ESG performance of underlying assets through use of the SIERA platform.
- We will report aggregated performance in annual investor reports in accordance with relevant standards such as TCFD and the European Association for Investors in Non-Listed Real Estate Vehicles (INREV) sustainability reporting guidelines.
- The real estate investment committees will review fund performance against their respective ESG objectives on, at least, a bi-annual basis, as well as reviewing ESG performance of acquisitions. Ongoing quarterly review of performance is conducted by the real estate ESG team and Fund Managers.

Next steps

- We will continue to enhance our understanding of climate-related risk and opportunity within our real estate portfolios, working towards embedding climate into our investment processes to ensure our portfolio is resilient.
- We will continue to invest in the development of new buildings with sector leading environmental and social credentials, and we will aim to improve existing buildings through targeted investment. We will measure progress through use of recognised green building certification schemes, with an aim for at least 50% of our portfolio to hold certification by 2025 and 90% by 2030.
- We will publish our finalised M&G Real Estate ESG investment policy later this year.

2 Integrate ESG into our investments and accelerate engagement

Infrastructure equity

Why this matters

Infracapital is our private infrastructure equity business, investing to build businesses that provide essential, sustainable infrastructure across Europe. As long-term investors, providing essential sustainable infrastructure services to society, we have both the opportunity and the responsibility to make economic growth more inclusive and sustainable. In the decade of action, we are proud that our investments not only directly address the UN Sustainable Development Goal 9: Industry, Innovation and infrastructure, but play their own role in supporting many others.

We have a fiduciary duty to our investors to manage capital responsibly and believe that long-term value can be achieved through sustainable growth and, as such, are committed to integrating ESG across the full lifecycle of our funds.

Within our Infracapital ESG management system there are four key pillars:

- Investment strategy to deliver environmental, social and economic value.
- Investment appraisal to identify the key ESG risks and opportunities.
- Active asset management to build and manage businesses committed to sustainability.
- Monitoring and oversight to track our performance over time.

We seek controlling or significant minority stakes in our investee companies to enable an active asset management approach. We also work closely with the management teams of investee companies to ensure effective management of ESG issues and strong governance.

What we have achieved so far

We have set 10 Core ESG areas of focus:

- Impact
- Environmental policies & action
- Climate impact
- Waste management
- People diversity
- Employee well-being
- Stakeholder engagement data
- Cybersecurity
- Assignment of responsibility
- Culture

We engage with each of our investees across these 10 Core ESG Areas, driven by materiality. Most recently, we launched a workshop series centred on sustainable supply chain management and undertook a review of the data & cybersecurity practices across all portfolio companies.

We require quarterly reporting on our 10 Core ESG Areas of Focus and more comprehensive reporting on an annual basis across a wider set of ESG metrics. This allows us to track performance and identify risks and opportunity areas to further drive value.

During 2021, we implemented the following initiatives to drive implementation across our two strategic priority areas: Climate Impact & Diversity, Equity and Inclusion.

Climate impact

We see the climate agenda as both a driver of risk and of vast opportunity. As long-term investors we have the power to mobilise capital to accelerate the transition to a greener, cleaner economy.

As part of our active asset management approach, we seek to ensure that all companies have an environmental policy, measure their carbon footprint, and specifically are able to evidence initiatives to reduce their climate impact.

In order to map our journey to net zero we need an accurate picture of the emissions across our portfolio. During 2021, we engaged an external sustainability consultant to establish and enhance greenhouse gas emissions reporting across each of our portfolio companies in line with the Greenhouse Gas (GHG) protocol.

Diversity, equity and inclusion

We are committed to being diverse and inclusive both as a business and as an investor. During the last year we have implemented an enhanced recruitment policy, ensuring that all shortlists align to our aspirations relating to gender, minority ethnic and socioeconomic diversity. We have also committed to year-on-year improvement in the diversity of the management teams and wider workforce of our portfolio companies. Our diversity, equity & inclusion working group continues to drive this agenda forward, supported by senior management, and we look forward to further initiatives in the pipeline including training days, student outreach programmes and advancing retention policies.

In 2019, we founded the Infrastructure Industry Foundation (IIF) to unite the industry to donate funds to worthy charitable causes. Conceived in response to the tragic diagnosis of one of our colleagues, the IIF raised over £200,000 to fund life-saving research into a rare and vicious form of cancer Adenoid Cystic Carcinoma. During 2021, we have worked alongside the IIF in the development of the next fundraising initiative: social mobility.

The IIF's ambition is to create an overarching global social mobility programme, to foster a more diverse and inclusive workforce within the private infrastructure industry as well as the industries in which we invest. We are proud to celebrate that the IIF's second fundraising event took place in April 2022 raising c£480,000 in support of this initiative.

How we will measure our progress

- KPIs across our core ESG focus areas are collected on a quarterly basis in addition to a more detailed template annually.
- An integral part of our ESG commitments is transparency with our investors, and we share the outputs of such reporting in our dedicated Annual ESG Report in addition to Quarterly Manager's Reports, where material.

Next steps

- We will continue to enhance our understanding of the climate-related risk and opportunity within our portfolios, working towards embedding climate risk scenario analysis into the investment process to ensure our portfolio is resilient and aligns to our net zero aspirations.
- We will continue to invest in the energy transition sector, actively supporting the decarbonisation agenda, facilitating growth of sustainable energy-related infrastructure.
- We will enhance the quantitative ESG reporting we provide to our investors, aligning with market standards such as GRESB and EU regulation.

3 Grow our Planet+ fund range

Why this matters

ESG factors are becoming important investment criteria for both retail customers and institutional clients, leading to a significant increase in demand for responsible and sustainable investments.

While a large majority of our actively managed funds integrate environmental, social and governance factors in investment analysis and decision-making, this range of solutions goes further: to help people who specifically want sustainable long-term financial returns and those who also want to use their money to make a positive difference to the environment and society. Our range of Planet+ funds have been built by our asset manager business with two clear aims in mind – to deliver long-term financial returns for our customers and to contribute towards a better future for society and the planet. Within the range, there are both sustainable and impact funds to choose from, both aiming for long-term financial returns while achieving something better.

One of the stand-out achievements in 2021 has been the growth in our range of Planet+ sustainability-focused investment products to 20 funds, covering a wide variety of themes and asset classes. Some of these are brand new strategies, such as the M&G Better Health Solutions Fund, while others have been part of our ongoing programme to convert our SICAV fund range to become Sustainable Finance Disclosure Regulation SFDR Article 8 and 9-classified.

M&G Investments ESG product framework as at April 2022

In 2021 we grew our Planet+ range of sustainably-focused products to 20, with c.£5 billion in AUMA. These offer customers a wide choice of ESG-screened, sustainable and impact strategies across different asset classes and themes.

Impact Funds

- Positive Impact Fund
- Climate Solutions Fund
- Impact Financing Fund
- Better Health Solutions Fund

Sustainable Funds

- Global Select Fund
- Pan European Select Fund
- Global Listed Infrastructure Fund

Sustainable Allocation Funds

- Sustainable Multi Asset Range (Balanced)
- Sustainable Multi Asset Range (Cautious)
- Sustainable Multi Asset Range (Growth)
- Sustainable Loan Fund
- Diversity and Inclusion Fund
- Sustainable Emerging Markets Corporate Bond Fund
- Sustainable Global High Yield Bond Fund
- Sustainable European Credit Investment Fund
- Sustainable Optimal Income Bond Fund
- Sustainable Total Return Credit Investment Fund
- Sustainable Macro Flexible Credit Fund

ESG Enhanced Funds

- Global High Yield ESG Fund

What we have achieved so far

New Planet+ products

As part of our commitment to grow our range of sustainability oriented strategies we have launched new Sustainable products to meet the needs of our clients in different markets. An example of this is a bespoke emerging market solution we have developed in conjunction with BlackRock. This passive investment strategy provides both strong ESG benefits and a tracking error to the parent index (MSCI Emerging Markets) that investors would expect.

Working within M&G we have created a number of bespoke solutions that enhance the funds' capability. One such solution launched in 2021 is M&G Better Health Solutions Fund. This thematic fund takes a more holistic approach to health beyond the traditional bio-tech and pharmaceutical funds in the healthcare space. This broader approach of investing in companies that more generally promote a healthier lifestyle is not only more consistent with the fund's societal objective but also provides diversification benefits to the asset manager.

Finally, we continued to work with our Investment teams to consider the transition of strategies across asset classes to incorporate ESG components and move strategies along the sustainability pathway. For example, we have incorporated explicit Paris agreement aligned objectives into the terms of some of our equity funds.

Read more
Page 21

PruFund Planet

In July 2021 our asset owner business launched PruFund Planet, a version of our market leading PruFund range of funds which offers smoothed investment returns as well as the opportunity to make a difference to the environment and society.

The five PruFund Planet funds, each with a different risk profile, aim to achieve a total return from income and capital over the medium to long term (at least 5-10 years), while also aiming to deliver specific sustainability outcomes.

PruFund Planet's approach

Responsible investment
Aiming to avoid doing harm by excluding controversial weapons, tobacco, coal mining and gambling.

Impact investment
Aiming to make a positive impact by investing to achieve specific and measurable social and environmental outcomes, as well as generating financial returns.

3 Grow our Planet+ fund range

The PruFund Planet funds invest across our spectrum of positive outcomes; from clean technology and renewable energy to social enterprise, with three categories of outcome:

1. Mitigating environmental, social and governance risks and minimising negative outcomes.
2. Pursuing ESG opportunities.
3. Investing in positive outcomes for disadvantaged groups or stakeholders.

Over the past year we have continued to develop solutions within M&G and with external partners to enhance the PruFund Planet range. Working alongside our internal asset manager we have created a number of bespoke solutions that enhance the funds' capability. Such solutions may then be included as part of PruFund Planet's investment strategy.

Looking ahead we will continue to develop propositions that are genuinely differentiating in the market and that enhance the credibility of our PruFund Planet product.

How we will measure our progress

- We will measure progress to this goal with the year-on-year growth of assets under management in Planet+ products.
- We will also begin to measure our growth in PruFund Planet, looking at year-on-year assets under management within the PruFund planet range.

Next steps

- Work is already well advanced to assess migration of strategies to incorporate further ESG criteria in the investment process to deliver enhanced sustainability outcomes for our clients and customers.
- Attracting more assets under management in the Planet+ range.
- We are continuing our work to convert more SICAV funds to SFDR Article 8 and 9 funds in 2022 and 2023.

One M&G

Aligning assets with a 1.5°C pathway

In 2021, M&G moved over £1 billion of retail assets under management to align with the goals of the Paris Agreement on Climate Change, which include limiting global warming to 1.5 degrees.

The M&G Global Sustain Paris Aligned Fund, M&G (Lux) Global Sustain Paris Aligned Fund, M&G European Sustain Paris Aligned Fund, and M&G (Lux) European Sustain Paris Aligned Fund, part of M&G's Planet+ range, now include a Paris-aligned sustainability objective alongside the existing financial objectives they aim to deliver for customers, and new climate-related criteria for inclusion in their portfolios.

Growing assets under management in the Planet+ range of ESG enhanced, sustainable and impact funds is a key goal for us, which we're delivering on by making changes to existing funds, launching sustainably-focused versions of current funds and developing brand new sustainably-focused strategies.

4 Set standards in sustainability and ESG policies

Why this matters

As an international business our approach to sustainability is to identify forward-looking pragmatic actions that deliver real-world positive change. We acknowledge this is a challenge, especially in implementing formal policies and that at times this means taking difficult decisions to objectively balance delivery of financial returns, actions to address climate change, protecting biodiversity, restore natural capital and to ensure a just transition worldwide. Sustainability goods and initiatives have a real value which may ultimately affect asset prices in the future.

What we have achieved so far

ESG Investment Policy

In early 2022 we began implementing the M&G plc Asset Owner ESG Investment Policy. This sets out the ESG investment principles which we use to inform and guide any ESG investment practice, reflect our purpose and values of care and integrity.

Our Asset Manager ESG Investment Policy came into effect on 1 January 2022 across our asset management operations excluding M&G Southern Africa. The policy sets out how ESG should be integrated into the investment process across all asset classes including private and alternative assets. The ESG investment principles cascade from the Group sustainability principles and priorities set out on page 3. The policy frames our stewardship capabilities and sets out the exclusion and divestment criteria, and functions as the top level policy from which stem all other asset manager ESG policies, including the thermal coal investment policy. You can read the full policy on our website.

Read more
www.mandgplc.com

Thermal coal policy

Last year we published our position on thermal coal investments which covers the whole coal value chain and applies a forward-looking approach to support a just energy transition.

This position came into effect with the implementation of a formal Thermal Coal Investment Policy for our asset management business from April 2022. In the build up to this we undertook a full analysis of our holdings to understand which coal-related positions fall foul of the exclusion policy.

The policy, which you can read in full on our website, is now a key building block in our net zero investment framework.

The asset owner has since updated its own coal exclusions in alignment with the policy, and that of the Powering Past Coal Alliance. Under the Thermal Coal Investment Policy, further divestments will take place from 2022.

Read more
Page 13 and at www.madgplc.com

Biodiversity and Just Transition

Since our last Sustainability Report, we have published a position on biodiversity: acknowledging its significance for planetary sustainability and setting out our approach to support biodiversity through our role as an asset manager, an asset owner and a business.

We are a member of the Taskforce on Nature-related Financial Disclosures (TNFD) Forum, supporting the development of investment decision-useful disclosures on nature. We are also working with the Carbon Disclosure Project (CDP) supporting development of its water questionnaire. This will help improve investor access to decision-useful water data and enable investors to better manage water risk.

We have also published our position on a just transition to enable the global economy and society to transition to operating within the earth's resource boundaries in a way in which the costs and benefits are shared fairly between generations, communities and regions.

Supplier Code of Conduct

As part of our commitment under the UN Global Compact we have updated our Supplier Code of Conduct to ensure direct and indirect environmental impacts associated with goods and services are understood, measured and managed. In addition to this, all of our supply chain decisions that involve a market assessment now include environmental factors as part of the decision-making criteria. Revisions have also been made to our Supplier Code of Conduct to emphasise our expectations around Modern Slavery and Human Rights.

You can read more about the policies and standards helping us to manage our business in a sustainable way.

Read more
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How we will measure our progress

- We will continue to benchmark our policies against best practice standards and peers through our participation in CDP, UN PRI and other voluntary disclosures, as well as our regulatory TCFD and SFDR disclosures.

Next steps

- We will continue to work to implement our thermal coal investment policy across our own funds, and those managed on behalf of third parties, working in partnership with our clients to support the transition to net zero.
- We will develop thematic investment policies to help address natural capital degradation and support societal well-being.
- We will continue our collaboration with CDP on water security and holistic water transition issues.

5 Set standards in disclosure and measurement

Why this matters

Changing market expectations and increasing regulatory requirements indicate that the transparency and accuracy of sustainability-related reporting is increasingly important. As investors, we know that more consistent, complete, comparable and verifiable sustainability disclosures make for better decision-making. That is why our goal is to set standards in the disclosure of sustainability-related data and to form a clear and accurate view of our business, how we compare to industry standards, and whether we are on track to reach our net zero commitments.

What we have achieved so far

Task Force on Climate-related Financial Disclosures (TCFD)

Earlier this year, as part of our 2021 Annual Report and Accounts, we published our second TCFD report, prepared on a basis consistent with the four pillars and eleven recommended disclosures as set out in the Financial Stability Board's Task Force on Climate-Related Financial Disclosures. Our compliance statement and the full disclosures can be reviewed online.

Read more
www.mandgplc.com

CDP

In our third year of reporting as an independent listed business, we achieved a CDP rating of B for the quality of our carbon data disclosure as a business and as an investor. Our rating represents a fall from the previous year but aligns with the average score for the financial services sector as CDP continue to evolve its disclosure and scoring system in response to market needs and the rising urgency of the environmental challenges.

ESG ratings

As a result of the work we have undertaken as a business to improve our ESG-related disclosures we have improved our standings in ESG ratings managed by S&P CSA, Sustainalytics, ISS and Tortoise.

Water use and waste disclosure

in our most recent Annual Report and Accounts, we have disclosed the water used and waste generated by our business. Limited assurance was provided over these metrics by KPMG.

Sustainable Accounting Standards Board (SASB)

In 2021 for the first time, we reported against material SASB framework measures. SASB Standards guide the disclosure of financially material sustainability information by companies to their investors. The Standards identify the subset of ESG issues most relevant to financial performance in each industry. You can read the full SASB report on our website.

Read more
www.mandgplc.com

UN Global Compact's reporting framework

In early 2022 we submitted our annual Communication on Progress (COP) in alignment with the UN Global Compact's reporting framework. This is a voluntary submission which includes a statement by the Chief Executive expressing continued support and commitment to the UN Global Compact, and a description of practical actions the company has taken, or plans to take, to implement the Ten Principles in each of the four areas (human rights, labour, environment, anti-corruption).

Sustainable Finance Disclosure Regulation (SFDR)

We continue to transition many of our existing funds to be sustainably invested, in many cases this means meeting the standards of SFDR Article 8. We made strong progress, with more to come throughout 2022 and 2023. We are publishing SFDR information for all our Article 8 funds so that international customers have transparency on the level of ESG integration.

Value assessment

Delivering value is a key for our asset management business. In July 2021 the M&G Securities Limited Board published its second Value Assessment report, for the year to March 2021. This report provides an objective assessment of the value provided to investors according to a range of criteria, including the quality of service received, whether funds are competitively priced and investment performance. You can read the full report online.

Read more
www.mandgplc.com

Stewardship reporting

As signatories of the UK Stewardship Code, our asset manager publishes an annual stewardship report which sets out what we have done to add value to our investments by active engagement with companies, which is available online.

In 2021 our asset owner joined our asset manager as a signatory to the UK Stewardship Code and published it's first stewardship report, the With-Profits Fund Stewardship Report, in April 2022. You can read the full report online.

Read more
www.mandgplc.com

How we will measure our progress

- We will continue to benchmark ourselves against best practice standards and peers through our participation in CDP, SASB, UNGC, UN PRI and other voluntary disclosures, as well as our regulatory TCFD and SFDR disclosures.
- We will also increase the proportion of our assets under management with published interim net zero targets year-on-year, in line with our commitment as a member of the Net Zero Asset Owner Alliance and Net Zero Asset Managers Initiative.

Next steps

- We will publish interim carbon reduction targets as an asset owner, in line with our commitment as a member of the NZAOA.
- We also plan to continue to publish our annual Communication on Progress (COP) in alignment with the UN Global Compact's reporting framework.
- We will continue to evolve and improve the quality of our TCFD reporting at a product and entity level in advance of June 2023.
- We will work internally and alongside our advisors to support continuing developments and availability of investment sustainability data (particularly in emerging areas such as biodiversity and social equality) in sustainability reporting standards and look to adopt these voluntarily where we see value for our stakeholders.
- We will increase the sustainability metrics published across our mutual fund ranges.

6 Help customers and their advisers understand the opportunities, risks and outcomes of sustainable investing

Why this matters

With an increasing number of customers switching, or considering switching, to sustainability-focused investments, we want to ensure that customers, clients and advisers understand the financial and sustainability-related objectives of our funds; the risks and opportunities associated with them; and the type of investments the funds will and will not make.

We want to help customers and advisers to navigate our fund range: making fund-level information clear and accessible, and making it easier for them to make the right choices based on their own needs and preferences.

What we have achieved so far

From June 2021, we began including carbon data (weighted average carbon intensity, known as WACI) in the fund factsheets for all M&G mutual funds invested in public securities. WACI measures the carbon intensity of businesses rather than total carbon emissions, enabling customers and clients to compare the weighted average carbon intensity of a fund with that of its benchmark.

We have conducted research into ESG disclosure templates to help customers better understand what ESG products aim to do, and into making the ESG sections of fund reports more accessible. We have also conducted extensive research on direct and advised customers' attitudes to sustainable investing, and how advisers can better support their clients' sustainability goals, which is already helping shape our proposition.

In conjunction with the launch of PruFund Planet in July 2021, all M&G Wealth advice partners received additional resources, tools and training to enable them to actively discuss ESG considerations with their clients.

During 2021 and early 2022, we have continued to enhance the ESG and Sustainability Criteria documents to explain how our UK and Luxembourg domiciled products are managed. We have started to add key sustainability indicators to these documents to explain to our clients how ESG and sustainability outcomes our funds seek to deliver will be measured.

In the first quarter of 2022, we published our first Prudential With-Profits Fund Stewardship Report to help customers understand how and where their money is being invested. This covers investments in PruFund Growth, PruFund Cautious, Risk Managed PruFunds, Conventional with-profits policies and accumulating with-profits policies, and is available on our website.

Read more
www.mandgplc.com

How we will measure our progress

- We will continue to engage with our clients and seek advisers and customer councils' feedback on information we provide about the sustainability outcomes offered.
- We will also gather feedback on proposed enhancements to our ESG fund reports to ensure they meet the needs of our customers.
- We will continue to benchmark our fund disclosures against best practice evolving in the market.

Next steps

- Sustainability will feature as a topic on our MyView community panels throughout 2022. This includes an M&G Investments (Direct) panel, a Prudential customer panel and a whole of market adviser panel.
- We will continue to carry out research on our marketing materials to understand the impact of our campaigns on groups with different attitudes to ESG.
- We continue to review our fund related disclosures in line with latest Sustainable Finance regulations and will continue to add metrics and information on sustainability outcomes to fund reports and factsheets, including how sustainability indicators for our Article 8 and 9 SICAV funds have performed over time.
- We are also actively working with the FCA and TISA to improve ESG customer disclosures across the industry.

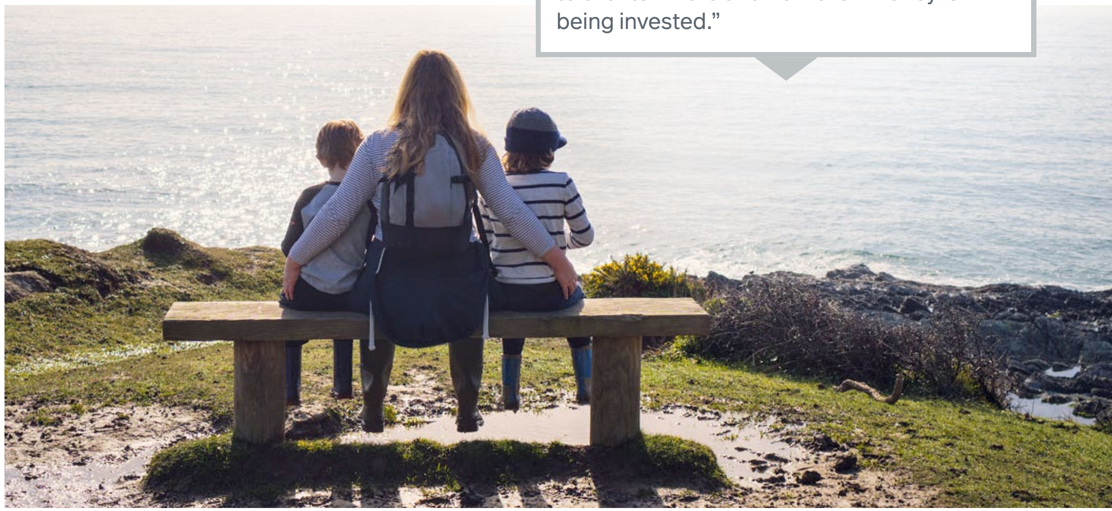
One M&G

Showing our customers how their money is put to work

As customers consider the sustainability of their savings and investments, it's important that we are transparent about how their money is managed.

Our 2021 With-Profits Fund Stewardship Report gives with-profits policyholders and their advisers information about where and in what their money is invested and who is managing it. It gives an insight into some of the specific investments the With-Profits Fund holds in its diverse portfolio, explains how we are managing climate risk, and for the first time provides carbon emissions data for the main pools of assets within the With-Profits Fund.

Dorset-based independent financial adviser, Neil Niven, says: "A brilliant piece of work: very useful in helping to explain to clients where and how their money is being invested."



6 Help customers and their advisers understand the opportunities, risks and outcomes of sustainable investing

One M&G

Investing for good

M&G customer Umesh Raichada from Middlesex has been investing with us for 36 years, using the financial returns to enhance his family's quality of life.

Realising his money can also make a positive difference, Umesh began investing in the M&G Sustainable Multi Asset Balanced Fund in 2019.

"The world is changing; globally there are huge problems with climate change, and food and water shortages.

I'm interested in getting a return on my investment but I feel I need to look after the planet and society too. I want to make sure that the money I invest is going to companies that will make the right impact."

7 Lead collective action to deliver change

Why this matters

We believe that the long-term success of companies is supported by effective investor stewardship and high standards of corporate governance. We believe that if a company is run well, and sustainably, it is more likely to be successful in the long run. As an active investor, we meet with investee companies to add value to the investment process, to increase our understanding, and provide feedback. We also undertake ESG engagement to achieve real world outcomes. We focus on the underlying substance of our engagement, delivery of our engagement objectives and the relevance for our investments when assessing the quality and effectiveness of these activities.

As a large institutional investor, we aim to use our influence to help drive positive change, to encourage decarbonisation of the energy system and increased energy and resource efficiency. We do this both through bilateral and collective engagement with investee companies and by participating in climate and nature-focused industry initiatives. We recognise that effective action to address global warming and decarbonise the economy also depends upon the preservation of nature, the sustainable use of natural resources such as fresh water and a transition to methods of production and consumption that shares the costs and benefits fairly.

What we have achieved so far

Over the course of 2021, we engaged on an array of specific, systemically important environmental and social themes. These included the continuation of our climate engagement programme, which began in 2020, engagement relating to our coal policy, which was effective from April 2022, and engagement related to board diversity at our investee companies. We also increased our activities with collective engagement group Climate Action 100+, and developed our thinking on biodiversity.

Institutional Investors Group on Climate Change (IIGCC)

In 2021 we continued our active participation with the IIGCC, which included attending meetings, seminars and roundtables with the group. These were ultimately to share best practice on approaches to addressing climate change, understand the approaches other organisations were taking, and to help encourage joined up action from across the investment industry. One example of this is our participation in the Net Zero Stewardship Working Group (NZSWG). The NZSWG supports the overall IIGCC programme of initiatives by working on two specific objectives: to develop a functional toolkit that supports investors with stewardship and voting and developing a strong relationship with proxy advisers to ensure they can supply investors with sufficient information to help them deliver net zero at the portfolio level.

One M&G

Rio Tinto climate commitment

M&G is both a shareholder in Rio Tinto, and the co-lead for Climate Action 100+ on engagement with the Australian mining company.

Throughout 2020 and 2021, M&G's Stewardship and Sustainability team met with Rio Tinto as part of the ongoing work to support the company in developing its disclosure for its decarbonisation strategy. M&G has been encouraging management to highlight the efforts they are making to reduce Scope 1 & 2 emissions and disclose the areas of Scope 3 emissions and developments which are possible at this stage.

Following this engagement, Rio Tinto became the first Australian company to commit to a "Say on Climate" vote at its 2022 AGM. It has brought forward its 15% reduction target for Scope 1 & 2 emissions by five years to 2025, while more than tripling its target for 2030 – seeking to reduce its carbon footprint by 50% and setting a net zero target for its operations, including shipping by 2050.

7 Lead collective action to deliver change

Climate Action 100+

Through the course of 2021, we continued to actively participate in CA100+ collective engagement groups. CA100+ is an investor-led initiative to help ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. It is made up, at the time of writing, of 617 global investors who are responsible for more than US$65 trillion in assets under management across 33 markets.

Diversity and inclusion

Diversity & Inclusion (D&I) is one of our primary ESG priorities. Early in 2021, with the end of the five-year review by Hampton Alexander in 2020, our Stewardship & Sustainability team analysed our equity portfolios for laggards in D&I. We then discussed the output with individual investment teams to compile an aggregate engagement list of companies. Over the course of the year we wrote to, or engaged with, 92 companies (35 UK and 57 international companies) that did not meet our minimum criteria.

Powering Past Coal Alliance (PPCA)

In 2021, M&G plc joined PPCA and announced its position on thermal coal. Announcements of positions like this which apply across the group provide a public statement of approach. But positions can only put into effect across investments as investment policy, which for our asset management business, require client consultation and permission.

More information on the implementation of our coal position and policy is available in our spotlight on coal.

Read more
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During the year we also contributed to the PPCA paper on scaling up finance for the just transition beyond coal.

Taskforce on Nature Related Financial Disclosures (TNFD)

We are a member of the TNFD Forum, a group of institutions supporting TNFD's ambition to help shift global financial flows away from nature-negative outcomes and towards nature-positive outcomes. Through this forum we hope to help shape future biodiversity and nature-related measurement and disclosure.

We believe our participation in the TNFD Forum reflects our strong commitment to long-term sustainable investing and integrating consideration of ESG risks and opportunities into investment processes in a robust and thoughtful way.

CDP

We are also collaborating with CDP on water security and holistic water transition issues, which pose global systemic risk and are closely linked to climate change. As part of this work we represented an investor's perspective on water security and holistic water transition issues at COP26 in the Blue Zone Water Pavilion and at the Marrakesh Partnership Global Climate Action Water event. Our film "Water Pressures" outlining our experience as investors in South Africa is available to watch on our website.

International Corporate Governance Network (ICGN)

As an asset manager we are members of the ICGN which advances the highest standards of corporate governance and investor stewardship worldwide in pursuit of long-term value creation, contributing to sustainable economies, societies, and the environment. We are also co-chairing the International Corporate Governance Network's Natural Capital Working Group, a committee focused on governance relating to the natural environment, ecology and biodiversity including climate change and the UN sustainability development goals (SDG)s.

While we support the UN SDGs, we are not associated with the UN and our funds are not endorsed by them.

How we will measure our progress

- Prior to commencing engagements, objectives are clearly set out, with actions and outcomes recorded through the life of the engagement.
- We use a "traffic light" system within our reporting to highlight if an engagement's objective has been achieved, or not, or if the engagement is ongoing.

Next steps

- We will continue our top-down climate engagement programme, both bilaterally and collectively as part of CA100+. Overall, we expect companies to commit to reaching net zero in line with the Paris Agreement, and to provide credible targets and metrics for how they will do so.
- As a member of the TNFD Forum, we will be supporting the development of investment-decision useful nature-related financial disclosures.
- We will continue to work with CDP to help develop improved global water disclosures.
- During 2022 we will be co-chairing an asset management Climate Financial Risk Forum (CFRF) working group, under the remit of the FCA to share best practice on scenario analysis.

8 Develop pathway to net zero 2030 for our business operations

Why this matters

We are acutely aware of the urgency of action required to address climate change. We recognise that all of our corporate activities have an impact and that we need to continue to take action to address these.

Our corporate strategy takes a holistic approach to sustainability with three key themes:

- Our Places looking at how we can reduce our emissions from our offices and travel.
- Our Partnerships focusing on our indirect emissions through our suppliers and service providers.
- Our People and how we can support sustainability among colleagues.

What we have achieved so far

In 2020 we published our 2030 net zero targets for our corporate operations, these are:

- Reducing Scope 1, 2 and 3 (business travel only) carbon emissions for our business operations by 46% (from a 2019 baseline) aligning with the SBTi. We will offset the remaining emissions to achieve net zero. This amounts to a 4.2% reduction year-on-year.
- Engaging with suppliers of capital goods, purchased goods and services which account for at least 67% of our supply chain emissions to understand their plans for net zero alignment and progress on their own science-based climate targets.

In 2021 we have reported a year-on-year 39% reduction in Scope 1+2 carbon emissions and 80% reduction in business travel emissions. However, we are mindful that our operations continued to be impacted by the pandemic with reduced travel and occupancy of buildings.

Nevertheless we have used the opportunity to implement changes such as our new global travel policy and changes to our offices, and anticipate that these changes will support us in maintaining reduced emissions.

Our buildings

Reducing the environmental impact from our office operations continues to be a focus and is key component for our net zero target. That is why we committed to purchase 100% renewable electricity across our operational estate by 2025, where we have operational control. Whilst we were not fully back in our offices during 2021, due to ongoing COVID-19 restrictions, we maintained our momentum to make long lasting changes to reduce our offices environmental impact. As part of our net zero roadmap we are committed to reducing our reliance on fossil fuels to provide power to our offices, and in 2021 98% of our reported electricity consumption was covered by renewable energy generation (74% energy contracts, 24% energy attribute certificates). The remaining 2% could not be covered due to limited availability of green energy in those locations.

We are now including sustainability requirements (green lease clauses, availability of environmental data and commitments to transition to renewable energy contracts) when considering new office spaces, as part of our plan to embed sustainability in our future corporate estate. One example of this is our new offices at Kildean Business Park in Stirling, a replacement for our current Craigforth site. Kildean is expected to be rated 'excellent' by leading sustainability assessors using the Building Research Establishment Assessment Method (BREEAM) standards, – putting its sustainability performance in the top 10% of new, non-domestic, buildings in the UK.

Across our existing offices we are always looking for ways to improve our environmental performance and have successfully extended the scope of our certified ISO14001 environmental management system by adding our Edinburgh office to the certification, and are looking to add further offices in 2022. Other operational improvements have included improving lighting systems in some of our offices and upgrading key IT infrastructure in our office in Mumbai with more energy efficient equipment. In response to our new ways of working we have reconfigured some of our spaces, to help optimise our space and energy usage moving forward. We understand that some energy use and associated carbon emissions is now attributed to people working from home, so in 2021 we continued to off-set these emissions and in early 2021 launched a green energy switching service for those working in the UK.

Throughout 2021 we have worked with our offices to assess their operational environmental performance and identify areas for improvement, including ways to reduce and eliminate the use of single use plastics. In our UK offices, where we have operational control, we have maintained our zero waste to landfill commitment and support other offices to adopt this behaviour. We have also re-used, donated and diverted from landfill furniture items which arose from our office changes in the UK during 2021, this included the donation of desks, chairs and other items to local charities when we refurbished our office in Bath.

Our travel

Business travel continued to be low during 2021, due to ongoing COVID-19 travel restrictions in place. Whilst future travel emissions will likely increase beyond 2021 reported levels (348 tCO_2e), we are committed to making our business travel more sustainable.

This has been a key message of the new Global Business Travel Policy. We aim to reduce travel emissions by holding digitally enabled meetings whenever we can and only travel when necessary. When booking through the online portal of our main Travel Management Company colleagues will be notified of the carbon impact of the travel and which hotels have achieved sustainability accreditations, as well as being made aware of how they can make their trip more sustainable. To provide oversight to the business we have also developed a interactive travel reporting dashboard which provides visibility of the carbon impact for business areas' travel activity.

Our company car scheme and policy has been updated to support the transition of our company fleet to be fully electric by 2026, with all new vehicle selections now being ultra-low emissions vehicles (ULEV) and funding support offered for at home charging units. We have also updated the MyCar, salary sacrifice scheme to increase the number of ULEV vehicles available, supporting people to make sustainable choices.

We have continued to offset emissions linked to business travel, estimated Scope 3 commuting and working from home emissions in 2021. Our off-set strategy currently includes VCS (Verified Carbon Standard) certified carbon off-sets which supports a REDD+ (reducing emissions from deforestation and forest degradation) project in Papua New Guinea, protecting vital rainforest from destruction.

We will continue to offset unavoidable emissions from travel in 2022, whilst focusing on reducing absolute emissions, and therefore our reliance on offsets, across our direct operations.

8 Develop pathway to net zero 2030 for our business operations

Our supply chain

We are engaging with suppliers on science based emissions targets, with an aim to cover a minimum of 67% of our Scope 3 supply chain emissions by 2030. Throughout 2021 we have continued efforts to further understand our supply chain impact, to help us manage and reduce their impact. Our programme of works has included actively engaging with new and existing suppliers on their sustainability journeys. We are speaking with suppliers about their current environmental impact and their plans to reduce that impact aligned with net zero strategies which support the Paris Agreement and adding climate clauses within contracts. In addition we have completed works to assess corporate governance across our material suppliers ensuring that the leadership of our supplier partners are aligned with M&G's own environmental and social values.

Our updated Supplier Code of Conduct requires all suppliers to have clear procedures in place to ensure direct and indirect environmental impacts associated with goods and services are understood, measured and managed.

In addition all of our supply chain decisions that involve a market assessment now include environmental factors as part of the decision-making criteria. To strengthen our approach to managing ESG topics such as Modern Slavery, revisions have been made to our Supplier Code of Conduct to emphasise our expectations around Modern Slavery and Human Rights. We continue to assess our core suppliers to understand Modern Slavery risks and the associated controls.

In 2021 M&G became accredited as a Living Wage employer by the Living Wage Foundation in the UK, with the requirements extending out to our UK-based supply chain. The real living wage is a voluntarily scheme which ensures people are paid above the National Minimum Wage, to enable them to meet their everyday needs.

Next steps

- We will continue to look for opportunities to improve the operational performance of our offices, including the move to our new office in Stirling.
- We will further extend the scope of our ISO14001 certified environmental management system.
- We will focus on improving our understanding of our supply chain carbon emissions and continue working with our suppliers and service providers to achieve our net zero by 2030 target.
- We will continue to look for new ways to support people to choose lower carbon travel.
- We will continue to review our off-setting strategy and aim to select certified projects that support carbon removal and the wider UN SDGs.

One M&G

Sustainability in our events

In 2021 the Events Team launched their Event Sustainability Principles to ensure sustainable good practice was incorporated into all internal and external hosted events. The core messages included taking responsibility and optimising opportunities to provide a positive impact.

Some of the initiatives that will be implemented as we begin holding in person and hybrid events include working with external venues to promote sustainability best practice such as energy and waste management, encouraging delegates to use sustainable transport to access events, reviewing our menus to have a lower carbon impact as well as reducing volumes of food to prevent waste, and utilising technology to reduce reliance on printed materials and signage.

8 Develop pathway to net zero 2030 for our business operations

Greenhouse gas emissions statement

We have compiled our global greenhouse gas (GHG) emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (the 2018 Regulations) implement the government's policy on Streamlined Energy and Carbon Reporting (SECR).

GHG emissions are broken down into three scopes; we have included full reporting for Scope 1&2, and selected Scope 3 reporting as best practice. Scope 1 emissions are our direct emissions from the combustion of fuel, fugitive emissions and company-owned vehicles. Scope 2 emissions cover our indirect emissions from the purchase of electricity (including use of company electrical vehicles), heating and cooling. We have reported our Scope 2 emissions using both the location and market-based methods in line with the GHG Protocol Scope 2 Guidance. Our Scope 3 footprint includes business travel booked through our central travel management company, car travel in colleague owned cars, global water consumption (where data is available) and UK waste generated from our occupied properties with operational control.

We continue to review the extent of our Scope 3 reporting and increase coverage where practicable. Please refer to our Basis of Reporting for further detail on our methodology, which can be found on our website.

		2021		2020		2019	
		UK	**Total**	UK	Total	UK	Total
Scope 1 (tCO_2e)	Natural gas, oil (generators), vehicle fleet, refrigerants	**1,531**	**1,600**[i]	1,455	1,587	1,936	2,127
Scope 2 (tCO_2e) Location based	Electricity, purchased heat and steam	**2,237**	**4,215**[i]	2,208	3,214	4,213	5,849
Scope 2 (tCO_2e) Market based	Electricity, purchased heat and steam	**3**	**168**[i]	189	1,329	105	1,880
Scope 1&2 (tCO_2e)[i]		**1,534**	**1,769**[i]	1,643	2,916	2,041	4,007
Energy	EAC volumes (MWh)	**43**	**3,555**				
	Energy use (MWh)	**17,837**	**21,919**	16,782	19,417	22,941	26,205
	tCO_2e per FTE (Scope 1&2)		**0.31**[i]		0.52		0.74

		2021	2020	2019
Scope 3 (tCO_2e)	Air travel (booked through central travel booker)	**252**[i]	1,281	8,946
	Land travel	**21**[i]	46	127
	Water (global where available data)	**3**[i]	4	11
	Waste (UK only)	**92**[i]	169	365
	Total	**368**[i]	1,501	9,449
	Global Scope 1, 2 and 3 (tCO_2e)[i]	**2,137**[i]	4,416	13,456

Data Notes:

Reporting Period:	1 January 2021 to 31 December 2021
Baseline year:	2019
Independent Assurance:	KPMG has provided limited assurance over selected environmental metrics (as indicated by *) in accordance with "International Standard on Assurance (UK) 3000" – "Assurance Engagement other than Audits or Reviews of Historical Financial Information (ISAE (UK) 3000)" and, in respect of the greenhouse gas emissions, in accordance with "International Standard on Assurance Engagements 3410" – "Assurance Engagement on Greenhouse Gas Statements (ISAE 3410)", issued by the International Auditing and Assurance Standards Board. The assurance statement can be found on our website.
Consolidation (boundary) approach:	Operational Control
Consistency with financial statements:	M&G plc owns and manages assets which are held on its balance sheet in the financial statements over which it does not have operational control due to fund governance structures. These are excluded from the scope of reporting under the operational control approach.
Emission factor:	Scope 1 and 3 reporting uses the UK DEFRA 2021 GHG Conversion Factors. Scope 2 calculations use the IEA GHG 2021 Conversion Factors for location-based reporting. Market-based reporting uses supplier emission factors for our UK REGO-backed supply and RE-DISS factors where available.
Accounting Methodology:	The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, as amended in 2004. UK Government Conversion Factors for GHG, 2021 – for energy conversion from passenger vehicles.
Materiality threshold:	5%
Data Restatements:	2020 data has been re-stated to include updated data. Previously modelled data included a small number of proxied data points. 2019 data has been re-stated to calendar year. Previously disclosed October 2018 to September 2019 in the 2019 annual report.

i When reporting totals market-based emissions are used.

8 Develop pathway to net zero 2030 for our business operations

One M&G

A sustainable future in Stirling

Later in 2022, 1,500 of our colleagues in Scotland will be moving into new offices at Kildean Business Park in Stirling, replacing our current Craigforth site. Supporting our net zero goals, Kildean is on target to be 80% more energy efficient than Craigforth – due to its smaller footprint, more energy efficient design, 100% renewable electricity contract, with no use of gas.

There will be a direct cycle route to the building connecting to nearby Stirling, as well as electric car charging spaces for colleagues.

Enhanced biodiversity of the site and habitat development is being achieved through extensive meadow areas and range of planting, supporting pollinating species, as well as introduction of "Bug Hotels" and "Bumble Bee boxes".

Kildean is expected to be rated "excellent" by leading sustainability assessors using the Building Research Establishment Assessment Method (BREEAM) standards, – putting its sustainability performance in the top 10% of new, non-domestic, buildings in the UK.

9 Be diverse and inclusive as a business and as an investor

Why this matters

Promoting diversity and inclusion is one of our top strategic priorities as a business. The success of our operations is highly dependent on our ability to attract, retain and develop highly qualified professional people with the right mix of skills and behaviours to support our business strategy and culture.

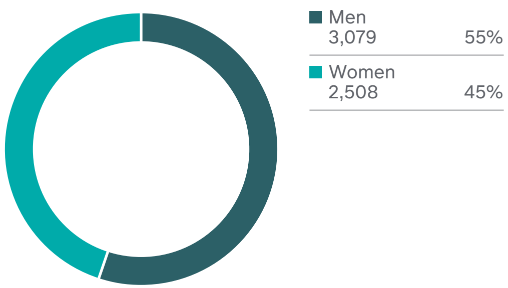
What we have achieved so far

Our diversity and inclusion strategy sets out a clear five-year plan, including some ambitious targets for 2025, supported by a governance model that spans our entire enterprise and with global workstreams across gender, ethnicity/nationality, Lesbian, Gay, Bisexual and Transgender (LGBT+), disability and life stages.

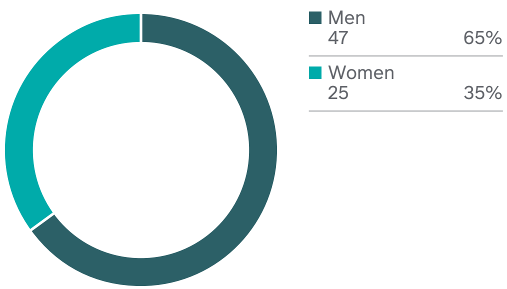
We continue to work toward our targets of 40% women and 20% ethnicity in senior leadership roles by 2025, achieving 35% women as at December 2021, reflecting a 5% point improvement over 2020. We achieved a 13% ratio of people of Black, Asian and minority ethnic backgrounds at the Executive Committee and direct reports level, reflecting a 1% drop against 2020. From May 2022, following some new appointments to the board, we have maintained our gender balance, whereby four out of nine Directors are women, including the senior independent director and an executive director role and have improved our board diversity with a Director of diverse ethnic background.

Throughout the year we continued to enhance our reporting metrics. In May 2021 we published pay gap data inclusive of ethnicity for both 2020 and 2021 – with the gender gap for 2021 recorded as 29.3% (2020: 30.5%), and the ethnicity gap recorded as 5.7% (2020: 9.3%).

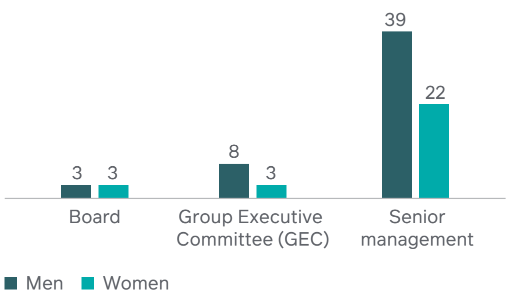
Employee gender
%



Group Executive Committee and their direct reports gender
%



Employee profile gender diversity
Number of people



All data in graphs as of 31 December 2021.

We became the first business in our sector to publish data for gender and ethnicity across a two-year period.

Read more
2020/2021 M&G pay gap report

During the year we launched the Aspire programme, providing 12-month secondments in investment and client focused distribution roles. Although targeted to our Black, Asian and minority ethnic communities, Aspire is open to all colleagues who are eligible to work in the UK. The successful candidates comprise a cohort of 82% identifying as Black, Asian or minority ethnic and 64% women. The programme incorporates development opportunities, mentoring and individual coaching with an intention of expanding the program across other areas of our business.

We also continued to take part in the 30% Club, a cross-company mentoring programme with an aim to achieve greater gender balance at senior levels within organisations, as well as delivering on gender pay gap reporting, and broader diversity and inclusion goals. It is a nine-month structured programme in which female mentees are matched with a more senior male or female mentors from another organisation. The programme aims to develop management and leadership skills and behaviours; other benefits include career advancement, and improved confidence and access to new networks.

Participation for 2022:

- Mentees - 7 female.
- Mentors – 2 female and 5 male.

We have maintained our colleagues' sense of belonging at M&G during 2021 despite continued impact of organisational and transformational change on the workforce, in addition to that of the pandemic and new working practices. For example, the One Voice survey showed our inclusion index remaining steady at 83%, despite the impact of the pandemic and new working practices, this is following an initial rise of 11 points in 2020.

One M&G

Social inclusion and diversity at the heart of investment decision-making

The M&G (Lux) Diversity and Inclusion Fund launched in November has both a financial and a sustainability objective. The global equity fund aims to outperform its benchmark return over a five-year period while investing in companies fostering greater gender and ethnic diversity in line with the societies they serve, or companies which provide solutions empowering social equality. Fund Manager, Thembeka Stemela Dagbo, says: "Companies with top quartile levels of gender diversity are 25% more likely to outperform, and 36% more likely to outperform where there is ethnic diversity. This Fund provides our customers with the opportunity to capitalise on these trends and address diversity imbalances while putting their savings to work."

Source: McKinsey & Co Report - Diversity Wins: How inclusion matters, May 2020.

9 Be diverse and inclusive as a business and as an investor

Well-being

During 2021, we launched multiple campaigns to promote an inclusive and supportive working environment and colleague well-being. As our people got into the rhythm of working from home, we listened closely to what they were saying and addressed their evolving needs in the following ways:

Supportive technology – our new M&G Well-being and Inclusion Microsoft Teams app centralises all diversity, inclusion and well-being resources in one place.

Frequency and availability – Well-being Wednesdays provide weekly well-being events on topics including managing stress and anxiety, recognising the signs of burnout and addressing the impact of grief and loss. Over 2,700 colleagues registered for these live events, with video content available to all our people via our Well-being On-Demand channel.

Our Diversity Networks also integrated well-being offerings into their plans:

Communications – the Invest in Yourself communications campaign shares colleague case studies highlighting the positive impact of our well-being resources.

Manager support – during 2021 we provided bespoke training in partnership with MindGym focusing on managing stress and burnout. A clinical psychiatrist conducted workshops with leadership teams, while we also introduced manager mental health, remote working toolkits, our virtual GP and cognitive behavioural therapy services continued to be available 24/7. During the year we grew our Mental Health First Aider network to help meet the inevitable increase in demand caused by lockdowns, and now have over 78 trained colleagues around the world.

We partner with a number of external organisations to provide opportunities for colleagues to network and further develop in their careers, while supporting greater diversity across the financial services industry:

i. Black Women in Asset Management: championing the positive impact of the talented black women who work in asset management and provide the tools that will enable them to thrive.

ii. 100 Women in Finance: providing networking, mentoring and development opportunities for women at all levels of the organisation.

iii. WorkLife Central: an award-winning organisation supporting working parents which provides expert-led resources, information and advice to individuals and businesses across a range of topics including career progression, work/life balance, well-being at work, inclusion, and creating flexible and inclusive workplaces.

iv. EveryWoman: connects women, businesses and organisations all over the world, using a powerful combination of inspiring, informative and educational content. This global development platform provides colleagues with advice from influential women in business and experts in career progression.

v. LGBT Great: a global membership organisation specialist in developing LGBT+ diversity and inclusion within the investment and savings industry.

vi. Business Disability Forum: a not for profit membership organisation that exists to create a disability smart world by linking businesses, disabled people, and government.

vii. Stretch Conference: for the last two years, we have sponsored the Stretch Conference by Career Masterclass, a leading career development conference for Black, Asian and Minority Ethnic communities which includes 50 places at the event, which we advertised through the M&G Cultural Awareness Network.

While we acknowledge there is still more we to do, we are pleased with the progress we have made so far and this has been reflected in a number of external accreditations including:

- Accreditation from the National Equality Standard which sets clear equality, diversity and inclusion criteria.
- Recognition as one of the Top 100 companies in the Social Mobility Employers Index for the 5th consecutive year.
- Achievement of an overall score of 67.9% against an average of 66% in the Bloomberg Gender-Equality Index, and a disclosure score of 96.2% against an average of 94%.
- Being one of only six companies to attain the LGBT Great Financial Services Gold Standard in recognition of the progress we are making towards our commitment of being an inclusive organisation.

Ranked as #1 by RateMyApprenticeship, the UK's leading job resource for young people, in the Top 100 UK Apprenticeships Employers table in the Savings, Insurance and Investment sectors, and third in the country across all industries.

How we will measure our progress

- We will hold ourselves accountable to deliver against our D&I strategy and 2025 goals for gender and ethnicity in senior leadership.
- We will also measure our success through delivering year-on-year improvement in our One Voice colleague inclusion index.

Next steps

- We will continue to work to build our reputation as a champion of diversity and inclusion.
- This will include setting minimum expectations for investee companies on Board gender diversity.

10 Align all our people behind our sustainability ambition

Why this matters

Making a positive contribution to society and our planet is absolutely the right thing to do. To deliver our ambitious sustainability goals successfully, we need the active help, support and engagement of everyone at M&G. That means continuing to help our people to understand the importance of sustainability, what we are doing and how we are approaching this. It's vital that each individual knows how they can play their part and adapt their work so that we continue to shape a strong, cohesive culture which fosters the right behaviours and also encourages all our people to feel a sense of belonging at M&G plc.

What we have achieved so far

Communicating our intent

We have kept colleagues informed of our intent and ambition through a series of interactive town halls, a short interview style video series, dedicated quarterly mandatory training modules and regular updates. Specialist training on sustainability and ESG data and products is undertaken by investment professionals and sales people, and our M&G plc's Non-Executive Directors undertook refreshed, bespoke training in ESG risks and opportunities.

All of this has enabled education and healthy debate across all levels of the organisation, encouraging colleagues to ask questions and challenge themselves to consider how we can meet our priorities.

We have made specific firm-wide public commitments in respect of sustainability issues and we have continued to engage colleagues so that they can plan to embed these goals and ESG principles within our products, business and operating model to ensure that we meet the expectations of a wide range of stakeholder groups.

Further to this, we have created a new digital hub to ensure that all colleagues can easily access informational and educational content to grow their understanding and enable them to better serve our customers and clients. "The Sustainability Hub" offers a one-stop shop for all the information and tools they need, whether to take our sustainability message to clients and customers, to understand how we're building sustainability into our business processes or how they can get involved in colleague networks and community activities.

During COP26 in November 2021, we ran a campaign to bring to life our involvement at the event in Glasgow and what it means for our business, customers and investments. We encouraged comment and discussion among all colleagues, exploring what COP26 is and why it matters. Leaders were also provided with additional insight to the events that they could discuss with their teams.

In our most recent One Voice colleague engagement survey results at the end of 2021, sustainability remained an important focus:

- 86% said M&G is a socially responsible organisation (an increase of two points from 2020).
- 82% understand their role in M&G's efforts to support and protect the environment.
- 80% of think employees are all held to the same standards of ethical behaviour (an increase of two points from 2020).

How we will measure our progress

- We will continue to monitor progress against past performance, and against peer benchmarks, in our annual One Voice employee engagement survey and periodic pulse check surveys.
- In practice, progress towards this goal will be evident through the success in achieving the other goals in our sustainability programme, relating to how we invest our customers' money, how and where we spend our shareholders' money and how we behave with our stakeholders and each other.

Next steps

- Sustainability will become ingrained in our communications, and we will continue to identify opportunities that actively demonstrate our progress and bring this to life for colleagues.
- We will continue to use our internal channels to share colleague and customer stories that show the outcome of our sustainability actions.
- We will measure the understanding of our people through regular all company research to find out if and where we are making progress to deliver impactful and consistent results. We will also use the research to address any areas of concern.

One M&G

Sustainability matters to our people

"Sustainability has been my passion for years and at M&G I'm empowered to make the same positive contribution to society and our planet in my work as I do in my personal life.

In 2021, we published the M&G Event Sustainability Principles, which set out our objectives to reduce event carbon emissions, resource use and waste, and look for opportunities to make a positive impact in the educational events that we hold for clients. We've developed some creative solutions to apply these principles to our events, including the use of virtual reality to deliver client content rather than printed giveaways. We have even taken a London-based fund manager to Italy virtually, appearing full size next to our other speakers to deliver his presentation to clients.

Mara Pellicoro
Events Executive

How we manage the sustainability plan

ESG governance

Embedding governance over sustainability

We recognise that sustainability, issues including climate, have the potential to materially impact our business, both in terms of the financial performance for our customers and investors and the extent to which we can deliver our pupose by investing to support a sustainable and just transition. Over the past year, the Board has spent an increasing amount of time considering environmental, social and governance matters in preparation for delivering enhanced sustainability disclosures, including TCFD recommended disclosures in our 2021 Annual Report and Accounts.

The Board has also considered its role in overseeing ESG matters, taking into account the increasing focus of our stakeholders on firms' reporting on climate risk and other ESG matters and the new disclosure requirements.

The Board made the following key changes to roles and responsibilities to ensure that our governance continues to support our sustainability, climate and other ESG ambitions:

- The Board retains its overall duty to set M&G plc's ESG strategy and its ESG values and principles.
- Specific duties around ESG reporting oversight, and development of assurance around ESG reporting have been added to the Audit Committee's terms of reference.
- Specific duties around the oversight of ESG risk have been added to the Risk Committee's terms of reference. This is intended to demonstrate our focus in this area to our stakeholders, and to clearly separate reporting from risk, with the Risk Committee focused on business and other (e.g. people) impacts, emerging trends and mitigation of ESG risks.

With these changes in place, we feel the Board is well positioned to take on ESG duties moving forward.

Reflecting the scale and scope of our sustainability commitments and ambitions, our ESG programme, including our ESG risk management framework, is sponsored by our Chief Executive. The strategic priorities of the programme are agreed by the Executive Committee with overall responsibility for sustainability strategy allocated to the Chief Customer and Innovation Officer.

Key activities in 2021

In April 2021, the Board considered and approved its inaugural Sustainability Report. This was a particularly important milestone as it laid out the 10 point sustainability programme which we are now following. This formed a foundation for explaining the links between our strategy and our sustainability ambitions.

In May 2021, the Board received an in depth briefing covering the work of the firm's ESG programme, in particular the work to enhance the ESG characteristics of product offerings and to build the Planet+ range, through repositioning of existing funds or launching new versions.

In September 2021, the Board received an update on the firm's sustainability work, and also approved the Group's first interim net zero target, which commits to a 50% reduction in carbon emissions across 20% of M&G Investments' assets under management by 2030. This sits alongside our existing commitment to being carbon net zero in our own business operations by 2030.

Priorities for 2022

Our key priority for 2022 remains to implement the steps required to deliver our 10 point sustainability plan as detailed on page 9. This involves publishing interim net zero targets for our asset owner, as a member of the Net Zero Asset Owners Alliance and working to achieve our net zero carbon emissions goals for our business by 2030 at the latest, and by 2050 for our investment portfolio.

We will also continue to build our reputation as a champion of diversity and inclusion, and use our influence to encourage other companies to drive positive change.

Skills and experience

ESG, in particular climate, is one of the areas of expertise that the Nomination Committee has been tracking on the Board Skills and Experience matrix since our listing. We were pleased to enhance the Board's skills in this area through the appointment of Dev Sanyal in May 2022. Dev has deep experience in sustainable energy, in particular solar, wind energy and hydrogen, and bioenergy integrated low carbon power.

The Board also received dedicated training sessions and update material on ESG matters, with the main focus on climate, to ensure collective skills were enhanced in line with its increased responsibilities.

The topics of these sessions and materials are summarised below:

- Metrics and targets to measure ESG progress.
- An update on the firm's net zero commitments and stakeholders' expectations, with a progress update on the firm's work to date.
- Net zero methodology.
- Oversight of climate-related disclosure.
- Assurance approaches around climate-related disclosures.
- Reporting requirements.

The role of management on climate

As part of our overall ESG strategy we have developed an ESG Risk Management Framework and Policy, which defines our approach to identifying, managing and assessing ESG risks, including climate. Management of actions arising from the assessment of climate-related risks and opportunities, such as the results of the scenario analysis performed across our investment portfolio, are discussed at the Executive Risk Committee, chaired by the Chief Risk and Compliance Officer. In addition to this, climate risks are also escalated within risk reporting, which is provided to both the Risk Committee and equivalent subsidiary Committees, with further escalation to the Board (and subsidiary Boards) as required. Management of actions arising from the assessment of climate risks and opportunities are discussed by the Executive Committee, as required.

All sustainability disclosures and reporting are presented to the Management Disclosure Committee (MDC) for approval, prior to the Group Audit Committee. The MDC is chaired by the Chief Financial Officer.

ESG governance

Our Chief Customer and Innovation Officer is the sponsor for our sustainability objectives, with regards to ensuring that customers and clients can invest purposefully, joining us on our mission to help to fix the planet.

Our Environmental Policy is sponsored by our Chief People and Corporate Affairs Officer. This policy supports our goal to achieve net zero by 2030 across our operational activities.

As part of our overall ESG strategy set by the Board the responsibility for ESG investment policies, for both asset owner and asset manager, has been assigned to the Chief Investment Officer (CIO). Effectiveness of climate investment strategy is reported to the Executive Investment Committee, which the CIO chairs.

Management, as members of the Group Executive Committee, report directly into the Chief Executive, allowing material climate and other ESG issues and policy decisions to be escalated to the Board accordingly. In discharging their responsibilities, management attend various committees and initiatives to enable information sharing between business units and to monitor climate-related issues.

Remuneration

Our Executive Committee all have sustainability objectives within their personal performance management scorecards, which are cascaded within each of their organisations as appropriate.

The executive LTIP arrangements for 2021 include a 7.5% weighting attributed to reducing the Company's operational scope 1, 2 and 3 emissions, relative to the 2019 base year, in line with our 2030 target, and a 7.5% weighting aligned with the progress required to achieve our 2025 diversity target of 40% female representation in the senior leadership team.

Board and Executive Oversight

Board oversight

Fund Board | **Regulated Entity Board**[i]

Accountability and oversight of ESG for the products/investments within their remit

M&G plc Board

Responsible for setting Group's business strategy including ESG, purpose, values and culture

Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee
Reporting and Assurance	Assessment of Sustainability including Climate Risk	Senior Management Remuneration Targets	Board Skills and Experience

i Includes the With-Profits Committee.

Executive oversight

Executive Committee

Responsible for implementing the Group's business strategy including ESG, purpose, values and culture, and setting ESG priorities

Executive Investment Committee	Management Disclosure Committee	Executive Risk Committee
Sustainability (inc Climate) Investment Strategy	Reporting and Disclosure	Assessment of Sustainability including Climate Risk

Sustainability and ESG risk management

Sustainability and ESG risk management

Sustainability is crucial to our success and that of the companies in which we invest. A failure to address and embed sustainability considerations within our products, business and operating model could adversely impact on our financial performance, reputation and plans for future growth. Consequently we consider sustainability a "principal risk" which means that we recognise the considerable threats and the potential benefits that sustainability risk could have on our business and that of the companies that we invest in.

Our stakeholders increasingly expect us to consider and act on a broad range of sustainability issues, including those concerning the climate, diversity and inclusion and corporate governance. Therefore we consider these broad range of issues through an environmental, social and governance (ESG) lens to identify, assess and manage the risks, enabling us and others to benchmark our success.

Sustainability and ESG risk is identified as a key principal risk affecting all of our strategic priorities.

We currently consider ESG risk from three broad dimensions:

1. Inside out – arising from how our business impacts on the planet and society, as we seek to create and drive value for our stakeholders, from customers to shareholders.
2. Outside in – arising from the impact of ESG factors on our organisation, ensuring that any "real time" response aligns to our positioning on ESG.
3. Reputation – Our ability to meet a range of key stakeholder expectations on sustainability and ESG issues, whilst reinforcing our brand values of care and integrity.

Our ESG risk management approach

The identification, assessment and management of ESG risk is conducted in line with the M&G plc Risk Management Framework, with risk governance based on the "Three lines of Defence" (3LoD) model.

Recognising the complex range of risks that sit under ESG, we have developed a specific ESG risk management framework to further enhance our approach to the identification, assessment and management of ESG risks. The framework, which has been approved by the Risk Committee, is intended to help inform, educate and communicate the importance of ESG risk across the business and consists of five core components: ESG risk culture, identifying and assessing ESG risk, managing and reporting effectively on ESG risk, embedding risk governance and protecting reputation.

The framework is supported by an ESG risk policy, which articulates our ESG risk appetite and sets out key requirements, applicable to all business areas, for the management of ESG risk in a manner consistent with our risk appetite.

Consideration of ESG risk is built into the decision making processes and a requirement of key strategic board risk assessment papers. Climate change risk is being integrated into our scenario analysis process with both top down and bottom up consideration over a range of time horizons leveraging the Bank of England's 2021 Climate Biennial Exploratory exercise.

Focus on climate

Our climate transition plan

In 2022 we published a climate transition plan which sets out how we are addressing the risks and opportunities of climate transition as a business and investors.

We are tackling the climate emergency on three fronts: as a business employing more than 5,500 people worldwide; as an asset owner acting as custodian of customers' assets; and as an asset manager, responsible for investing internal and external client money.

Climate change is a fast-evolving area and our plan will evolve over time as new science emerges, investee disclosures and other data improves, and our clients' needs change. We will update this Plan as required to reflect this.

Our plan is centred around our net zero commitments aligned to the goals of the Paris Agreement on Climate Change.

Achieving net zero for our own operations by 2030 at the latest

M&G plc is committed to a 46% reduction in Scope 1, 2 and 3 (business travel only) carbon emissions from its 2019 baseline for its business operations by 2030, with offsets for the remaining emissions to achieve net zero.

More detail on our pathway to net zero across our business operations
Page 28

Achieving net zero for our investments as an asset manager by 2050 and our interim 2030 target

While we have committed to achieve net zero across our investments by 2050, as a founding member of the Net Zero Asset Managers Initiative (NZAMI) we have also set an additional interim target to halve carbon emissions by 2030 across £58 billion in public assets managed by M&G Investments on behalf of the Prudential With-Profits Fund, with more assets to be added to this target over time.

More detail on our pathway to net zero as an asset manager
Page 11

Achieving net zero for our investments by 2050 as an asset owner

In September 2021 we joined the UN-convened Net Zero Asset Owners Alliance (NZAOA), the global institutional investor group acting to help limit global warming to 1.5°C as outlined by the Paris Agreement. As an NZAOA member we are committed to the transition of £128 billion of our investment portfolios to net zero carbon emissions by 2050, and will publish new interim net zero targets every five years, starting in 2022, for the assets held by our asset owner across real estate, public equities and public corporate fixed income.

More detail on our pathway to net zero as an asset owner
Page 11

Climate scenario analysis

To help us plan for the future, we have conducted detailed scenario analysis to evaluate how various climate scenarios could affect the future value of assets and our balance sheet. You can read the results of this work on pages 46-58.

Say on Climate

In 2021, we became one of the first companies in the world to commit to holding a Say on Climate vote. We did this because as a responsible investor and asset manager, we want the companies in which we invest to publish climate data and transition plans and to offer shareholders the opportunity to vote on these plans. As a public listed company we hold ourselves to the same high standards.

We are pleased that at our Annual General Meeting in May 2022, the majority of our shareholders voted to approve our Say on Climate resolution, recognising that the path to decarbonisation is complex and fast evolving and that open communication with shareholders supports engagement by companies as well as providing transparency.

We are reflecting on the valuable feedback we already have from shareholders on the resolution and our plans, and will provide an update by November. We will continue to engage with shareholders proactively and transparently on our climate transition plans.

Climate metrics

Over the past 12 months we have made significant progress, enabling greater transparency through an expanded set of climate-related metrics, to include asset owner and asset manager financed carbon emissions across some of our public equities and fixed income, as well as real estate portfolio emissions for a large percentage of our portfolio.

Our investment-related scope 3 emissions are material to our activities and this is why actions across our portfolio are a key in achieving our net zero 2050 goal. The calculation of these expanded portfolio metrics is an important step forward in monitoring progress towards our long term climate commitments and targets and identifying such actions.

This year, we are also able to publish initial metrics for improved understanding of our portfolio alignment, in line with our Net Zero Investment Framework and methodology. This is an important step forward in establishing a wider set of climate metrics to provide a more holistic approach to portfolio decarbonisation, one that is more aligned to that of the real world.

Whilst we have developed this initial set of metrics, it is well recognised that there is a confluence of regulation, frameworks and initiatives which continue the rapid evolution of climate disclosures. In the future, while these metrics will likely retain the conceptual aims, the precision of measurement and disclosure may well have advanced significantly. We will continue to look to improve these in the future.

Limitations

Development of these metrics will allow us to provide trends in future reporting.

The calculation of these metrics is subject to some limitations that will be addressed over time. Coverage is the main area of improvement, and is dependent on availability of good quality data for an increasing portion of our AUM, as is the intention to include Scope 3 in future. For instance, we chose to only consider AUM for which we have scope 1 + 2 emissions. More information on the basis of the calculations and limitations is set out in the supplementary information on pages 70-71 and takeaways should be interpreted with these limitations in mind.

Re-baselining of emissions metrics

The nature of our investment book will change over the coming years. The composition of portfolios rarely stays the same for a variety of reasons. For example; investments mature, corporates evolve through mergers and acquisitions, subscriptions and redemptions result in allocation changes and portfolio reallocation occurs due to better relative opportunities. Changes in our portfolio will drive the requirement for re-baselining our emissions metrics.

A significant reallocation of the investments within a portfolio can materiality change financed carbon emissions (e.g. shifting sector weighting), without any change in real world emission for our investees. This type of allocation change can happen often. In these circumstances we would need to re-baseline our portfolio emissions according to industry frameworks. External factors, such as COVID-19 can also affect emissions in a given year which might result in volatility in year-on-year comparisons.

Also as investee emissions data availability improves it is reasonable to expect that our emissions metrics coverage will increase, mechanically increasing our financed carbon emissions (FCE). These factors will also necessitate the re-baselining of our metrics over time, as directly recognised by Partnership for Carbon Accounting Financials (PCAF) in the requirement to " ...ensure the consistency, comparability, and relevance of the reported GHG emissions data over time".

The industry continues to work to build a robust re-baselining methodology in the IIGCC/Paris Aligned Investment Initiative working groups, and thereafter we will need to develop our internal capability to deploy this to provide transparency and to ensure the baseline always reflects the underlying portfolio composition and its journey.

> "We have built a set of climate metrics which establish transparency and measure a wider holistic set of actions and outcomes aligned to our climate targets and commitments. As we advance in our net zero journey, these metrics will also play an important role in communicating our progress."
>
> **Phil Cliff**
> Head of Climate for Asset Management

Climate metrics

Key Information on climate metrics

Metrics have been calculated for equities (EQ), fixed income (FI) (excluding sovereign bonds) and, where relevant, real estate*. They are presented at asset manager (AM) and asset owner (AO) level. The AO results only include AUM internally managed by our asset manager and therefore form a subset of those for AM. All figures in the following tables are as at 31 December 2021 unless otherwise stated.

More information on these metrics and how they are calculated can be found in the supplementary section on pages 70-71.

*GHG Emissions for real estate aggregates fund-level information from multiple reporting periods. Further information is available on request.

Carbon Foot Print

- Carbon footprint indicators for public fixed income, equities and real estate allow us to monitor progress towards our long-term target of achieving carbon net zero investment portfolios by 2050.
- We have started to include Scope 3 emissions for our real estate indicators and will expand this in future to equities and fixed income.
- The lower coverage for fixed income is due to lower emissions data availability in some fixed income asset classes.
- The indicators will need to be re-baselined to allow for comparison, as the portfolio is in constant evolution.
- M&G's operational emissions can be found on page 30.

	Metric Value							
	AM			AO				
Metric	Overall (EQ +FI)	Equities	Fixed Income	Overall (EQ +FI)	Equities	Fixed Income	What this shows	How this drives change
Financed Carbon Emissions (Scope 1+2) (000s tCO_2e)	12,412	7,413	4,999	7,828	5,610	2,218	The emissions of our investee companies, where there is available data or estimates. Scope 1 is emissions from owned or controlled sources such as factories. Scope 2 is from purchased steam, heat and electricity. This is M&G's carbon footprint according to what we can obtain emissions data for. It is comprised of reported and estimated emissions for investee corporates. It is calculated according to Partnership for Carbon Accounting in Finance (PCAF) methodology.	Clarity on material contributors to FCE facilitates targeted engagement with those corporates to set net zero goals, science based targets or join the SBTi, and was a key driver of our coal policy and engagement plan to transition these assets. Calculation of FCE allows for future monitoring of progress, however re-baselining will be required in order to ensure future comparability and consistency.
coverage	*69.3%*	*93.8%*	*52.5%*	*74.9%*	*96.0%*	*52.1%*		
Financed Carbon Emissions (Scope 1+2) / AUM (tCO_2e /£m invested)	100.6	109.2	90.1	102.2	110.1	86.3	The intensity of the emissions per £m invested adds relative analysis where AUM can move over time, whilst acknowledging that FCE is also a primary metric for goals and targets.	Our 2030 interim target is based on carbon intensity. We monitor this indicator for progress against both our long-term and interim commitments. Should the AUM of M&G plc fluctuate, grow or decline through time this metric can track progress. Future re-baselining will be required.
Weighted Average Carbon Intensity (WACI)(Scope 1+2) (tCO_2e /£m sales)	244.0	250.4	238.4	257.1	239.4	283.6	Provides a single metric summarising the individual emissions intensities (by £m of investee revenues) of companies in a portfolio, to directly compare across businesses. **Note:** WACI published in our 2020 Sustainability Report is not directly comparable due to differing methodology and having historically been reliant on a third party calculated metric in USD.	This metric is typically used by portfolio managers to identify and select between public market assets, as well as in reporting. We observe an industry trend towards FCE indicators and we therefore expect to attach a lesser priority to entity level reporting in the future. Future re-baselining will be required in tandem with FCE.
coverage	*81.8%*	*94.0%*	*73.4%*	*83.4%*	*96.3%*	*69.5%*		

Metric	AM	AO	What this shows	How this drives change
Real Estate GHG Emissions (000s tCO_2e) Scope 1+2	83	35	GHG emissions from energy used in assets held by M&G Real Estate funds under management, where the funds are deemed to have operational control over energy services (also known as landlord controlled or managed assets).	Measuring GHG emissions activity in managed assets supports our asset management decision-making, so that targeted investment can be made to improve the energy and carbon efficiency where it is technically and financially feasible to do so.
coverage	*90% (AUM as at 31 Dec 2020)*	*100% (AUM as at Dec 2020)*		
Real Estate GHG Emissions (000s tCO_2e) Scope 1,2+3	690	351	As above, including relevant Scope 3 downstream and upstream GHG emissions. For M&G Real Estate Fund's the most significant Scope 3 GHG emissions sources relate to downstream leased assets (energy use by tenants) and capital goods (embodied carbon associated with development and refurbishment activity).	Tenant energy use and embodied carbon in developments are significant emissions sources in the real estate sector. By incorporating these Scope 3 emissions activities into our net zero planning we will be better positioned to maintain climate resilience, particularly in regards to evolving carbon and energy building regulation.
coverage	*90% (AUM as at 31 Dec 2020)*	*100% (AUM as at Dec 2020)*		

Climate metrics

Portfolio Alignment

- Portfolio alignment indicators represent how our portfolio companies have or are committing to align to Paris objectives. Whilst corporates are not net zero today this reflects the target setting for future real world emissions reduction efforts and an indicator of alignment of our investment strategies going into the future.
- Net Zero Aligning indicators are based on public commitments from companies to join the SBTi (commitments to set targets and targets approved). SBTi has gained wider recognition as a means of tracking independently verified science-based targets.
- The setting of SBTi in private corporates tends to be lower than public corporates (as per disclosure of carbon emissions above, affecting fixed income asset class metrics below).

Metric	Metric Value						What this shows	How this drives change
	AM			AO				
	Overall (EQ +FI)	Equities	Fixed Income	Overall (EQ +FI)	Equities	Fixed Income		
Net Zero Aligning "Committed" (£ms)	21,496	10,348	11,148	16,801	12,295	4,507	Measures portfolio exposure to companies that have made a public commitment to set a science-based target aligned with the Science Based Targets initiative (SBTi) criteria. SBTi is widely recognised as an evolving standard for independently verified science-based targets.	M&G's portfolio emissions are derived from the wider universe of public equity and public fixed income investments, so that as these corporates set science based targets and go about reducing their own emissions, this will feed into M&G's portfolio emissions reductions, and importantly have real world impact and alignment.
Net Zero Aligning "Committed" (%)	12.1%	14.3%	10.5%	11.0%	14.4%	7.3%	As above, adds context to the amount whilst being directly comparable to peers.	
Net Zero Aligning "Targets Set" (£ms)	36,113	20,379	15,734	11,218	7,642	3,576	Measures portfolio exposure to companies that have had their targets independently validated by the SBTi.	
Net Zero Aligning "Targets Set" (%)	20.3%	28.2%	14.9%	16.4%	23.2%	9.1%	As above, adds context to the amount whilst being directly comparable to peers.	

Climate metrics

Asset manager engagement

- Engagement as an asset manager is in line with our NZAMI commitment to prioritise the achievement of real economy emissions reductions within the sectors and companies in which we invest.
- M&G prioritises its climate engagement programme on the highest carbon emitters that are material to M&G .
- Portfolio emissions rely upon the emissions of the underlying companies. Engagement where it influences target setting and emissions reductions by portfolio companies will feed into portfolio emissions with a lag.
- We directly engage with companies, both bilaterally and alongside other investors in collective groups such as Climate Action 100+ .
- As members of Climate Action 100+ we support engagements conducted by our peers on behalf of the Climate Action 100+ initiative.
- While our two indicators overlap, this dual approach allows us to increase our overall impact.

Metric	Metric Value	What this shows	How this drives change
Climate engagements (M&G) % of asset manager FCE	33.3%	M&G's bilateral climate Engagements in 2021 as recorded by the asset manager's Engagement dashboard, calculated as a % of the Financed Carbon Emissions (FCE) of the portfolio. Engagements are conducted in line with the Principle for Responsible Investment's (PRI) definition between an investor and current investee company, conducted with the purpose of improving practice on a Climate target, disclosure or action. Where M&G co leads a CA100+ engagement – this is included in this metric (some overlap with below metric).	As a global and responsible investor we see our role to request companies to set Net Zero targets and to impact real world outcomes, and reduce climate transition risk in the future. Alone we cannot do this, but we can play our part alongside other investors to influence outcomes.
Engagements (CA100+) % of asset manager FCE	36.7%	This metric shows the % of the asset manager's FCE engaged with collectively either directly as a co lead or working group member or indirectly as a member of the CA100+ initiative.	As per above, collective action can, in many cases, be a more powerful influence on corporate climate ambition and plans as members can represent a large part of the capital base of a company.

Climate metrics

High Risk and High Opportunity Exposures

- Fossil fuel and Green exposure metrics represent respectively higher climate transition risk and high opportunity exposure:
  i. Economies rely on fossil fuels today. The fossil fuel metric is provided for greater transparency. The navigation of the climate transition for these corporates is interlocked with many socioeconomic, environmental and policy driven aspects. Some may represent medium term transitional risks whereas others are can be longer term.
  ii. Upcoming European labelling regulation calls out principal adverse indicators, one of which is Fossil fuel exposure.
  iii. We also include a supplemental fossil fuel combustion metric. This is particularly relevant given its relevance to our Thermal Coal policy.
  iv. M&G directly and indirectly engages with large fossil fuel companies to promote the development of Paris alignment transition plans. Beyond changes initiated by our investee companies and portfolio changes, this indicator may also evolve due to increased data coverage from our data provider.
  v. Green exposure is particularly relevant, as to align with the Paris agreement investment in climate solutions must increase. This metric relies on estimated revenue derived from EU Taxonomy-aligned types of activities, and on CBS-certified/CBI-aligned green bonds, where relevant. It does not currently include the direct investments in private markets through our Catalyst and Infrastructure products which is a potential future development.

Metric	Metric Value						What this shows	How this drives change
	AM			AO				
	Overall (EQ +FI)	Equities	Fixed Income	Overall (EQ +FI)	Equities	Fixed Income		
Fossil Fuel Exposure (£ms) (excluding revenue from fossil fuel based power generation)	8,487	4,370	4,117	4,782	2,835	1,947	An overall view of M&G's exposure to fossil fuels (Oil, Gas, Coal extraction value chains) excluding any company revenue derived from fossil fuel power generation. Whilst the economies rely on these today, they represent higher climate mitigation exposures in a transition to 1.5 degrees in the medium to longer term.	This metric is an upcoming principal adverse indicator metric as per the EU SFDR providing greater transparency. The M&G Thermal Coal Policy was launched in April 2022. M&G engages with large exposures here through our Climate Hotlist 100, our increased Thermal coal engagements, and through its active participation of CA 100+.
Fossil Fuel Exposure (%) (excluding revenue from fossil fuel based power generation)	4.6%	6.0%	3.7%	4.7%	5.3%	4.7%	As above, adds context to the amount whilst being comparable to peers.	
Fossil Fuel Exposure (£ms) (revenue from fossil fuel based power generation)	1,029	300	730	580	192	388	M&G's exposure to companies who derive part of their revenue from fossil fuel based power generation.	
Fossil Fuel Exposure (%) (revenue from fossil fuel based power generation)	0.8%	0.4%	0.9%	0.6%	0.4%	0.8%	As above, adds context to the amount whilst being comparable to peers.	
Green Exposure (£ms)	6,980	3,976	3,004	3,580	2,882	697	This is the "good news" side of the equation, giving an initial and incomplete picture of the proportion of our AUM that are identified as climate opportunities, either through corporates that sell solutions (estimated revenues) or through our opportunity to finance climate transition capital/assets such as Green Bonds. It does not include climate solutions investments in some private funds such as Catalyst or Infrastructure.	Identifying climate opportunities and the role that the financial system plays in financing climate mitigation solutions helps in the future to be able to allocate more to fill transition gaps as identified by the IEA's reports that a step up of $2trillion per annum is required to transition the global economy to align with 1.5 °C pathways.
Green Exposure (%)	3.9%	5.5%	2.8%	3.5%	5.4%	1.4%	As above, adds context to the amount whilst being directly comparable to peers.	

Scenario analysis

Scenario modelling is a key tool in the management of climate risk. We have conducted detailed work with analytics providers on scenario analysis to evaluate how various climate scenarios could affect the future value of our investments.

These climate scenario models serve as a lens to assist better awareness and understanding showing physical and transition risks present across our holdings. This will better equip us to integrate climate into decision-making and enact mitigation and adaptation planning in our portfolios, while steering our sizeable assets towards net zero.

Scenario analysis approach

High level methodology

M&G procured the services of two third parties to undertake scenario analysis at the asset/counterparty level: Baringa Partners for financial assets (the "equities and bonds" model covering equities, public fixed income and sovereign debt); and Marsh for real estate modelling. Physical risk for each was supported by XDI.

XDI quantifies the cost of extreme weather and climate change impacts to physical assets, by locating the critical infrastructure required to run each asset (including power, communications, water and access) and taking into account asset-specific information as to how different types of assets across different sectors and geographies will perform in different physical conditions.

Both third parties are industry-leaders, and have extensive experience undertaking climate scenario modelling and were selected following extensive proof of concept exercises.

That said, climate scenario analysis is by its nature complex and the results summarised below rely on assumptions, judgements and limitations including the nature of scenario modelling itself, data limitations and specific model limitations from our modelling counterparties, and the results should be interpreted with these in mind.

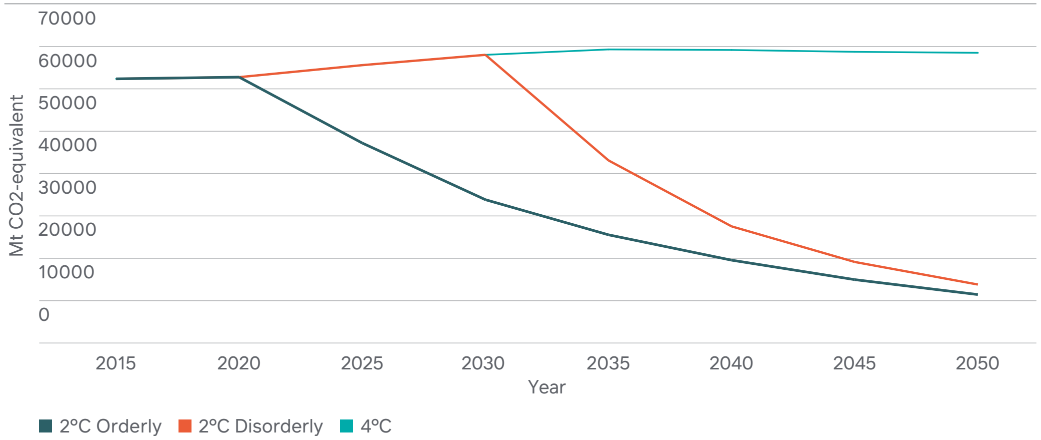
The models provide outputs based on two scenarios:

- an orderly 2°C scenario, which is aligned with Representative Concentration Pathway (RCP) 2.6 and predicts a 1.6°C temperature rise by 2081-2100, compliant with the Paris Agreement.
- a 4°C scenario, which is aligned with RCP 8.5 and predicts an average temperature change of 4.3°C by 2081-2100, assuming no global response to climate change beyond what has already been committed to. There are concerns about the credibility of this scenario, however it is widely used in industry to represent a "worst case" scenario and provides a valuable comparison to the RCP2.6 scenario as an unlikely high-risk future.

The equities and bonds model also includes a disorderly 2°C scenario, which is also aligned with RCP 2.6, but assumes climate action is not taken until 2030, delaying any transition shocks.

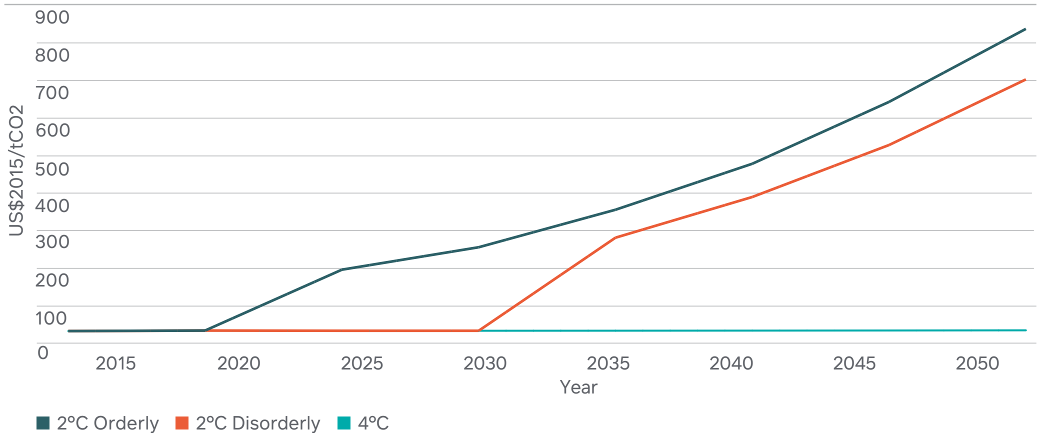
Global emissions trajectories represent projected global GHG emissions in each year under the three scenarios:

Scenario Global Emissions Trajectories



Accurately costing carbon and so creating an incentive to cut pollution is key to meeting the Paris Agreement's climate goals; the chart below sets out projections of carbon prices that would be required to incentivise the cuts in each of the emissions trajectories:

Scenario Global Carbon Prices

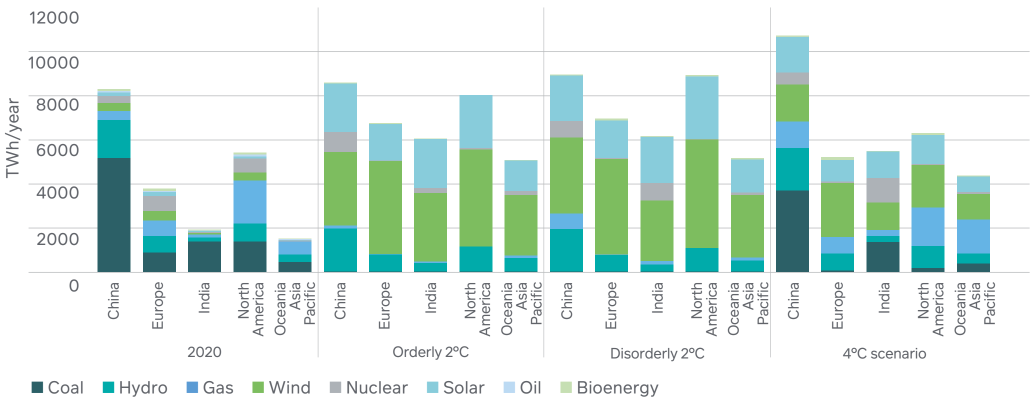


Source: Climate Change Scenario Model, which was developed by Baringa Partners and acquired by BlackRock in June 2021.

Scenario analysis

As countries around the world increase energy demands and transition to greener energy sources, a further key assumption is the energy requirements and mix in each region under each of the three scenarios. Projections of policies here include both energy reduction and change in the energy mix; and show the high level requirement of a complete phase out of coal in the transition assumptions as well as significant reductions in gas, replaced primarily by hydro, wind and solar energy. This has been compared to the projected energy requirements and mix under current policies.

Energy production by region



Macro level assumptions are combined with the data sourced from Bloomberg and physical risk data from XDI to calculate impacts and carry out counterparty and security level impact modelling inside the equities and bonds model. The outputs of the model represent the projected impact due to climate change on each asset, and do not take into account other financial impacts on the assets.

These impacts – notably emissions trajectories, energy demand and supply mix, carbon prices and electrification assumptions drive major model results.

Asset selection

Modelling every counterparty on a bottom-up basis across all funds is not yet feasible at this stage as the models used require good availability of corporate climate and financial information. We have however ensured that the models have good coverage across all key funds and biggest counterparties, and cover our most significant asset classes: equities, public & sovereign debt and real estate. Where appropriate, M&G has proxied missing data points against industry, sector and geographical averages to improve asset coverage.

For the asset owner, we have modelled the largest with-profits portfolio (where our PruFund Growth product is invested) and our largest shareholder annuity portfolio. Coverage by asset is not complete, in particular we have only modelled our publicly listed assets (where data is available) and our property portfolio. Little data is currently available for our private and alternative assets in order to perform scenario analysis, so we will evolve our capabilities as asset class models are enhanced and data collection improves.

In total, the models covered around 63% of our total AUM (representing approximately 87% of all internally managed equities, bonds and real estate, by market value).

Key outputs and model assumptions

The models project the financial state of each counterparty in each future year to 2050. The key outputs we have considered for our analysis are Value at Risk and credit rating for each year of the projection period, and Implied Temperature Alignment.

Value at Risk identifies how much of a security's value could be lost due to climate risk under each of the three scenarios, based on global carbon prices, major electrification, damage to physical assets as a result of extreme weather, etc. This output represents the projected asset-level impact due solely to climate risks. The model quantifies the extent to which physical (i.e., the risk of asset damage from the changes to the physical environment due to climate change) and transition (i.e., the risk of loss associated with climate policy change) climate risks impact the value of M&G's public equities and bonds including anticipating default rates on loans, and how physical risk impacts real estate assets. The credit rating of each security is projected for each year and is a key factor of the value at risk calculation, as well as providing insight about the future in its own right.

The implied temperature alignment metric indicates an asset's alignment to a particular future temperature change. Baringa uses companies' historical emissions intensity trend data to predict future emissions intensity, and compare these projected figures against sector- and region-specific pathways, to provide a temperature alignment metric for each asset. This metric is a valuable tool in identifying outliers in portfolios, and when aggregated to portfolio level can be a useful tool to indicate an overall sense of alignment, for example against a relevant benchmark.

Source: Climate Change Scenario Model, which was developed by Baringa Partners and acquired by BlackRock in June 2021.

Scenario analysis

Limitations on scenario modelling

Limitations of scenario analysis

The translation of climate science into financial models is in its infancy, meaning that the learnings from climate science cannot always be wholly represented in scenario analysis.

As with any model, a wide range of assumptions which may or may not be true in practice underpin the calculated results. Predicting climate change and its impacts on individual securities is an inherently complex exercise that needs to encapsulate not only the future climate, but also how companies will react to regulatory and customer pressures, changes to global supply and demand, and how companies will endeavour to protect their businesses in transition. M&G recognises that there is a practically zero probability that all assumptions made will be exactly correct, and therefore does not interpret the results provided by our modelling partners as absolute truth, rather, scenario analysis is a useful tool for interrogating and understanding how different scenarios could feasibly impact our portfolios, and identifying key factors which could impact specific assets or groups of assets.

Furthermore, our scenario analysis approach makes the following additional assumptions:

- A static asset portfolio. We did not model likely investment or asset allocation actions to mitigate these impacts. According to the model the greatest need for portfolio action would be in the disorderly 2°C scenario where we would have to carry out a material degree of reallocation across both asset classes and geographies. The 4°C scenario would also require significant portfolio action, however the majority of such action would occur later in the projection period.
- While climate scenario modelling undertaken as part of the ORSA process considered impacts to our entire balance sheet (i.e. liabilities and regulatory capital requirements in addition to asset impacts) the approach adopted for defining liability-specific stress parameters was relatively simple, reflecting that much of the liability side impact is driven by asset side movements. Also, the modelling of regulatory capital requirements is based on the Company's Solvency II internal model which reflects the current regulatory regime. This regime and our Solvency II internal model may change in future to reflect, for example, developments in our own (or the regulator's) understanding of the financial risks of climate change. The modelling also makes limited allowance for the beneficial impact of potential management actions to mitigate these.

Data limitations

For most equities and bonds modelled we have used company-specific data sourced from Bloomberg. Many publicly listed companies are measuring and publicly reporting their emissions which are a required datapoint for the calculation of climate-related metrics. However amongst smaller and privately owned companies this data is not commonly reported, and as such we have focused initially on public companies, whilst we are developing data approximations for private companies. Waiting for the data availability to reach 100% is not necessary to carry out a meaningful suite of analysis and there are a number of options for estimating missing data. Due to a lack of directly sourced data where we have used industry, sector and geography proxy data for a small proportion of counterparties, some outputs will be less accurate for these companies than if company-specific data was used. However, without this proxy data, the counterparties would have to be dropped from the model run entirely. Therefore, we were willing to slightly compromise the accuracy of some outputs to provide good coverage.

Furthermore, ESG data reporting by companies is often reported at a lag relative to other financial data. We have used the most up-to-date data available in all cases, however for a subset of analysis GHG emissions used in the scenario analysis represents data from prior years. Where available, scenario modelling is based on the most up-to-date financial and emissions data. For most companies this will include 2020 results which in some cases will be significantly impacted by COVID-19. In particular, GHG emissions may be artificially suppressed owing to a year of restricted activity, and where these have been projected forwards as part of the scenario analysis could result in companies appearing to be better aligned than if this analysis had been conducted a year earlier.

Going forwards we intend to develop our scenario modelling capability and scope further, exploring options to further improve the amount of data we can estimate, the accuracy of those estimates and working to address identified limitations in the work conducted to date. This will ensure that climate scenario modelling can play an ever increasing role in the decision making process. We plan to do this through iteratively enhancing our scenario analysis modelling, including extension of the model to other asset classes, development of our own bespoke climate scenarios, and a focus on our most at-risk physical assets.

For real estate modelling we hold the required data internally, resulting in robust data inputs to the model. The key limitations are missing longitude/latitude for some properties (in which case address details were used to approximate the location) and missing reinstatement values for some properties (in which case an assumption was made that reinstatement value is 50% of the asset value. This was benchmarked against data for which we hold reinstatement values).

Implied temperature rise (ITR) / temperature alignment

As a result of its simplicity, ITRs are inherently limited and we recognise:

- There is no common definition of what ITR means and calculations are typically opaque in terms of their methodology and key assumptions:
  i. The methodology we have used allocates a carbon budget to each company and compares that company's progress to date and expected progress against that budget. The calculation is therefore primarily sensitive to sector, geography and GHG emissions over the last five years (which include the impact of COVID-19).
  ii. It is based on emissions intensity (emissions per unit of revenue for each counterparty).
  iii. The portfolio ITR is calculated as the weighted average of individual company ITRs.
- The results are subject to the data limitations set out above, and in particular for ITR calculations projecting future emissions based on historical emissions is unlikely to capture the full picture. Going forwards there is a need for independently validated climate targets and transition plans to play a key role in calculating ITRs.
- We validate our ITR results against the benchmark BBB Global Aggregate Corporate Index, which gives some comfort that the results are reasonable. However coverage of the benchmark is relatively low.

Scenario analysis

Limitations of equities and bonds model

In addition to the limitations of scenario modelling generally, at the counterparty and portfolio level, the equities and bonds model assumes a constant balance sheet and the equal weighting of all holdings. Assumptions are necessary for the production of the model, however it is important to note that they do impact the accuracy of results, to an extent. One of the other limitations of the Baringa model is the timeline. The model provides outputs up to 30 years in the future, and while this helps to give a prediction of value at risk in 2050, the further into the future the model reaches, the less accurate it becomes.

Baringa's modelling in particular only takes into account Scope 1 and Scope 2 GHG Emissions. There are some sectors and companies that are known to be significant climate contributors owing to high Scope 3 emissions, but which come off relatively lightly in the analysis as a result. Measurement and reporting of Scope 3 emissions is expected to improve over the next few years and is expected to be incorporated into the analysis in future.

The companies selected for scenario analysis represent our largest counterparties by Market Value, and therefore are typically geographically spread. It is difficult therefore to accurately link the materiality of corporate locations back to equities and debt in a way which accurately aggregates physical risk variance to the business.

For bonds specifically we have modelled credit stresses as parallel across the yield curve. Our longer dated bonds in our portfolio are therefore modelled as behaving similarly to the shorter dated bonds.

Limitations of real estate model

The real estate model uses baseline climate peril data to model climate perils globally. In some geographies there is limited data and incomplete historical monitoring, and so the model is enhanced using simulated events set to forecast the impact of projected climate perils. Akin to the Baringa model, the view provided by the real estate modelling assumes a number of key factors remain constant, in particular the current level of national defence mitigations is assumed to remain unchanged going forwards. Although national defences may be upgraded in the future this is not considered within forecasted physical climate risk projections.

Conclusions

Despite the limitations inherent in scenario modelling, we recognise its value as a tool to improve understanding of exposure to climate risk. Our modelling counterparties are industry-leaders in climate scenario modelling and we have used their services for other disclosures. Modelling climate risk on a consistent basis provides a snapshot of counterparty-level risk to climate impacts and allows the evaluation of counterparty resilience to a range of shocks representing plausible future states of the world. In doing so, climate scenario modelling supports our understanding of climate risk across the business and ultimately will inform our approach to climate-related investment decision making in the future.

Future enhancements

The value in scenario analysis is less about the results that are produced (which represent a plausible future view of the world but nevertheless can never be truly predictive); instead by engaging with common themes across scenarios we can develop our understanding of key drivers of asset-side climate risk and identify climate threats and opportunities, which will support our overarching assessment of risk and support fund managers as part of their decision-making process.

Our key focus will be improving the capabilities of scenario analysis to support this; to do so we will aim to update future iterations of our scenario analysis to:

- For the purposes of the ORSA, include a consideration of how the risk profile of our business may evolve over time, for example as the existing business runs-off, investment portfolios are tilted to a more sustainable basis and the portfolio of new, sustainability focussed, products grows.
- Review and expand our scenarios and assumptions to reflect appropriate real-world policy scenarios.
- Investigate the extent to which different scenarios capture planetary boundary feedback loops (e.g., the point at which deforestation causes rainforests to move from carbon sinks to emitters, resulting in rainfall changes, desertification and biodiversity loss, further reducing natural carbon sequestration).
- Improve data coverage across the asset portfolios, including data on private securities where available. We are developing data approximations for private assets and will use this to develop our scenario analysis further.
- Incorporate modelling of asset classes other than equities, corporate bonds and property, subject to definition of an acceptable methodology and availability of sufficient data and models. We are a diversified investor with a material portion of our asset portfolios invested in alternative assets. These asset classes are not currently included in our scenario analysis modelling.
- Longer term to develop bespoke scenarios that represent our view of the world, which will further support the embedding of scenario modelling into our decision-making processes.

Ultimately, the objective of this scenario analysis is to inform M&G how exposed our investments are to climate change risk so to better inform the decisions we make. In order to do this more effectively, expanding the coverage of assets is an important next step.

Scenario analysis

Scenario analysis results

Equities and bonds overview

The equity and bond results represent 1,755 distinct counterparty/security exposures covering around £184 billion of exposure. The assets were projected under three climate scenarios broadly aligned to an orderly 2°C scenario, a disorderly 2°C scenario and a 4°C scenario. Under each scenario the model projects assumptions about the state of the world (for example - carbon prices), translates these into financial and operational performance for each company and assesses the alignment to a specific temperature range of that company's operations by 2030. Finally, the model quantifies the impact on equity value, probability of default and bond prices for each underlying security.

The assets modelled cover all sectors and geographies to which M&G has significant exposure. The key conclusions of our equity and bond analysis are as follows:

- The temperature alignment of counterparties showed a broad spread across 1.5°C to above 4°C. This resulted in a weighted average warming potential of 2.7°C.
- Analysis of projected credit rating migration under both 2°C scenarios showed a shift towards CCC-D ratings for some mid-tier counter parties, whilst the AAA-A bands remained largely unaffected.
- Carbon-intensive sectors (energy, materials, utilities) are significantly impacted by the actions involved in transitioning to a lower carbon economy as demonstrated by the impacts on equity values in these sectors under these two scenarios. This reflects, amongst other factors, the exposure these companies would have to increased carbon prices or taxes and the significant investment that would be needed to transform carbon-intensive operations.
- Corporate bond results follow a similar pattern to equity values, but are less severe reflecting the term structure of debt.
- Sovereign bonds have been broken down by geography, and demonstrates that emerging economies may be more exposed to both physical and transition risks.

Equities and bonds detailed results

Across all equity and bond portfolios, the model forecasts the greatest downside impact in the disorderly 2°C scenario, followed by the orderly 2°C scenario, with the 4°C scenario resulting in the smallest forecasted downside impact by 2050.

As stated previously, the learnings from climate science cannot always be wholly represented in scenario analysis. In particular, physical risk impacts are difficult to model fully and have larger uncertainty. Climate science expects them to be significant in the 4°C scenario, however impacts are not expected to materialise until after the projection period (typically 2080-2100). Owing to the structure of the scenarios which focus on purely the direct impacts (such as carbon prices) of climate risk, and do not take into account indirect impacts and the extent to which physical risk would be "priced in" to asset valuations by 2050, this can result in the impacts under the 4°C scenario appearing muted relative to transitional scenarios.

There are other likely second order impacts (such as demand factors) or the inter-dependence of climate with other natural systems resulting in asset price impacts from, for example, water shortages or ecosystem losses. In actuality, the 4°C scenario would have the most severe implications where second-order factors are taken into account, both by 2050 and in particular beyond the end of the projection period as the physical risks materialise, and these secondary impacts can result in very significant feedback loops which ultimately impact GDP.

Our portfolios have material weights towards certain sectors (industrials, mining and utilities) that would perform badly in an orderly 2°C scenario, as the significant investment required to adapt and the increased carbon prices would affect these companies' profitability. Conversely, in a 4°C scenario, these companies remain profitable without the pressure on margins arising from increased investment spend, indirect impacts of climate risk and with limited modelling of physical risks arising during the projection period. The scenario modelling assumes static portfolios and does not reflect our future investment plans, nor does it allow for investment in technology that is being developed but is not yet fully viable.

In the orderly 2°C scenario, downside impacts to asset values arise immediately and are broadly linear towards 2050, as companies' profitability is affected by the need to adapt to climate change. In the disorderly 2°C scenario downside impacts to asset values are initially mild, becoming greater after 2030, with a compressed timeline for greater investment needed to adapt to climate change.

Eventually, by 2050, asset values are lower in the disorderly 2°C scenario compared to the orderly 2°C scenario. Asset values decline linearly in the 4°C scenario, but at a lower rate than in the orderly 2°C scenario. The assets under greatest pressure in the 2°C scenarios are equities and property, which are exposed to greater transition and physical risk than our corporate bond holdings.

Our modelling partners have provided portfolio, sector, and asset level output data to us including future GHG emissions, emissions intensity, energy flows, including energy demand, and technological capabilities. These data points are then aggregated to calculate a Value at Risk metric and Temperature Alignment metric for the portfolio.

The analysis of the results has helped us to identify and define the different relevant assumptions that should be used in models, and identifying the limitations (particularly data challenges) so that we can develop plans to create a decision-useful modelling approach in the future.

Ultimately, with further refinements, scenario analysis results should be used to help highlight upcoming trends and future risks, and improve our systematic approach to identifying climate-related risks at a counterparty, sector and portfolio level.

As our climate scenario modelling capabilities continue to improve, we aim to further streamline our approach to provide higher quality outputs and analysis and better integrate climate risk into our analysis, decision-making and strategy. In future, we intend to expand our climate scenario modelling capabilities where possible to cover new asset classes, including alternative assets.

Scenario analysis

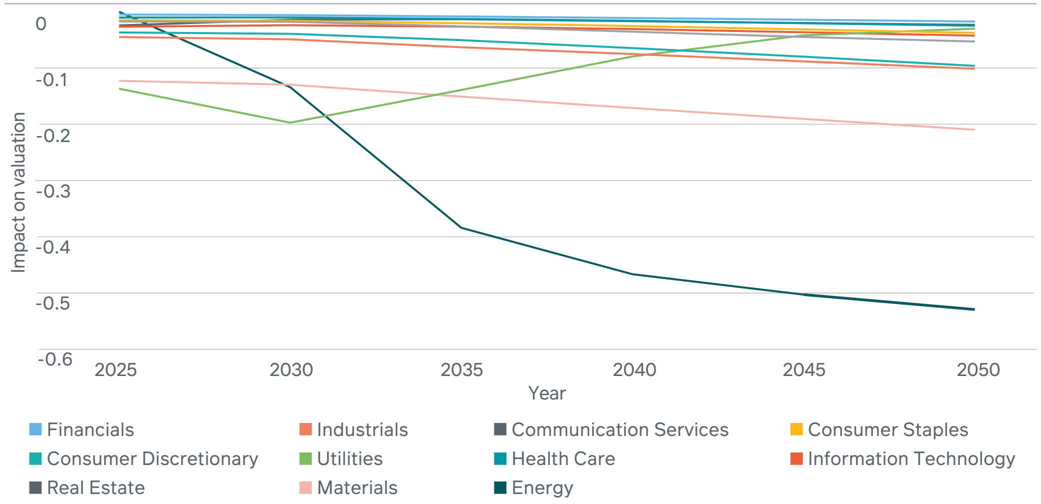
Equity valuations

The charts below show the impact on equity valuations of modelled counterparties under all three scenarios, split by sector.

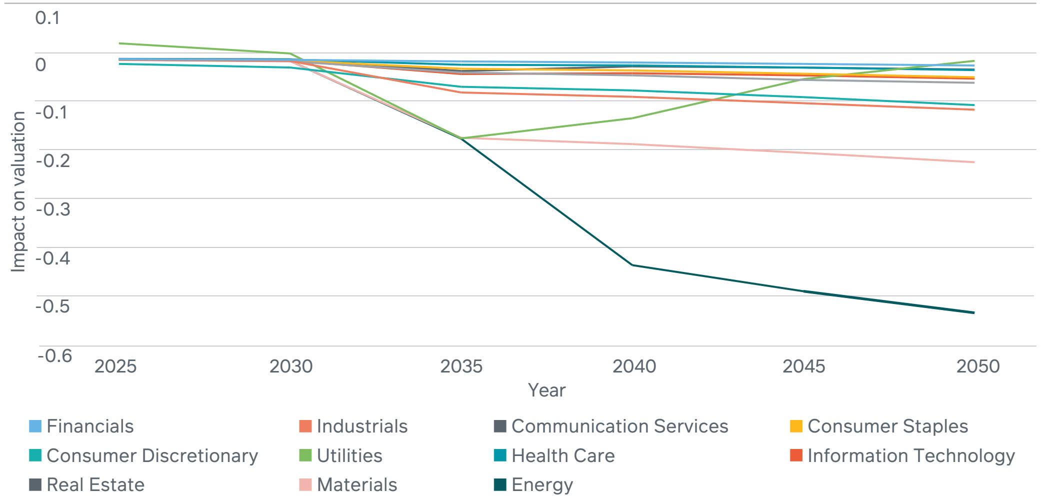
Carbon-intensive sectors (energy, materials, utilities) are significantly impacted by the actions involved in transitioning to a lower carbon economy as demonstrated by the impacts on values in these sectors under the two 2°C scenarios. This reflects, amongst other factors, the exposure these companies would have to increased carbon prices or taxes and the significant investment that would be needed to transform carbon-intensive operations.

In contrast, under the 4°C scenario (in which no further climate action is taken beyond currently agreed commitments) these sectors are forecasted to perform relatively well. As described above, these projected impacts take into account only direct and limited physical risk factors and do not include the "pricing in" of increased physical risk by 2050 in this scenario, therefore without the need to adapt and with increased physical risks further on the horizon, these sectors benefit from the continuing status quo. The worst performing sectors in this scenario are those most vulnerable to the increased disruption to physical assets and supply lines, as the increasingly warming worlds results in greater physical risk exposure globally.

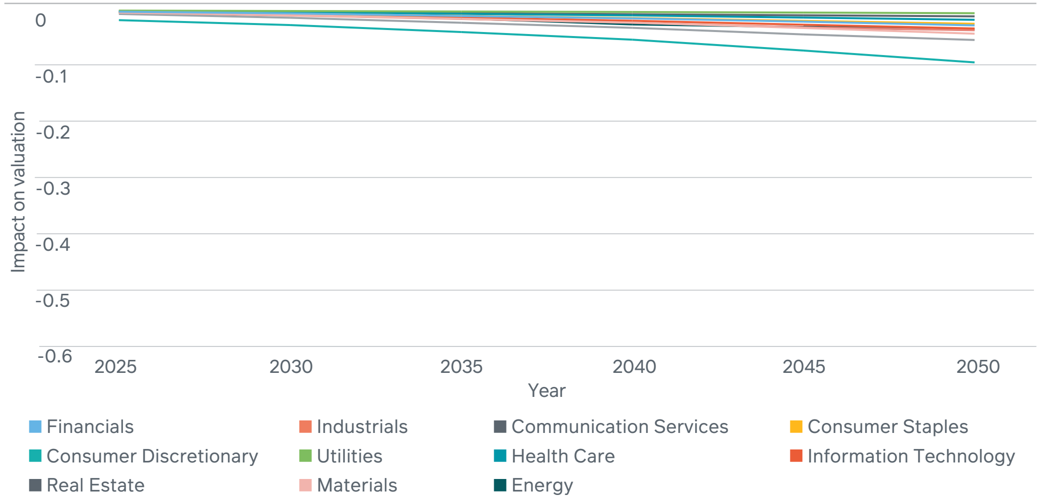
Impact on equity valuations (2°C orderly)



Impact on equity valuations (2°C disorderly)



Impact on equity valuations (4°C)

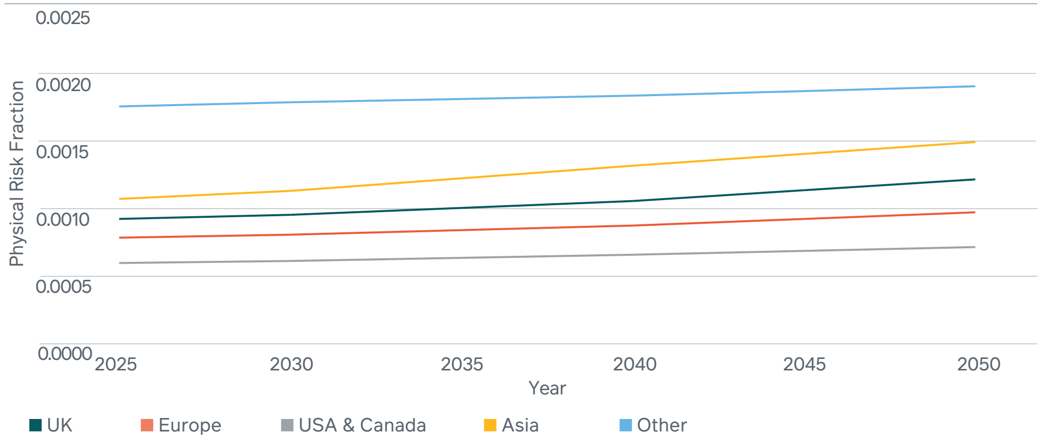


Scenario analysis

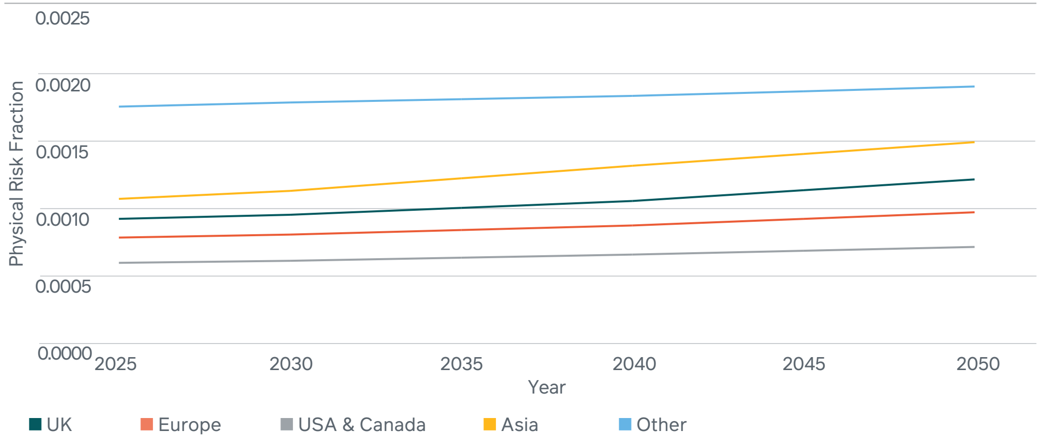
Physical risk

The charts below demonstrate this increased physical risk in the 4°C scenario vs an orderly transition to 2°C, which shows physical risk increasing across all geographies over time. The highest physical risk exposures remain in Asia, Africa, Middle East, Latina America and Caribbean under any scenario; with Asia seeing the highest growth in physical risk under the 4°C scenario.

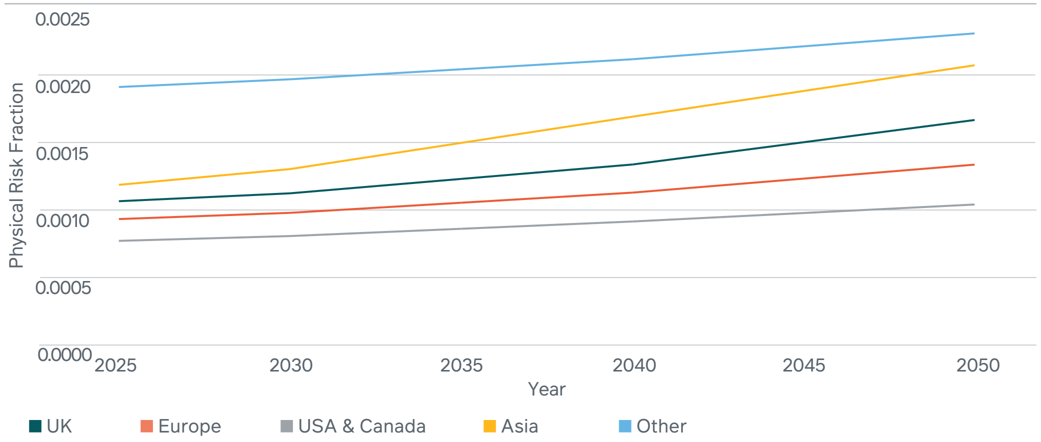
Weighted Average Physical Risk Fraction (2°C orderly)



Weighted Average Physical Risk Fraction (2°C disorderly)



Weighted Average Physical Risk Fraction (4°C)



* Other includes Africa, Middle East, Latin America and Caribbean.

Scenario analysis

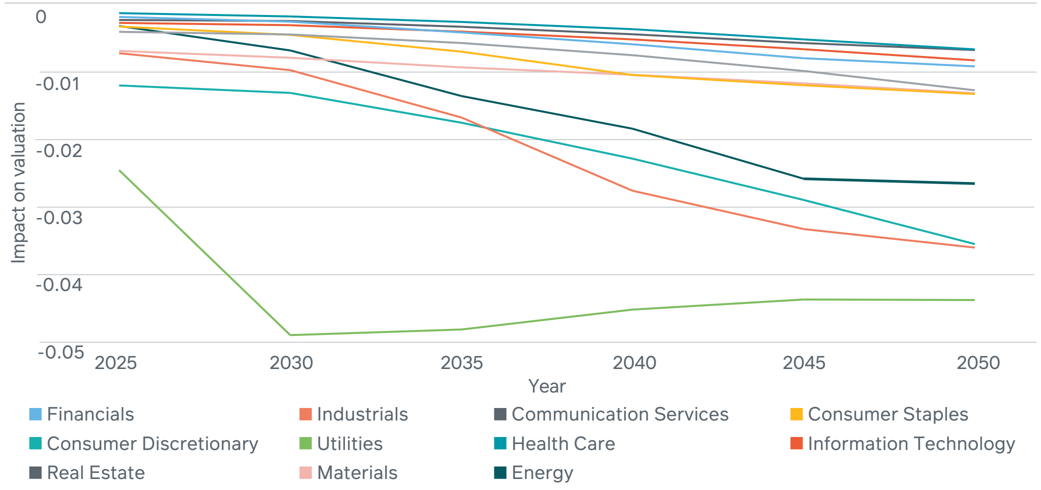
Corporate bond valuations

The charts below show the impact on bond valuations under all three scenarios, split by sector.

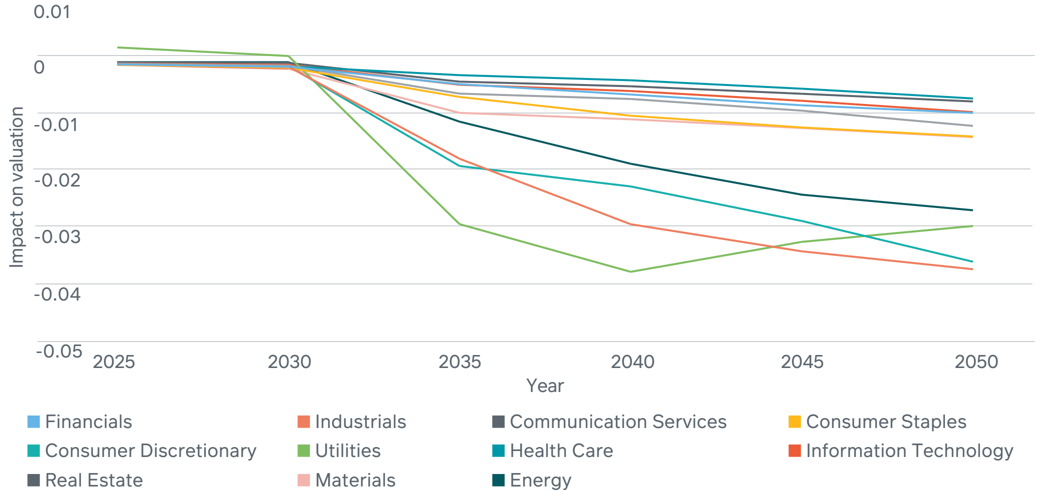
Corporate bond results follow a similar pattern to equity values, but are less severe reflecting the term structure of debt.

As with the equity stresses, the most severely impacted sectors are carbon-intensive (utilities, energy and industrials), which are particularly weakened by the impact of transition in the 2°C scenarios.

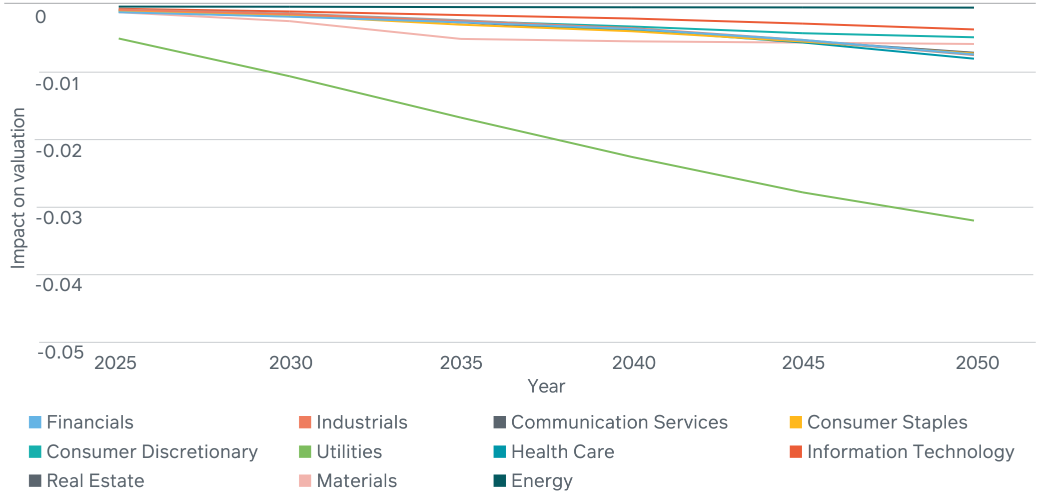
Impact on corporate bond valuations (2°C orderly)



Impact on corporate bond valuations (2°C disorderly)



Impact on corporate bond valuations (4°C)



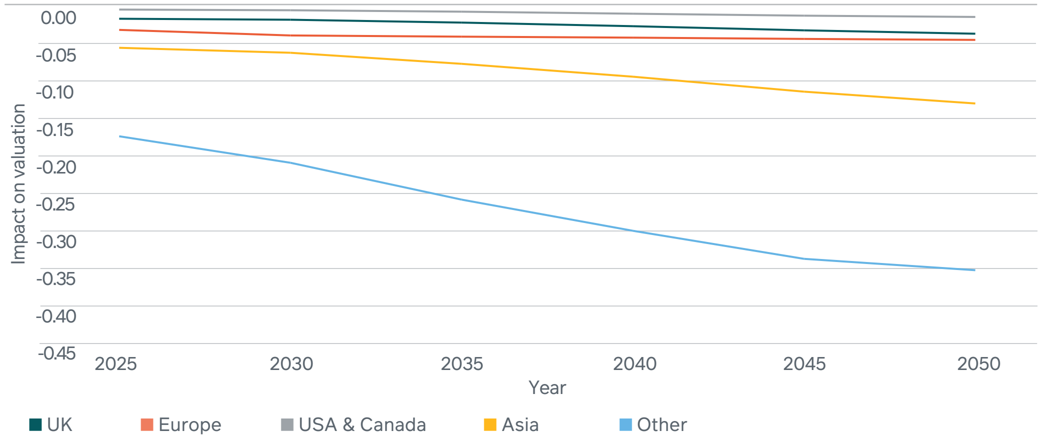
Scenario analysis

Sovereign bond valuations

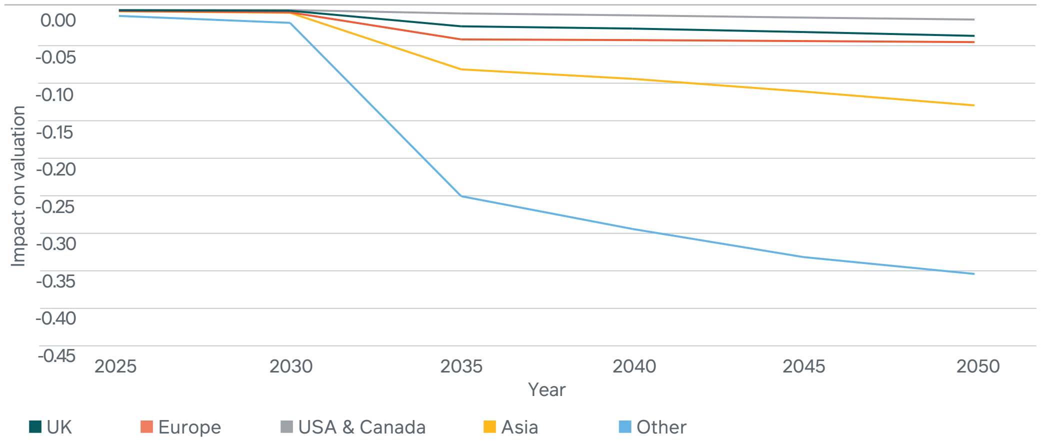
Our scenario modelling included 45 sovereign debt exposures totalling c£7 billion. The shocks to the value of these bonds follow a similar pattern to those observed on corporate debt exposures, however whilst European debt was typically more exposed to shocks, Sovereign debt in regions including Africa, the Middle East, South America and the Caribbean (grouped together on the below charts as "Other") showed a significantly higher fall due to climate risk.

These are geographies most vulnerable to climate change in terms of latitude, extreme heat and changing rainfall patterns, and are also least economically able to take adaptive actions to make them more resilient. The Sovereign exposure to oil & gas seen across Middle Eastern territories (in the 2°C scenarios), and the generally increased exposure to physical risk in the southern hemisphere (in the 4°C scenario) reflects this. This further embodies the need to ensure a just transition and that transition may need to be slower in some geographies relative to developed nations to enable them to maintain economic development and a just transition.

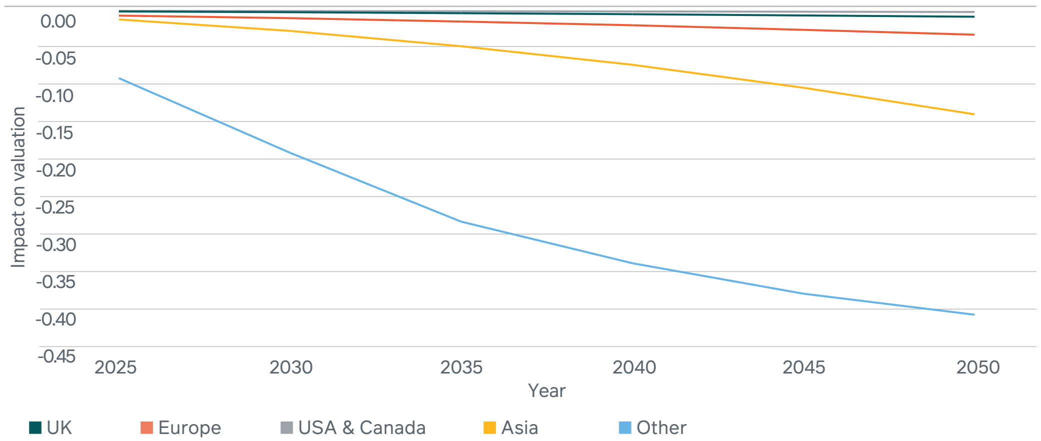
Impact on sovereign bond valuations (2°C orderly)



Impact on sovereign bond valuations (2°C disorderly)



Impact on sovereign bond valuations (4°C)



* Other includes Africa, Middle East, Latin America and Caribbean

Scenario analysis

Temperature alignment / implied temperature rise (ITR)

Our investments align to a broad range of temperatures. Whilst almost 25% of counterparties are projected to achieve alignment to a 1.5°C world by 2030 (representing an undershoot vs that company's carbon budget), a similar proportion are projected to still be aligned to 4°C or higher.

This is a forward-looking projection that projects sector-level carbon budgets and takes into account recent actual GHG emissions from companies alongside validated commitments they have made to reduce emissions, to produce projected contribution to global warming for each company by 2030. Companies with validated net zero targets (as set out in the metrics section of this report) are expected to have significantly lower ITRs than companies which have not made such commitments.

The chart below shows the proportion of counterparties aligned to each temperature range:

Temperature alignment of counterparties

%

1.5	25%
1.5-2	12%
2-2.5	7%
2.5-3	10%
3-3.5	17%
3.5-4	4%
4+	25%

The weighted average warming potential across counterparties modelled is 2.7°C.

In general, the worst performing companies under this projection are utilities (reflecting the Scope 1 carbon-intensity of their operations) and financials (reflecting their investment in carbon-intensive sectors rather than their operations given they are modelled as a proxy for the domestic economy).

The sectors with the highest proportion of companies aligned to 1.5°C are information technology and consumer staples. It should be noted that this analysis is subject to the limitation that only Scope 1&2 emissions are taken into account and it is possible the counterparties projected to be 1.5°C aligned have significant Scope 3 emissions.

This analysis enables us to identify companies that are sector leaders and laggards in carbon emissions via a simple metric, which aids comparison and input into investment research, decision making and engagement whilst taking into consideration regional differences.

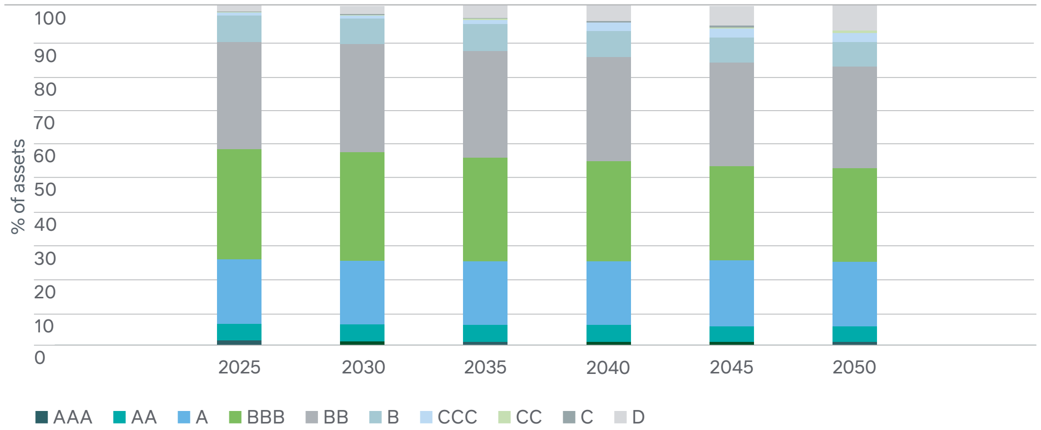
Ratings migration

By analysing projected changes in credit ratings over time due to climate risk we can form a view of how misalignment will ultimately start to affect the creditworthiness of counterparties. The chart below shows the distribution of credit ratings of the companies analysed, under a 2°C orderly scenario.

In the short term, impact on credit ratings is minimal and ratings remain broadly unaffected. In the medium term, higher quality assets such as AAA-AA bonds remain broadly stable. Over the longer term, creditworthiness appears to deteriorate, with some companies moving further down the credit rating spectrum.

There is potential for these ratings to in future encompass carbon risk into the industry profile ranking as outlined by S&P. Should this be the case, there is potential for migration through time/ adjustments for low business risk industries with high emissions to become higher risk. These industries if they are highly levered will rely on continued support of financial markets (and lesser policy change), potentially affecting their ability to invest sufficient capital to transition to the zero carbon economy.

Ratings Migration due to Climate Risk under a 2°C orderly scenario



Scenario analysis

Asset owner results

The asset owner portfolios modelled as part of the scenario analysis exercise make up a subsection of the overall asset manager results.

We present our asset owner results at the portfolio level, as we have modelled the assets held within our largest with-profits asset pool and our largest shareholder annuity portfolio. These are largely managed by our internal asset manager, and we have simplified the analysis as a sub-set of the asset manager's scenario analysis results.

We have therefore combined the shocks on asset classes together as held proportionately within each portfolio. Despite the partial data coverage, this gives an indication of how each portfolio might behave in each scenario. Sectoral breakdowns of various shocks for each asset class can be found in the asset manager's scenario analysis results.

For both our with-profits and shareholder annuity portfolios, we suffer the greatest downside impact in the disorderly 2°C scenario, followed by the orderly 2°C scenario, with the 4°C scenario giving the best outcome, with the least downside impact.

This is because we have concentrated on modelling first order impacts on companies, (e.g. carbon prices) and not necessarily modelled potential second order impacts (such as demand factors driven from GDP changes).

Our portfolios have material weights towards certain sectors (industrials, mining and utilities) that would perform badly in an orderly 2°C scenario, as the significant investment required to adapt and the increased carbon prices would affect these companies' profitability. Conversely, in a 4°C scenario, these companies remain profitable without the pressure on margins arising from increased investment spend.

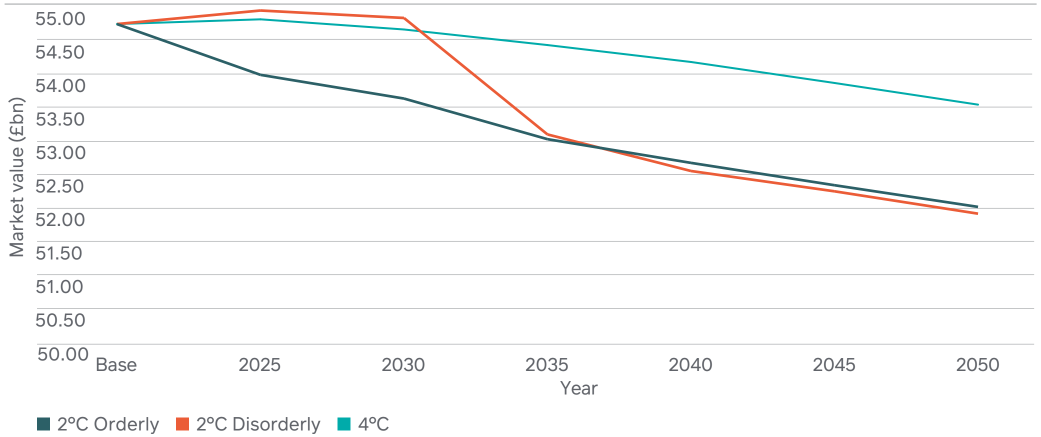
In the orderly 2°C scenario, downside impacts to asset values arise immediately and are broadly linear towards 2050, as companies' profitability is affected by the need to adapt to climate change. In the disorderly 2°C scenario, downside impacts to asset values are initially mild but then become greater after 2030, as greater investment is needed to adapt to climate change. Eventually, by 2050, asset values are lower in the disorderly 2°C scenario compared to the orderly 2°C scenario. Asset values decline linearly in the 4°C scenario, but at a lower rate than in the orderly 2°C scenario.

The assets under greatest pressure in the 2°C scenarios are equities and property, which are exposed to greater transition and physical risk than our corporate fixed security investments. Within our equity portfolios, the assets that are exposed to greatest downside are our holdings in industrials, materials and energy, as companies operating in this sector are exposed to transition risk In the 4°C scenario, the sector most exposed to downside impacts is consumer discretionary, with industrials, materials and energy perform relatively better. Material physical risk impacts also reduce our property values, and corresponding increases in credit spreads reduce our fixed security investments values.

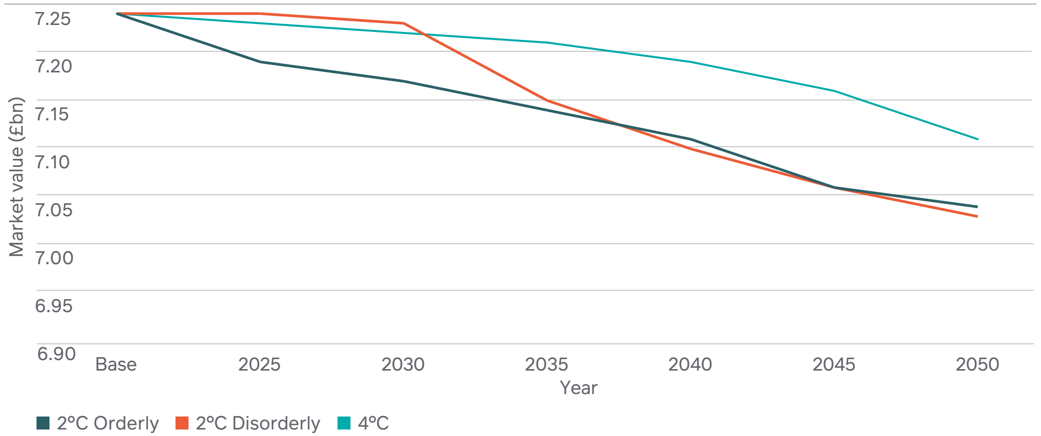
The results are similar between our with-profits portfolio (a large diversified multi-asset portfolio) and our shareholder annuity portfolio (invested in fixed income and fixed-income-like instruments). We have modelled the impacts of the scenarios largely at company level, and translated these to security price shocks. These are similar for both equities and fixed income.

There are some other limitations to our modelling approach, as we have modelled credit stresses as parallel across the yield curve. Our longer dated bonds in our annuity portfolio are therefore modelled as behaving similarly to the shorter dated bonds in our with-profits portfolios.

With-profits portfolio market value shocks



Annuity portfolio market value shocks



Scenario analysis

Real estate results

The real estate results represent 876 distinct assets, a total of approximately £40 billion by market value. The assets were projected under two climate scenarios broadly aligned to:

- an orderly 2°C scenario or RCP 2.6 and predicts a 1.6°C temperature rise by 2081-2100, compliant with the Paris Agreement.
- a 4°C scenario or RCP 8.5, which predicts an average temperature change of 4.3°C by 2081-2100, assuming no global response to climate change beyond what has already been committed to.

Under each scenario assets were rated low (<0.2% value at risk (VaR)), medium (0.2%-1.0% VaR) or high (>1% VaR) risk.

The chart below shows the proportion of high risk assets at select time periods under both scenarios (by number of assets).

Under the 4°C , the 11.3% of assets by amount (99 distinct assets) represents approximately 7.9% of the portfolio measured by reinstatement value. The table below sets out the top 10 highest risk assets in the portfolio and the proportion of their VaR.

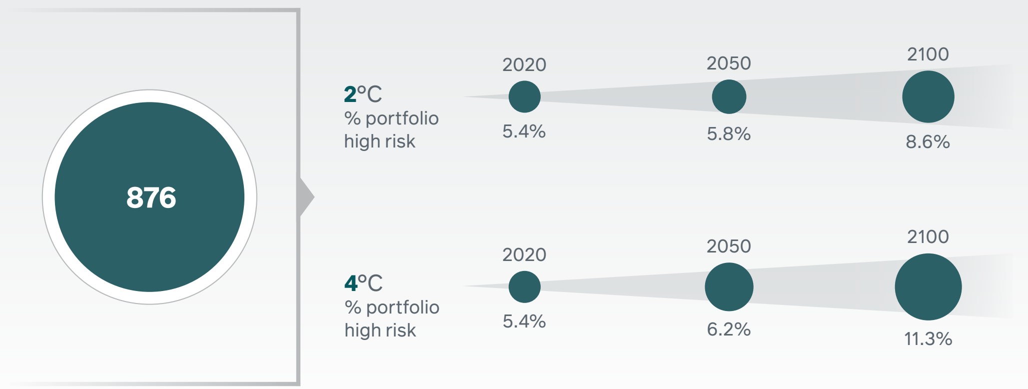
This list includes both assets exposed to a high amount of risk, and high value assets exposed to a low or medium level of risk. This table shows the risk is concentrated over a small number of assets (since the reinstatement value x VaR measure drops rapidly after the top 10). The riskiness of UK assets are all similar, representing the limited range of physical climate risks the UK is exposed to. 83.3% of our aggregated climate-related exposure is contained in 5 countries: UK, Denmark, Canada, Sweden and Japan. We measure the risk for real estate assets at 2100 given the slower emergence of physical risks relative to transition risks.

Whilst our scenario analysis has identified areas of higher risk exposure within our portfolio, our modelling approach accounts only for the current level of national defence mitigations. National defences may be upgraded in the future and, therefore, this approach contains some limitations. Where hot-spots have been identified, we will undertake further analysis to evaluate asset specific exposure and climate resilience. Over time, we seek to account for improvements in national defences and climate resilience programmes in our analysis. For example, in 2021 we undertook an analysis of the impact of potential Thames Barrier improvements on the risk exposure of London properties, and over time how we can plan to integrate such analysis into our scenario modelling.

Total assets modelled

Global average asset exposure to climate hazards

Size of circle is proportionate to the proportion of asset defined as at high risk of damage resulting from climate hazards.

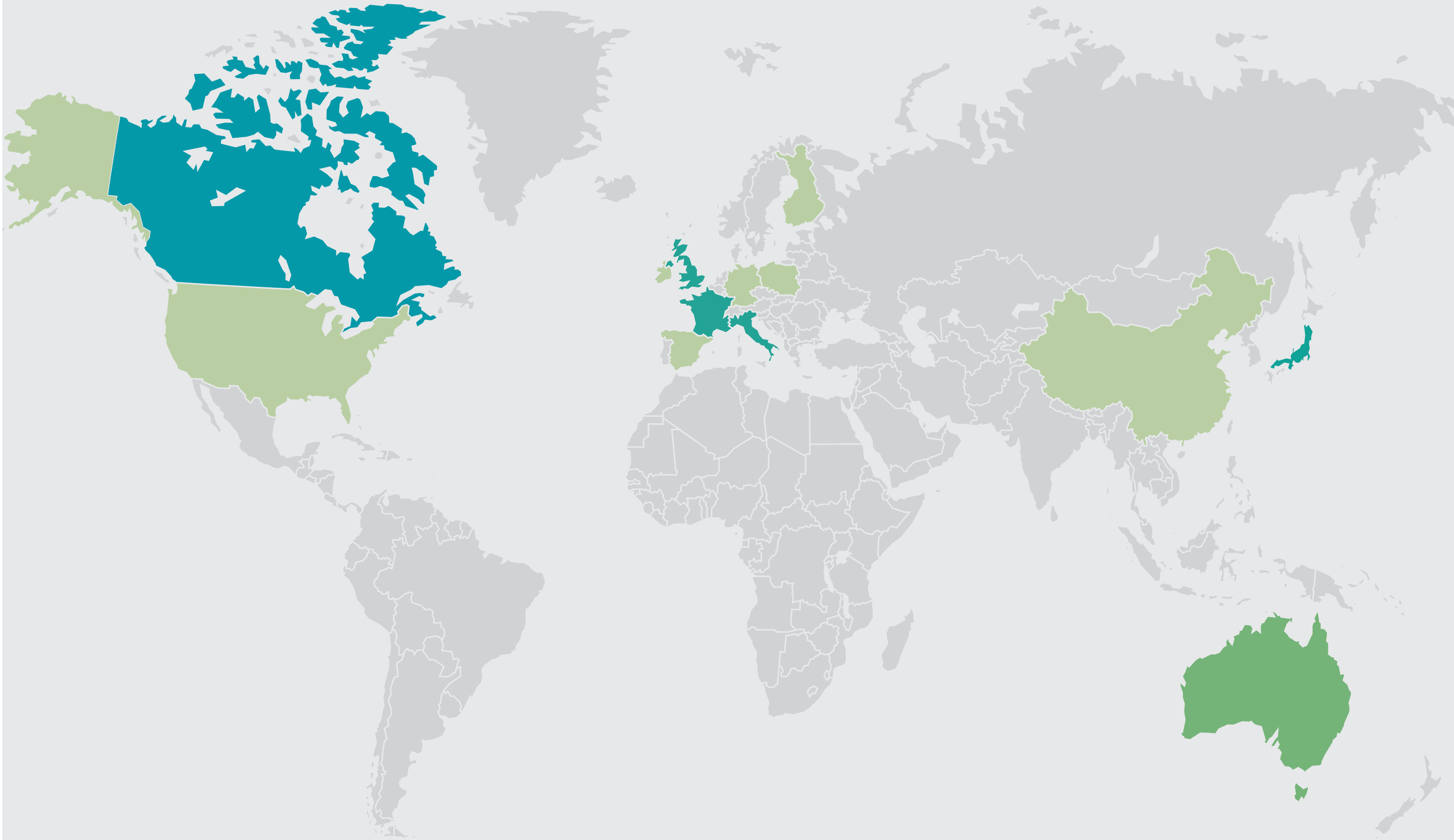


Country	Reinstatement Value (£m)	Value at risk (4°C 2100)	Reinstatement value x VaR
Denmark	439	20.6%	90
United Kingdom	126	21.1%	27
United Kingdom	108	21.1%	23
Sweden	270	5.8%	16
United Kingdom	73	21.2%	16
United Kingdom	73	21.1%	15
Sweden	1,214	0.9%	11
United Kingdom	52	21.3%	11
United Kingdom	44	21.2%	9
United Kingdom	35	21.1%	7

Scenario analysis

Global distribution of assets defined as high risk

The chart below shows the global distribution of assets defined as high risk:



Proportion of high risk assets

Lower proportion of assets defined as high risk — Greater proportion of assets defined as high risk

This initial view of M&G's exposure to climate risk across a significant proportion of our portfolio, will inform risk mitigation and adaptation strategies to reduce exposure, increase resilience, and develop potential transition opportunities to enhance the resilience of our portfolios.

We plan to do this through:

- Iteratively enhancing our scenario analysis modelling, including extension of the model to other asset classes, development of our own bespoke climate scenarios, and a focus on our most at-risk physical assets.
- Embedding the assessment of climate risk exposure and impact for any new assets as part of the investment decision-making process.

Doing business responsibly

Working with local communities

We are committed to building more resilient, inclusive communities where people can live the lives they want. This means investing in long-term programmes that encourage social mobility, resilience and sustainability.

Why this matters

At M&G, our social purpose is to help empower a million people to build better futures for themselves, their families and their communities over the next three years.

We know that many social and structural factors can make it very difficult to save and plan for the future so our programmes are designed to equip people with the skills they need to be financially secure. We want our community investment to help break down the barriers that prevent people from living the life they want.

Our support is increasingly important given the challenges faced by the ongoing cost of living crisis and we are working closely with our charity partners to ensure that we provide the most appropriate support in a meaningful, timely manner.

We have three themes which underpin our social purpose and these are all important tools in driving change:

UR	**Urban regeneration**
EE	**Economic empowerment**
S&E	**Skills and education**

Through our strategic pillars we invest in the essential needs for communities to thrive, equip people with the tools they need to be financially secure and provide opportunities to prepare for the future.

Within each theme we have established long-term programmes with international charity partnerships to help us deliver our goals not only through funding but also the experience and expertise of our own people.

Ongoing impacts of COVID-19

We are fully committed to supporting charities which are providing frontline services to our communities around the world. Providing a robust response to the global COVID-19 emergency has been essential, but the second phase of recovery and rebuilding communities in the aftermath is also critical. We recognise that the crisis will have longer-term implications for the most vulnerable in society. We are working with our charity partners so that we can continue to deliver our social programme – which focuses on supporting some of the most vulnerable and disadvantaged in society – and will have a long-term benefit over a number of years. You can read more about our community investment as a response to the COVID-19 pandemic online.

Read more
Covid Response

Governance

The ultimate responsibility for Corporate Responsibility (CR) lies with the Group Executive Committee. The responsibility is delegated to the CR Governance Committee which includes representation from senior management and oversees community investment activity as well as agreeing strategy and spend. Our CR strategy and performance is reviewed by the Group Executive Committee quarterly and by the Board annually.

Community investment

We calculate our community investment spend using the Business for Societal Impact standard (B4SI). This includes cash donations to registered charitable organisations, as well as a cash equivalent for in-kind contributions. Our total community investment spend in 2021 was £4.6 million*, of which £3.8 million was cash. The balance included in-kind donations prepared in accordance with B4SI guidelines. This included 862 colleagues who dedicated 7,280 hours of volunteer service in their communities. Furthermore, £168,747 was donated across the business by our employees through our payroll giving scheme.

The following pages detail some of our flagship partnerships, where community investment has been deployed.

M&G's Community Fund

The Community Fund is an annual grant programme that supports local charities and projects with small donations. The Committee includes over 40 colleagues across M&G locations and since its launch in September 2019, has awarded grants to almost 200 charities globally across our markets.

£4.6m*
total community investment

*KPMG has provided limited assurance over the total community investment spend in 2021 (as indicated by *) in accordance with "International Standard on Assurance (UK) 3000" – "Assurance Engagement other than Audits or Reviews of Historical Financial Information (ISAE (UK) 3000)", issued by the International Auditing and Assurance Standards Board. The assurance statement can be found on our website.

Working with local communities

How we are supporting our communities

Habitat for Humanity UR

250,000

people engaged in the programme over three years

In year one our Stopping Homelessness in its Tracks programme built a coalition of the public, voluntary and private sectors. Its purpose is to release and re-purpose public spaces to reduce homelessness and develop a model that can be widely disseminated and adopted across Europe.

Existing buildings are renovated and used to create future homes for vulnerable groups including refugees, women fleeing domestic abuse, young care leavers, and low-income families. This year construction has completed in London and Warsaw and the first beneficiaries have moved in; projects are commencing in Southern Poland and Scotland.

The Tree Council UR

100,000

pupils and teachers engaged through the three-year programme with 3,000 trees planted

We're working with The Tree Council to deliver the Young Tree Champions programme. This programme aims to plant trees, orchards and fruiting hedgerows in UK schools that would benefit from them most – including those with barren, concrete playgrounds.

During its first year, 149 schools took part in the programme. Each school created a Young Tree Champion club – and in total these clubs engaged 36,783 students and teachers in planting 445 trees in school grounds, embedding the programme into the curriculum and involving local communities.

Age UK S&E

19,500

vulnerable older people in need reached across the UK over three years

The Building Resilience programme provides a detailed, local advice and information service delivered for older, vulnerable people in need across the UK. Since launching in September 2020, we've enabled Age UK to support 2,296 older people, equipping them with the tools, skills and opportunities needed to build resilience and overcome the most challenging times, and helped 16,000 older people through calls to Age UK's National Advice Line.

Working with local communities

The Talent Foundry S&E

1,600

secondary schools supported over three years in the UK

Since the start of the pandemic, students have faced unprecedented disruption to their education and this disruption has had a disproportionate impact on students from lower socioeconomic backgrounds.

By expanding our long-standing Skills for Life Programme, we've been able to increase our support to disadvantaged young people this year. Skills for Life is a suite of employability initiatives that consists of interactive workshops, delivered virtually or in person, exploring students' strengths and areas of development, and how best to promote themselves when applying for jobs, university, or apprenticeships. In total we reached 2,908 students through a combination of face-to-face and virtual delivery over the last academic year.

Junior Achievement Europe EE

100,000

secondary school students over three years across Europe

10X Challenge from Junior Achievement Europe is an enterprise education programme accessed via a digital platform that teaches students important enterprise and financial capability skills readying them for the world of work. The programme also provides teachers with the resources they need to teach enterprise education and financial capability, particularly around the topic of longer-term saving and investment.

At the end of the second year of 10X Challenge it has reached a total of 42,663 young people across France, Germany, Ireland, Italy, Poland, Spain and the UK.

SOS Children's Villages EE

71,000

Young people and families directly benefited since launch

We are helping young people realise their full potential through digital mentoring and employability skills. The three-year Empowering Families programme helps young people and their families in Europe and India to realise their full potential by accessing entrepreneurship and leadership skills. The programme has been helping to address the negative effects on young people's mental health during the pandemic. We've supported these young people through digital mentorships involving M&G colleagues, distance learning activities, and apprenticeships – helping them to take the next steps in their employability journeys.

Doing business responsibly

This section of the report contains the values, policies and standards which help us manage our business responsibly and sustainably.

Our business is built on our core values of care and integrity

Care

We act with care – treating our customers, clients and colleagues with the same level of respect we would expect for ourselves. And we invest with care, making choices for the long term.

Integrity

We empower our people at M&G to do the right thing, honouring our commitments to others and acting with conviction. Our business is built on trust and we don't take that lightly.

Based on these core values, we have a set of clear policies and frameworks that help us ensure we work with our business partners, customers, colleagues, investors and other stakeholders in a responsible way.

Clients and Customers

Treating customers and clients fairly

We serve a wide range of customers and clients, including individual savers and investors, institutional clients and professional investors.

We promote, sell and advertise without exaggeration, or false and misleading information, and ensure that products and services offered to customers and clients are appropriate to their requests and needs.

We ensure that we treat all everyone, including our vulnerable customers, with care and integrity, and make it easy for them to get help and support designed with their needs in mind.

Communicating and interacting with customers and clients

It is critical to our strategy that we are transparent and treat our customers and clients with respect. We keep it simple in communications and do not tolerate manipulation and/or misrepresentation of information to customers and clients.

In the development of our communications we follow the regulatory guidelines of the markets we operate in, and ensure our communications are clear, fair and not misleading. This includes ensuring we never hide important information as "small print" and always making sure we present information in a balanced way to show both the benefits and the risks.

Understanding our customers better

Research helps shape our customer strategy and informs the design of our customer propositions, journeys and communications.

During 2021, we undertook a major study into customer and adviser attitudes towards ESG and sustainable investing, including how the costs of the transition to more sustainable investments should be shared. Insights from this work are already helping inform decisions about our ESG-focused fund proposition.

Although our dedicated customer research lab in Edinburgh was closed due to COVID-19, our MyView panels of customers and advisers have been very busy, helping us to improve the way we communicate tactically on a wide range of topics from ESG reporting to helping people sign up for digital services.

Customers have also helped us evaluate new features for our MyPru digital service, and given feedback on our new digital fact find to help us refine and improve this.

Modernising our business

As we continue to modernise our business, we're taking a three pronged customer-centric approach to the design process: listening to what our customers are saying about what they find frustrating or hard; using these insights to drive improvements to our services; and finally, building new digital capabilities and supporting our customers to get the best out of them.

Progress made over the last year includes:

- helping over 180,000 additional customers register for an online account so they can benefit from the self-service and digital channel capability available
- enhancing our paperless process to allow investment bond customers to withdraw funds more quickly by phone, rather than submitting requests in writing

Supporting vulnerable customers

Some of our customers need extra support from us, because of the uncertain times we live in or because they have additional needs due to certain vulnerabilities.

In 2021, we made improvements to support our vulnerable customers and specifically to help customers through the difficulties that COVID-19 has presented. These include:

- Enhancing the Serious Ill Health claim process for pension customers, to make it easier and quicker for them to claim their benefits.
- Introducing a digital document upload capability, enabling our customers to upload key documents without needing to leave their house to post paperwork back to us.
- Rolling out mandatory training, based on best practice research, to all colleagues to ensure the best support to customers who have urgent vulnerability needs and find themselves in a crisis situation.
- Commencing a key "high risk" journey review through the lens of our vulnerable customers to ensure we have designed the experience in the best way we can to support their needs, and where we haven't to implement appropriate improvements.

Putting client service at the heart of asset management growth

One of our key goals is to achieve sustainable growth in our asset management business. To achieve this, we need to remain at the forefront of client service.

Doing business responsibly

From our research at the start of 2021, we learned that clients value the quality and professionalism of our investment and client facing teams and the client service we provide, but we had more to do in technology and ESG.

Since then, we've taken significant steps on extending our ESG ambitions and capabilities, as set out in this report. We're also building a new scalable, technology enabled platform, that will cover distribution, marketing, and our end-to-end service model to ensure that as we grow our business internationally, clients in all jurisdictions receive world class service.

Engaging with customers and clients on coal

Following our announcement in March 2021 that we will phase out thermal coal from all our actively invested public investments, we've written to more than 203,000 direct customers and wholesale clients to explain why we're taking this step, and how this will affect their investments with us.

We've also engaged with over 630 institutional clients and intermediaries to seek consent to align their mandates to this new policy on coal, with the vast majority of responses received to date supportive.

UK retail intermediary sales

Under the Prudential brand, we sell retail products and services in the UK through financial advisers who are Approved Persons and who maintain relationships with the end customer.

Professional standards and training

Our sales account managers are required to attain RQF level 4 Diploma in Financial Planning and to maintain it through annual continuing professional development. They are also required to complete our own accreditation process to ensure they have appropriate knowledge and competence to sell our products.

Our Sales Support Staff are required to pass the CII Financial Services Regulations and Ethics exam.

Sales bonus scheme

The sales bonus scheme was subject to a full independent external review in 2020, with recommendations approved and implemented for 2021. The scheme uses a Quality Balanced Scorecard to assess conduct and behavioural requirements. In 2021, 50% of the total sales bonus package was supported by "non-financial" elements in the Scorecard. This ensures even more focus on good adviser and end-client outcomes as well as stringent measurements on expected colleague conduct and behaviours in line with our plc Code of Conduct.

Sales Support staff do not receive sales bonuses but also follow the Scorecard approach to ensure adherence to the conduct and quality requirements ensuring good customer outcomes are achieved.

UK restricted advice

M&G Wealth advisers provide restricted advice to end customers in the UK.

Professional standards and training

All sales staff undergo rigorous continued professional development training and testing on best practice.

They are monitored in line with Training and Competence scheme requirements, and there is ongoing risk-based quality assessment of suitability and evidential files.

Sales bonuses and commissions

M&G Wealth Advice does not set sales targets for colleagues, although bonuses for some sales staff are influenced by revenue.

Bonus schemes for sales staff are designed with weightings towards achieving good client outcomes in the context of quality of advice, service standards and compliance requirements.

Helping customers bridge the advice gap

In December 2021, M&G Wealth launched MAP, a new low-cost hybrid advice service to support customers at retirement. Advice is still provided by a human adviser but underpinned by the digital automation of the reporting, information gathering and regulatory processes. This pioneering blend of digital technology and human advice allows us to deliver outcomes much more efficiently, giving UK customers access to financial advice in an understandable, affordable and sustainable way.

Colleagues

Employment security and types of employment

Working in partnership with an external trade union plays an important part in ensuring that we continue to be a fair and inclusive employer, committed to ensuring that we have a strong colleague voice within our decision-making. We have a voluntary recognition agreement with the trade union Unite which details the ways in which both parties work in partnership to achieve these aims. Our agreement with Unite commits us to always doing everything that we can to mitigate redundancy and follow Advisory, Conciliation and Arbitration Service (ACAS) best practice with regards to the processes that we follow.

In terms of employment, we offer permanent employment, fixed-term contracts, apprenticeship graduate scheme and contingent opportunities though Resource Solutions. With regard to employment options, we have an ACAS aligned flexible working policy and we consider flexible hours, part-time working, job shares, compressed working patterns and also have some examples of term-time working arrangements (e.g. increased flexibility during school holidays).

Collective bargaining agreements and freedom of association

M&G has an internal Colleague Forum which represents all of our people based in the UK. Outside the UK, M&G also has internal colleague fora that meet any local requirements of us as an employer in those jurisdictions. M&G has a voluntary recognition agreement in the UK with trade union Unite that includes collective bargaining overpay and a commitment to transparently consult on any proposed changes across M&G that have the potential to impact our people.

Doing business responsibly

Whistleblowing programme

Our company values and behaviours require all our employees to conduct themselves with the highest professional and ethical standards. We promote and value a culture of care, integrity, openness, honesty and accountability. M&G's Whistleblowing programme, known as "Speak Out", allows anyone to confidentially report suspicions of misconduct and wrongdoing.

The "Speak Out" programme is underpinned by the provision of a secure, externally hosted, communications channel to enable employees to report concerns confidentially (and anonymously if preferred, where permissible by local law) and provide assurance that any form of retaliation is strictly prohibited. Our Whistleblowing Policy states that anyone raising concerns in good faith will not be subject to any form of retaliation.

Code of Conduct

In August 2020, we released the M&G plc Code of Conduct, our guide to the standards of behaviour that we expect all of our colleagues, across the world, to follow. Our Code is designed to ensure that we conduct ourselves ethically – with care and integrity, and in accordance with our policies and procedures as well as the laws and regulations that apply to us, globally.

Read more
Code of Conduct

Policies

Our corporate policies set out the guidelines that govern the actions of the Company and its subsidiaries, as well as of their directors, managers and employees. Links to policies relating to our corporate governance, sustainability and regulatory compliance can be found on our website.

Read more
Policies

Financial Crime and Compliance

Compliance

M&G plc and our regulated subsidiaries are subject to a wide range of regulatory and legislative requirements in the jurisdictions that they operate in. We maintain regular dialogue with our supervisors on a range of matters relevant to our regulated activities.

Reporting to the M&G plc Chief Risk and Compliance Officer, our UK-based Asset Management and Insurance businesses each have a nominated Chief Compliance Officer, who hold the regulatory status under the FCA's Senior Managers Regime of senior management function 16 (Compliance Oversight).

Outside of the UK, Local Chief Compliance Officers are appointed, subject to the relevant regulatory requirements, with Compliance personnel located in Singapore, Japan, India, USA, Luxembourg, Ireland and Poland.

M&G has implemented policies, procedures and controls designed to ensure compliance with our legal, regulatory and fiduciary duties. To support these, all employees receive periodic training on matters of regulatory interest including, but not limited to, Market Abuse, Conduct, and Conflicts of Interest.

Compliance Advisory teams provide advice and guidance to colleagues in the first line of defence, and provide ongoing oversight via participation in key business forums and committees.

Compliance Monitoring teams undertake risk-based oversight and assurance of the regulated entities in the M&G plc group and of regulated activities delegated to third parties, through deep dives and routine monitoring based on a risk-based compliance monitoring plan.

Business-specific plans are reviewed and approved annually by the Audit Committees of M&G plc and the Group's Material Subsidiaries, with local plans reviewed and approved by boards and/or committees of the regulated entities outside the UK.

Financial Crime Compliance

M&G has a no-tolerance approach to financial crime and we are committed to playing our part in creating a safe and secure global financial system and detecting and reporting criminal conduct to law enforcement agencies wherever we operate.

M&G plc has a dedicated Group Financial Crime Compliance team (GFCC), led by the Group Director of Financial Crime Compliance. The team has specialist financial crime experience and expertise to oversee and support financial crime teams and the business with its systems and controls across the range of locations in which we operate. The teams ensure robust measures are maintained to prevent our products being used for the purposes of financial crime (including money laundering; terrorist financing; sanctions; fraud; bribery and corruption; and the facilitation of tax evasion).

M&G's Financial Crime Policy (including business Standards) is produced by the GFCC team and approved by the Group Director of Financial Crime Compliance and the Board. All employees are bound by the policy requirements and these are covered within the mandatory training for all M&G employees that are required to be completed periodically.

As part of the GFCC framework, M&G applies Customer Due Diligence (CDD) as well as Screening in respect of all business relationships we enter into. This is done in accordance with anti-financial crime Policy and business Standards underpinned by guidance issued by the Joint Money Laundering Steering Group (JMLSG), in compliance with the relevant regulations as well as the Financial Conduct Authority financial crime guide.

Enhanced due diligence is applied to relationships involving Politically Exposed Persons (PEPs) and other high-risk customers. Such relationships are approved by senior management and reviewed periodically. Where necessary, M&G conducts investment due diligence to ensure the funds invested are not to be used to further financial crime.

M&G is also subject to sanctions regulations issued by the following global regimes, including (but not limited to):

- European Union (EU)
- United Nations (UN)
- Office of Foreign Assets Control (OFAC)
- Office of Financial Sanctions Implementation (OFSI)
- Commission de Surveillance du Secteur Financier (CSSF)
- Monetary Authority of Singapore (MAS)
- Hong Kong Monetary Authority (HKMA)
- Department of Foreign Affairs and Trade (DFAT)

We have a sanctions programme in place, to ensure that we adhere to all applicable sanctions laws and regulations in the jurisdictions in which we operate.

Doing business responsibly

Human Rights and Modern Slavery

Human rights

Our business is built on trust and we do not take this lightly. We believe in supporting human rights, whilst acting responsibly and with integrity in everything we do.

We are committed to working with our suppliers and stakeholders to help end slavery, human trafficking, child labour and any other abuse of human rights.

Guided by our values of care and integrity, a responsible mindset drives what we do across the whole of our business: as a corporate entity, asset owner, asset manager, and through our relationships with our stakeholders including our communities.

We comply with local laws and regulations in every jurisdiction in which we operate and strive to uphold the principles and expectations outlined in our Statement of Human Rights, which is published on our website.

Modern Slavery

M&G plc recognises our responsibility to comply with all relevant legislation included within the Modern Slavery Act 2015.

Our Modern Slavery Transparency Act (MSA) Statement (published in May 2022), confirms our approach to comply with all relevant legislation.

It includes the steps we take to assess and mitigate the risk of Modern Slavery and human rights violations within our business and supply chains and how we have managed, and will continue to proactively monitor, those risks.

A number of enhancements were made during 2021 to the frameworks in place to identify and mitigate the risk of Modern Slavery and human rights violations in our supply chain.

These include the development of the M&G plc ESG Risk Management Framework, M&G plc ESG Risk Policy and the supporting M&G plc Supply Chain Modern Slavery Business Standard. In addition, a Modern Slavery Awareness training course was developed and rolled out to key stakeholders, including the Board and senior management.

We have further embedded a co-ordinated response to the requirements of the MSA, including:

- Highlighting our expectations around Modern Slavery within all tender activity.
- Identifying high risk categories of spend.
- Performing reviews of our core suppliers to understand the associated Modern Slavery risks.
- Enhancing our Supplier Code of Conduct to reference Modern Slavery.

Political donations and public policy engagement

It is our policy as a firm not to donate to, or otherwise back, political parties or candidates. We do, however, participate actively in discussions on public policy. Government policy shapes the environment in which we operate and we take seriously our responsibility to all of our stakeholders to be a responsible participant in the public debate.

The knowledge and expertise that we gain from helping our customers save and invest for the long term, and in supporting economies and society through our investments, give us an insight that we believe can make a useful contribution to policymaking. We use our influence as a global investor and asset owner to drive positive change in government policies that will encourage sustainability.

Public policy: the themes that shape our engagement with governments

Investing responsibly for future prosperity

How we invest the money that our customers have entrusted to us matters to them and to the wider societies of which we are part. Public policy influences the types of assets into which we can invest and the conditions under which we can do so. With sustainability at the heart of our business, we work with governments to ensure that the policy frameworks help us to play our part in making finance green and sustainable, and in delivering the transition to net zero.

Helping adapt to demographic change

In countries where individuals are encouraged to take on more of the responsibility for their own long-term financial security, it is vital that public policy supports them to do that. We share our expertise with legislators and regulators to help to ensure that the new policies and rules support, not hinder, successful development of long-term savings products.

Taking a global perspective

We have colleagues, customers and investments across the world and public policy determines whether and how cross-border activities can flourish. We participate in discussions with international bodies and national administrations to encourage openness and coherent global standards.

Our engagement includes work on climate change, promoting better integration of ESG into financial market regulation more broadly, including prudential standards, and further development of sustainability disclosures, reporting and ESG taxonomies. The engagement we undertake is done both directly in our own name and via industry bodies and initiatives of which we are part. We are voluntary participants in the EU's Transparency Register (registration number 167169536278-67): our entry provides further public information on our activities in the EU and can be consulted.

Read more
Public Policy

Doing business responsibly

Security

Customer data privacy

Three key elements support customer trust in M&G: using customers' personal information only to provide the service they expect, taking very robust steps to protect their personal data, and being transparent and accountable to our customers as custodians of their personal data.

Since 2018, the EU General Data Protection Regulation (GDPR) has set a high standard for the way that businesses must use, manage and process personal information.

At M&G, we take our privacy responsibilities very seriously, reflecting our values of care and integrity. Our overriding focus is on having robust processes and procedures in place to ensure that customers' personal data remain secure.

Our Chief Data Protection Officer and a team of Privacy specialists work with the business to ensure that privacy risks are identified early and are pragmatically managed at both a strategic and operational level.

Privacy risk is appropriately controlled and managed with practical, pragmatic and proportionate measures to mitigate its impact. One way we do this is by conducting Data Privacy Impact Assessments (DPIAs) for activities that involve the processing of personal data. DPIAs in turn demonstrate our wider approach to support ways of working which are privacy compliant by default.

Our customers are kept informed about how we use their information at the point of data collection, and throughout our relationship with them, including through product-specific and service-specific Privacy Notices. We have also developed operational processes to fulfil data subject rights specified in GDPR and have a dedicated team responsible for servicing all Data Subject Access Requests.

We have a process to manage our relationship with the UK's Information Commissioner's Office and equivalent supervisory authorities outside the UK. This helps us engage with regulators, manage any complaints or enquiries and maintain appropriate registrations.

Our privacy policy

Our Privacy and Data Protection Policy operates across all group companies and covers the requirements of all six GDPR Data Protection Principles and a further principle that runs across all GDPR compliance: accountability. The policy supports both showing and documenting our compliance with GDPR.

Our Privacy team delivers ongoing guidance to reflect changes in law, regulatory guidance, and industry best practice. The team also provides ongoing privacy advice across the business as well as supporting ways of working with our strategic business partners.

Training on data protection

Privacy compliance starts with the embedding of a culture of data protection across M&G. This is supported by senior management sponsorship and mandatory Data Protection Privacy training and awareness for all colleagues. Colleagues are reminded of the importance of the training and are required to refresh their training periodically.

Looking ahead

We are committed to the continuous improvement of our privacy programme to enhance our sustainable compliance with GDPR, as well as other applicable data laws around the world, as they arise. To that end, we keep updated on developments in the privacy and data protection landscape, both in the UK and internationally.

Cyber security

Cyber security is a growing threat to businesses and their customers, and strong information security controls are of vital importance to M&G. Approximately 10% of M&G's technology budget is now spent on information security.

We have an established and detailed Information Security Framework including policies, standards and controls, aligned to recognised International Standards including the ISF SoGP (Information Security Forum Standard of Good Practice).

The Policy element of the framework is reviewed annually and any changes approved.

We have adopted a three lines of defence model to assure the controls relating to these key risks. The technology control environment is managed by the Chief Information Technology Officer (CITO) area with oversight and review by the Chief Risk Officer (CRO) area and Internal Audit.

Various mitigating solutions are in place, such as:

- Intrusion detection/prevention systems (IDS/IPS) and Denial of Service (DDoS) mitigation.
- Antivirus and zero day malware solutions.
- Secure VPN appliances are deployed for remote access.
- High availability firewalls are deployed with a physical Demilitarised Zone to monitor ingress and egress traffic.
- Access to system/network ports is closed by default and all changes to firewalls are logged and approved prior to granting authorisation for the change.
- Standard restrictions apply on webmail, file sharing, instant messaging and social media sites.

We have an established Security Incident Process that outlines a structured methodology to be followed when handling data incidents which includes processes for establishing the risk, isolation and containment, and recovery and notification.

The Cyber Security Incident Response team provides 24 hours a day, 7 days a week, 365 days a year response to cyber security threats such as phishing, malware, exploit attempts and DDoS. Security Operations Centre (SOC) monitoring is in place.

Doing business responsibly

Secure development and encryption mechanisms are in place. Internal security scanning of code, penetration testing (at least annually) and infrastructure vulnerability scanning are undertaken in regards to internet facing applications to ensure that they are secure. Several penetration testing providers are employed and these are certified and accredited.

Access to M&G plc information assets must be authorised based on appropriate business need and provided in accordance to the principle of least privilege access (role based access control). Segregation of duties is maintained throughout the provisioning, review and de-provisioning of both privileged and non-privileged accounts. Process controls are in place for joiners, movers and leavers. An inventory is maintained of all machines and installed software to ensure effective asset management and that the latest patches and fixes are applied.

A security education and training programme has been established as part of the induction process, and security training is provided regularly thereafter to promote information security awareness and embed a positive security culture. All staff are required to complete an annual computer based training package and adhere to the Information Security Code of Practice (ISCOP). Ongoing phishing awareness training is conducted on all users several times a year.

Thorough security due diligence is required to be performed on any suppliers which have been recorded as using or storing business sensitive or personal data. This is repeated on a regular cycle depending on risk rating of the supplier.

Where possible, we obtain independent assurance regarding internal controls from material service providers. These are reviewed on a timely basis, the impact of any control weaknesses is evaluated and noted, and action is taken to mitigate any associated risks as appropriate. Contracts are in place containing information security clauses defining the right to audit and appropriate security controls.

Supply chain

Supply chain emissions accounted for over 90% of corporate emissions in our 2019 baseline, so working with our suppliers of goods and services to understand and contribute to their environmental plans, is critical to M&G achieving our targets.

Our Commercial, Procurement and Corporate Sustainability teams are working together to try to reduce our supply chain emissions and help us achieve our net zero 2030 commitment, as well as addressing wider social and governance topics.

In 2021, we met with many of our material suppliers to communicate our net zero ambitions and to understand their plans on reducing their environmental footprints. Our aim in 2022 is to continue these conversations and begin quantifying their impact and the measures being introduced to reduce this.

Tax

We manage our tax affairs to provide responsible and sustainable support to our business strategy. We deliver this through our day-to-day operations following a set of guiding principles:

1. Tax compliance

We act responsibly in all of our tax matters. We understand the importance to governments and societies of paying the right amount of tax at the right time in the right place.

2. Approach to tax

We take an objective view of the generally understood interpretation of the tax laws and regulations in each jurisdiction in which we operate.

3. Governance

We manage tax (including uncertainties and risks) in line with our governance framework and risk management procedures.

4. Transparency and engagement with stakeholders

We provide transparent disclosure of our tax affairs to better inform our stakeholders of how tax works in our business and our tax governance practices. We respect the tax authorities with which we interact. Where possible and following prevailing practice, we seek to build constructive relationships with tax authorities, discussing and resolving matters in real time.

We place great importance on having an effective relationship with those who supervise us and our markets. Our customers' interests are best served when we work constructively with our regulators. Therefore, positive and transparent engagement with tax authorities, which leads to the timely and accurate payment of taxes, helps the societies in which we operate, provide valuable public services and build infrastructure for the benefit of the wider community and the economy.

We do not provide tax advisory services. Our customers and investors are responsible for their own tax affairs. In all jurisdictions that we operate, we fully comply with legislation that requires us to provide information to our customers and investors to meet their legal obligations.

We published our first Tax Strategy in 2020 (2019 Group Tax Strategy) which outlined our approach to being a responsible taxpayer, our total tax contribution, how we manage our tax affairs and governance and management of tax risk. Our second Tax Strategy, covering the reporting year 2020, was published in May 2021.

Read more
Tax

Supplementary information

Supplementary information on metrics

Metric	Data	Calculation	Rationale	Limitations
Financed Carbon Emissions (Scope 1+2) (tCO_2e) **Financed Carbon Emissions (Scope 1+2) / AUM (tCO_2e /£m invested)**	MSCI Carbon Emissions Scope 1&2, MSCI Enterprise Value including Cash (EVIC), Market Value from relevant AO/AM security dataset.	FCE is the Scope 1+2 emissions * (market value/EVIC) ie the total emissions of a company multiplied by the percentage of the company that security represents. This represents the carbon emissions contained in the MSCI dataset. It omits the emissions that are unknown due to coverage limitations. FCE / AUM normalised using the relevant AO/AM dataset, including only the AUM that we have an FCE for.	This is the Partnership for Carbon Accounting in Finance (PCAF) approach.	The emissions metrics are caveated by their coverage from third party providers, coverage is the percentage of market value that we have both emissions and EVIC data (and therefore can calculate FCE) for the Equity and Fixed Income AUM. Emissions are for the most recent year available from third party providers. Over 86% of Scope 1 and 2 emissions data across both AM and AO portfolios, are based on companies' reported emissions with the remaining being estimated by third party data providers.
Weighted Average Carbon Intensity (Scope 1+2) (tCO_2e /£m sales)	MSCI Carbon Emissions Scope 1&2, MSCI Sales data, Market Value from relevant AO/AM security dataset.	Carbon intensity of a single company is carbon emissions (Scope 1+2)/Sales Revenue. This is then weighted by market within the entire book of assets to arrive at an AM/AO WACI i.e., AM WACI=Sum of (Company WACI * Security weighting).	This is the PCAF approach.	The emissions metrics are caveated by their coverage from third party data providers, coverage is the percentage of market value that we have both emissions and sales data. Emissions are for the most recent year available from third party providers.
Fossil Fuel Exposure (£) (excluding revenue from fossil fuel based power generation) **Fossil Fuel Exposure (%) (excluding revenue from fossil fuel based power generation)** **Fossil Fuel Exposure (£) (revenue from fossil fuel based power generation)** **Fossil Fuel Exposure (%) (revenue from fossil fuel based power generation)**	MSCI's fields for Oil and Gas revenue (any revenue from the whole value chain), revenue from thermal coal mining and Market Value from relevant AO/AM security dataset; in absolute terms and divided by AUM of relevant dataset. MSCI's fields for company derived revenue linked to Oil and Gas and Thermal Coal based power generation and Market Value from relevant AO/AM security dataset, in absolute terms and divided by AUM of relevant dataset.	Sum of((Fossil Fuel Fields)*(Security Market Value)). Sum of((Fossil Fuel Fields)*(Security Market Value)) / AUM.	MSCI provides significant coverage of emissions of data providers - the four fields used to derive the two fossil fuel exposure metrics give the widest view of exposure to fossil fuels. If new elements, such as gas, are added to the EU taxonomy in the future, this could lead to potential overlap and uncertainty as to how this metric aligns with the FTSE Green revenue dataset into the future.	This data is caveated by an unspecified MSCI coverage – it is unknown which companies in our universe are not covered by MSCI, this is assumed to be immaterial. Exposures are for the most recent year available from MSCI.
Net Zero Aligning "Committed" (£) **Net Zero Aligning "Committed" (%)**	SBTi's list of companies who have committed to set targets, Market Value from relevant AO/AM security dataset, in absolute terms and divided by AUM of relevant dataset.	Total Market Value of SBTi Committed securities. Total Market Value of SBTi Committed securities/AUM.	SBTi is a recognised body to independently verify science based targets for many industries.	This data is a complete list of all SBTi members as of Dec 2021. A parent's target cascades down to its subsidiaries, the subsidiary's target does not roll up. Having an SBTi-approved target or committing to set an science based target does not necessarily mean that companies adopt credible coal phase-out plans, therefore these indicators are distinct from our work on the coal policy. A small number of SBTi membership as of 31 December 2021 included Oil & Gas corporates, and subsequently SBTi have recently changed their criteria, resulting in some departures from membership.
Net Zero Aligning "Targets Set" (£) **Net Zero Aligning "Targets Set" (%)**	SBTi's list of companies who have Targets Set, Market Value from relevant AO/AM security dataset, in absolute terms and divided by AUM of relevant dataset.	Total Market Value of SBTi Targets Set securities. Total Market Value of SBTi Targets Set securities/AUM.		

Supplementary information on metrics

Metric	Data	Calculation	Rationale	Limitations
Green Exposure (£) **Green Exposure (%)**	FTSE Russell's EU Taxonomy Aligned Green Revenue %, Refinitiv's Green Bond Dataset, Market Value from relevant AO/AM security dataset.	Sum of((Green Revenue % Fields)*(Security Market Value)). Sum of((Green Revenue % Fields)*(Security Market Value))/(Total AUM).	FTSE Russell is the leading data provider, and we have used the more stringent of the two Green Revenue Percentages, those corporates deemed EU Taxonomy Aligned (FTSE methodology). An addition to this, the total market value of the green bond is assumed to be 'green' if it fits our definition of green bonds that are CBI aligned and CBI certified (data provided by Refinitiv).	Dataset from Refinitiv is valid as of December 2021. This indicator does not screen for the EU taxonomy aspect of "Do no significant harm".
Climate engagements (M&G) **% of asset manager FCE**	Internal M&G definition of engagements conducted within Climate and Net Zero pillars, aligned with the PRI. M&G climate engagements also include CA100+ engagements, hence there is an overlap between the two engagement metrics.	The % of FCE contribution for companies we had climate related engagements with in 2021 and are responsible for.	This is aligned to the PRI.	The measure includes both successful and unsuccessful climate engagements in 2021.
Engagements (CA100+) **% of asset manager FCE**	The list of companies under CA100+ that M&G has indirectly or directly engaged with, and the FCE contribution of those companies.	The % of FCE contribution of CA100+ engaged companies.	As a member of CA100+ and a lead on certain engagements, these are the companies that we are collectively influencing towards decarbonisation.	The CA100+ list is updated annually, with this list correct as of December 2021.
Real Estate GHG Emissions (000s tCO_2e) Scope 1+2	Energy data collected at the asset level from third party property managers, based on a mixture of meter reads, automatic meter data and utility invoices. Estimation was applied to address data gaps using industry defined methodology.	Scope 1 + Scope 2 Emissions.	We employ the use of specialist ESG consultants to support in data collection, analysis. Data is collected on a quarterly basis and is subject to both internal and external review annually. GHG data has been prepared in accordance with the GHG protocol, as well as real estate environmental reporting guidelines, including: GRESB Real Estate Assessment, INREV Sustainability Reporting Guidelines and UK Better Buildings Partnership Net Zero Carbon Pathway framework.	The asset manager figures account for 90% of direct real estate 2020 AUM of £32 billion (excluding cash) as carbon emissions are not provided for indirect externally managed funds and for a limited number of discretionary funds. Data sources which are reliant on manual data entry (meter reads) may include anomalies. GHG Emissions for Real Estate aggregates fund-level information from multiple reporting periods. Further information is available on request.
Real Estate GHG Emissions (000s tCO_2e) Scope 1,2+3	As above, in addition Scope 3 emissions data included the using of tenant provided energy data. Where data could not be obtained, estimation was made using industry benchmark data (GRESB and other data sources). For purchased goods and services and capital goods, financial data was used as a proxy and converted using industry standard emission conversion factors.	Scope 1 + Scope 2 + Scope 3 Emissions.		As above, plus estimates of Scope 3 emissions are subject to the challenge of fair apportionment of emissions to the relevant property. Tenant energy data is not easily accessible for all funds as it is controlled by the tenant. GHG Emissions for Real Estate aggregates fund-level information from multiple reporting periods. Further information is available on request.

Glossary

Key terms and words	Category	Definition
Active ownership	Key words and terms	Investors actively using their voting rights and/or directly engaging with company management on ESG issues, as well as wider matters of business strategy, to ensure the company's interests are aligned with their own. Active ownership efforts can help to reduce risk and enhance long-term shareholder value.
BBP (Better Buildings Partnership)	Measurement standards	A collaboration of commercial property owners who are working together to improve the sustainability of existing commercial building stock. Priorities include investing, lending measuring, reporting, operations, technology and property management.
Best-in-class	Key words and terms	Focusing investment on companies that have historically performed better than their peers within a particular industry or sector, based on analysis of ESG factors. This typically involves positive or negative screening.
BREEAM	Other	BREEAM is an international scheme that provides independent third party certification of the assessment of the sustainability performance of buildings, infrastructure projects and communities. The building or project is assessed by a qualified BREEAM Assessor to make sure that it meets the quality and performance standards of the scheme. Assessment and certification can take place at different stages, from design and construction through to operation and refurbishment. An M&G Real Estate example is the 40 Leadenhall office development site. The new buildings' carbon emissions will be 30% below current regulations and are expected to achieve a BREEAM Excellent rating.
Carbon Disclosure Project (CDP)	Key words and terms	CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Our CDP score is an indicator of how we measure, disclose and manage our carbon emissions footprint, and achieving this leadership level rating shows our commitment to address climate change across our business.
Carbon footprint	Key words and terms	A carbon footprint is the total measurement of an individual's or entity's greenhouse gas emissions. This can be split into Scope 1, Scope 2 and Scope 3 emissions which represent: direct emissions from owned or controlled sources; indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed; and all other indirect emissions that occur in a company's value chain.
Carbon intensity	Key words and terms	In the context of financial services, the carbon intensity of a firm is calculated by dividing the carbon emissions of the firm by its revenues. This can then be used to calculate the carbon intensity of a portfolio of securities. Rating agencies such as MSCI use them as a way of comparing companies in the same sector. Regulators request companies to disclose their carbon intensity using a financial metric and a non-financial metric.
Carbon net zero	Key words and terms	A state where any greenhouse gas emissions are offset by emissions reductions of an equivalent amount.
Carbon neutrality	Key words and terms	Carbon neutrality, or having a net zero carbon footprint, refers to achieving net zero carbon emissions by balancing a measured amount of carbon released with an equivalent amount sequestered or offset, or buying enough carbon credits to make up the difference. It is used in the context of carbon dioxide-releasing processes associated with transportation, energy, production, and industrial processes, such as production of carbon neutral fuel.
Carbon pricing	Key words and terms	Carbon pricing is an instrument used to capture the external costs of emitting greenhouse gas into the atmosphere. Implementing a price on carbon provides an economic signal to those contributing to global emissions and encourages a change in behaviour to avoid increasing costs.
Carbon removal	Key words and terms	The process of removing carbon dioxide from the atmosphere and locking it away for decades, centuries, or millennia. This could slow, limit, or even reverse climate change. Examples include nature based solutions such as reforestation or technology based solutions such as carbon capture and storage from an industrial process or direct air capture.
Circular economy	Key words and terms	An economic model that seeks to recycle and reuse products in order to reduce waste. Usually presented in contrast with the traditional so-called "linear" economy's model of making products and discarding them after use.
Climate Action 100+	Engagement bodies	An investor-led initiative, which was set up to make sure the world's biggest corporate greenhouse gas emitters take action on climate change. It includes more than 540 investors and was formed in the wake of the 2015 Paris Agreement. M&G undertakes a number of investee company engagements collectively with Climate Action 100+.
CBES	Other	The Bank of England's Climate Biennial Exploratory Scenario exercise, published in 2021 in order to explore the financial risks posed by climate change for the largest UK banks and insurers.

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Key terms and words	Category	Definition
Climate change	Key words and terms	Climate change is the overarching term used to describe the long-term shift in global climates associated with an increase in average global temperatures. These changes can include increased rainfall, increased desertification, more extreme temperature variations or higher frequency extreme weather events.
Climate risks	Key words and terms	Risk stemming from climate change that have the potential to affect companies, industries and whole economies. There are a range of business risks associated with climate change, including regulatory developments, growing natural resource scarcity and potential reputational damage. These are all risks that increasingly need to be proactively managed.
Climate transition plan	Key words and terms	A climate transition plan sets out how an organisation will transition its business to the low carbon economy, aligning its operations, assets, portfolio, and business model to meet Net Zero. The plans should include actions and targets to meet Net Zero commitments.
Communication on Progress (COP)	Key words and terms	An annual disclosure through which we can inform stakeholders about our efforts to implement the principles of the United Nations Global Compact. The objective is to serve as a public vehicle for information on sustainability performance.
Community investing/ Community impact investing	Key words and terms	Providing capital to communities that are underserved by traditional sources of investment. Community investing generally provides credit, equity and basic banking functions to communities that would otherwise have no access.
COP26	Other	The 26th United Nations Climate Change Conference of the Parties (COP26), held in Glasgow on 1-12 November 2021. The summit brought parties together to accelerate action towards goals of the Paris Agreement and the UN Framework Convention on Climate Change. M&G pledged its support to COP26 and its agenda of collective action, with net zero and carbon disclosure commitments - announced in November 2020.
CO_2e	Key words and terms	Stands for carbon dioxide (CO_2) equivalent. There are a number of greenhouse gases which warm the earth at different intensity levels such as water vapour, carbon dioxide (CO_2), methane (CH4), nitrous oxide (N2O), hydrochlorofluorocarbons (HCFCs), ozone (O3), hydrofluorocarbons (HFCs),and perfluorocarbons (PFCs). Rather than providing metrics for each gas they are converted into CO_2e for reporting.
CSSF - Commission de Surveillance du Secteur Financier	Regulators	The Luxembourg financial regulator. We have expanded our presence in Luxembourg since the UK's decision to leave the EU. M&G Investments has a range of Luxembourg-domiciled SICAV funds for retail investors.
Divestment	Key words and terms	Selling or disposing of shares or other assets in certain investments. This is currently most readily associated with divestment from companies involved in the extraction of fossil fuels. Active ownership investors often view divestment as a last resort.
Engagement	Key words and terms	Interaction with company management on various financial and non-financial issues, including ESG. Engagement allows investors to better understand how a company operates and how it interacts with its stakeholders, as well as advising on and influencing company behaviour and disclosures where appropriate.
ESG	Key words and terms	ESG stands for environmental, social and governance (ESG) risks and opportunities which can affect the future value and even viability of a business or other asset. As a PLC, we consider how ESG factors may affect our own company, and as an asset owner and manager, we also think about ESG factors when we invest in businesses, buildings and infrastructure on behalf of our customers and clients. An ESG investment approach incorporates environmental, social and governance factors into the investment process.
ESG integration	Key words and terms	We believe that environmental, social and governance (ESG) factors affect the future prospects of companies and assets in which we invest, and the long term financial returns that we can deliver for our customers. Therefore, as an asset manager we consider and evaluate ESG factors in every part of the investment process: research; portfolio management; and stewardship and engagement. For some mandates and products - including all our Planet+ funds - we go further, and invest with specific ESG objectives or ESG exclusions.
Ethical investing	Key words and terms	An investment philosophy guided by moral values, ethical codes, or religious beliefs, generally associated with negative screening.
EU Taxonomy	Key words and terms	The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities.

Glossary

Key terms and words	Category	Definition
Exclusions	Key words and terms	Exclusion means ruling out investment in a certain business or sector. We exclude some sectors across ALL our investments - for example we do not invest in controversial weapons manufacturers. As an asset owner we apply some sectoral exclusions across our With-Profits Fund. As an asset manager, we use exclusions in several ways. We apply sectoral exclusions across all our Planet+ range of funds. We also apply exclusions wherever institutional clients have instructed us to do so in their mandates. Finally, where we consider that the nature of a business or its activities or behaviours breach our core values, and we believe engagement is either inappropriate or will be ineffective in influencing positive change, we may exclude a company.
Green bond	Key words and terms	A green bond is a method of debt raising which is used to fund new or existing projects which provide environmental or climate benefits. These can include renewable energy or green infrastructure projects.
HKMA	Regulators	The Hong Kong Monetary Authority (HKMA) is Hong Kong's central banking institution which acts to control inflation and maintain the stability of the Hong Kong dollar (HKD) and of the banking sector through its monetary policy. The HKMA also maintains a sovereign wealth fund called the Hong Kong Monetary Authority Investment Portfolio.
Impact investing	Key words and terms	Impact investing means investing with two specific goals: to generate both a financial return and a measurable positive impact on society or the environment. M&G has several strategies which include impact investment, including the Climate Solutions Fund, the Positive Impact Fund, the Impact Financing Fund, and Catalyst.
IIGCC	Engagement bodies	The Institutional Investors Group on Climate Change (IIGCC) is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future.
IPCC	Engagement bodies	The Intergovernmental Panel on Climate Change is the United Nations body for assessing the science related to climate change.
ISSB	Measurement standards	The International Sustainability Standards Board is a new standard-setting board created by the IFRS Foundation Trustees to help meet the increasing demand for high quality, transparent, reliable and comparable reporting by companies on climate and other environmental, social and governance (ESG) matters. The intention is for the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.
Just transition	Key words and terms	The Just Transition is focused on the transition away from high-carbon activities into the green economy with its principles covering; support for workers in the transition to new jobs, supply chain considerations, economic strategies and Paris Agreement reporting. A declaration on "Supporting the Conditions for a Just Transition Internationally" was agreed at COP26 by a number of countries.
MAS	Regulators	The Monetary Authority of Singapore is Singapore's central bank and integrated financial regulator. MAS also works with the financial industry to develop Singapore as a dynamic international financial centre.
Materiality	Key words and terms	The level to which ESG factors positively or negatively influence a company's business model, value or reputation. In impact investing, this refers to the degree to which a company's products or services have a positive impact on society.
Modern slavery	Key words and terms	The exploitation of vulnerable people who are trapped, dehumanised or have restrictions placed on their freedom through coercion, or mental or physical threat. This can take many forms including human trafficking, forced labour, sexual exploitation or forced marriage.
MSCI	Other	MSCI is an acronym for Morgan Stanley Capital International. It is an investment research firm that provides stock indexes, portfolio risk and performance analytics, and governance tools to institutional investors and hedge funds.
Net Zero Asset Managers Initiative (NZAMI)	Engagement bodies	M&G joined Net Zero Asset Managers in global climate change commitment on 11 December 2020 – across the globe in becoming a founding signatory of the Net Zero Asset Managers Initiative. As part of this leading group of global asset managers, M&G commits to support the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C.
Net Zero Asset Owners Alliance (NZAOA)	Engagement bodies	The UN-convened Net Zero Asset Owners Alliance is an international group of over 70 institutional investors, representing over $10 trillion assets under management (as at May 2022), delivering on a commitment to transition their investment portfolios to net zero greenhouse gas emissions by 2050.

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Key terms and words	Category	Definition
OECD	Engagement bodies	The Organisation for Economic Co-operation and Development is an international organisation that works to build better policies, establish evidence based international standards and to provide knowledge and advice.
ORSA	Key words and terms	Own Risk and Solvency Assessment process.
Paris Agreement	Key words and terms	The Paris Agreement resulted from the Paris Climate Conference (COP 21) in December 2015 and brought together all COP member nations in an agreement to undertake ambitious efforts to tackle climate change and limit the rise of global temperatures (from pre-industrial levels) to below 2°C, and ideally below 1.5°C.
Patient capital	Key words and terms	Patient capital is another name for long term capital. With patient capital, the investor is willing to forgo an immediate return in anticipation of more substantial returns in the longer term.
Partnership for Carbon Accounting Financials (PCAF)	Measurement standards	PCAF is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose the GHG emissions associated with their loans and investments.
Planet+	Key words and terms	Planet+ is our range of funds with a sustainability focus. There are three types of funds within Planet+: ESG+, Sustainable and Impact.
Powering Past Coal Alliance (PPCA)	Engagement bodies	The Powering Past Coal Alliance (PPCA) is a coalition of national and subnational governments, businesses and organisations working to advance the transition from unabated coal power generation to clean energy.
Responsible Investment (RI)	Key words and terms	As its basis, responsible investment (RI) is the incorporation of ESG factors into the selection and management of investments. Over time, RI has come to encompass a range of strategies including ESG integration, thematic investing, ethical investing, socially responsible investing, sustainable investing, green investing, community investing, mission-based investing and impact investing.
Science Based Targets initiative (SBTi)	Engagement bodies	The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). It drives ambitious climate action in the private sector by enabling organizations to set science-based emissions reduction targets.
Scope 1 emissions	Key words and terms	Emissions from: fuel combustion; company vehicles; fugitive emissions.
Scope 2 emissions	Key words and terms	Emissions from: purchased electricity, heat and steam.
Scope 3 emissions	Key words and terms	Emissions from: purchased goods and services; business travel; employee commuting; waste disposal; use of sold products; transportation and distribution (up and downstream); investments; leased assets; and franchises.
Screening	Key words and terms	Screening is an approach taken to filter investment opportunities based on specific pre-defined criteria. These can be negative screens which remove companies based on an involvement in an undesirable activity or sector, or positive screens which filter companies specifically due to their involvement in beneficial activities.
SFDR	Measurement standards	The Sustainable Finance Disclosure Regulation (SFDR) is a European regulation introduced to improve transparency in the market for sustainable investment products, to prevent greenwashing and to increase transparency around sustainability claims made by financial market participants.
Stewardship	Key words and terms	Stewardship is the act of being a responsible and engaged investor, pursuing an active investment policy through portfolio management decisions, maintaining a constructive dialogue with management and voting on resolutions at general meetings. Stewardship aims to ensure long-term protection and enhancement of the value of investments.
Sustainability	Key words and terms	Sustainability means having a positive long-term future. We believe that well governed businesses, run in a sustainable way, deliver stronger, more resilient investment returns in the long term for shareholders, and better outcomes for society. Running our business in a sustainable way means ensuring we've considered and planned for long term risks and opportunities in the way we do business, including environmental, social and governance factors. It also means being mindful of our impact on the planet and our communities, and the opportunity we have to influence others through leading by example.
Sustainability Accounting Standards Board	Measurement standards	The Sustainability Accounting Standards Board (SASB) Standards guide the disclosure of financially material sustainability information by companies to their investors. Available for 77 industries, the Standards identify the subset of environmental, social, and governance (ESG) issues most relevant to financial performance in each industry.

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Key terms and words	Category	Definition
Sustainable development	Key words and terms	The concept of meeting present needs without compromising future generations. It encompasses social welfare, protection of the environment, efficient use of natural resources, and economic well-being.
TCFD	Measurement standards	The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information. The FCA require all premium listed companies to disclose, on a comply or explain basis, against the recommendations of the TCFD for accounting periods beginning on or after 1 January 2021.
TNFD	Measurement standards	Task force on nature-related financial disclosures is a global market-led initiative that will help organisations better understand their relationships with nature. It has been created to help financial institutions, corporates and service providers equip themselves with the information they need to support a shift in global financial flows towards nature positive outcomes.
UN Global Reporting Initiative	Measurement standards	The Global Reporting Initiative (known as GRI) is an international independent standards organisation that helps businesses, governments and other organisations understand and communicate their impacts on issues such as climate change, human rights and corruption.
UN Global Compact	Other	A United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies and to report on their implementation.
UN Principles for Responsible Investing (PRI)	Key words and terms	The United Nations-backed Principles for Responsible Investment initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors, and support signatories to incorporate these issues into their investment decision-making and ownership practices. In implementing the Principles, it is hoped that signatories will contribute to the development of a more sustainable global financial system.
UN SDGs (United Nations Sustainable Development Goals)	Other	The Sustainable Development Goals are a collection of 17 global goals designed to be a "blueprint to achieve a better and more sustainable future for all". The SDGs, set in 2015 by the United Nations General Assembly and intended to be achieved by the year 2030, are part of UN Resolution 70/1. Across its impact strategies, M&G uses the SDGs as a solid, accepted framework for determining impact areas - helping to frame the measurement of how positive impacts are being achieved.
Value at Risk	Key words and terms	Climate Value at Risk measure assesses the potential financial impacts of future climate-related risks and opportunities in different IPCC scenarios and in a blended aggregate scenario. The output provides an indication of the resilience of our strategy as a result of climate change and the transition to a low carbon economy.
Whole life carbon	Key words and terms	The carbon emissions resulting from the construction and the use of a building over its entire life, including its demolition and disposal.

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