Pru
part of M&G plc

Prudential Assurance Company

Stewardship Report 2022

April 2023

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Welcome

Welcome by the Head of Treasury & Investment Office

On behalf of the Prudential Assurance Company (PAC), I am delighted to share this update on the annual PAC Stewardship Report, covering the 2022 calendar year.

In this report ('the Report'), we have demonstrated how we have incorporated sustainable thinking into our business practices, and we have provided an update on how we have continued to improve our stewardship responsibilities in line with the Financial Reporting Council's (FRC) UK Stewardship Code.

Our long-standing commitment to stewardship means that sustainable thinking remains an integral part of delivering long-term and resilient investment returns for our clients and shareholders. As we look back over the reporting period, we have continued to deliver the needs of our clients, with a focus on improving transparency and disclosure of key information, and with evolving product propositions and ESG factors being considered in recognition of developing client needs (as illustrated in Principle 6).

While we were pleased to remain a signatory to the UK Stewardship Code in 2022 (for our 2021 report), we recognise that we can always do more, and we will aim to continue to enhance our processes and activities in the context of effective stewardship by incorporating feedback from the FRC. We also welcome further accountability that will result from new regulations such as the FCA's Consumer Duty Regulation, and we will disclose any improvements we make as a result in future reporting.

Combined with M&G plc's newly stated purpose – *to help our clients manage and grow their savings and investments, responsibly* – and recognition of meeting customer needs, our focus on stewardship will enable us to create benefits for the economy, environment and society whilst supporting M&G plc's own purpose, values and commitments.

We hope you find our 2022 PAC Stewardship Report provides insight into the progress we have made this past year and some of our sustainable aspirations for the future.

If you have any feedback, you can write to us at **StewardshipFeedback@MandG.com**.

Best wishes,

David King
Head of Treasury & Investment Office,
on behalf of the Prudential Assurance Company Limited

Foreword

Forward by the Head of ESG & Regulatory

PAC is the asset owner business of M&G plc ('the Group'). As an asset owner, the stewardship activity that we carry out on our portfolios must align with and support the delivery of our M&G plc Group's purpose, priorities and commitments.

We believe a well governed business, run in a sustainable way delivers stronger, more resilient returns for clients and shareholders, and better outcomes for society and the environment. Therefore, considering the material impacts of Environmental, Social and Governance (ESG) factors on the economy, society and the environment as a whole remains a key priority for our business.

Last year demonstrated our continued efforts in developing and embedding ESG activities, including but not limited to those relating to effective stewardship, across the business.

One of our key priorities remains the consideration of the impacts from climate change. As a member of the Net-Zero Asset Owner Alliance (NZAOA), which we joined in 2021, we are committed to making our portfolios carbon neutral by 2050 in aggregate. This is also in line with the commitments made by M&G plc and in accordance with the Paris Agreement. Last year we focused on building an extended strategy of achieving this through the development of our interim targets, which we published in September 2022.

Another key area of focus for the Group continues to be around building a diverse & inclusive workforce. M&G plc continues to make efforts in achieving its goal of 40% female representation and 20% representation from Black, Asian and Minority Ethnic backgrounds by 2025 in senior leadership roles. As an asset owner, we are further integrating diversity & inclusion (D&I) within our investment approach, in line with our PAC ESG Investment Policy. In 2022, we also focused on social issues, particularly on modern slavery. During the course of the year, we identified 21 company holdings that we consider to be at high risk of modern slavery exposure and will continue to address this risk via structured engagement with our asset managers.

As the Head of the ESG & Regulatory Team within the Treasury & Investment Office, my key priority remains ensuring that ESG is embedded into decision making whilst working collaboratively with teams across the business. This helps us achieve our own ESG goals as an asset owner, whilst supporting the Group in meeting their wider goals.

This report explores the actions and initiatives we have developed over the past year, with case studies and examples to illustrate how we are delivering on our ESG commitments and stewardship responsibilities.

My hope is that this report extends a clear insight into our asset owner activities.

Jin Wee Tan
Head of ESG & Regulatory

Introduction

UK Stewardship Code 2020

The UK Stewardship Code 2020 ('the Code') has enabled asset owners and asset managers to demonstrate an awareness of growing challenges facing businesses by setting high stewardship standards for responsible investment practices and a framework for signatories to demonstrate how they are meeting their clients' and beneficiaries' needs. The implementation of stewardship by asset owners and asset managers remains key in the development of long-term approaches to delivering value and the transition to a more sustainable economic environment.

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

The Code has been commended on its focus on long-term goals for the investment community. As such, signatories and respondents have increasingly ensured that the governance of stewardship has become more consolidated within their organisations.

About M&G plc

M&G plc is a leading international savings and investments business, managing money for around 4.8 million retail clients and more than 800 institutional clients in 26 markets. As at 31 December 2022, we had £342 billion of assets under management and administration. With a heritage dating back more than 170 years, M&G plc has a long history of innovation in savings and investments, combining asset management and insurance expertise to offer a wide range of solutions. We serve our retail and savings clients under the M&G Wealth and Prudential brands in the UK and Europe, and under the M&G Investments brand for asset management clients globally.

The relationship between the asset owner and the internal asset manager

For the purposes of stewardship, M&G plc can be thought of as comprising two entities within the same Group: the asset owner and the asset manager. The asset owner sells savings and investment products and has a direct relationship with and liability to the policyholder. The asset owner broadly corresponds to the old Prudential UK life business (and continues to trade under the Pru name), while the asset manager corresponds to M&G Investments. Hereafter referred to as 'asset owner' and 'internal asset manager' respectively. The asset owner and the internal asset manager function independently, but are aligned to a common business purpose, values and commitments, and operate under a Group governance framework, all defined at the level of M&G plc.

The asset owner is responsible for designing, sourcing and distributing financial products to a number of different types of clients, including retail clients, institutional investors such as pension schemes, and investment platforms. These products include with-profits policies, annuities, and unit-linked funds. The investment strategies for these products differ, and are tailored to the requirements of each product, but may include multiple asset classes and regions/geographies spread across a number of mandates or investment vehicles.

The asset owner appoints asset managers to manage its investment portfolios for an appropriate fee. The asset owner can, and does, appoint asset managers that are external to M&G plc. Asset managers are appointed for their expertise in generating sustainable risk-adjusted returns, net of fees, over the long-term, for a particular asset class or investment strategy. A range of external asset managers are employed alongside the internal asset manager. The latter is employed only where it is considered to be top quartile within its peer group (as also outlined on the following page).

In 2022, the external asset managers that the asset owner appointed for the With-Profits Fund are:

- BlackRock Investment Management
- Columbia Threadneedle Investments
- EARNEST Partners
- Eastspring Investment
- Goldman Sachs
- Granahan Investment Management
- Invesco Canada Investment Management
- Lazard Asset Management
- MFS Investment Management
- Pictet
- Robeco
- Value Partners
- Wellington Management

The internal asset manager in turn can, and does, manage assets for third-party clients that are not the asset owner. Indeed, while the asset owner is an anchor investor in many of the internal asset manager's investment strategies, it does not make use of every investment strategy that it offers.

The relationship between the internal asset manager and the asset owner is carefully managed to ensure that clients receive the best possible outcome. The asset owner endeavours to treat the internal asset manager as it would an external manager. While we believe there are benefits in using an internal asset manager, such as having a common purpose and an alignment in values and priorities, they are required to meet specific criteria prior to being appointed (in line with the appointment criteria of all asset managers), including having to meet the minimum threshold of being considered a top quartile investment proposition within their investment universe.

2022 Prudential Assurance Company (PAC) Stewardship Report

The asset owner has committed to update its Stewardship Report on an annual basis, in line with the UK Stewardship Code 2020. The 2022 PAC Stewardship Report sets out the asset owner's stewardship activities and their related outcomes across a 12-month period, with a particular direction of the Report for 2022 is greater focus in reporting our activities on ESG-related commitments and outcomes of stewardship responsibilities, with appropriate evidence via dedicated case studies.

The 2022 PAC Stewardship Report has been subject to a thorough governance review process as outlined in Principle 5 as found on page 46.

Note the Report is intended for use by a wider audience including investors, regulators and our clients. This is a detailed, full Report for those people who would like to have the full information provided. We have also created a high level Executive Summary document containing an overview of the content of the Report. This PAC Stewardship Report, its Executive Summary and the full With-Profits Fund Stewardship Report can be found on our **PAC Responsible Investing website**.

Financially advised clients can also contact their advisers with any questions they might have on how the Stewardship Report relates to their policy and how stewardship and ESG are considered and / or integrated within their policy.

You can write to us at **StewardshipFeedback@M&G.com**

Please note that the internal asset manager has its own separate **Stewardship Report**.

The UK Stewardship Code 2020 Principles for asset owners and asset managers

Purpose and Governance	Investment approach	Engagement	Exercising rights and responsibilities
1 Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.	6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	9. Signatories engage with issuers to maintain or enhance the value of assets.	12. Signatories actively exercise their rights and responsibilities.
2. Signatories' governance, resources and incentives support stewardship.	7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	10. Signatories, where necessary, participate in collaborative engagement to influence issuers.	
3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	8. Signatories monitor and hold to account managers and/or service providers.	11. Signatories, where necessary, escalate stewardship activities to influence issuers.	
4 Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.			
5. Signatories review their policies, assure their processes and assess the effectiveness of their activities.			

Source: Financial Reporting Council

Disclosure by Principle

The upcoming sections set out how the asset owner has demonstrated compliance with the principles of the UK Stewardship Code 2020.

Laid out Principle by Principle, case studies are utilised to support how the asset owner has complied with each Principle.

Where applicable, some Principles will include sections which pertain to both the asset owner and M&G plc, as the asset owner shares and adopts the position of M&G plc, in addition to its own.

Where applicable, case studies (including those related to engagement) have been structured under **Objective, Approach** and **Outcome** subheadings, and additional notes have been added to differentiate case studies on the engagement and voting activities that have been carried out by the appointed internal and external asset managers (as collated via our Engagement Templates).

Case studies included in the Report are all inherent to / provide a view of the activities that have been undertaken in 2022 or the progress made across existing activities in 2022, unless otherwise stated.

Unless otherwise stated, references to 'the internal asset manager' in this document, refers to M&G Investments. Where there are references to 'we' or 'our', it is in reference to the asset owner business or M&G plc, dependant on the section and / or the applicability of the context to both entities.

Throughout the Report we refer to 'customers' as 'clients', in alignment with the M&G plc Annual Reports and Accounts.

Principle 1: investment beliefs, strategy and culture

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society

M&G plc

Purpose

M&G plc's (M&G) purpose is to help people manage and grow their savings and investments, responsibly.

Culture and Values

At M&G and as the asset owner, we have a clear ambition of what we want our culture to be and how we want working in the organisation to feel for everyone every day, including ensuring that we build a safe, inclusive and diverse culture.

Everything we do is underpinned by our culture and our core values. Culture is the values, behaviours, beliefs and attitudes that the organisation shares, defining how people collaborate and work together, and what is expected from everyone day-to-day. Above all we:

- **Act with care** – treating clients and colleagues with the same level of respect we would expect for ourselves, and investing with care, making choices for the long-term and
- **Act with integrity** – empowering colleagues to do the right thing, to honour their commitments to others and act with conviction. The business is built on trust and it does not take that lightly

This culture of care and integrity is central to how the business operates. It defines how everyone collaborates with one another, how they interact with stakeholders, and above all, how the business will deliver on its purpose.

ESG, sustainability and stewardship priorities

M&G believes that a well-governed business, run in a sustainable manner, delivers stronger, more resilient investment returns in the long-term for clients and shareholders, creating better outcomes for society.

To enable its sustainability-driven objectives, M&G has identified the following key priorities in the ESG, sustainability and stewardship space:

- **Climate change:**
  - committing to achieve a near term carbon emissions reduction of 46% across its operations (Scope 1, 2 and Scope 3 travel) by 2030 at the latest[1], and to achieve net zero carbon emissions across its investment portfolios by 2050 in aggregate to align with the Paris Agreement on climate change
- **Diversity & inclusion:**
  - committing to achieving greater representation of gender and ethnicity in senior leadership (Executive Committee and their direct reports) with the goal of achieving 40% female representation and 20% representation from Black, Asian and minority ethnic backgrounds by 2025 in the Group's senior leadership roles;
  - as an asset owner, to evaluate the diversity policy of asset managers that manage assets on its behalf, and how asset managers challenge investee companies to improve and maintain diversity and
  - to continue to meet its external benchmarks, including the National Equality Standard and LGBT Great Equality Index

M&G acknowledges the importance of the variety of ESG issues, and has implemented investment strategies, policies and engagement activities to address these. To ensure appropriate consideration of ESG and sustainability in its approaches, the business has adopted the following sustainability principles, as outlined within the M&G plc Sustainability Report (see the 2021/2022 report **here**):

- To consider sustainability and ESG factors when determining its corporate strategy and new business initiatives
- To embed sustainability considerations throughout its business
- To consider the interests of all stakeholders and ensure its views on sustainability are consistent with its long-term approach

[1] **Previously we had described our operational target as 'Net Zero 2030'. While our ambition has not changed, we have updated the articulation of the commitment to be in line with the latest industry guidance.**

- To manage its businesses – and hold investee companies – to the principle of 'acting responsibly'
- To identify and incorporate ESG risk factors into its general risk management process
- To review its sustainability thinking regularly in order to align with scientific and technological improvements, and changes in the global economy, ethics and consumer preferences. M&G aspires to be a thought leader, to innovate, and to advance understanding of sustainability issues
- To use its influence as a global investor and asset owner to drive positive change in sustainability policy and corporate standards. M&G believes in active asset ownership and management which encourages companies to transition towards a sustainable future

Business model

As an international savings and investments business, M&G manages and administers £342 billion* of financial assets for the benefit of its clients. Its clients consist of a broad range of individuals, pension funds, insurance companies, wealth managers, financial advisers and other distribution partners across 26 markets.

M&G provides a wide range of savings and investments products and services to its clients, who trust the business to manage their assets responsibly and help them achieve their financial goals.

M&G segments its business into Asset Management and Retail & Savings, which reflects the range of propositions and services it offers to its clients.

- The Asset Management business manages more than £300 billion in client assets and are among the largest managers of private assets in Europe. The Asset Management business is also recognised for its broad public fixed income expertise, a long track record in multi-asset solutions, and a growing range of sustainability-driven thematic equities products
- In Retail & Savings, the PruFund range is one of Europe's largest multi-asset propositions. It provides access to insurance-based solutions such as smoothing, with a distinctive blend of public and private investments, delivering average investment returns of 6.7% a year over the past 18 years. In addition, M&G Wealth offers a comprehensive savings proposition to UK clients, including investment solutions, portfolio allocation and advice. Retail & Savings also includes the Heritage portfolio of traditional with-profits and annuity policies

M&G uses its financial strength, scale and long-term investment horizon to provide security to its clients and enable its investment teams to build new capabilities that enhance financial outcomes.

* As reported in the 2022 M&G plc Annual Reports and Accounts

Clients at the core of everything we do

Heritage Retail & Savings	Asset Manager	Wealth Retail & Savings
Risk and investment solutions, providing scale and a resilient underpin to the Group	International active investment manager with differentiated high-value investment capabilities	Integrated proposition including PruFund, serving UK clients across the distribution spectrum
Supports client-focused innovation through long-term capital, and is the largest client of the Asset Manager	**Powers the solutions we offer to our clients** providing strong investment expertise and access to private markets	**Enhances access to clients** through strong brands and intermediary relationships
Strong balance sheet and resilient earnings and capital generation	Capital light, with growing fee-based and diversified revenues	Capital light, growing market with high persistency

as we aim to deliver superior shareholder returns

Strategy

M&G have a proud history in managing savings and investments, delivering superior outcomes for its clients through its investment expertise and innovative propositions, in line with its purpose.

Through the combination of its differentiated business model and a deep understanding of its clients' needs, M&G offers a broad and distinctive set of savings and investments propositions. M&G are also investing in its digital capabilities to ensure it makes financial advice more accessible in the UK market, and to deliver strong service to support all of its clients.

Maintain financial strength

Maintaining financial strength is essential. M&G's clients must have confidence in the company's ability to manage their money and deliver superior outcomes over the long-term. M&G rewards shareholders with attractive and dependable dividends, so investments are carried out carefully, using experience and expertise, to target high potential growth opportunities.

M&G's priorities are to:

- Deliver proactive financial management
- Maintain strict capital allocation
- Diversify revenues

Simplify the business

To deliver its strategy and drive improvements that best serve its clients, M&G needs to transform how it operates, while investing to enhance its capabilities.

M&G's priorities are to:

- Streamline its organisation
- Digitise and automate
- Modernise its technology estate

Deliver profitable growth

M&G will focus on targeted opportunities where its differentiated propositions and services give a strong starting point.

M&G's priorities are to:

- Grow external flows in Asset Management
- Deploy a full savings and advice offering in the UK
- Offer innovative solutions to selected defined benefit pension funds

See **M&G plc's Annual Reports and Accounts** for more information.

Asset owner

Our investment beliefs

We, as the asset owner, have a set of investment beliefs that are aligned to our principles and values and to the internal asset manager's investment beliefs. A summary of these are illustrated in Figure 1 below.

Long-term approach	Offers availability of broader investment set, looks through short-term volatility and has the flexibility to cater for the investment time horizon and liquidity requirements of specific funds
Diversification	Combining different assets in a portfolio to improve an investors' risk-adjusted return, limit impact of volatility and increases the probability of an investor achieving their investment
Active Management	Our belief in active management is dependent on the characteristics of each asset class and our manager selection skills
Importance of value and asset valuation	Valuation of an asset remains an important consideration in determining the risks and returns which we can achieve by investing in that asset
Illiquidity and complexity premium	Less liquid or more complex assets should help to enhance overall returns and/or diversification in a multi-asset portfolio
Harvesting a credit risk premium	The concept of a credit risk premium intuitively explains that investors are rewarded for bearing the risk that the issuer of debt may be at some point default on its obligations
Evolving asset mix and new asset classes	As part of our Strategic Asset Allocation, we review and update our asset allocations on a regular basis and our response to structural changes in the market
Importance of ESG factors and risks	ESG factors influence customer outcomes in many ways. Management of ESG risks is crucial to achieving good investment returns

Figure 1: Asset owner investment beliefs

These beliefs are the bedrock of our investment strategy, and ultimately we aim to take a long-term, multi-generational approach to investing on behalf of our clients. We also understand the importance of ESG factors in investment decisions and their potential to materially impact our clients and investment outcomes. As long-term investors across our with-profits, annuities and unit-linked businesses, in our role as an asset owner, we believe that businesses and behaviours that reflect ESG best practices, and which are aligned with our values of care and integrity, are better-positioned to deliver sustainable outcomes over time horizons that meet present and prospective client needs.

We therefore 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 PAC ESG Investment Policy – see below), and to actively steer our investee companies towards more sustainable practices. We rely on our asset 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 2020. 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 portfolios that we have control.

PAC ESG Investment Policy

In 2020, the asset owner published its PAC ESG Investment Policy ('the Policy'). The Policy is a business policy which sets out the asset owner's ESG principles, commitments and targets.

Given that stakeholders' expectations are dynamic, as well as the broad array of ESG issues, the Policy does not prescribe the investment treatment of each ESG-related issue. Instead, the Policy sets out our principles-based approach to addressing ESG matters in investing, and policies for specific ESG matters that must be applied by the PAC across all investment portfolios.

For more details, the Policy can be viewed **here**.

Meeting our clients' needs

As an asset owner we ensure that client needs are taken into account by means of good asset-liability management. When designing our investment strategies, we take care to match investment outcomes with the requirements of the liabilities of the book of business in question. These requirements may be defined along several dimensions, for example meeting of guarantees, time horizon, lapse rates and maximum levels of risk – with reference to the needs of those clients whom the asset owner has written the business for.

We also measure our success in meeting client requirements in a number of different ways. The needs of our annuity clients and our unit-linked clients are met if they receive the outcomes defined for them when they bought the product. More specifically, the annuity clients' outcomes are met if they receive the income that had been promised to them upon purchase, whilst the needs of the unit-linked clients are met if the investment objectives that had been set are adhered to. Both are overseen and monitored by the Retail & Savings Executive Investment and Oversight Committee (R&S EIOC). The interests of our with-profits and our corporate pensions clients are represented on an ongoing basis by two independent committees, the With-Profits Committee and the Independent Governance Committee.

The Treasury & Investment Office has regular dialogue with and support these committees to ensure the clients' needs are met. As reported in 2021, there continued to be greater focus across these committees on how the asset owner investment strategies can be made more sustainable, and in particular how climate risk can be mitigated going forward. As a result of these discussions, and in keeping up with the evolving nature of ESG data, from 2021 we have improved our management information on ESG, and have shifted reporting from measuring levels of activity in the engagement and stewardship space, to measuring results.

See also Principle on page 52 for further information on how we continue to aim to meet our clients' needs.

Our product offerings

Our PruFund and PruFolio product ranges have products available at a number of different risk levels, reflecting a client's appetite for investment risk and ethical and sustainability preferences.

For example, clients may select our PruFund Planet range (which aims to exclude companies and projects in areas that do harm to the planet whilst proactively looking for opportunities that focus on ESG factors), or from our PruFund Risk Managed range, with pre-defined investment risk levels (that increasingly incorporates ESG).

We set our SAA for our PruFund range with respect to the required risk levels and our clients' preferred time horizon. The latter is generally medium to long-term, as our clients purchase PruFund as a savings vehicle for retirement. Our PruFund investment strategy is multi-asset, investing globally across equities, fixed income, property and alternative assets, as well as in public and private markets. This diversifies our investment strategy and allows us to calibrate the level of investment risk appropriately.

Our PruFund range has a long-term track record of delivering consistent returns to policyholders. Since its inception 18 years ago PruFund Growth has consistently delivered the returns defined by PAC by taking a sensible and balanced, medium to long-term view to investing, whilst continuing to embed and enhance stewardship through new policies (for example, the asset owner has set thresholds and screening criteria for coal related investments, in adherence with the M&G plc Thermal Coal Position) and developing solutions that we believe will provide tangible benefits to the economy, environment and society (for example, with the development of M&G Catalyst).

PruFund Planet			
Asset Class	**Bespoke exclusion**	**Generic exclusion**	**Specific ESG Objectives**
Passive equities	✓	✓	✓
Active equities			
Govt bonds – developed market			
Govt bonds – emerging market			
Credit – developed market			
Credit – emerging market			
Private / illiquid bonds			
Property			

Outcome

As stated above, M&G plc is strongly driven by its purpose, which in turn is underpinned by a clear set of values, strategy and business model. Sustainability continues to be a key area of focus, and to this end its commitments towards climate change and diversity & inclusion, and to its sustainability principles remain integral to further enhance our stewardship practices.

As an asset owner, our investment beliefs, supported by the PAC ESG Investment Policy and its underlying principles, continue to facilitate our direction towards the ultimate objective of ensuring we are consciously and continuously able to meet customers' needs. To this end, with the aim of developing our investment offerings, we have added PruFund Planet to our platform in 2022 to encourage greater availability to funds for our clients and with additional positive environmental and societal outcomes from their investment. This supports our continued focus on developing solutions that allow our clients to invest in impact-focused strategies.

Principle 2: governance, resources and incentives

Signatories' governance, resources and incentives support stewardship

M&G plc

Governance structure

M&G's governance structure is designed to support the delivery of its strategy. The M&G Board ('the Board') has responsibility for the oversight, governance, direction, long-term sustainability and success of the business and affairs of M&G, and is responsible to shareholders for creating and delivering sustainable shareholder value.

The Board is specifically responsible for:

- Approving M&G's strategic aims, objectives and purpose, proposed by management, setting M&G's standards and culture, and ensuring that these are aligned
- Oversight of effective risk management and internal control processes, including macroeconomic, financial environment and emerging risks
- Taking strategic decisions and the approval of any changes relating to M&G's capital, corporate and/or listed structure
- Setting M&G's ESG strategy, values and principles

In discharging its responsibilities, the Board is supported by management and ensures a clear division of responsibilities between the Chair, the Group Chief Executive Officer, the Senior Independent Director and the Non-Executive Directors. The Board is also underpinned by a number of committees, these include the Audit Committee, Remuneration Committee, Risk Committee and Nomination Committee

The Board delegates certain responsibilities to its committees and, in compliance with the Code, has established an Audit Committee, a Nomination Committee and a Remuneration Committee. M&G have also established a separate Risk Committee. The Terms of Reference for each Board Committee were reviewed and approved by the Board in December 2022 and are available to view on M&G's **website**.

Sustainability governance

As highlighted in Principle 1 on page 9, sustainability drives M&G's purpose: to help people manage and grow their savings and investments, responsibly. The Board is ultimately responsible for all of M&G's stewardship activities and it continues to recognise its crucial role in providing oversight and ensuring stewardship of the firm's culture.

At the Group Executive Committee level, responsibility for sustainability strategy, policy, commitments and governance model, including climate, sits with the Chief Financial Officer. A Central Sustainability Office was created in 2022 to implement a Group-wide sustainability governance operating model, shape the Group's sustainability strategy and policy, and oversee delivery of its commitments.

The immediate focus was to implement a new central sustainability governance model for the Group, to ensure transparency and a robust governance to enable delivery of the sustainability commitments, with accountability across the different entities. An M&G Executive Sustainability Committee was therefore established and is responsible for:

- supporting the Board in the successful execution of M&G's sustainability strategy, policy, public sustainability commitments and disclosures
- promoting and driving a collaborative approach across M&G
- tracking the progress and delivery of sustainability commitments and targets
- tracking sustainability spend and forecasts and the sustainability programme costs
- reviewing sustainability emerging topics and risks, as presented to the committee by risk and
- reviewing external ESG disclosures

These governance enhancements highlight the progress made against the commitments disclosed in the 2021 report to ensure that ESG activities are embedded across the whole firm and are an inherent part of the governance structure, in turn enhancing our stewardship activities.

Whilst decisions within the ESG space continue to be taken independently by the asset owner and internal asset manager, using existing governance structures (see page 20 for details on the asset owner's governance and processes), it is key that ongoing dialogue and alignment continues across the wider Group, with the appropriate management of conflicts of interest (see Principle on page 35) – and the creation of the Central Sustainability Office and the Executive Sustainability Committee are key enablers for this.

Further detail on the M&G governance structure can be found in the **M&G's Annual Report and Accounts**.

See Principle 5 on page 46 for a view of the committees (not an exhaustive list) that shape our assurance processes.

Training

In line with M&G's and the asset owner's ESG and sustainability ambitions and principles, it is key that all staff have an understanding and appreciation of what sustainability means for the company, and hence that everyone is encouraged and supported to keep abreast of developments in stewardship, ESG and ESG investing, as well as having a wider understanding of the sustainability subjects. Sustainability topics are included in formal, all-staff training modules, delivered in multiple parts throughout the year.

The company also actively sponsors professional qualifications for employees such as the CFA accreditation and the CFA Institute's Certificate in ESG Investing, and external personal development courses such as the University of Edinburgh Climate Change Risk in Finance course. ESG-related panel discussions and forums were also scheduled firm-wide on key ESG topics, including on ESG risks, and Sustainability 'Lunch and Learn' sessions provided a useful learning tool to discuss internal developments in the ESG space (as shown below).

Lunch & Learn Sessions

In 2022, M&G launched regular 'Lunch & Learn' sessions as a way to provide employees with an overview of sustainability-related topics and demystify ESG concepts. Sessions typically involved an overview of the topic, an interactive discussion and were usually led by a thought leader or guest speaker.

Some topics that have been covered include:

- **Climate Science and Scenario Modelling** (M&G speaker)
- **Corporate Human Rights Benchmark** (Guest speaker from the World Benchmarking Alliance)
- **Modern Slavery and responsible recruitment** (Guest speaker from the Institute for the Human Rights and Business)
- **KnowtheChain** (Guest speaker from the World Benchmarking Alliance)
- **The Just Transition: Investment considerations, decarbonisation and socio-economic impacts** (M&G Speaker)

M&G's Sustainability Hub provides a centralised and internal place for staff to go for everything sustainability-related, including sustainability-related learning materials and key internal and external sustainability-related news. The site also includes insights on how to effectively discuss work with key stakeholders, and on how M&G is building sustainability into its business activities and processes. In line with the objective of streamlining its training, employees now have access to the latest internal sustainability-related news and videos as well as resources to gain a greater understanding and embed awareness of M&G's community objectives which are aligned with Group Governance and reporting requirements.

Incentives

At M&G, and within the asset owner, compensation decisions are based on a holistic appraisal process with appropriate objectives set according to the role. Since 2021, all employees of M&G's Investments division (spanning both asset owner and the internal asset manager) have an ESG-related objective which requires each person to take into account ESG considerations in their day-to-day work. Achieving this objective forms part of the annual performance assessment, and success here is crucial to both a good performance rating and remuneration.

The Long Term Incentive Plan (LTIP) for executives has a 25% non-financial component linked to specific outcomes, including in the areas of diversity and sustainability.

The M&G plc ESG Risk Policy, which sets out the requirements for managing ESG risks on an ongoing basis (see Principle 4 on page 39), includes specific requirements to ensure ESG commitments/targets are considered as part of the annual review of the M&G plc Remuneration Policy for senior executives and Board members in order to promote the long-term prosperity of the company.

Asset owner

Governance structure

Our asset owner's governance structure ensures that discussion and decision making is carried out at the appropriate level of the company, dependent on the potential magnitude or importance of the matter, and in a timely manner. Decisions are then conveyed to the relevant teams in order to be implemented and integrated appropriately.

We manage our investments through the Treasury & Investment Office, which is headed by a Chief Investment Officer, the Head of Treasury & Investment Office. The Treasury & Investment Office makes its decisions via a number of different mechanisms. There are delegated authorities extended by the asset owner company Board to personnel at various levels, including the Head of Treasury & Investment Office, the Head of Manager Oversight and the Head of ESG & Regulatory. The exercise of these delegated authorities is overseen by the Retail & Savings Executive Investment Oversight Committee (R&S EIOC). The R&S EIOC is constituted by the Retail & Savings CEO, and provides oversight and governance of the investment portfolios of Prudential Assurance Company (PAC), Prudential Pensions Limited (PPL), Prudential International Assurance (PIA), M&G Wealth Investments (MGWIL), Investment Funds Direct Limited (IFDL) (together 'the R&S Companies').

All investment decisions, including those taken in the ESG, sustainability and stewardship space, are channelled through this governance structure, and ultimately, through the R&S EIOC, which in turn, reports to the asset owner company Boards. The R&S EIOC takes into account ESG factors and the interests of clients when making its decisions, in accordance with our PAC ESG Investment Policy (see following case study for evidence of how we strive to make decisions in the context of our clients). In 2022, the R&S EIOC terms of reference (ToR) were updated to outline explicit responsibilities with respect to ESG and Stewardship.

R&S EIOC Papers

Papers submitted to the R&S EIOC meetings must contain a summary and recommendation section. To promote the consideration of our clients within the committee's decision-making process, a dedicated 'Customer Outcome' sub-section is included within the summary.

As an asset owner, we aspire to act nimbly and decisively in response to changes, and our flat governance structure allows us to do so. We believe that the clarity of the ESG investment principles (see Processes section on page 31) and our investment beliefs, which underpin our ESG investment approach, allow us to discern what the right decision is in most circumstances, and we are able to act quickly in response.

The Asset Owner ESG Working Group and Net-Zero Asset Owner Alliance (NZAOA) Target Setting Working Group

In 2020, we set up the Asset Owner ESG Working Group (AO ESG Working Group) with the aim of having a dedicated forum for the review of the wide suite of ESG-related initiatives undertaken across the asset owner, including ongoing stewardship activities.

The scope of the working group extends to the asset owner business, with representatives across the Treasury & Investment Office function and the M&G Group functions, including Risk and Compliance. Any key risks, issues and decisions raised at the working group are escalated through the appropriate governance channels, including oversight and approval at the R&S EIOC where required. Representatives from the M&G plc Central Office Sustainability team also attend and contribute to the meetings, to enable active exchange on the business' sustainability initiatives and their link to the delivery of the group's ESG commitments and wider sustainability strategy. In 2022 the governance approach surrounding the AO ESG Working Group has been strengthened with the approval of a clear Statement of Purpose.

In 2021, the asset owner joined the NZAOA with the aim of working towards the goal of aligning portfolios with a 1.5°C scenario in accordance with the Paris Agreement (see Principle 10 on page 73). An NZAOA Target Setting Working Group was subsequently established to help discharge the oversight responsibilities from the AO ESG Working Group, and ensure further focus was given to achieve our net zero ambitions, in line with our M&G net zero investment commitments. All key updates arising from the NZAOA Target Setting Working Group are also raised at the AO ESG Working Group to allow sufficient oversight, and the underlying milestones' objectives are subject for review and approval across the appropriate governance channels (including the R&S EIOC).

Both working groups continue to provide structure in effectively reviewing and overseeing key ESG activities, and in providing relevant input to enable the delivery of our net zero ambitions.

As reported in our 2021 report, as our ESG and sustainability ambitions continue to grow, we will need to continue re-assessing the appropriateness of our governance structure to ensure proper oversight is maintained across the three lines of defence (see Principle 5 on page 46). To this end, the creation of the M&G plc Executive Sustainability Committee will ensure a two-way process of sharing information on sustainability (and where appropriate, stewardship) responsibilities between the asset owner and the Group, leading to enhanced oversight and overall alignment.

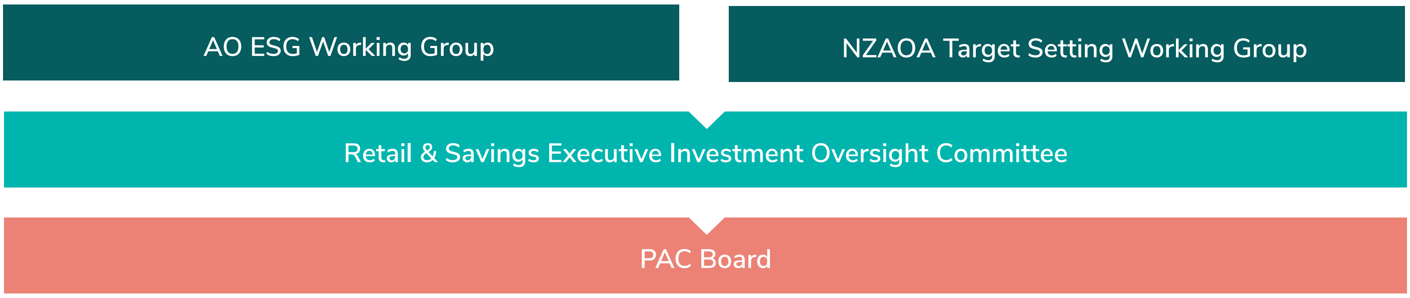


Figure 2: High-level asset owner governance structure for ESG-related activities

Resources

Within the Treasury & Investment Office, a number of teams collaborate together to ensure clients receive good investment outcomes. The overall business area comprises of approximately 61 people, with additional support, oversight and advice provided by the second line of defence functions. A schematic showing the role, organisation and component teams of the Treasury & Investment Office is illustrated in Figure 3 on page 23.

Management by the Treasury & Investment Office

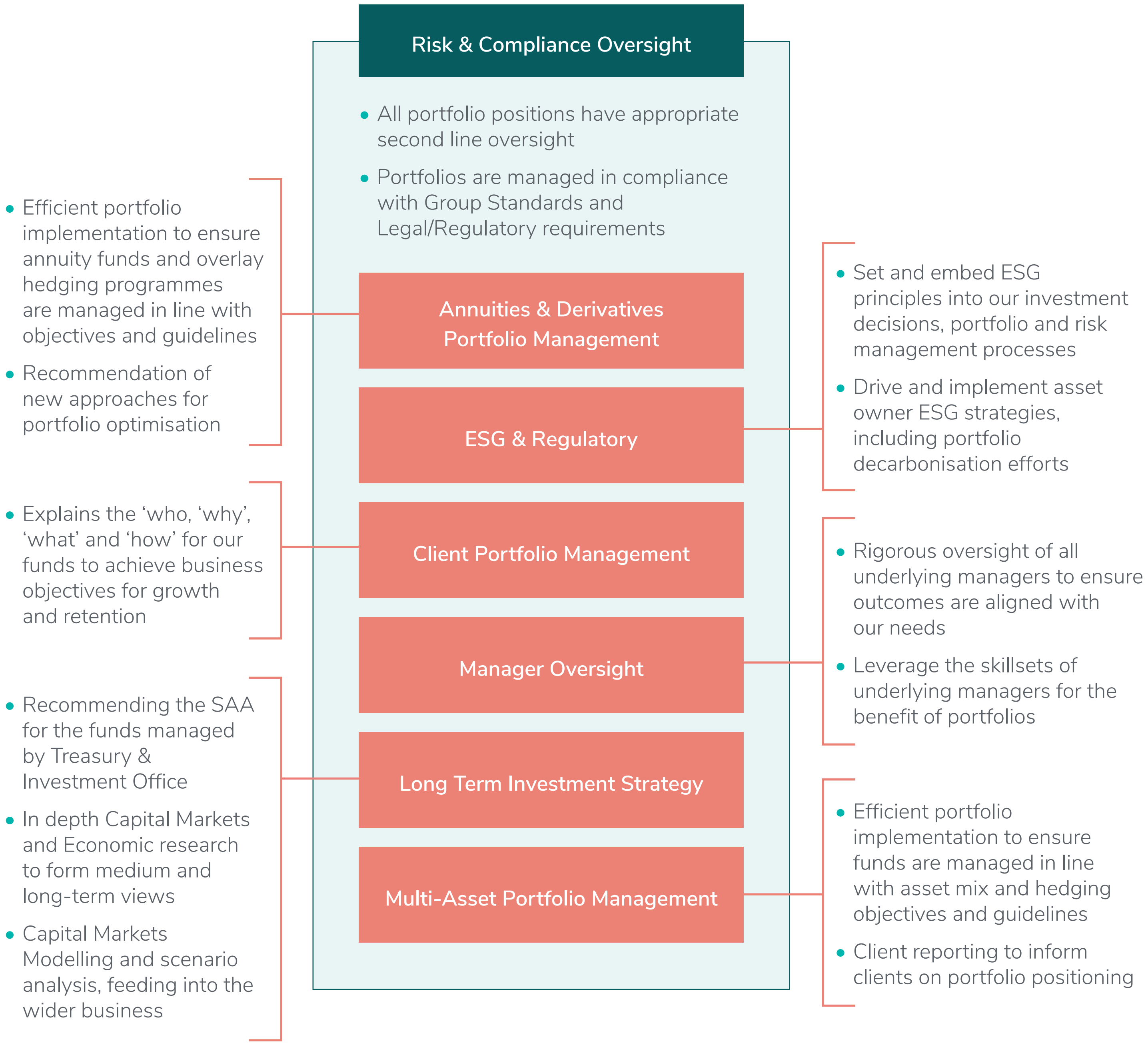


Figure 3: Treasury & Investment Office organisation structure and component teams

Whilst every Treasury & Investment Office team has a responsibility for embedding stewardship and ESG considerations in their work, the ESG & Regulatory and Manager Oversight teams have primary responsibility of managing key ESG and stewardship processes.

The ESG & Regulatory team is responsible for devising the PAC ESG Investment Policy and ESG investment strategy at the asset owner level, and drives these into portfolio allocations, benchmarks and positions, alongside the establishment of ESG due diligence processes (see Processes section on page 31). The team comprises of seven full time investment professionals (an increase from 3.5 the previous year), and receives ongoing support by other resources in the form of contractors, secondees and / or graduates. The ESG & Regulatory team also works collaboratively with the newly created central M&G plc Central Sustainability Office team, and the internal asset manager's Stewardship & Sustainability team, to ensure a consistent and aligned approach across the related ESG and stewardship principles, policies and reports (where appropriate and / or required), and to the wider M&G sustainability strategy and commitments. To further enable this, two members of the ESG & Regulatory team hold dual roles within the asset owner and internal asset manager teams (in line with conflict of interest management – see Principle 3 on page 35).

The Manager Oversight team oversees all asset managers working on behalf of the asset owner (including our internal asset manager). Any investment decisions are incorporated into investment strategies and processes by this team, with a focus on implications for stewardship alongside financial return. The Manager Oversight team also conducts initial and ongoing due diligence of the asset managers' stewardship teams to determine their competence in being able to conduct successful engagement. This includes a review of the asset managers' ESG investment capabilities, their management of risks, and whether ESG is properly embedded within their processes (with support from the ESG & Regulatory team). The team comprises nine full-time investment professionals.

Treasury & Investment Office ESG & Regulatory Team	
	**Jin Wee Tan (Head of ESG & Regulatory)** **Years at M&G: 9 Years of Professional Experience: 21** Jin Wee has led the ESG & Regulatory team for 4 years. Jin Wee has worked at the nexus of life insurance and asset management for many years, and has previously held roles in investment, asset allocation, operations and projects. Jin Wee holds a first class degree in Economics from the London School of Economics, and is a CFA Charterholder.
	**Tang Lu** **Years at M&G: 17 Years of Professional Experience: 16** Tang joined M&G in 2016 and has been in the ESG & Regulatory team for 4 years. Tang has many years of experience in institutional investments including insurance and pensions with a variety of roles and responsibilities in asset liability management, investment strategy, regulatory and business projects. Tang has a BSc in Economics and a Master's degree in Finance.
	**Laura O'Shea** **Years at M&G: 8 Years of Professional Experience: 16** Laura joined M&G in 2015 as an investment analyst in the Manager Oversight Team and has been in the ESG & Regulatory team since 2022. Prior to joining, Laura worked as a manager research analyst at BlackRock. Laura holds a Masters in Economics from the University of Warwick and a first class honours BSc in Business Economics and Finance from Loughborough University. Laura is a CFA Charterholder and was awarded the CFA Institute Certificate in ESG Investing.
	**Niall McCann** **Years at M&G: 5 Years of Professional Experience: 10** Niall joined M&G in 2017, and has been in the ESG & Regulatory team for 4 years, with a focus on the decarbonisation strategy. Niall has worked across investment consulting, asset management and insurance sectors for 10 years, with a focus on risk management, hedging strategies and governance. Niall has a BSc in Pure and Applied Mathematics from the University of Exeter and a Master's degree in Finance from the Trinity College Dublin.
	**Teresa Toniutti** **Years at M&G: 6 Years of Professional Experience: 7** Teresa joined M&G in 2016 as part of the Graduate Scheme, and has been in the ESG & Regulatory team since 2022, with a focus on Stewardship and D&I. Prior to this, Teresa has worked in a number of risk management roles, including Financial Risk and Organisational Risk. Teresa holds a first class degree in Business Administration from the University of Bath and was awarded the CFA Institute Certificate in ESG Investing.

Treasury & Investment Office ESG & Regulatory Team	
	**Guy Rolfe** **Years at M&G: 8 Years of Professional Experience: 8** Guy joined M&G in 2014, in 2019 he began his focus on ESG, formulating ESG investment strategy, methodology and analysis on behalf of both asset owner and the internal asset manager. Guy had previously held roles in portfolio management and risk. Guy holds a first class BA degree in Economics and Politics from the University of Exeter. Guy is a CFA Charterholder and was awarded the CFA Institute Certificate in ESG Investing.
	**Camille Le Pors** **Years at M&G: 1 Years of Professional Experience: 7** Camille joined the ESG & Regulatory team in April 2022, with a focus on Social Issues. Prior to this, Camille worked in the non-profit sector, where she led the Corporate Human Rights Benchmark. Camille has a BA in International Politics from King's College London and a Master's degree in International Affairs from the Geneva Graduate Institute.
	**Ha Linh Pham (Apprentice)** **Years at M&G: 0.5 Years of Professional Experience: 0.5** Ha Linh joined the ESG & Regulatory team through the Apprenticeship Programme in September 2022 after completing her A-Level qualifications. Ha Linh studied 4 A-Levels, including Geography, Government & Politics, History and Business Studies.

Treasury & Investment Office Manager Oversight Team

Ciaran Mulligan (Head of Manager Oversight)

Years at M&G: 8 **Years of Professional Experience: 21**

Ciaran joined the company in May 2015 and leads the Manager Oversight team. Prior to joining, Ciaran worked at Buck Consultants investment consultancy as Head of Global Research, and at Investment Solutions (part of the Alexander Forbes group).

Ian Pledger

Years at M&G: 24 **Years of Professional Experience: 24**

Ian joined Prudential in 1999 and transferred to the Treasury & Investment Office in 2010. Prior to this Ian had a number of roles within Finance including Unit Pricing Manager. Ian has a BSc in Accountancy and Law from Kingston University and is a Fellow Chartered and Certified Accountant.

Nick Ridgway

Years at M&G: 6 **Years of Professional Experience: 21**

Nick joined M&G in 2017. Prior to that Nick headed up the Investment Research Team at Buck Consultants, a pensions consultancy, and before heading the team he led the research efforts across Real Estate and Multi-Asset & Alternative solutions while also covering public markets funds. Nick has a BA (Hons) in Business Studies from Sheffield Hallam University.

Adam Porter

Years at M&G: 0.5 **Years of Professional Experience: 14**

Adam joined M&G and the Manager Oversight team in September 2022. Prior to that Adam worked at Hymans Robertson. Adam has an Economics and Accounting degree from the University of Edinburgh and a Master's degree in Investment Analysis from the University of Stirling. Adam is a Chartered Alternative Investment Analyst and was awarded the Certificate in ESG Investing and IMC qualifications.

Ben Hamilton

Years at M&G: 7 **Years of Professional Experience: 7**

Ben joined M&G in May 2016 as part of the Graduate Scheme. Ben has a History degree from Durham University and is a CFA Charterholder.

Olivia Trevor

Years at M&G: 4 **Years of Professional Experience: 4**

Olivia joined Manager Oversight in 2019 from M&G's Graduate Scheme, having joined M&G in 2018. Olivia has an Economics degree from Durham University and is a CFA Charterholder.

Treasury & Investment Office Manager Oversight Team	
	**Sam Payne** Years at M&G: 5 Years of Professional Experience: 5 Sam joined Manager Oversight in 2018 from M&G's Graduate Scheme, having joined M&G in 2017. Sam has a degree on Economics, Politics and Spanish from Exeter University, during which he completed a Year in Industry at M&G. Sam has obtained the IMC qualification.
	**Rob McIlroy** Years at M&G: 0.5 Years of Professional Experience: 4 Rob joined M&G and the Manager Oversight team in 2022. Prior to that, Rob worked at Investec as an associate Investment Manager. Rob has an Economics degree from Royal Holloway and is a CFA Level 1 candidate.
	**Kate Russell** Years at M&G: 3 Years of Professional Experience: 3 Kate joined Manager Oversight in 2021 from M&G's Graduate Scheme, having joined M&G in 2019. Kate has a degree in Natural Sciences from Durham University and is a CFA Level 3 candidate.

Case Study: Supporting M&G's Diversity & Inclusion Strategy

Objective

With a focus on nurturing and developing internal talent, to ensure a diverse pipeline for the future, M&G have developed Aspire – its internal career exploration and skills development programme for UK colleagues.

The programme is designed to encourage internal mobility by providing career exploration opportunities in Investments and Customer & Distribution businesses by offering an opportunity for a 12-month secondment in our customer, distribution and investment teams.

Approach

The Aspire programme has been designed to identify, develop, and nurture the existing diverse talent within M&G, who can shape the future of our organisation. The programme is open to everyone but targeted toward talented Black, Asian, and Ethnic Minority colleagues who want to explore the option to become leaders in customer, distribution, and client-facing investment roles.

As they progress through the programme the cohort receive coaching, mentoring and ongoing training.

The successful candidates for the 2021/22 programme comprised a cohort of 82% identifying as Black, Asian or Minority Ethnic and 64% women.

Outcome

Building on the success of the 2021/22 programme, where 80% of participants moved permanently into a role in our customer, distribution and investment teams, M&G are now embarking on the 2023/24 cohort, where there are 11 secondment opportunities within the Asset Management and Retail & Savings teams.

The successful candidates for this year's programme will additionally benefit from the insights and mentoring from last year's cohort – effectively paying forward the insights and knowledge gained from the programme.

Third-party service and research providers

The ESG & Regulatory and Manager Oversight teams utilise data provided by the external asset managers they oversee, in combination with data from third-party data providers, to assess and fulfil the relevant ESG and Stewardship activities. Third-party screening systems provide the relevant data used to identify securities and companies that require specialist ESG and Stewardship review. These teams carry out proprietary research to identify appropriate ESG investment strategies, and to identify suitable managers that are capable of deploying these investment strategies. Third-party ESG service providers are also used for the integration of ESG and reputational risk monitoring of actual and potential portfolio and fund companies.

A list of some of our key service providers (non-exhaustive) is illustrated below. Regular meetings are held with the providers to review the quality of their services, and ongoing dialogue is maintained to review any identified issues or required improvements. M&G has a central team to act as a formal point of contact for our service and information providers. See Principle 8 on page 62 for more information on how M&G manages third-party service providers.

MSCI	MSCI is a provider of portfolio, ESG and climate analysis and data tools. Services provided and utilised by M&G include the provision of ratings, metrics, reports, research and other such data across a range of geographies and asset classes.
ISS	ISS ESG enables institutional investors to implement and integrate ESG policies and practices across a range of ESG solutions. ISS ESG provides M&G solutions across a range of sustainable and responsible investment issues including corporate ratings, screening, ESG data and quality scores across its full universe.
Bloomberg	Bloomberg is data provider for financial markets through the Bloomberg terminal. Bloomberg's (ESG Data) dataset offers ESG metrics and ESG disclosure scores for more than 14,000 companies in 100+ countries. The product includes as-reported data and derived ratios as well as sector and country-specific data points.
Refinitiv	Refinitiv is a provider of transparent, accurate, and comparable (ESG) data and analytics for the financial industry. ESG Scores from Refinitiv are designed to objectively measure a company's relative ESG performance, commitment and effectiveness across 10 main themes based on publicly-reported data.
Sustainalytics	Sustainalytics is a provider of ESG research, data and ratings to institutional investors. Sustainalytics provides M&G solutions and services including ESG and ESG risk ratings, controversies coverage, screening and country ESG research.
CDP	CDP is a not-for-profit charity that runs the global disclosure system for investors, companies and regions to manage their environmental impacts. CDP accredits leading environmental service providers around the world to help disclosing organisations find high-quality support as they transition to environmental leadership.
Macrobond	Macrobond is a data provider that provides instant access to timely, accurate macroeconomic and financial time-series data from over 2,500 global sources – more than any other data provider. M&G utilised the Category data provided by Macrobond.

Processes

ESG investment strategy

The ESG & Regulatory team has responsibility for designing the high level ESG investment strategy for the asset owner. This includes ESG investment principles, investment research and thought leadership. These high level strategies and positions on specific ESG issues are implemented at the mandate and portfolio level by the Manager Oversight team in consultation with the ESG & Regulatory team and other stakeholders, ensuring that ESG and sustainability considerations are taken into account across the spectrum of investment activities.

In line with the above, the ESG & Regulatory team owns and is responsible for the maintenance of the PAC ESG Investment Policy (see Principle 9 on page 9). This defines a number of ESG investment principles and commitments, which in turn inform stewardship practices and guidance, ensuring that on matters regarding stewardship and wider ESG issues, the Manager Oversight team and the wider Treasury & Investment Office will have a central guide to which they can refer to. In particular, the ESG investment principles require the wider Treasury & Investment Office to ensure that the impacts of ESG considerations on risk, return and clients' interests are clearly set out.

Investment due diligence

For the asset owner, the Manager Oversight team, performs appropriate investment due diligence on asset managers to assess their ability to provide the expected investment performance or outcome for the relevant fund. Investment due diligence considers relevant factors, which include, but are not limited to: investment philosophy, key risks, key employees, investment process and implementation, stewardship process, investment performance, risk management, reputation, integration of ESG issues, and infrastructure supporting the investment teams. A review of the asset managers' engagement and voting policies is also conducted to ensure these are aligned with our own approach and policies, and all monitoring of our asset managers' engagement with investee companies is carried out in line with our PAC Shareholder Engagement Policy, and the PAC Voting Standard ('the Standard').

Manager selection

The Manager Oversight team is responsible for the selection and monitoring of underlying asset managers. The team performs investment due diligence on shortlisted asset managers to assess their ability to provide the expected investment performance or outcome for the relevant fund over the long-term.

In addition, the team consider the ESG investing practices and integration into the investment process of each asset manager to ensure they align or remain congruent with those of the asset owner. The Manager Oversight team will review the asset managers' strategy against the Treasury & Investment Office ESG Product framework and ensure that the selected managers are, at a minimum, ESG-focused, and they will continuously encourage and push the managers to consider ESG in their Investment philosophies and processes. The Manager Oversight team provides direction to the delegated asset managers on sustainability issues and risk identified as part of the investment research and analysis process.

To ensure the adequate review and selection of asset managers with due consideration of their ESG priorities and alignment with the PAC ESG Investment Policy, in 2022 the selection process was enhanced to include an additional ESG-specific Due Diligence Questionnaire to be completed by all asset managers to inform their selection. Please see the case study on page 33, *Enhancing our ESG & Stewardship due diligence process*.

Mandate design

The Manager Oversight team is responsible for designing mandates and ensuring these are suitable for the objectives of the fund and for the managers' skill sets.

This includes recommendations on appropriate performance benchmarks and portfolio construction constraints, and takes into account risk/return considerations, liquidity and other practical and regulatory factors, as well as stock, sector, geographic, rating and currency constraints (amongst other things). The Manager Oversight team reviews the investment guidelines with the underlying asset managers annually.

For segregated mandates, the Treasury & Investment Office has the ability to use its own asset owner's PAC ESG Investment Policy on top of the bespoke investment guidelines (for example, limits on position sizes of individual names, sector limits and tracking error budgets), which ensures the asset owner's topics are reflected in the mandates to the fullest extent.

The Manager Oversight team maintains a close relationship with all the asset managers and it also has the ability to work with the internal asset manager to design strategies that suit the needs of the asset owner.

Investment performance monitoring

The Manager Oversight team performs ongoing monitoring of asset managers against performance benchmarks. If the Manager Oversight team has material concerns about the ability of an asset manager to generate forward-looking investment returns or manage sustainability risks and opportunities, the team will take reasonable steps to investigate and establish how their concerns may be being addressed and recommend appropriate mitigating actions through the appropriate governance channels.

The Manager Oversight team aims to build close relationships with the managers to review and understand their performance profiles, the degree of alignment against our expectations, including performance benchmarks, and in considering the style of investing that the managers are adopting.

Ongoing manager investment due diligence

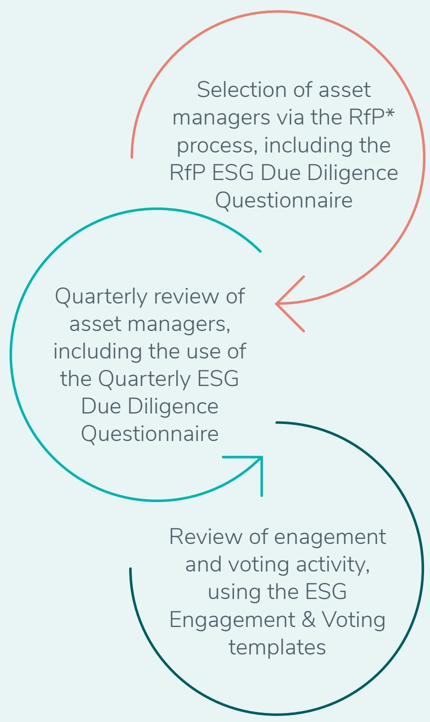
The Manager Oversight team conducts ongoing due diligence reviews of existing asset managers to assess their continuing ability to provide expected investment outcomes. Forward-looking attestation that asset managers' engagement is considered as part of due diligence. Ongoing due diligence comprises of:

- Quarterly face-to-face meetings or conference calls.
- Annual face-to-face meetings and site visits (when appropriate).

ESG is a standing item on the formal agenda that all quarterly meetings follow, and this is now supported by the review of the Quarterly ESG Due Diligence Questionnaire (see the case study *Enhancing our ESG & Stewardship due diligence process* on page 33). Meetings are also held directly with portfolio managers to enable communication on items such as performance profiles. At the annual face-to-face and site visits, business level items, such as organisational re-structures and team changes, are covered. The engagement that asset managers have been undertaking is also reviewed quarterly as part of the quarterly review cycle and annually as part of the SRDII process.

If the Manager Oversight team has material concerns over the continued suitability of an existing asset manager, the team will recommend appropriate mitigating actions, such as amending investment guidelines to place appropriate additional constraints on the mandate, increasing allocation to passive / complementary managers to realise diversification benefits, and divestment and reallocation of assets as a final resort. Such proposed changes are taken through the pertinent governance channels.

PAC's ESG Selection & Monitoring Process



* RfP: Request for proposal

Enhancing our ESG & Stewardship due diligence process

In 2022, recognising the need to enhance the ESG and stewardship due diligence processes with respect to the selection, monitoring and engagement of asset managers, the ESG & Regulatory team in collaboration with the Manager Oversight team established new processes and developed new ESG due diligence documents, including the:

- **Response to proposal (RfP) ESG Due Diligence Questionnaire** – as detailed by the Principles for Responsible Investment (PRI), the purpose of the manager selection process from an ESG perspective is to identify an asset manager that has the people, process and expertise in place to meet the ESG requirements specified by the asset owner. We therefore have a responsibility in ensuring the effective consideration of our ESG priorities and issues in the selection process for our asset managers. In order to do this, our objectives are twofold: (i) to ensure our processes include comprehensive ESG-specific criteria for manager selection, to enable an appropriate review of managers' alignment against our purpose, values and priorities, and (ii) to ensure we are delivering on the ESG goals, commitments and targets as disclosed within the PAC ESG Investment Policy and other relevant PAC ESG / Stewardship Policies. To this end, we have created a dedicated ESG Due Diligence Questionnaire which informs the selection process for asset managers managed by the Manager Oversight team. See Principle 7 on page 58 for more detail
- **Annual Letter of ESG Priorities** – in the spirit of effective communication between the asset owner and the appointed asset managers, we have committed to share an annual letter of ESG priorities at the start of each year to explicitly outline our areas of ESG focus for the upcoming year and the support we will require by the asset managers to meet our ESG ambitions and goals. The first letter was issued in Q2 2022
- **Quarterly ESG Due Diligence Questionnaire** – to ensure the effective monitoring of our appointed asset managers with respect to key ESG areas and priorities, we have created a Quarterly ESG Due Diligence Questionnaire to be completed and issued by our appointed managers on a quarterly basis to disclose any material quarter on quarter changes in their ESG activities, and to inform necessary escalation actions. See Principle 8 on page 62
- **ESG Engagement Template** – in 2022 we created and issued our ESG Engagement Template to collate quantitate and qualitative data with respect to the engagements conducted by our appointed asset managers (both internal and external) across the year. See Principle 8 on page 62 for more detail
- **Quarterly ESG Screening Process** – to ensure the appropriate review of broader ESG issues and risks within our investment portfolios we have implemented a quarterly ESG screening process. This will be characterised by reviewing our holdings against external and / or client benchmarks and monitoring their exposures and performance against ESG-specific areas. See Principle 4 on page 39 for more detail

Having established the foundations for enhanced ESG due diligence, in the upcoming years we will focus in embedding these fully and further enhancing the processes and analysis of the data from our prospective and appointed asset managers.

Outcome

Overall, the combination of the current expertise, experience and diversity of the teams, including the further asset owner specific resources secured for the ESG & Regulatory team, ensures sufficient subject matter expertise in all areas of Sustainability / ESG, ESG risk management, and stewardship activities. This is further supported by ongoing company-wide training and incentive programmes, input from industry-recognised third-party service providers, and streamlined processes for the management of our ESG strategy.

We believe our governance structure enables the effective consideration of stewardship and sustainability as evidenced by the case studies. The establishment of a new M&G plc Executive Sustainability Committee and central M&G Central Sustainability Office will also ensure greater emphasis in the review and governance of sustainability, and greater alignment with our Group entity. As reported in Principle 1, key to the group's strategy going forward will be to simplify the business, with a focus on removing management layers, reducing the complexity of (and thus aiming to improve) decision-making and governance processes. See Principle 5 and the Conclusion for more information on our governance and assurance processes.

The improvements made within our ESG and Stewardship due diligence processes and documents highlight our focus on ensuring that we successfully embed our policies, commitments and goals across all our activities and especially in the context of effective oversight of our asset managers.

As mentioned in the case study on page 33 *Enhancing our ESG & Stewardship due diligence process*, having now established the foundations for enhanced ESG due diligence, in the upcoming years we will focus in embedding these fully and further enhancing the processes and analysis of the data from our prospective and appointed asset managers, with a specific focus on Engagement activity.

Principle 3: conflicts of interest

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

M&G plc

M&G is committed to find ways to either manage or avoid conflicts of interest in order to protect its clients and employees. This is in line with its fiduciary duty as a financial services firm to act in the best interests of its clients and beneficiaries.

At M&G, a conflict of interest is defined as "a situation, decision, or arrangement where competing obligations or motivations may damage the interests of a client". M&G recognises the growing importance of having appropriate controls and systems in place to effectively identify and manage potential and actual conflicts of interest.

Management of conflicts of interest

It is critical that a consistent approach is applied to conflicts, and that the business is able to demonstrate this effectively to prevent arising conflicts of interest from adversely affecting the interests of clients. The expectations for managing conflicts of interests are denoted within the M&G plc Code of Conduct, and all staff and colleagues are provided with training to ensure awareness and understanding of how conflicts could arise and to enable staff to identify, report and adequately manage such conflicts.

The Group-wide M&G plc Conflicts of Interest Policy is applied to all aspects of the M&G business and is implemented by all areas across the business at a Group and material subsidiary level (internal asset manager and the asset owner). The Policy sets out the Group-wide approach and requirements of how conflicts should be escalated, recorded and managed and to ensure compliance with regulatory requirements. The Policy requires all employees to report possible conflicts identified as soon as practicable.

A number of additional resources are made available to all employees to familiarise themselves to their personal responsibility for managing risks and internal controls. A network of Conflict Representatives are established from every business function to provide a first point of contact for any employee who wishes to report and escalate an identified conflict of interest. In support of this, the Conflicts of Interest intranet site allows employees to find details of the Conflicts Representative where a range of material and useful information is also available.

The M&G plc Conflicts of Interest Policy is reviewed at least annually, or where there is a material update that require addressing, which ensures this remains effective for the ongoing management of conflicts of interest. Relevant Governance Committees review and approve any changes made to the Policy and all business areas are expected to comply with the Policy. In particular, each M&G plc Executive member is specifically accountable for ensuring that all areas under their remit appropriately adhere to the Policy requirements, and they have specific responsibilities in relation to identifying, controlling and assessing conflicts of interest.

M&G plc Conflicts of Interest Policy updates in 2022

In May 2022, various updates were made to the M&G plc Conflicts of Interest Policy. The aim of the updates was to make the Policy more operational and to enable the organisation to focus on the most material conflict risks, whilst continuing to meet the needs of its clients. The key changes to the Policy include additional guidance on the types of changes that require a documented conflicts of interest assessment and specified timeframes for new identified conflicts to be recorded in the Conflicts Register.

As specified in the Policy, necessary steps are established, including disciplinary action, for failure to act in accordance with the Policy. Acts or omission include:

- Failure to comply with the requirements set out within the M&G plc Conflicts of Interest Policy
- Failure to operate / follow a key control that manages or seeks to avoid a conflict
- Failure to appropriately manage a conflict, leading to client detriment, and would constitute as a breach

Preventing Conflicts of Interest

The M&G plc Conflict of Interest Policy outlines the procedures in place to prevent or control the exchange of information between relevant persons engaged in activities involving a risk of conflict of interest where the exchange of that information may harm the interest of one or more client. Activities that can create conflicts may be avoided if the business is unable to implement the appropriate controls and processes to prevent potential impact to clients.

Reporting Conflicts of Interest

Employees are required to identify and disclose any personal associations that may rise to an actual or perceived conflict of interest. Following the updates made to the M&G plc Conflicts of Interest Policy, there are different layers of reporting to help the leadership teams and non-executive directors on the Boards to focus on the more material conflict risks and ensure that adequate steps are being taken in a timely manner to improve the control environment or otherwise reduce our conflicts risks. Reporting on conflicts of interest will need to be aligned to the Risk Controls Self-Assessment (RCSA), with six monthly updates. This reflects the fact that in many cases, the teams involved in RCSA processes are also responsible for coordinating updates to the Conflicts Register. The Conflicts Register is detailed and span the full range of conflict scenarios across the Group, from Very High to Low Risk.

Asset owner

Governance and policies

As reported in the previous section, the M&G plc Conflicts of Interest Policy affects and is adhered to by the wider M&G business and is implemented by all areas across the business at Group and material subsidiary level. This includes the asset owner entity, which complies with the Group's conflict of interest processes. To this end, the asset owner has the responsibility to take all reasonable steps to identify conflicts of interest and ensure that these are clearly reported and articulated, including ensuring the detail on the underling conflict is well-documented.

As previously mentioned, the use of the Conflicts of Interest Register is crucial to enable ongoing monitoring and resolution.

Recognising the importance of effectively managing conflict, we have ensured that explicit references to it are included in a variety of key stewardship policies or documents, including:

- Our PAC Shareholder Engagement Policy, which clearly outlines that to enable effective engagement we expect asset managers, on our behalf, to communicate with shareholders and other relevant stakeholders of investee companies; potentially cooperate with other shareholders and effectively manage conflicts of interest that may arise from their engagement. Any material communication and coordination, as well as significant conflicts of interest may be escalated to M&G for information and support with resolution
- The Standard, which states that any conflicts of interests that may arise in shareholder voting considerations should be identified, managed and disclosed effectively (for example, where an issuer may also be a client of the asset manager)

The R&S EIOC ToR formalise the requirement to consider conflicts of interests at each meeting by declaring at meeting outset and managed in accordance with the current policy by all attendees.

Types of conflicts of interest

Our Clients

The principal objectives when considering conflicts of interest matter for the asset owner are those between different groups of clients and wider stakeholders such as the shareholder. Therefore, the asset owner recognises that a conflict of interest may arise in the context of exercising our active ownership responsibilities. Identifying and managing these conflicts are set out in our **Principles and Practices for Financial Management** (PPFM) document, for With-Profits Business and **Prudential's Statement of Unit-Linked Principles and Practices,** for unit-linked business.

Our PPFM document details how competing or conflicting interests or expectations of different groups and generations of policyholders, and shareholders, are managed so that each group is treated fairly. Underpinning our culture and values, treating clients fairly is a basic tenant of our investment processes. This means that every investment decision we take is in consideration of how clients are treated, to ensure that they receive a fair and balanced outcome, with impactful decisions requiring the input on client fairness from customer advocated within our governance structure. These customer advocates include our With-Profits Actuary and our With-Profits Committee for with-profits business, and our Independent Governance Committee for our workplace pensions business. A particular calibre of the With-Profits Committee is the ability to discuss and give direction to the asset owner company Board on sufficiently material investment matters.

Our investment portfolios are therefore holistically managed using well-defined decision-making principles to ensure that conflicts arising between the clients, shareholders and between different groups of clients, are adequately resolved. Well-defined conflicts may be alternately managed using frameworks and processes specially drawn up for that purpose.

Asset owner vs internal asset manager

Conflicts may also arise with the internal asset manager as both entities are part of the same Group. A way in which this conflict is managed is by ensuring that governance, operations and investment decisions are kept separate and independent from each other, with the flow of information between the asset owner and the internal asset manager being carefully monitored and controlled, whilst not being impeded. The investment activities of the asset owner and the internal asset manager are run as two separate businesses, with independent governance structures (see Principle 2 on page 18).

However, the inherent conflicts of interest are still managed in accordance with the M&G plc Conflicts of Interest Policy. We require that information sharing only takes place on those investment portfolios that the internal asset manager manages on behalf of the asset owner. In circumstances where a general collaboration is required, the internal asset manager and asset owner may discuss principles in generic and hypothetical terms, with the key purpose of ensuring alignment with both M&G's corporate values and with each other.

We seek to collaborate with the internal asset manager as appropriate in exercising our fiduciary duty to our clients and in the development and implementation of the PAC ESG Investment Policy and underlying positions on specific ESG issues (Climate Change and D&I). To this effect, two ESG managers now straddle between both the Treasury & Investment Office ESG & Regulatory team and the Group. Support functions, such as human resources, legal, accounting, marketing, and risk & compliance are also shared functions.

Outcome

The updates made to our M&G plc Conflicts of Interest Policy in 2022 reflect the evolving nature of our organisation and the recognised importance of being able to properly identify and manage conflicts of interest in the pursuit of putting the best interests of clients and beneficiaries first. This also ensures that the most material conflicts of interests are resolved through appropriate course of action and employees are equipped with the knowledge and resources to manage future conflicts.

We aim to continue to ensure that the M&G plc Conflicts of Interest Policy remains straightforward to operate and applied to all areas across the Group, including our asset owner business. See the following case study for an example of how M&G and the asset owner have addressed a potential conflict.

Case Study: Investment in responsAbility

responsAbility is a Swiss asset manager with the purpose of investing in emerging market countries where capital is scarcer, to impactfully drive growth of development-related sectors through private debt and private equity.

Objective

Following the acquisition of responsAbility by M&G in 2022, the asset manager's capabilities became part of the asset manager's private asset franchise. The Treasury & Investment Office recognised that there are significant benefits to investing in internal propositions including greater transparency, ability to influence the mandate or team if required, and ability to negotiate a competitive fee rate. As a result, the Treasury & Investment Office assessed the opportunity to invest in a number of responsAbility's private asset strategies, whilst recognising the potential conflict of interest between the asset owner and asset manager.

Approach

The Treasury & Investment Office remains focused on continuing to manage this potential conflict and ensuring that all mandates that are awarded are in the best interests of the policyholders; a key part of this is in following an established selection process that ensures any capability selected is considered to be top quartile relative to peers.

The Treasury & Investment Office conducted thorough Investment Due Diligence on responsAbility's investment teams, who were assessed on the quality of their propositions and Treasury & Investment Office's conviction in their ability to deliver positive returns for the policyholder over the long-term. The Treasury & Investment Office also engaged with Risk and Compliance to ensure an allocation would provide the best outcome for policy holders. This allocation was approved by senior stakeholders at the R&S EIOC in June 2022.

Outcome

Having established that the responsAbility strategies assessed were both of the required high quality, the Treasury & Investment Office has committed a total of $250m to two sustainable food strategies managed by responsAbility (Future of Food Asia II and Sustainable Food LATAM I). This will allow policyholders to access a specialist private market skillset that previously would have been commercially prohibitive to access, creating a real world impact in emerging markets.

Principle 4: market-wide and systemic risks

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

M&G plc

Market-wide and systemic risks are recognised as the possibility that an event internal or external to the company could trigger instability or collapse in an industry or economic environment[2]. M&G recognises that these risks have the potential to adversely impact clients' funds and investment processes and have therefore implemented a variety of frameworks and processes to manage these accordingly, in line with the business' fiduciary requirements. Overall, this enables the business to meet its commitments to its clients, comply with legislation and regulation, whilst appropriately managing and mitigating key systemic risks, including ESG-related risks such as climate change, biodiversity loss and social inequality.

The Board have ultimate responsibility for managing risks across M&G, including establishing effective internal controls and taking into account the current and prospective macroeconomics and financial environment. M&G recognises that all employees will encounter risks relevant to the activities they undertake. For this reason, the Board also has the responsibility for instilling an appropriate corporate risk culture within M&G. This risk culture is centred around the organisation-wide programme of "I Am Managing Risk" which requires colleagues to take personal responsibility and accountability for identifying, assessing, managing and reporting risk and working together to do the right thing for clients, wider stakeholders and the business. The M&G plc Operational Risk Framework standardises the requirements for Risk & Controls and processes for the 'I Am Managing Risk' culture across business functions.

The M&G plc Risk Committee supports the Board in its risk activities, providing leadership, direction and oversight, and the M&G Audit Committee assists the Board in meeting its responsibilities for the integrity of financial reporting, including obligations for the effectiveness of the internal control and risk management systems. The M&G plc Remuneration Committee ensures that compensation structures place appropriate weight on all individuals adopting the required risk culture and behaviours.

Underpinned by this is the Risk Management Framework (RMF), which sets out our tailored approach to managing risks within agreed appetite levels, and which is further supported by a suite of risk policies and standards. This provides a disciplined and structured process for the taking and managing risk, enabling the business to make better decisions for its clients and shareholders.

In alignment with the RMF, M&G operates an effective risk management cycle in maintaining ongoing process of identifying, measuring, assess, managing, monitoring and reporting current and emerging risks:

- **Risk Identification** – Regular bottom up risk identification processes are undertaken to identify risks to which M&G is currently exposed, or could be exposed to in the further
- **Risk Assessment** – Risks are firstly measured using appropriated metrics. Risk monitoring is also an ongoing process to track the status of risks and is undertaken by both risk owners and through oversight and assurance activities undertaken by Risk, Compliance and Internal Audit
- **Risk Management** – Risks are evaluated, treated and managed against the defined risk limits, triggers and indicators in order to establish whether the business is operating within risk appetite
- **Risk Reporting** – To ensure timely and appropriate decision making, M&G and PAC are provided with accurate and timely risk reports

[2] https://www.cfainstitute.org/en/advocacy/issues/systemic-risk#sort=%40pubbrowsedate%20descending

ESG Risk Management

To help mitigate emerging ESG risks, which includes potential environmental, health, social and corporate governance issues, M&G has put in place a tailored framework for the identification, assessment and management of ESG risks to be embedded in line with the M&G plc RMF set out in the earlier section.

The framework 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.

Figure 3: Overview of the ESG Risk Management Framework

The framework is supported by the M&G plc ESG Risk Policy, which articulates M&G's ESG risk appetite and sets out key requirements, applicable to all business areas, for the management of ESG risk in a manner consistent with the risk appetite. ESG risks are escalated within risk reporting provided to the Executive and Board Risk Committees, with further escalation to the Board as required.

Managing Greenwashing Risks

M&G recognises the importance of managing greenwashing risks, to ensure that what is communicated to our stakeholders with respect to our ESG activities, including our clients, is reflective of our activities. The business is expected to manage all risks, including greenwashing risks, in line with M&G plc RMF, and to establish the respective controls and processes to facilitate this. With the continued expansion of our ESG activities, M&G endeavors to continue to strengthen its processes and controls for this specific area of risk.

Asset owner

Market-wide and systemic risks

As an asset owner, we adhere to the risk management frameworks and processes, and Three Lines of Defence model established at the Group level (see Principle 5 on page 46). As a significant investor across various products (including With-Profits Fund and annuities), we have a responsibility to consider and meet the needs of all our clients, and to safeguard them against any material risk. Every employee within the company is therefore tasked with identifying, assessing, managing and reporting risks within their area of responsibility.

In line with the risk management framework, we have a robust and effective risk identification process that identifies both micro / security-specific risks and macro / market-wide and systemic risks. The mechanisms through which we identify such risks include horizon scanning, frequent and regular risk reviews, and sizing of risk appetites. Where we identify macro risks, we may choose to work with industry bodies, regulators and market participants to create risk mitigation solution

Our PAC ESG Investment Policy outlines a set of key principles that further enable the identification and management of key ESG, and wider relevant market-wide and systemic, risks. We take into account various ESG factors when determining risks but given the broad array of ESG issues and their dynamic nature, these ESG factors may change time to time and the Policy does not prescribe the investment treatment of each ESG issue. Instead, the Policy sets out our principles-based approach to addressing ESG matters in investing, and policies for specific ESG matters that must be applied by the asset owners across all investment portfolios.

Upon the relevant principles, we state that:

- We take into consideration ESG factors that have the potential to have a material financial impact and incorporate them into our investment analysis and decision-making processes. For all investments, we believe consideration of the implications for society and the environment to be part of investment stewardship and in line with our fiduciary duty to our clients
- We take a long-term approach, keeping in mind client time horizons and the urgency of individual ESG issues and delivery of the firm's ESG priorities and commitments
- We identify ESG issues, risk and opportunities, and incorporate them into our general risk management process

The PAC ESG Investment Policy can be found **here**.

Climate Change

For both M&G and the asset owner, climate emergency is one of the most important environmental issues facing the world today. We believe that climate change will have a material impact on our clients' investment returns. With this being the case, identifying the specific risks of climate change is crucial to minimise or mitigate the impacts.

Case Study: Quarterly ESG Screening Process

Objective

We believe that ESG factors can have a material impact on long-term investment outcomes. Therefore, embedding ESG considerations into our investment processes would help to deliver long-term, sustainable and resilient returns for our current and future clients. We apply this approach to ESG screening across our investment portfolios.

Approach

In Q4 2022, the ESG & Regulatory team have implemented quarterly ESG screening reviews to ensure the appropriate review of broader ESG issues and risks within its investment portfolios. This will be characterised by reviewing our holdings against external and / or client benchmarks and monitoring their exposures and performance against ESG-specific areas. These ESG specific areas include but are not limited to Coal, Unconventional Oil & Gas, Controversial Weapons, Modern Slavery, UNGC Violators and Animal Welfare.

Outcome

Where there are specific concerns with respect to a particular holding, the ESG & Regulatory team will establish resolution actions, including, where appropriate, engagement. Whilst the process is still evolving, this has enabled an additional level of oversight with respect to ESG risks and issues.

Integration of market-wide and systemic risks

Once the key market and systemic risks have been identified, these are then considered and aligned within our investment process. The Treasury & Investment Office Long Term Investment Strategy Team recommends the asset allocation of the asset owner's fund ranges.

Market and systemic risks are integrated into the SAA process through the following main channels:

- **Economic and capital markets research:** Our process starts with an understanding of the structural and cyclical forces influencing the global economy, informing our forward-looking expectations for economic growth, inflation and the fiscal & monetary policy environment. We also consider developments in the capital markets and their impacts on asset class valuations. The output of this work is documented in our monthly research publications
- **Capital Market assumptions and building block framework:** Interactions between the real economy and financial markets are translated into a set of capital market assumptions using a building block approach, supplemented by volatility and correlation assumptions
- **Capital markets modelling (including scenarios modelling):** Risks to our body assumptions are considered via tracking of emerging risks as outlined in our monthly research publications, scenario analysis and a set of stress assumptions

ESG factors are integrated into the SAA process across three main channels:

- **Sensitivity Analysis:** this is a subset of our capital markets modelling process, and we use sensitivity analysis to explore a number of different themes for both short-term (for example, inflation) and longer-term (for example, climate risk). Portfolio exposures to climate risk are assessed in terms of their physical and transition impact

- **Country Risk Categorisation:** Within our capital market assumptions, we calibrate the required risk premia across countries and regions based on factors such as empirical volatility, market depth and economic development. We also include ESG factors in the framework, which helps to ensure we consider these factors when apportioning the risk budget within the allocation
- **Bottom up factors:** There is material dispersion of ESG characteristics of companies within any index constituent and stock selections are delegated to the individual fund managers. In certain cases, we also may also consider the geographical split within the benchmark and tailor to allow for ESG factors

Case Study: Assessing the Ukraine invasion from a Strategic Asset Allocation (SAA) perspective

Objective

In late January 2022, prior to the invasion of Ukraine, we analysed broader implications of a Russo-Ukrainian conflict. At that time, although most political strategists were expecting a direct conflict being avoided, market risk for Russian assets were ticking up close to the levels reached prior to Crimean conflict in 2014, but this time against a backdrop of strong oil prices. The implication of this was a mix of high-implied likelihood of conflict and potentially a higher economic cost than was the case in 2014.

Approach

We initially analysed where the primary vulnerabilities lie and the channels through which the invasion of Ukraine can impact the global economy, and ultimately our portfolios. Next, we delved deeper into the subject and conducted a thorough scenario analysis. We defined the three pathways, following the conflict and Western governments' responses to it:

a) Quick stalemate, where diplomatic solution is found for eventual Russia withdrawal. Under this scenario near-term volatility of markets settles as escalation of conflict subside with muted impact on global economy

b) Extended conflict, where NATO members take a more interventionist approach to the conflict, and continue to supply armaments for Ukrainian resistance. In this scenario, the harshest set of sanctions are applied, doing great damage to Russia's economy

c) Escalation of a proxy war between Russia and NATO members. Here we'd expect heightened risks of mistakes and uncertainty leading to risk aversion in global capital markets

For all these scenarios we estimated impacts on our portfolios at an asset class level. These were shared with the relevant shareholders within the Treasury & Investment Office, supporting the following outcome. This proposal was discussed within the Treasury & Investment Office. As a final step, upon considering the likelihood and impact of a wider systemic risk coming from the conflict, a proposal was made on 1 March 2022 to the R&S EIOC to de-risk the SAA of the With-Profits Funds. This was also partly due to the internal view that the current economic cycle was (time) compressed, and the inflationary risks of a conflict.

Outcome

The proposal was approved, and implementation expedited to complete over the next 2-3 days, and ultimately reduced risk exposure for policyholders ahead of the further escalation and deterioration.

Work with other stakeholders to improve the functioning of financial markets

Through collaboration, membership of and engagement with various industry initiatives, we believe that we can gain a better understanding of the wider industry events and issues that we are facing.

M&G and the asset owner engage with, participate in, and in some instances chair, a number of different associations and initiatives, including but not limited to:

TheCityUK	TheCityUK is an industry advocacy group that champions UK-based financial and related professional services industry. M&G have been on the Leadership Council of CityUK and have had company stakeholders speak at their events. M&G have also participated in their meetings with policymakers and sit on various of their committees.
International Regulatory Strategy Group (IRSG)	The IRSG is a body comprising of leading UK-based figures from the financial and related professional services industry. It is one of the leading cross-sectoral groups in Europe for the industry to discuss and act upon regulatory developments. M&G chairs the IRSG's ESG Committee, sit on their Board and Council and participate in their other committees.
Net-Zero Asset Owners Alliance (NZAOA) & Net-Zero Asset Managers Initiative (NZAMi)	M&G are also members of both organisations as part of our commitment to achieve net zero across the totality of our business by 2050. The Alliance drives industry best practice towards alignment with the Paris Agreement.
The Investing and Saving Alliance (TISA)	TISA's ambition is to improve the financial wellbeing of UK consumers by bringing the financial services savings industry together to promote collective engagement, to deliver solutions and to champion innovation for the benefit of people, our industry and the nation. M&G sit on their various committees and feed into their policy documents.
The Investment Association (IA)	IA is a trade body that represents asset managers and asset management companies in the UK. M&G is a member of various committees and feed into their policy response.
Prudential Regulatory Authority (PRA)	The PRA are responsible for prudential regulation and as a result, there is a range of systemic subjects we discuss as a firm with them. This includes financial and market risks as well as operational resilience and governance, by way of examples.
Association of British Insurers (ABI)	The ABI is the leading trade association for insurers and providers of long-term savings in the United Kingdom. Members from the ESG&R team are becoming more actively involved and are participating in their forum meetings.

We recognise that there may be some dependency in policy action to create stronger climate policy initiatives and requirements. Therefore, we are looking to engage with policymakers to highlight the challenges we face and suggest potential solutions.

Outcome

We will continue to take an interest in global economic, policy, social and geopolitical developments to ensure that we can effectively safeguard all of our key stakeholders. Over the past year, we have responded to a number of challenges, including the Ukraine Invasion (see case study on page 43), which we have aimed to address with support and ongoing monitoring and dialogue with regulatory and industry bodies. These enable us to meet our requirements and objectives in acting in the best interests of our clients. We strive to continuously improve our processes for the management of wider risks and therefore believe that our ability in identifying and responding to market-wide and systemic risk will continue to improve and evolve.

See Principle 10 for evidence of how we continue to work with the NZAOA in aiming to improve the functioning of financial markets, towards the initiative's and our own climate change ambitions.

Principle 5: review, assurance and assessment

Signatories review their policies, assure their processes and assess the effectiveness of their activities

M&G plc

The M&G plc Group Governance Framework (GGF) is key in ensuring the appropriate assurance of policies and processes within the wider business. The GGF comprises a suite of Group-wide governance policies and sets out the roles and responsibilities across the Group in relation to policy development, maintenance, implementation and compliance. Group-wide policies are part of the M&G plc Policy Governance Framework, a core component of the GGF, which supports the overall system of risk management and internal control. All governance policies have a designated M&G plc Executive Committee Owner who is accountable for the content and implementation of the policy across the business and input from wider stakeholders is important to ensure the policies are fair, balanced and understandable.

The establishment of a strong Governance structure across the business is also key to ensure the effective review and challenge of processes and policies. In 2022, this was further enhanced with the development of the M&G plc Executive Sustainability Committee, which was established to act as a dedicated committee to review and approve Group-wide Sustainability and ESG matters (see Principle 2 on page 18).

Internal and External Assurance

Internal Assurance

In alignment with the RMF (see Principle 4 on page 39), M&G's management of risks is underpinned by the 'three lines of defence' model to risk governance, supporting the Board, and its underlying committee. This model provides an effective way to clearly illustrate how responsibilities to managing risks (including in the process of assurance) are separated:

- **First Line of Defence (1LOD)**
  The first line of defence business areas seeks to identify and manage risks and are overseen by the second line of defence Risk and Compliance functions
- **Second Line of Defence (2LOD)**
  The second line is structurally independent of the first line. 2LOD functions facilitate and monitor the implementation of effective risk management practices by the first line. This includes providing proactive and reactive advice and challenge to the first line
- **Third Line of Defence (3LOD)**
  The third line; Internal Audit, is empowered by the Audit Committee to provide independent assurance on the design and operating effectiveness of the internal controls, including 1LOD and 2LOD functions

The 1LOD responsibilities are carried out by the Product/Proposition, Marketing, Customer & Distribution and Investment teams, Operations, Finance, Technology and other Central functions who also have ultimate accountability for the business' systems of internal control and risk management. Specifically, 1LOD functions develop processes and procedures to integrate risk management principle into day-to-day violation of compliance or risk management policies, mandates or instructions.

The 2LOD responsibilities are carried out by the Risk and Compliance teams. Aside from contributing advice and guidance, second line functions provide independent oversight and challenge of first line activities. This is achieved by monitoring and reviewing first line of defence compliance with alignment to the RMF. An aggregate view of M&G's risk profile is provided additionally to the Board with support in identifying and assessing emerging risks which could potentially threaten the successful achievement of M&G's objectives.

The 3LOD is provided by Internal Audit. The primary objective of Internal Audit is to provide independent and objective assurance to the M&G plc Board Audit Committee (BAC) and Executive Management on the adequacy of the design and effectiveness of the organisation's systems of internal control, thereby helping them to protect the assets, reputation and future sustainability of the Group. This is achieved by assessing whether all significant risks are identified and appropriately reported by management to the BAC and Executive Management, assessing whether they are adequately managed, and by challenging Executive Management to improve the effectiveness of governance, risk management and internal controls.

Board of Directors

Risk and Audit Committees

Three lines of defence

1. Risk identification and management

- Identify, own, manage and report risks
- Execute business plan and strategy
- Establish and maintain controls
- Stress/scenario modelling
- Operate within systems and controls
- Ongoing self-assessment of control environment effectiveness

2. Oversight, advice and challenge

- Oversight, advice and challenge
- Owner of Risk and Compliance Framework
- Stress/scenario setting and oversight
- Regulatory liaison
- Proactive and reactive advice and guidance
- Risk and compliance monitoring and assurance activities
- Risk and compliance reporting

3. Assurance

- Independent assurance of first line of defence and second line of defence
- Independent thematic reviews and risk and controls assessment

External Assurance

M&G have previously engaged with external professional assurance providers to combine the strengths of non-financial assurance experience with technical competency in corporate responsibility. This was done in 2021, whereby KPMG LLP provided limited assurance on selected indicators. More information can be found **here**.

Limited external assurance was also provided by PwC on the total community investment spend and selected metrics in the GHG Emissions Statement in the 2022 M&G plc Annual Reports and Accounts. More information can be found **here**.

Asset owner

As an asset owner, we ensure the appropriate review of our stewardship activities and reports. We do this by complying with and embedding the same frameworks (including the GGF) and 'Three Lines of Defence' model set at the Group level.

As illustrated in Principle 2, the asset owner also has its own independent governance structure to ensure appropriate oversight and approval of the asset owner's specific activities. Central to this is the R&S EIOC, constituted by the Retail & Savings CEO. The Committee reviews and considers specific matters, including policy changes and approves key asset owner reports such as the PAC Stewardship Report (see page 50).

Oversight is also integrated further when we report periodically to a number of asset owner company Boards, including to our With-Profits Committee and Independent Governance Committee.

Where appropriate, specific processes and policies will undergo review by the M&G plc governance structure.

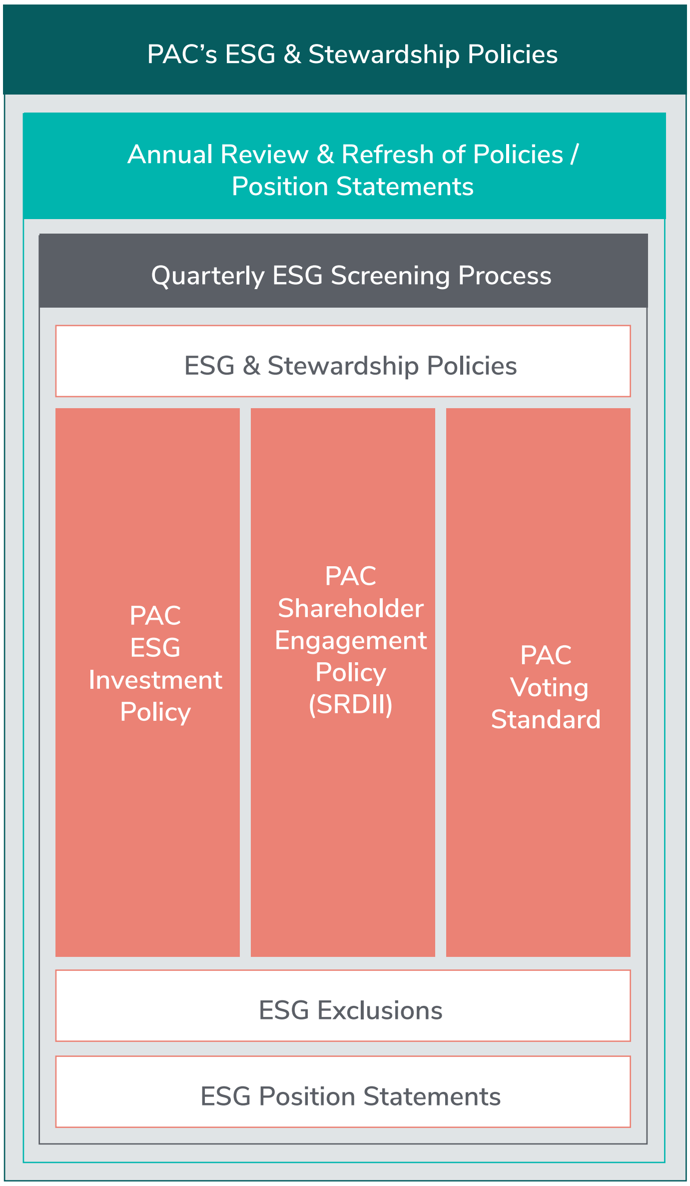
Review and Assurance of our Business Policies

Our ESG and stewardship-related policies and standards are reviewed at least annually or when necessary, and are subject to the established asset owner (and where applicable Group-wide) governance review process.

As part of our governance review process, once created, our policies or key documents are reviewed and approved by the PAC Board or other relevant sub-committees (R&S EIOC). Following approval, the policies are then subject to an annual review process. Any material changes made to policies and processes must receive approval from the R&S EIOC or delegated approver or forum. The R&S EIOC may escalate these changes further to the PAC Board where deemed appropriate.

For external disclosures, input from the Asset Owner Information Disclosure Working Group (IDWG) and the M&G plc ESG Disclosure Panel, and approval from the M&G plc Management Disclosure Committee (MDC) (or delegated forum / authority) is also sought. Having a dedicated governance review process for disclosures helps to guarantee an additional level of scrutiny and review of our policies and reports when targeted or available to external stakeholders, and ensures that the reports are accurate, fair and not misleading.

Input and independent oversight is sought by Risk and Compliance throughout the review process. Risk and Compliance will also provide their independent views through a respective risk opinion when submitting documents to formal Committees.



Challenges from Risk on the 2021 PAC Stewardship Report

As part of the governance review process of the PAC Stewardship Report for 2021, the Report was submitted to the Information Disclosure Working Group (IDWG) for approval. This allowed Risk to conduct an in-depth review of the 2021 PAC Stewardship Report. Comments were provided to the 1LOD team responsible for the production of the Report challenging the degree to which the feedback from the FRC had been addressed, for example flagging potential improvements on Principle 4 on expanding the remit of the section beyond a focus on ESG risks. The Report was then later enhanced to ensure that all key risks and comments were addressed ahead of the submission to the R&S EIOC.

PAC Stewardship Report Assurance

Following our submission of the 2021 PAC Stewardship Report, the approval process for our stewardship report has since become more simplified whilst still maintaining the extensive review and due diligence process from key stakeholders and internal forums.

We take a proactive approach to Stewardship Assurance: firstly, our PAC Stewardship Report is reviewed at a team-level by the Head of ESG & Regulatory. Once the ESG & Regulatory team have performed a roundtable review of the document, the Report is submitted for review to a number of stakeholders (including the central M&G plc Sustainability team), and to a number of key forums and committees, including:

- the M&G plc ESG Disclosure Panel
- the Asset Owner Information Disclosure Working Group (IDWG)
- the Retail & Savings Executive Investment Oversight Committee (R&S EIOC)
- the M&G plc Executive Sustainability Committee
- the M&G plc Management Disclosure Committee (MDC)

The Report is then reviewed and approved by the PAC Board.

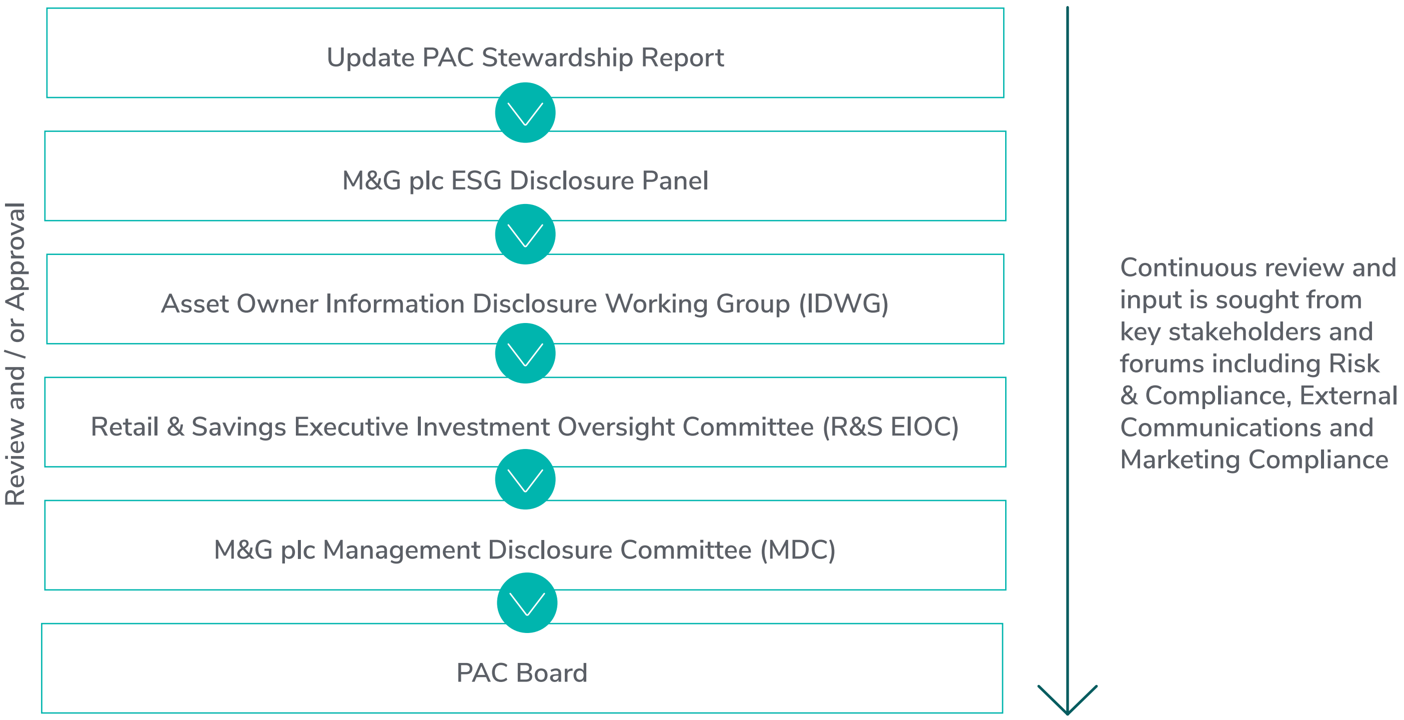


Figure 4: High-level overview of the review process undertaken for the 2022 PAC Stewardship Report

Case Study: Internal Audit Review of the FRC PAC Stewardship Report

The asset owner is a signatory to the FRC UK Stewardship Code 2020 ('the Code') and report against the Code's 12 'apply and explain' Principles via annual Stewardship Report. As part of a 2022 audit of "External ESG Reporting", Internal Audit included the PAC Stewardship Reporting in scope.

Objective

The objective of this audit review was to provide independent assurance over the design and operating effectiveness of the control framework in place around the preparation and submission of accurate, complete and timely FRC Stewardship reports on behalf of M&G plc.

Approach

The audit was performed in 2022, through review of relevant documentation and management information; performing walk-through of relevant processes; conducting sample testing of key and/or mitigating controls within the processes in place around the preparation and submission of the PAC Stewardship Report.

Outcome

A report detailing any issues identified was reported to relevant Senior Management, Executive Management and the BAC with issues added to the internal audit system for tracking to completion. This allowed for enhancements being implemented in the process for the production of the Report.

Outcome

The implementation of the 'Three Lines of Defence' model enables an appropriate and ongoing level of control, risk management and oversight, whilst ensuring the effective independent review of internal processes and controls. As different business functions have their own responsibility in reviewing, managing, and providing oversight on reports and processes, this ensures that there is a holistic coverage of risks and controls across all areas of the business. The establishment of independent governance structures and review processes at both the asset owner and Group-level enable effective oversight, review and approval of key decisions, documents and processes, in line with the management of conflicts of interest, whilst ensuring alignment and input from stakeholders across the different entities (where appropriate).

The development of working groups, forums and committees dedicated to disclosures, overlayed by input by the Marketing Compliance and External Communications teams, allow for further independent review of any material that is targeted for external publication and wider consumption, a key additional level of oversight that is fundamental when communicating work to our clients and wider stakeholders, especially with respect to managing greenwashing risks (see Principle 4 on page 39).

We believe that our internal assurance process provides an effective level of independent check and challenge, and we continue to seek input from the wide range of internal stakeholders to improve our processes. We will continue to assess ways in which to improve our assurance processes, reviewing insights from industry and regulatory bodies such as the FRC, to ensure that we continue to submit a reflective and accurate account of our stewardship and ESG activities through the year. We appreciate that our stakeholders, including Board directors, are requesting more reporting on complex stewardship matters to evidence the outcomes of such activities. To this effect, we endeavour to meet these requests, as well as our stakeholders' evolving needs through implementation of effective stewardship and assurance processes. See the conclusion on page 88 for further insights.

Principle 6: clients and beneficiaries

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

M&G plc

Financial overview

The assets under management and administration for M&G as both asset owner and manager, as at 31 December 2022, were £342 billion.

Assets under management and administration (AUMA) by geography are illustrated in the below table, based on the country of the underlying client.

For the year ended 31 December 2022 (£bn)	Total
UK	264.1
Europe	52.7
Asia-Pacific	11.1
Middle East and Africa	12.7
Americas	1.4
Total assets under management and administration	**342.0**

Assets under management and administration split by geographies (totals in the table may not sum as a result of rounding; included in total AUMA of £342.0 billion (2021: £370.0 billion) is £12.7 billion (2021: £7.9 billion) of assets under advice.)

Asset owner

Financial overview

The asset owner's funds under management break down is:

With-Profits	£128.9 billion
Unit-Linked	£13.9 billion
Shareholder-backed annuity and other	£16.4 billion
Other AUMA	£21.6 billion

Source: M&G Annual Report and Accounts 2022 (other AUMA is a subset of reported figures [see also table on following page]); note numbers are on a group basis.

PruFund's (the investment solution offered to clients of both Wealth and Other Retail & Savings) assets under management and administration equated to over £50 billion.

The asset owner's total number of in-force policies as at April 2023 was 4,977,761 (this excludes heritage PIA and Rothesay annuities). The average age of clients with an active policy across the listed systems is 66.

The asset owner's funds under management broken down by asset class is shown in the following table.

For the year ended 31 December 2022 (£bn)	With-Profits	Unit-Linked	Shareholder backed annuities and other long-term business	Other AUMA
Equity Securities and pooled investment funds	69.3	9.7	–	–
Debt Securities	32.3	2.5	12.4	–
Loans	1.1	–	1.4	–
Deposits	14.5	1.2	1.4	–
Derivatives (shown net of derivative liabilities)	0.1	–	(1.5)	–
Investment property	9.1	–	0.9	–
Reinsurance assets	–	–	1.0	–
Cash and Cash equivalents	1.5	0.3	0.6	–
Other	1.0	0.2	0.2	21.6
Total	**128.9**	**13.9**	**16.4**	**21.6**

Asset owner funds under management split by asset class (totals in the table may not sum as a result of rounding); the numbers are on a group basis.

Source: M&G Annual Report and Accounts 2022

Meeting client needs

As an asset owner, we distribute our products predominantly through UK financial advisers.

Through engagement with UK financial advisers, policyholders and via third parties, we continue to build and evolve our understanding of client needs, expectations, and views: the primary tools used are surveys and forums. We also run an extensive programme of both technical and investment seminars (largely online) for advisers. Over the course of a year attendance at these events will total in the thousands. Feedback on content is important for the business to understand that the correct content is delivered and that future events cover the most appropriate subjects. This allows us to gain the perspectives of both professionals and members of the public, creating a more complete understanding of their requirements, as the adviser insights also allow us to tap into the expectations and views of their clients. Open-ended responses within surveys and via forums also aid in inviting more detailed insight.

The effectiveness of our chosen methods is evaluated on an ongoing basis, and this research will generally allow us to reduce perceived shortcomings in our products and related materials, or to improve investment outcomes for our clients.

We aim to communicate regularly with our clients, and at different intervals depending on the product type. Our communications will show our clients their investment performance and what they are invested in.

The PruFund Range

In 2022 there was great demand for more transparency around the asset owners two flagship funds, PruFund Growth and PruFund Cautious. This led to a project team successfully building and launching monthly reports that provide significantly more detail on positioning, performance, and holdings than previously. Feedback from advisers has been extremely positive and they acknowledge the asset owner has made a big step forward in helping them service their clients.

The successful 18+ year track record of the PruFund range provides, through the delivery of publicised growth rates, compelling evidence that it has helped meet the needs of many thousands of clients.

Client communications

We understand our clients have differing requirements when it comes to accessing information, and we aim to tailor our approach to our clients wherever possible.

Our website is just one avenue through which our clients may access the information they need. This provides an expansive range of information tailored to our different audiences, including, but not limited to, professional, private and institutional investors to ensure the right level of support and information is provided. For example, ESG, Sustainability and Impact information is available through our Sustainability section on our main website, and includes applicable policies, reports, and information. This includes access to M&G plc's Sustainability Report, which outlines M&G's approach to sustainability and M&G's ten-point Sustainability plan (find M&G plc Sustainability Report 2021/22 report **here**). Additionally, we have adviser focused resources including articles, videos and webinars to help advisers support and inform our clients across both investment and sustainability related topics.

We also ensure that ESG-related information is communicated to our adviser base when appropriate, and are aiming to provide updates on a quarterly basis. The Treasury & Investment Office Client Portfolio Management team have taken onboard feedback from clients and have increased information availability, both in general and for ESG matters specifically, through new written material, WebExs and regular meetings.

With the aim of increasingly providing additional information to our clients, in 2023 we have published the second edition of our With-Profits Fund Stewardship Report. This is made available to all clients and includes digestible information on how we look after our clients' money (see the case study below for more detail).

We have also published a number of position statements to consider and balance identified ESG issues raised by our clients and to meet the Groups evolving sustainability strategy and priorities.

PAC Responsible Investing webpage

Investing in our digital capabilities to deliver strong services to support our clients has been one of our key strategies. In 2022, we launched our own new webpage on Responsible Investing to enable wider accessibility to our ESG and stewardship reports and commitments, including the With-Profits Fund Stewardship Report, the PAC ESG Investment Policy and PAC Stewardship Report. The webpage also provides context on our view on some of the most pressing ESG issues including Climate, Coal disposal and Tobacco disposal, and our contributions to the NZAOA initiative and UNGC principles. The webpage can be found **here**.

Developing a Position Statement on Animal Welfare

Having received an increase in queries from clients on the asset owner's stance on animal welfare/animal testing, in 2022, we developed a standardised position and response to share with clients and UK financial advisers, and integrated the review of animal welfare risks more explicitly within our investment processes. This will be reviewed on an annual basis and/or in line with M&G to seek alignment of wider priorities, policies and position statements.

Investment time horizons

Throughout our investment and stewardship activities we aim to ensure that the needs of our clients are taken into account with consideration of appropriate investment time horizon.

We take a long-term approach to investing because we believe this yields the best financial outcome for our clients and helps to effectively address sustainability issues.

Our With-Profits portfolios are invested on a medium to long-term time horizon in line with our SAA, utilising projections and assumptions over timeframes of 5-10 years and longer (this is communicated to our clients via our corporate website to ensure transparency and availability of information). The approach looks through short-term volatility and drawdowns while seeking to optimise medium to long-term risk-adjusted performance in line with our clients' financial needs. Broadly, our With-Profits clients only bear a portion of the investment risk due to the impact of smoothing and guarantees, and the most appropriate time horizon for most clients to be exposed to investment risk is for the medium to long-term.

Our unit-linked funds are invested in line with our belief in a long-term approach to investing. While we do not have contractual long-term liabilities arising from our unit-linked funds, we do have an open-ended unit-linked business, with clients investing for the long-term. Investment into equities is a core part of our investment strategy, as we believe that equities are a suitable asset to invest in to capture medium and long-term returns; they allow us to both capture the equity risk premium over the long-term, and retain flexibility to make meaningful tactical decisions over a shorter time horizon.

For our annuities funds, individual policies are aggregated and investment time horizons are managed in a cash flow matching basis to ensure liabilities are effectively met across the annuities business.

With-Profits Fund Stewardship Report for UK clients – 2022

As a result of growing demands from clients on improving the transparency of how their money is being managed, the asset owner has created its With-Profit Stewardship Report in 2022. This was first developed in 2021, and an interim 2022 update published in March 2023. This has now been fully updated for 2022. The Report provides an insight into where their money is being invested; how Pru manages money; who is managing the money; and the corporate sustainability goals and strategy.

The Report can be found **here**.

Outcome

As denoted above, M&G and the asset owner strive to provide clients with differentiated experiences, and to deliver exceptional outcomes and sustainable growth. We continue to proactively evolve our strategies and activities by regularly seeking client feedback through surveys and forums. The launch of the PAC Responsible Investing webpage has enabled us to become more transparent about our efforts and views on ESG, and the development of our position statement on animal welfare stemmed from the need of meeting clients' queries and concerns. We will continue to assess the evolving requirements of our clients and aim to address the themes identified as important to them and their well-being. Likewise, we believe transparency is key and we remain mindful of considering client needs whilst undertaking our activities and establishing appropriate time horizons, with the aim of improving internal controls and business activities to respond to greenwashing risks (see Principle 4 on page 39).

In addition, we will continue to appropriately balance financial performance along with non-financial factors whilst considering clients' needs. The acceptable and appropriate trade-off between financial and non-financial factors is dependent on individual situations, and therefore each judgment will be specific to the situation being assessed.

Case Study: Meeting client needs through new investment propositions

Objective

With climate change and technological innovation driving one of the greatest periods of transition in modern history, the appetite for more responsible investment products is ever-growing and our clients are increasingly demanding ways in which these environmental and social challenges are addressed.

Approach

M&G Catalyst is a global international private assets team of 36+, based in London, New York, Singapore and Mumbai, and are responsible for providing the long-term flexible capital to tackle such issues. Key areas of focus include Climate, Health and Inequality. Since the launch of M&G Catalyst in 2021, the team's strategy has been to mitigate risky ESG practices in order to protect value and adopt progressing ESG practices that may enhance value and sustainable business models, which have a broad positive impact by building trusted and long-term partnerships with its borrowers, investee companies and platform partners.

Outcome

£1.33 billion was deployed as at 31 December 2022 with a further £800 million committed. M&G Catalyst were also responsible for investing in 50 companies. In early 2022, the M&G Catalyst team acquired a majority stake in a sustainable housebuilder, whose energy efficient homes lock up more carbon than is emitted over their lifetime, including during construction.

Case Study: Decision for M&G Catalyst to sign up to the Investing in Women Code (IWC)

IWC is a voluntary, non-target-based commitment sponsored by HM Government to support equality in start-up and scale-up finance as currently less than 1% of UK venture capital goes to female founded businesses, despite delivering on average higher returns than all-male founded businesses.

Objective

M&G Catalyst was asked by its clients to contribute further to gender diversity & inclusion. Furthermore, the M&G Catalyst realised the importance of allocating capital in a way which is equal and representative of the society in which it operates.

Approach

To meet clients' wishes and to demonstrate alignment with M&G's publicly stated corporate sustainability commitments to become more diverse and inclusive in its investments, the M&G Catalyst team proposed the decision to sign up to the IWC in 2022. Following approval, the Director of Catalyst drafted a formal written submission to the British Business Bank to sign up to the IWC.

Outcome

M&G Catalyst's proposal to sign the IWC was approved, committing M&G Catalyst to improve female access to early-stage capital on behalf of its clients.

Principle 7: stewardship and investment integration

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

M&G plc

As active, long-term stewards, M&G takes a proactive approach to managing its clients' funds through responsible governance and business models to ensure long-term investment returns. To drive better outcomes and stronger ESG practices in the evaluation of potential investments, M&G continues to approach arising ESG risks as it has done so in the past through ESG integration. This remains a fundamental component to mitigating long-term risks and ensuring the systematic inclusion of ESG factors in the investment process in order to identify opportunities and generate sustainable value for its respective clients.

Through conducting ESG research, periodic ESG portfolio reviews and integrating material ESG issues into investment decision-making and portfolio construction, this has allowed M&G to understand and implement ESG risk evaluation.

Whilst ESG factors are integrated holistically into its investment processes, M&G, including the asset owner, has also taken a particularly strong and continued stance on climate change and diversity & inclusion as the two firm-wide ESG priorities.

- **Climate Change** – As the systemic risks posed by climate change continue to exacerbate, it is important to promote climate considerations and as stewards, address its impacts on our clients' financial security and wellbeing.
- **Diversity & Inclusion** – M&G and the asset owner believe that diverse organisations are more representative of society and are better at managing risks given their greater financial resilience. This is because it is shown that D&I can drive financial success by attracting talent and improving innovation.

M&G also believes in the value of engagement to enact change. By harnessing strong investee relationships, it can influence decision making and foster better practices. A rigorous framework has been put in place which requires our interaction with a company or policy-maker to have a PRI-aligned Objective, Action and Outcome.

Asset owner

Ensuring integration

Our integration approach spans the breadth of the Treasury & Investment Office. As disclosed in Principle 2, the Treasury & Investment Office are an independent investment team within M&G plc who are responsible for strategic asset allocations, and asset manager selection and oversight. Ultimately, the function ensures that the investment strategies are appropriately managed by a suitable asset manager that is capable of managing all risks, including ESG risks.

The Treasury & Investment Office is well-resourced with a team that includes investment professionals with the expertise in capital market research, investment strategy design, liability management, derivatives and portfolio management. This allows the integration of financial and non-financial factors, including ESG risks and opportunities in the investment thesis and research.

Our expectations for ESG integration are communicated through the investment mandates awarded by the Treasury & Investment Office, which disclose the time horizon, target return and desired risk levels for each asset manager. Key ESG and stewardship requirements and restrictions are also specified and embedded within the investment mandates for which we have control, especially where a product may have an explicit ESG focus and or strategy.

As highlighted in Principle 2, expectations are also clearly communicated annually via the Annual Letter of ESG Priorities. The Annual Letter of ESG Priorities outlines the key areas of focus on ESG and is shared to all appointed asset managers with key ESG-related documentation, including the PAC ESG Investment Policy.

The Manager Oversight team take the lead in identifying top quartile asset managers that could generate returns for the asset owner. This is achieved by performing ongoing due diligence as part of their stewardship activities on asset managers who are employed in running mandates for the wider multi-asset class client funds. The team will monitor their performance and adherence to objectives over time. In doing so, we expect managers to be considered and evaluated on the basis of their ESG-related skill sets.

Reports of asset managers' performance are regularly submitted to respective Board, including the R&S EIOC and the Investment Office Executive Committee (IO ExCo). As such, material breaches of mandate requirements and updated due diligence views are amongst the matters that are covered at the Boards.

As Manager Oversight appoint new investment capabilities, these are aligned to suit the needs of the asset owner by actively working with the asset managers. All asset managers are required to have appropriate ESG and stewardship policies which are assessed for alignment with the PAC ESG Investment Policy and ESG priorities (including climate change and D&I). The ESG & Regulatory team will assess a manager's alignment and any clear red flags are reviewed accordingly. This helps to inform the selection and actions against the asset managers. The Investment Due Diligence process is an iterative process, whereby regular follow-ups and reviews are conducted to ensure that policies continue to align to our requirements.

In the selection phase, due diligence meetings heavily feature ESG-led questions, which form an important part of the decision making process. This includes discussions on ESG at the firm-level, dedicated ESG resource within investment teams and integration throughout their investment process. In recent selections, examples can be provided of managers removed from consideration due to insufficient rigour when integrating ESG into their investment process.

The assessment of any material breaches of mandate requirement is identified as part of the ongoing monitoring of manager performance against expectations and periodic due diligence. Having clear expectations on ESG and stewardship factors alongside financial performance factors allow the team to identify where asset managers fall short of these expectations. If this is the case, we will consider withdrawing the mandate if engagement is deemed ineffective in influencing change.

As part of our ongoing due diligence responsibilities, we have an ESG section as part of our standing agenda for quarterly oversight meetings with managers, which enables conversations on how ESG integration has fed into investment decisions (see Principle 2). Relationships with asset managers are further managed through Quarterly Reporting where managers are also required to submit quarterly performance reports. All equity asset managers are required to share voting records, including case studies of when they have voted against management. In addition, asset managers need to provide examples of engagement, where they have worked with an investee company to influence its activity / behaviour and have created an improved ESG outcome. Delegated asset managers will also need to demonstrate action in areas that they have been instructed to engage on by the asset owner. These datapoints enable the Manager Oversight and ESG & Regulatory teams to assess the degree of effectiveness of the asset manager's stewardship and ESG risk management on an ongoing basis.

We are aware that for fixed income, opportunities for effective stewardship may be more challenging or less common given the lack of engagement channels such as shareholder voting, we do expect our manager to enact engagement as and where appropriate. For other asset classes such as property and alternative assets, standardised method for exercising stewardship are replaced by a more nuanced approach of engagement given the nature of the asset class.

Despite fully integrating ESG consideration into every stage of the investment process, we recognise that improvements can always be made with regards to redesigning some mandate guidelines and benchmarks in line with our efforts and ambition to enhance ESG integration.

Outcome

We believe that by continuously enhancing ESG integration into our investment infrastructure, we can better manage and minimise potential ESG risks and effectively exploit opportunities. This also allows us to meet our wider priorities and commitments, including meeting our responsible stewardship approach for clients. We will continue to amplify the level of ESG integration into our investment analysis and selection process (as evidenced by the case studies) to enable thorough consideration of ESG, including climate change, and stewardship responsibilities.

Request for Proposal ESG Due Diligence Questionnaire

As part of the asset manager selection process conducted by Manager Oversight, the team are responsible for shortlisting potential asset managers to manage portions of the asset owner's multi-asset solutions through the Request for Proposal (RfP) Questionnaire. Within the RfP Questionnaire, ESG investment-focused questions are woven throughout.

To enhance the existing RfP process, the RfP ESG Due Diligence Questionnaire was developed to help identify asset managers that have the people, process and expertise in place to meet the ESG ambitions specified by the asset owner. The RfP ESG Due Diligence Questionnaire covers several ESG areas including, diversity & inclusion, climate change, social issues and stewardship.

Asset managers are required to submit the ESG-focused questionnaire alongside Manager Oversight's RfP Questionnaire. While Manager Oversight have their own assessment process in evaluating each manager, the ESG & Regulatory team are looking to standardise in 2023, the way in which asset managers are scored from an ESG perspective to ensure a structured process is implemented to inform the final evaluation.

This will inform an objective assessment of the asset managers' alignment against our ESG values, purpose and commitments and further inform the assessment criteria for the selection and onboarding of asset managers.

Case study: Modern Slavery

As an asset owner, we expect our underlying asset managers to be appropriately managing modern slavery risks, both in the direct operations of investee companies and in their supply chains, in line with our Modern Slavery Statement (see **here**). We expect asset managers to have processes in place to monitor modern slavery risk in their investments and to engage with high-risk investee companies to address the risks of modern slavery.

Objective

In 2022, the ESG & Regulatory team developed a Modern Slavery Screening Methodology to identify the asset owner's holdings considered to be at highest risk of modern slavery, with a view to requesting our appointed managers to conduct targeted engagement on modern slavery with the holdings in question, where they hold these companies on our behalf.

This engagement should build on the asset managers' own processes on modern slavery monitoring and engagement, but for the asset owner is a way of ensuring that modern slavery risk is integrated into our asset managers' stewardship activities and to oversee specific engagement activities where we consider them to be most needed.

Approach

Companies identified for engagement were selected on the basis that they operate in an industry known for high risks of modern slavery and yet they do not demonstrate taking the necessary steps to manage this risk appropriately.

Step 1 – Industries known for high risks of modern slavery

Step 2 – Insufficient evidence of steps taken by the company to manage modern slavery risks

Step 3 – Refining the list based on manager input and any other relevant considerations

Figure 5: Summary of steps in screening process

Outcome

All of the our appointed asset managers are encouraged to refer to *Find It, Fix It, Prevent It* engagement expectations, as this is a helpful resource with guidance on how to conduct engagement on modern slavery, including some suggested questions. *The Find It, Fix It, Prevent It* initiative operates on the assumption that modern slavery exists in the supply chain of nearly every company. They, therefore, have as their starting point that "companies with good processes and practices should find it.

Our appointed asset managers are expected to demonstrate taking steps to initiate engagement on modern slavery with the companies identified and to report back on progress on a quarterly basis once engagement has started, so that the ESG & Regulatory team can assess progress and determine additional measures where required.

Principle 8: monitoring of service providers & asset managers

Signatories monitor and hold to account managers and/or service providers

M&G plc

Third-party service and research providers

As outlined in Principle 2, at M&G, and within the asset owner, we use third-party service providers including Sustainalytics and MSCI to help inform the investment teams' activities and to help us carry out ESG and stewardship activities (see Principle 2 for our non-exhaustive list of service providers, page 18). M&G expects its service providers to deliver appropriate services, and strives to undertake open and ongoing communication with them on a regular basis to enable this.

Monitoring of third-party service and research providers

The M&G plc Market Data team is responsible for managing the ongoing relationship with the service and research providers and for reviewing the overall quality of service provided. Any issues raised by the business will be followed up by the M&G plc Market Data team until an appropriate resolution has been achieved. M&G have divided providers into Strategic and non-Strategic partners. Those that are strategic and of high value are monitored with regular service reviews on a monthly (and soon quarterly) basis. Those that are not considered strategic, due to its low monetary value and low impact, are not monitored on a monthly basis but the M&G plc Market Data team continue to oversee the relationship and are the point of escalation for the business should any questions or issues with the service or data arise. The Strategic partners include MSCI, Sustainalytics, ISS, Morningstar, Refintiv and Bloomberg.

As detailed above, the M&G plc Market Data team holds monthly meetings with the strategic partners, which are often facilitated by constructive feedback and provide an opportunity to determine whether corrective actions or improvements are necessary as well as information on new products and services that may be of interest to the business. An agenda is produced ahead of the meeting and minutes are taken and circulated after the meeting. Where there are multiple services provided by one provider i.e. Bloomberg and Refinitiv, the M&G plc Market Data team produces monthly 'packs' which log all the engagements and issues raised during the month and these are reviewed during the meeting.

Comparatively, regular service reviews are not conducted for the non-strategic providers but rather periodic check-ins depending on the business requirement. If an issue is raised, the M&G plc Market Data team will ensure that the data provider is monitored for escalation / service level review. Equally, the M&G plc Market Data team will reach out to the vendor if more information is required on existing or new services and developments. Most of M&G's non-strategic contracts renew on an annual basis, in turn, the M&G plc Market Data team will engage with the business to understand what progress has been made in terms of data quality and service. Where amendments are needed or where there is desire to renew the existing contract, the team will host a meeting with the non-strategic data providers to discuss feedback from the business and the next steps.

Overall M&G is satisfied with the services provided by its service providers but it recognises that improvements could be made with the ongoing engagement and communication with third-party service providers and will endeavour to find ways to enhance its monitoring processes in respect to the wider consideration of ESG and stewardship. To this effect formal quarterly service reviews with the ESG Vendors will be introduced where a pack, detailing discussion points, engagement with M&G throughout the previous quarter and any technical challenges, will be reviewed and key strategic updates from both M&G and the vendor will be discussed. The M&G plc Market Data team is also working to produce data quality metrics to enable M&G to understand data coverage and gaps from the vendors so it can use these metrics to further hold the vendors to account.

Case Study: SFDR and EU Taxonomy data

Objective

M&G purchased a data provider's SFDR and EU Taxonomy solutions to help deliver the regulatory requirements. In November 2022, M&G discovered that the data provider was delivering inaccurate and incomplete data and was not in line with the project timelines. Therefore, action was required to ensure that the data provider was providing adequate services.

Approach

The M&G plc Market Data team escalated this with weekly, bi-weekly and monthly during the ongoing service reviews and the issue was escalated further to the Global Head of Europe, Middle East and Africa (EMEA) Operations of the data provider to challenge the process and demand a better service going forward. This was tracked on logs which were shared between both parties at regular meetings to hold the provider to account.

Outcome

The data provider acknowledged that it had not met its deliverables and agreed to improve the service and data it was providing. Since then, expectations have been met as data has been complete, correct and on time and M&G continues to meet bi-weekly to track progress and raise any additional challenges.

Case Study: Green Bond flags

Objective

It had been asked by internal business stakeholders if the M&G plc Market Data team could source a particular data provider's definition of a 'Green Bond' so that they could understand how to best use this data within their processes. Once the definition had been sourced, the team realised the definition was not precise enough and did not give the clarity needed to clearly understand the definition of a Green Bond.

Approach

The M&G plc Market Data team held monthly service reviews with the data provider and ensured constant engagement through email communication.

Outcome

Following the regular communication, the provider rewrote its definition and was committed to producing a data dictionary which allowed the M&G plc Market Data team to appropriately understand its data and ultimately make more informed decisions.

Asset owner

Monitoring of asset managers

The Manager Oversight team conduct thorough Investment Due Diligence (IDD) as part of the selection and monitoring process of internal and external asset managers. Although an established process for monitoring asset managers is used, certain asset classes may require additional work and our views will continue to evolve as we learn more about each asset manager whilst the market environment changes. The Manager Oversight team will also ensure that quantitative and qualitative factors are assessed to ensure the ongoing suitability of managers.

In order to gain a greater holistic view of an asset manager, the Manager Oversight team will also conduct quarterly meetings to discuss performance, attribution and market outlook. Ahead of the quarterly meetings, asset managers are expected to submit their completed Quarterly ESG Due Diligence Monitoring Questionnaire, which are reviewed by the ESG & Regulatory team (see the case study on the right of this page for more detail).

Quarterly ESG Due Diligence Monitoring Questionnaire

In 2022, the Quarterly ESG Due Diligence Monitoring Questionnaire was created to assess any changes that may have occurred on the appointed asset managers' ESG activities or priorities over the quarter. A wide range of ESG themes and issues are covered within the questionnaire and asset managers are asked to provide examples or to describe any changes to its ESG policies or processes.

These will be requested and collated before Quarterly meetings held by the Manager Oversight team (see Principle 2 on page 18). The ESG & Regulatory team will be responsible for analysing the completed Quarterly ESG Due Diligence Questionnaires, and the findings will help inform the ESG agenda within the Quarterly meetings. Although we do not expect significant changes to occur quarter on quarter, any significant changes may lead to ad-hoc meetings to challenge or discuss the asset managers' activity.

Shareholder Rights Directive (SRDII)

SRDII aims to strengthen shareholder engagement and increase transparency by establishing specific requirements in active ownership practices and encourages shareholder engagement, particularly over the long-term. As outlined in the PAC Shareholder Engagement Policy, it is the asset owner's responsibility to work closely with our asset managers that engage with investee companies.

The 2022 SRDII review was the third annual review process and covered all equity managers of segregated and pooled accounts, where policies, voting record, engagement and incentivisation are scrutinised.

The review was carried out by Manager Oversight whose responsibility involved reviewing our funds to monitor and ensure that our underlying asset managers were aligned with the PAC ESG Investment Policy and PAC Shareholder Engagement Policy. Whilst we have the capacity to steer asset managers within the parameters of our voting and engagement policies if deemed necessary, it should predominantly be left for the asset manager to decide on the most effective route of engagement.

As we expect our asset managers to engage on our behalf, we evaluate shareholder engagement policies in addition to their ESG policies and review their voting practices against our own voting standards as part of our SRDII reporting. This ensures alignment with our key policies and standards.

Outcome

Through escalated service reviews, the M&G plc Market Data team continues to hold M&G's third-party data providers to account to continuously provide improved services.

As outlined in Principle 2 and detailed above, we continue to strive to conduct ongoing investment and ESG due diligence with appointed asset managers. Discussions on voting and engagement are part of the quarterly due diligence meetings, and are supported by the completion of the Quarterly ESG Due Diligence Questionnaire and the ESG Engagement Template. As ESG related regulations and requirements have evolved and continue to evolve, work is ongoing to confirm responsibilities for the relevant tasks across Treasury & Investment Office and how these can best be actioned; the SRDII process is included in these discussions.

The third SRDII review included 146 funds with direct equity holdings that are managed by 30 different asset managers, including segregated mandates and collectives managed by the internal asset manager alongside a number of collectives managed by external companies.

As a result of the review conducted in 2022, the questionnaire was modified to be as clear as possible with further questions embedded including detailed questions on D&I. These improvements were twofold as they helped to develop the range of questions and quality of data provided by managers. Yet, further changes will also be made to the next questionnaire to take into account any areas of ambiguity with asset manager responses to attempt to receive full details across all managers.

Case Study: Key findings from the 2022 Shareholder Rights Directive II

The review revealed that responses were aligned with expectations of the 30 in-scope managers and the previous returns. To this end, the overall majority of ratings allocated were either 'Positive' or 'Neutral'. Manager Oversight found the following regarding the key areas assessed as part of this third SRDII annual review:

- There was a variance in the level of detail provided regarding the ESG and Shareholder Engagement Policies of in-scope firms, including the frequency of updates which we considered as a key metric for our assessment. Generally, the asset managers that provided less/no information were rated as negative, while managers who supplied us with the key pointers but without providing further details were rated as neutral, as there was insufficient information to support a more positive view at this time. Whilst managers with detailed, up to date and specific policies were rated as positive
- Aligned with the second SRDII annual review, the voting engagement remained very high, with few managers falling below 85% participation of eligible votes. As a result, most managers scored very highly in this area with two exceptions (see Principe 12 on page 82)
- Active ownership through voting tended to focus on Governance issues. Non-voting engagement was often broader in its scope, mainly encompassing Governance and Environmental issues (mostly climate change / carbon emissions). In comparison, Social issues tended to feature less frequently on asset managers' engagement agendas. For example, an asset manager confirmed that they do not engage with other shareholders, but they may consider collaborative engagement in the future. Other managers confirmed that they do collaborate with other investors when required (although specific examples were rarely provided). The embedding of the ESG Engagement Templates (see Principle 9 on page 67), which include entries on Social themes, and the further integration of Social issues in our investment processes, as illustrated by the modern slavery screening and engagement methodology (see Principle 7 on page 58), should help to start addressing this in the future

In general, the remuneration of asset managers was in line with expectations, with incentives linked to performance and therefore aligned with the best interests of clients.

Principle 9: engagement

Signatories engage with issuers to maintain or enhance the value of assets

Asset owner

Engagement policy

Engagement forms a crucial part of our investment approach. To fulfil our fiduciary and stewardship duties to all our clients, we believe it is our responsibility, as a long-term investor, to work closely with asset managers that engage with investee companies to ensure this is done effectively. This should include recognition of the importance of ESG considerations to support the transition to a more sustainable and fair economy.

We trust that having effective engagement ingrained in the underlying investment processes, where appropriate, is positive for clients' long-term savings and financial security. We believe in active ownership aligned with both active and passive management. Therefore, we require the asset managers, that we appoint to carry out active engagement and responsible stewardship with investee companies on our behalf, using our financial ownership across both active and passive mandates, to influence their behaviour and expand sustainability related disclosures in order to achieve more sustainable business models and outcomes. We also expect our asset managers to report on the progress and results of their engagement activities and voting records and to escalate where appropriate to enable further assessment and decision on divestment and exclusion.

Our **PAC Shareholder Engagement Policy** and the Standard clearly set out our expectations for asset managers in conducting effective engagement and in exercising effective shareholder voting in conjunction with SRDII. This includes details on clear desired outcomes regarding active engagement, responsible stewardship, the development and implementation of clear engagement escalation policies, and active participation in shareholder voting. The PAC Shareholder Engagement Policy can be found **here**

Note, the PAC Shareholder Engagement Policy and PAC Voting Standard have been updated in 2023 as part of their annual review process. The changes will be reflected in the 2023 PAC Stewardship Report.

Active strategies

For active investment strategies, our chosen asset managers' investment processes are designed to select companies expected to outperform the relevant benchmark indices over the long-term. Included in the investment process, we expect our asset managers, at a minimum, to conduct effective monitoring of a company's business strategy, financial performance, capital structure, non-financial performance and any other associated risk factors. We also expect asset managers to monitor ESG risks in line with their respective policies, establish constructive dialogues, drive active engagement and responsible stewardship and also to exert influence where appropriate.

We expect our managers to set a clear timeframe for the engagement activity and consider in advance any escalation which may be required if initial engagement efforts are unsuccessful. We also expect our asset managers to develop and follow a clear engagement escalation policy if key requests are not met.

We expect our asset managers to communicate with shareholders and other relevant stakeholders of investee companies; potentially cooperate with other shareholders and effectively manage conflicts of interest that may arise from their engagement. Any material communication and coordination, as well as significant conflicts of interest may be escalated to M&G for information and support with resolution.

To facilitate the monitoring of our asset managers' engagement activity, in 2022 we created the ESG Engagement Template (see case study on the following page). With the ESG Engagement Template we expect the appointed managers to provide regular updates on their engagement activity (in both quantitative and qualitative terms), in line with the expectations detailed above and below.

Asset managers should also actively participate in shareholder voting on our behalf (in line with the Standard) in keeping with their respective policies and report the results of their voting to us. We believe that if a company is run well, it is more likely to be successful in the long run. In relying on asset managers to vote on our behalf, we require them to make voting decisions in the best interests of our clients.

When determining how to vote, an asset manager should assess the impact on the value of the investment and the long-term interests of our clients. This voting approach should focus on supporting real world positive outcomes, as systemic risks, such as climate change and inequitable social structures, threaten the long-term performance of the investment portfolios as well as the world in which our clients live. Asset managers should have a voting policy in place and declare any Proxy Voting Service providers utilised.

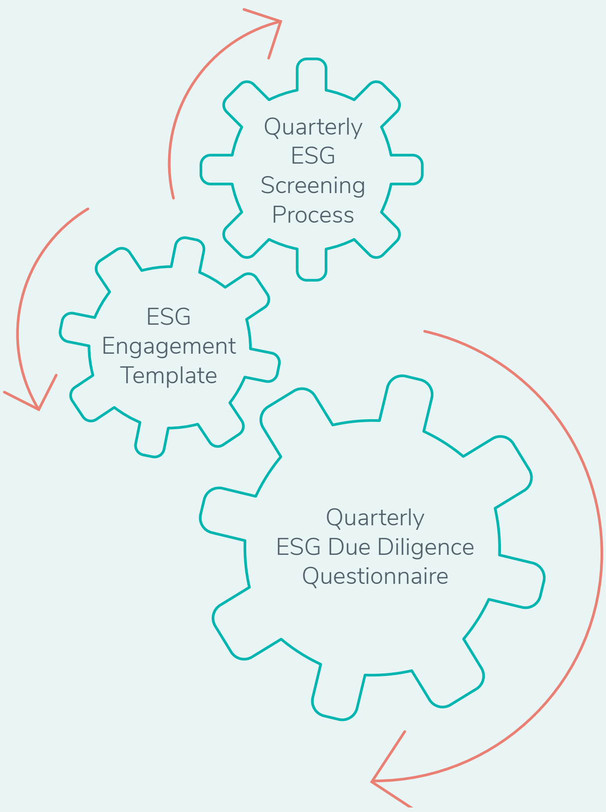
ESG Engagement Template

Objective

In 2022, to further complement our overall engagement process, we established the ESG Engagement Template to create a more robust and standardised way of collating both quantitative and qualitative data on the engagements conducted by our appointed asset managers (both internal and external) across the year.

Approach

The development of the ESG Engagement Template ('the Template') involved creating a standardised template with questions that would give us an insight on the asset managers' engagement efforts. The Template is split across two sections to collate both quantitative and qualitative data. Following the completion of the Template, this was shared with the appointed asset managers who are expected to fill it out on a quarterly basis, or as per the agreed timelines (recognising the differing level of maturity in reporting engagement).



Outcome / Next steps

The Template has given the asset managers insight on what engagement information is expected from them and seeks to encourage asset managers to improve their own engagement process through its detailed and rigorous approach. If there are areas of concern highlighted by the template, we aim to resolve these with the asset manager accordingly. In combination with the Quarterly ESG Due Diligence Questionnaire and the Quarterly ESG Screening Process, the Template forms our enhanced ESG due diligence process (see Figure on left), with a particular focus in facilitating oversight and informing required steps for further engagement or escalation.

The Template will be subject to annual reviews, and future enhancements will be informed by the level of data we will receive from the appointed asset managers, including our internal asset manager. Having established the process for collating data from our managers in a more standardised manner, we are now looking into establishing standardised processes for the analysis of the data via an Engagement Dashboard, to provide insights and inform further actions required from an asset owner perspective.

Passive strategies

We also use passive investment strategies, where the asset manager is required to track the portfolio against a specific benchmark index. Here, we would expect the asset managers' engagement and voting policies to continue to apply, and we would expect the asset managers to vote responsibly on our behalf. Whilst the purpose of the portfolio is to recreate the financial return arising from the benchmark index at a minimum cost, we believe effective stewardship improves companies' financial performance and hence investment returns, for both passive and active portfolios.

Portfolio monitoring

As part of this responsibility, the Manager Oversight team review funds on an ongoing basis to monitor and ensure that our underlying asset managers are aligned to the PAC ESG Investment Policy. Whilst we have the capacity to steer asset managers within the parameters of our voting and engagement policies if deemed necessary, it should predominantly be left for the asset manager to decide on the most effective route of engagement. In some cases, where we do not have control of the mandate, we engage with the asset managers by encouraging our desired engagement and voting activities.

As highlighted within Principles 2 and 8, policies, voting record, engagement and incentivisation are all reviewed on an annual basis in line with SRDII. Additional engagement is undertaken on a quarterly basis, where asset managers are reviewed on performance, positioning, outlook and any ESG related developments at both a fund and investment company level where appropriate. This is supplemented by the use of the Engagement Templates, and allows for the analysis of the asset managers' engagement efforts to ensure that they align with our expectations and to enable suitable oversight and prompt further engagement when deemed necessary.

Outcome

We continue to engage with our appointed (internal and external) asset managers to ensure we meet our fiduciary duties, including meeting client needs and enhancing the value of their assets. This is now further enabled by the ESG Engagement Template, which will facilitate our oversight objectives, and help identify when there are areas of concern or opportunities with respect to our appointed asset managers' ESG and engagement activities, including the need for escalation. As we further embed this new due diligence approach we will aim to increase the amount of examples, including quantitative data, from both our internal and external asset managers within future reporting.

To further strengthen this process, we are looking to develop an Engagement Dashboard to systematically review the engagement data, and ultimately inform a standardised assessment of our appointed asset managers' engagement efforts.

Engagement Theme: Environmental

Engagement in action

Source: Internal Asset Manager

Environmental focused engagement with waste specialist company

Objective

The internal asset manager met with a US waste specialist company ('the company') to discuss its acquisition of hazardous waste specialist US Ecology, its joint venture to develop renewable natural gas projects at its landfill sites, and the new Polymer (plastics) centres.

Approach

The internal asset manager met with the company's Chief Executive and Chief Financial Officer. The internal asset manager used the opportunity to ask the company to fully engage with the various ESG rating agencies, particularly in light of the US Ecology acquisition, to avoid a potential ratings downgrade, which could ultimately impact its share price.

Outcome & Next Steps

The company provided a full overview of the nuances of the US Ecology acquisition, including the full history due diligence undertaken to ensure its approach to compliance and its ongoing license to operate. The acquisition allowed for vertical integration and a single servicing point for clients, which the company said had created the broadest single-source waste services business in North America. The company understood the nature of ESG ratings, and how downgrades could result from a lack of understanding of nuances. The company was very receptive to the recommendation to engage the agencies. The internal asset manager aims to follow up on the matter in due course – and the asset owner will seek the respective updates.

Engagement Theme: Social

Engagement in action

Source: Internal Asset Manager

European online classifieds specialist company to improve Modern Slavery practices

Objective

The internal asset manager made a request to a global classifieds specialist ('the company') to improve Modern Slavery practices by asking the company to commit to organising independent audits on a regular basis and to provide detail on internal responsibility for managing supply chain and modern slavery risks.

Approach

The internal asset manager met with the Head of Sustainability and Investor Relations to set expectations. The internal asset manager communicated with the company through a call discussing the establishment of regular audits which would address modern slavery risks whilst managing the company's supply chain.

Outcome & Next Steps

The company have a new Head of Sustainability who has produced a roadmap for the Executive Committee which details the company's plan over the next 3 years. Currently the company have a supplier code of conduct which is distributed to all suppliers and the review is done by procurement. By the end of 2022, they plan to conduct a taxonomy review of all suppliers and create risk metrics. For 2023, the company will go one level deeper and establish a specific plan for different categories of suppliers, which includes both social and environmental aspects. In terms of internal responsibility, the company disclosed that it falls within the scope of the responsibilities of the Head of Sustainability who sets coverage of supply chain strategy overall, but responsibility is mostly with internal compliance and procurement, who currently run the audits via a questionnaire sent to individual companies. There is currently no physical audits, but the company noted that it is possible to do so in the future. Overall, the internal asset manager is confident that the direction of travel for the company is positive, but will continue to monitor the situation to ensure that disclosure is improved and the internal asset manager's requests are implemented.

Engagement Theme: Governance

Engagement in action

Source: Internal Asset Manager

Internal asset manager requests asset management company to improve governance procedures

Objective

The internal asset manager made a request for an asset management company ('the company') to continue to produce remuneration reports as, under private ownership, it is no longer required to produce a full and transparent remuneration report.

Approach

The internal asset manager met with the company to make their expectations known. The internal asset manager highlighted that this would be negative from a governance perspective and request that the company provided more clarity on this key ESG area going forward.

Outcome & Next Steps

While the internal asset manager's internal view is the main driver behind the investment decisions from an ESG perspective, the internal asset manager also highlighted the need to improve ratings by external agencies. The ratings received by the company and its peers from agencies tend to be low (eg, MSCI: BB) and the company should ensure that its rating is not negatively affected by reduced disclosure as a result of being taken private. As ESG-related matters and ratings become more important for investors, a low agency rating could reduce the level of demand for future bond issuance. The internal asset manager notes that the company has recently become a signatory to the Principles of Responsible Investment (PRI). In addition, it hosts a quarterly Sustainability & ESG Forum whose membership represents a cross-section of senior leaders. This may be an indicator of the company's focus across ESG matters and its place within a post-plc governance structure.

Engagement Theme: Environmental

Engagement in action

Source: External Asset Manager

Environmental focused engagement by external asset manager to validate a wind turbine manufacturing company's ESG practices

Objective

To validate and scrutinise the company's ESG practices as well as understanding the investee's ESG pipelines.

Approach

The company is a wind turbine manufacturer, that provides accessible green and smart energy, and a full lifecycle renewable solutions provider. The company is one of the portfolio top holdings and from an ESG perspective, the company has clean a ESG record without violation of controversial event and it is rated above average ESG score at 3.8 out of 5. In the external asset manager's effort to engage with the company during the final quarter, they decreased its score slightly due to some outstanding validations of data and practices. The external asset manager engaged with the company via meetings and emails.

Outcome & Next Steps

The external asset manager's engagement was not considered entirely successful. The external asset manager highlighted ESG due diligence questions remain unaddressed despite a few follow up communications. ESG progress and execution continue to be monitored by the external asset manager. Despite the reasonable ESG disclosures, the external asset manager continues to seek the company's response in several areas including:

1. Validate its commitment to achieve carbon neutrality by the end of 2023, and its related methodology.
2. Scrutinise ESG governance practices
3. Understand its sustainable strategic plan and timelines

The external asset manager continues to monitor the company's ESG progress and execution but will change the approach if engagement remains inefficient for two consecutive quarters. Escalation will be considered at this stage.

Engagement Theme: Social

Engagement in action

Source: External Asset Manager

Engagement focused on implementing D&I initiatives to a medicine products company

Objective

Engagement with the company, which focuses on its medicine products business, touched upon efforts to build out business opportunities in 'green products', alongside:

1. Employee D&I initiatives
2. Board composition
3. Improvements that can be made around to disclosure to ensure the company is awarded a fair and correct ESG rating via third-party data providers

Approach

Engagement with the company took the form of a company call and a visit to the company to have a one-on-one meeting.

Outcome & Next Steps

As a result of the engagement, the external asset manager has reported an acknowledgment of heightened importance around improvements in disclosure and employee D&I initiatives for the company.

Engagement Theme: Governance

Engagement in action

Source: External Asset Manager

External asset manager requests asset management company to improve governance procedures

Objective

The external asset manager wanted to deepen their understanding of the company's management of material ESG issues and ESG reporting and understand any plans to improve corporate governance going forward.

Approach

Engagements with this issuer took the form of one to one conversations, in person or through voice calls, with the company's senior management and investor relations. The external asset manager's engagement in Q2 2022 was as a call dedicated to discussing ESG topics. The external asset manager engaged with the issuer on governance issues following a series of engagements in 2021. In the second quarter of 2022, the external asset manager engagement related to a reconstituted board of directors including five new board members.

Outcome & Next Steps

Management of the company has committed to a restructured board that will be responsible for appointing a new CEO following a thorough selection process, including evaluating internal and external candidates with the support of an external search firm. In addition, a subset of the company's directors will be included in management's existing Value Creation Steering Committee, which was formed in July and is tasked with evaluating and prioritising initiatives as part of the company's previously announced Value Creation Plan. The external asset manager believe the scope of the changes embraced by the company progress towards improved corporate governance and constructive engagement.

Principle 10: collaborative engagement

Signatories, where necessary, participate in collaborative engagement to influence issuers

Asset owner

As outlined in Principles 8 and 9, our approach to engagement is to delegate this responsibility to our underlying asset managers, and to assess engagement activities on an ongoing basis to ensure they exercise stewardship in line with our requirements. We expect our underlying asset managers to exercise their position where possible and to engage where appropriate.

To fulfil our fiduciary and stewardship duties to all our clients, we believe it is our responsibility as a long-term investor to work closely with asset managers that engage effectively with investee companies. This includes undertaking collaborative engagements where appropriate.

We also welcome evidence of collective engagement from our underlying asset managers. Whilst not a requirement, we expect underlying managers to aim to maximise the impact of their engagement activities to drive positive change, and we view collaboration to be an important element of this. We utilise our ESG Engagement Template which helps us assess and differentiate which engagements have made use of collective or collaborative initiatives (as discussed in Principle 9).

The table highlights some of the bodies we engage with (not an exhaustive list), including some of those supported or led by M&G or the internal asset manager, which have a direct influence on the asset owner.

Collective Engagement/Initiative	Summary	Involvement
UN-convened Net-Zero Asset Owner Alliance (NZAOA)	We joined the UN-convened NZAOA in 2021, the global institutional investor group acting to help limit global warming to 1.5°C in line with the Paris Agreement.	Member
Powering Past Coal Alliance (PPCA)	M&G joined PPCA in March 2021, at the same time as publishing an ambitious and comprehensive commitment to phase out all thermal coal from its portfolios by 2030 in the OECD and EU, and 2040 in developing countries. M&G is working with investee companies exposed to coal to transition away from thermal coal.	Member
Carbon Disclosure Project (CDP)	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. In 2022 M&G responded to the CDP annual questionnaire as an independent listed business for the fourth time, in recognition that measurement and disclosure is one of the first steps to improve on performance with respect to emissions and other climate related factors	Signatory
UN-backed Principles for Responsible Investing (PRI)	To provide transparency on how we are delivering on our climate commitments, we have become a signatory of the PRI, the UN-backed organisation promoting the integration of environmental, social and governance factors in asset ownership decisions. Our responsible investment activities will be assessed by the PRI annually from 2023.	Signatory
Climate Action 100+ (CA100+)	On behalf of 617 global investors, the internal asset manager co-leads active engagement with three companies on the Climate Action 100+ list of the world's largest corporate greenhouse gas emitters.	Signatory

Collective Engagement/Initiative	Summary	Involvement
United Nations Global Compact (UNGC)	M&G became a signatory of the UNGC in March 2021, a non-binding United Nations pact to encourage businesses and firms worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The first **Communication of Progress (COP)** takes time to explain the current position from which M&G, as a corporate entity (plc), long-term savings and annuity business (asset owner) and as an asset manager is seeking to play its part as a UNGC signatory.	Signatory
Taskforce for Nature-related Financial Disclosures (TNFD)	M&G is a member of the TNFD Forum, a global gathering of 700 institutions from across sectors who are aligned with the mission and principles of the TNFD, supporting the development of investment decision-useful disclosures on nature.	Member

Outcome

As highlighted under Principle 4, we are also a member of a number of other associations and initiatives designed to improve collaborative efforts, and we aim to actively engage, support and learn from these industry bodies in order to progress our sustainability and stewardship ambitions. Across 2022, we have progressed our collaborative initiatives with the NZAOA, with various members of the ESG & Regulatory team attending the various NZAOA workstreams focused on Monitoring, Reporting and Valuation, Engagement (covering corporates and asset managers), Sectoral (covering calls to action, engagements, target setting and positions), and Financing Transition. Please refer to the case study below, which illustrates how we continue to work with the NZAOA.

Furthermore, our collaborative work with the UNGC detailed in the case study in Principle 11 showcases our commitment to collaborative engagement.

Working with the NZAOA towards our climate change priority – an update from 2021

In 2022, we developed our pathway to reaching the targets we committed to when we joined the NZAOA in 2021. We continue to work alongside 84 institutional investors (with $11.4tn AUM) towards the joint goal of aligning portfolios with a 1.5°C scenario in accordance with the Paris Agreement.

The Alliance aims to drive the development of industry best practices and the catalysation of global economy decarbonisation. The Alliance works in tandem with initiatives including CA100+, of which the internal asset manager is a signatory.

The Alliance Target Setting Protocol represents individual and collective target setting and reporting, with coverage of emission reduction, sector, engagement and financial transition targets that in combination with other asset owners will help to influence issuers and align with net zero emissions by 2050.

One of our key goals as an asset owner is to establish a robust pathway to net zero for investments we make on behalf of our clients and policyholders. We have published our **Net-Zero Asset Owner disclosure** which details our targets that align with our commitments to the NZAOA. It is important to note that we will be reporting on progress, outlining our decarbonisation strategy, and updating targets in line with new versions of the Target Setting Protocol.

Case Study: Engagement with a petroleum company on its emissions reduction targets

Source: Internal Asset Manager

Objective

To encourage a Brazilian multinational petroleum company ('the company') to join the Oil and Gas Methane Partnership 2.0 (OGMP) and set methane emissions intensity reduction targets.

Approach

The internal asset manager set up a CA100+ engagement call with the company to ask them to join the OGMP and set methane emissions intensity reduction targets. The internal asset manager was impressed by the company's willingness and openness to engage with investors regarding their Climate Strategy and that the company was willing to consider the internal asset manager's suggestion of joining the OGMP.

Outcome

The company confirmed that they have spent the end of Q4 progressing discussions for joining the OGMP. The company concluded their technical assessments and are progressing the decision through governance. Initially, the company were unable to commit, however, they had indicated that they were hopeful of a positive outcome in terms of securing the necessary approvals to allow them to commit to joining OGMP. The company confirmed that they have already met their methane intensity target of 0.39 for 2025 and that they are aiming for methane levels close to zero. The latest reported figure is 0.33, which is already lower than the 2025 target. As such, the company confirmed that they are in discussions about a new (lower) target and that the revised target will be disclosed in the end-of-year strategy release. The internal asset manager reviewed the end-of-year strategy release and continues to support the CA100+ engagement and work with the company to ensure positive direction of travel.

In January 2023, the company formally announced they are committing to the OGMP.

Principle 11: escalation

Signatories, where necessary, escalate stewardship activities to influence issuers

Asset owner

We believe that active ownership that drives and furthers positive corporate behaviour is imperative to achieving favourable investment performance in the long-term for our clients. Consequently, we purposefully designate asset managers who will positively influence corporate behaviour.

Engagement with investee companies would usually take the form of active ownership practices such as shareholder voting, rather than strict restrictions of investment opportunities through exclusion. We appoint our selected asset managers to complete our engagement or escalation of stewardship activities on our behalf. Through continuous dialogue with our asset managers, we ensure that our standards and expectations of stewardship activities are well aligned and implemented accordingly (see Principle 2 on page 18).

Escalation of stewardship activities

We understand escalation to mean the need to intensify engagement efforts (for example, using more than one type of engagement and/or using different types of engagement) or to take stronger action in the form of voting and exclusions to reach our desired outcome.

Our asset owner's PAC Shareholder Engagement Policy details the use of shareholder voting to achieve an ESG target as part of an escalation strategy where other engagement is not achieving the required outcome in the set timeframe. For example, if various other forms of engagement have not been successful over a prolonged period, the asset manager may vote against a company's management at a general meeting to help drive the required change.

Where appropriate, we may work closely with the relevant asset manager to exert influence on a particular issuer to elicit a desired behaviour. This is done only where deemed appropriate and where our involvement is deemed to be beneficial to help achieve the desired outcome.

Escalation of ESG issues

As previously outlined within the Report, and as disclosed within the PAC ESG Investment Policy, we have identified two ESG priorities, climate change and diversity & inclusion, given their importance for the long-term sustainability of our environment, businesses and society as a whole, and other key ESG issues for ongoing review and escalation. In line with these priorities, a suite of policies, approaches and exclusion criteria have been implemented to ensure alignment with these goals and to set out clear objectives for escalation.

Our thermal coal position (which is consistent with the Group's position on thermal coal and is stricter than the internal asset manager's respective position as a result of our adherence to the NZAOA requirements) outlines our stance on thermal coal and highlights the respective thresholds and expectations with regard to escalation and divestment for flagged companies as appropriate. Importantly, thresholds aren't absolute, and given our preference for active ownership and engagement wherever possible, companies with credible plans to end coal mining or energy companies that plan to transition their business to below set thresholds are not excluded, and we instead continue to influence our managers to actively engage. Divestment is seen as an appropriate escalation only when we foresee that further engagement practices will fail to yield action.

Additionally, we have escalated stewardship activities in relation to tobacco. We believe tobacco investments are inconsistent with our ESG principles as these lead to societal issues and expose our clients to the harmful negative impacts of the industry. Given the significance of these impacts and the inability of engagement to yield credible results, we have escalated our stewardship activities to remove tobacco producers from our investment portfolios.

In 2022, we also created a process to address our commitment to becoming a signatory of the UNGC, which is detailed in the case study below.

Establishment of a M&G-wide approach to UNGC Exclusions

Objective

In 2022, the asset owner, in conjunction with the internal asset manager, took forward a proposal to enhance M&G's approach from directly relying on external vendors' UN Global Compact (UNGC) violation assessments, to creating a single M&G Group-wide UNGC Exclusions List.

For the asset owner, the creation of a centralised list consistent with that of the internal asset manager, aimed to reduce monitoring overhead and operational risk and facilitate communication with external asset managers.

Approach

Establishing the unified approach required careful management of conflicts of interest, with a process to reconcile divergent views that may arise from the different entities and perspectives. To address this, the approach has been built with early engagement and collaboration from M&G, asset owner and internal asset manager representatives, in line with the wider conflicts of interest management processes.

Once the list was finalised, a standardised monitoring process was created to ensure periodic and ongoing reviews, supported by the creation of the UNGC Exclusions List Assessment Forum as a dedicated forum to review and discuss any proposed changes, escalations and resolutions. The whole process is managed in accordance to our internal processes and the M&G Conflicts of Interest Policy (see Principle 3 on page 35).

To assess whether to add, 'escalate', 'de-escalate' or remove issuers, on an ongoing basis, flagged by MSCI and ISS, the UNGC Exclusions List Assessment Forum considers a variety of principles to conduct its assessment, including 'Duration', 'Pattern of Behaviour', 'Extent of Behaviour', 'Legitimacy', 'Assurance', and 'Engagement'.

Outcome / Escalation in action

In 2022, a company was added to the M&G UNGC Exclusions List due to allegations of forced labour in its operations in China. It was considered that engagement was not a viable alternative, given that the company had previously publicly stated it was financing labour transfer programmes in Xinjiang. The Office of the High Commissioner for Human Rights (OHCHR) found these programmes to be linked to so-called Vocational Education and Training Centres, where the OHCHR identified a "pattern of large-scale arbitrary detention".

Outcome

Our escalation strategy is outlined within our internal stewardship policies. As an asset owner we have also set thresholds and exclusion criteria's on a variety of ESG issues, which inform our escalation approach. This includes thresholds and screening criteria for coal-related investments; exclusions or restrictions in companies involved in the production of tobacco, or companies with an ownership in these companies; and exclusions in companies involved in controversial weapons, specifically anti-personnel mines, chemical weapons, cluster munitions, biological weapons, depleted uranium, nondetectable fragments and non-proliferation treaty nuclear weapons. As part of our commitment to engage with our top emissions contributors, we will plan an engagement strategy with the relevant stewardship professionals amongst our asset managers. In order to ensure credibility and effectiveness of our engagement strategies, we will seek to specify timelines and escalation actions for engagement targets, which may include specific voting actions and/or portfolio allocation actions. We also abide to the principles of the UNGC, which commits us to the ten principles of good practice in human rights, labour, the environment, and anti-corruption, which we report on annually, and which have led to escalation of specific holdings.

As detailed in earlier Principles, going forward we look to improve our engagement approach with our external asset managers, and we aim to monitor how specific ESG matters have been escalated, and to report these accordingly within future reporting.

See the following case studies for examples of our own and our internal asset manager's escalation activities, in line with the expectations detailed in the Principle.

Case Study: Engagement with financial services company focused on disclosure of its coal phase-out plan and operation of power plants

Source: Internal Asset Manager

The M&G Coal Appeals Committee (CAC) is an internal asset manager committee comprising of senior stakeholders which adjudicates on investments referred to under the internal asset manager's Exceptions Process.

Objective

To ask a Japanese diversified industrials group ('the company') to publicly disclose its coal phase-out plan and provide an update on a power plant in Southeast Asia.

Approach

The internal asset manager sent letter to the CFO to make its expectations known. Within the letter, the internal asset manager outlined that the company fails the internal asset manager's **Thermal Coal Position**. The internal asset manager requested that, in order to extend the exemption to invest, the company needed to publicly disclose their coal phase-out plans and provide a status update on the power plant in South East Asia.

Outcome

The internal asset manager committed to check again after three months, in Q4 2022, on the progress against these requests if no response had been received before then. A response from the company was received in Q3 2022. The company raised concerns around the internal asset manager's request to disclose intention to divest coal assets ahead of securing buyer(s), noting its fiduciary responsibility to shareholders to achieve competitive price.

Escalation action

The company was raised as a concern for the internal asset manager's CAC to consider since it was also raised as a concern by other issuers.

Next steps

CAC reviewed the response to the engagement letter and concluded that the engagement objective had not been met. As such, the CAC deemed that the company was not aligned with the internal asset manager's Thermal Coal Position and was to be divested / excluded when the exception expired on Q1 2023.

Note: All active holdings were divested on in Q1 2023 and the company was added to the internal asset manager (M&G Investments) coal exclusions list.

Case Study: Engagement with a Steel company focused on disclosure of its coal phase-out plan

Source: Internal Asset Manager

The M&G Coal Appeals Committee (CAC) is an internal asset manager committee comprising of senior stakeholders which adjudicates on investments referred to under the internal asset manager's Exceptions Process.

Objective

Request that a Japanese steel producer ('the company') publicly commit to phasing out coal by 2030.

Approach

The internal asset manager had a series of calls and written communications with the company's Investor Relations team and management.

Outcome

The company confirmed that there is no direct thermal coal mining activity, only metallurgical (coking) coal. The company no longer intends to expand mining activities or to invest further in thermal coal power generation. The company communicated that it is difficult for it to commit publicly to a complete exit of thermal coal-linked power generation by 2030, in view of the fact that its generation assets are co-owned and intermingled with local government assets. The company took on board comments that their written and public communication is lacking in detail and intends to make improvements.

Escalation action

The CAC reviewed the meeting's outcome and the investment case. Following a CAC meeting in Q1 2022, the internal asset manager sent a letter to the company setting out their engagement and escalation expectations around coal and received a response from the company in Q3 2022.

Next Steps

Following a review of the response to the engagement request from the CAC in Q4 2022, the committee concluded that the engagement objective had not been met. As such, the CAC deemed that the company was not aligned with the internal asset manager Thermal Coal Position and was to be divested / excluded when the exception expired in Q1 2023.

Note: All active holdings were divested on in Q1 2023 and the company was added to the internal asset manager (M&G Investments) coal exclusions list.

Principle 12: exercising rights and responsibilities

Signatories actively exercise their rights and responsibilities

Asset owner

Engagement expectations

Whilst we do not, as an asset owner, engage directly with investee companies, we rely on our chosen asset managers to do so on our behalf, in line with our own ESG and stewardship expectations.

As noted in Principle 11, our favoured approach to engaging with investee companies is active ownership practices, such as shareholder voting, rather than restricting investment opportunities through exclusion. We believe that active ownership in order to influence positive corporate behaviour is essential to generating long-term investment performance for our clients. We therefore appoint asset managers that positively influence corporate behaviour where appropriate.

To ensure a consistent and clear stance, we have formulated the asset owner's PAC Voting Standard which provides supplementary details specifically on voting. The Standard supports the asset owner's PAC Shareholder Engagement Policy, and both reflect the expectations we have for active engagement.

As detailed in these reports, we expect our managers to conduct effective monitoring of holding companies, establish constructive dialogues, drive active engagement and responsible stewardship and exert influence where appropriate. Asset managers are also expected to vote on all relevant shareholder resolutions at general meetings across both our active and passive holdings, viewing this as an essential factor in generating long-term investment performance for our clients. Asset managers should align voting to support real world outcomes in line with our PAC ESG Investment Policy, and address factors that threaten the long-term performance of our portfolios and wider society more generally, such as climate change and inequitable structures.

Reporting expectations

As part of the annual review required by SRDII, asset managers should evaluate the effectiveness of shareholder voting activity and the outcomes achieved by exercising votes, following a consistent set of guidelines or criteria. This evaluation should review the connection between voting and the desired outcome of other forms of active engagement to enable clear and consistent messaging to a company on an ESG issue. To ensure voting and engagement is in line with our policies and expectations, we use asset managers' voting records to monitor engagement on our behalf, with this diligence forming an integral part of our ongoing oversight process. Further reporting expectations for voting activity, as outlined in the Standard, include:

1. Asset managers should report their shareholder voting records in a comprehensible and timely manner, in line with our specific request for voting information, including a link to their website if appropriate.
2. Votes classed as significant should be highlighted by asset managers, and a clear explanation of the criteria for a vote to be considered significant should be included.
3. Voting records should always provide a clear explanation of votes against a company's management resulting from the dissatisfaction of management action in relation to an ESG issue or risk.
4. Asset managers should provide specific explanations of key sustainability related votes, particularly where these pertain to the asset owner's current ESG priorities.

As part of our annual SRDII review, highlighted in Principle 8, we request company specific disclosures covering policies, voting record, engagement and incentivisation.

This process includes the collation and evaluation of voting decision including those against company boards; where there were votes against shareholder resolutions; and where a vote was withheld. We review voting records to ensure voting is being carried out in accordance with asset manager policies, mandate design and strategy. These allow us to review engagement on a manager-by-manager basis. Additionally, non-voting engagement is reviewed to determine engagement coverage and if this is in line with our expectations.

Proxy voting service providers

Whilst use of proxy voting service providers is accepted, their use should be clearly set-out in the asset managers' voting policy. Appropriate oversight should be conducted to ensure voting is consistent with achieving the best long-term value for our clients, and aligns with the asset manager's position on sustainability, which in turn should support our own ESG priorities and targets. Additionally, our asset managers should be able to take an independent view dissimilar to the service provider if necessary.

This is reviewed as part of our annual SRDII reporting, with data collected regarding use of proxy advisors for corporate engagement, the services provided and the impact of the advisor on voting decisions. In the case of proxy advisors not being utilised, detail is requested on the reasoning behind this.

Stock lending

The annual SRDII reporting questionnaire reviews stock lending and reviews if securities are lent, and if so, the respective firms' engagement policy for lent stocks. These responses form a scored sub-area within our wider analysis, and if we view these policies as misaligned to our own policies, engagement will be sought with asset managers as appropriate.

As reported last year, we are committed to include stock lending references in the Standard, a change which will be finalised in early 2023.

Client alignment

Across segregated or pooled mandates, we trust our managers to vote on our behalf in line with our clients' best interests. From time to time, we may request that our asset managers vote in a particular way to improve a particular aspect of corporate behaviour and further our ESG priorities and targets. In this scenario, we will evaluate the outcome of the directed shareholder vote and instruct further action if required, including divestment, if appropriate. As part of our ongoing asset manager oversight activities, we influence our asset managers' stewardship to align more closely with our policies, priorities and areas identified as concern to our clients, where necessary. We may replace an asset manager if their voting policies and processes do not comply with our own, and if we are unable to obtain a service that meets our requirements.

Fixed income

Similarly to equity, we rely upon our chosen asset managers to engage in relation to term and condition amendments, trust deed information requests, impairment rights and documentation review. We expect our managers to conduct effective monitoring, establish constructive dialogues, drive active engagement and responsible stewardship and exert influence where appropriate for fixed income holdings. Where appropriate, the asset owner may work closely with the relevant asset manager to exert influence on a particular issuer to elicit a desired behaviour.

Listed equity assets

Similarly to other asset classes, we monitor listed equity assets in line with SRDII and we rely on our asset managers to vote on our behalf.

Outcome

As illustrated above, we endeavour to exercise our rights and responsibilities by delegating voting activities to our appointed asset managers. Shareholder voting is our preferred method of showcasing our active ownership practices. We monitor the voting activity of our asset managers to review whether the outcomes remain aligned to our principles and to the Standard. In hopes to continuously improve the monitoring of our asset managers, we hope to develop a more rigorous process that will help build a robust data base of how right and responsibilities have been exercised across the reporting year. See the below case studies for evidence of our review process against SRDII, and on how our appointed asset managers exercise voting activities.

Case study: Voting engagement

Approach

The level of active engagement of our underlying asset managers is monitored formally on an annual basis. In the 2022 SRDII annual review we noted that voting engagement tended to be very high, with few managers falling below a threshold of 85% participation of eligible votes, resulting in most asset managers scoring very highly in this area. In the two cases which fell below the threshold, we acted as an asset owner to follow up with these asset managers to understand the reasoning for the low score. Through these interactions, we will continue to engage with these asset managers in the hope to influence their behaviours and improve their record above 85% in the future. Details of these engagements are included below:

Outcome

- Manager 1 (61% participation of eligible votes) – The asset manager has been rated as Negative due to the low engagement ratio with a similar rate as 2021 (62%). The asset manager confirmed that they vote on all UK holdings plus overseas holdings where they hold a sufficiently material amount of the company stock to impact the overall vote outcome. Whilst this approach is not considered to be best practice, we only have exposure to the asset manager's UK equity funds in which the asset manager voted on 100% of the eligible votes. As a result there is no impact upon us and so no further action is required.
- Manager 2 (83% participation of eligible votes) – The asset manager's participation of eligible votes was significantly lower than 2021 (96%). Whilst the asset manager voted on a suitably high proportion of votes on all regions apart from Japan (78.5%), their global voting record was relatively low at 83% and significantly lower than the previous year. When questioned the response was that the asset manager "vote all holdings as far as possible but there may be exceptions related to market nuances". This will be closely monitored in the next review.

Case Study: Real Living Wage accreditation

Source: Internal Asset Manager

Objective

During 2022, the internal asset manager had a number of engagements with retailers on the topic of the Real Living Wage. The internal asset manager engaged with a company as part of a collective engagement, via the Investor Forum, to discuss a ShareAction resolution that asked the company to become Real Living Wage accredited. The company informed us that it pays its employees at, or above, the real living wage, however, this did not extend to contractors. Given that the company operates on 3% margins, it expressed concerns over a third party setting the floor for its largest cost base.

Approach

To further understand the potential impacts of accreditation, the internal asset manager asked one of the retailers to provide a number of metrics relating to its staff and the real living wage and met with another retailer to ask what barriers were preventing it from becoming an accredited real living wage employer. The company has a very healthy relationship with the Usdaw union, which is involved throughout the process of establishing remuneration for employees. The retailer echoed similar points to the initial company – it did not want to lose the autonomy to time pay as it sees fit, with increased reputational risk if it did not comply. The company also informed the internal asset manager that it would have to move its pay review forward by a number of months, which would have a large impact on cash. It is something that the company was aware of and was working on, but the company remained alert to unintended consequences of increasing pay too quickly, such as redundancies.

Outcome

Following these conversations, several meetings with ShareAction and multiple discussions between investment teams, the internal asset manager took the measured decision to vote against the ShareAction resolution filed at the company's Annual General Meeting (AGM), along with 83.3% of shareholders. This meant that the company did not accredit to the Real Living Wage Foundation.

Case Study: ESG-wide engagement with a Danish stone wool insulation specialist company

Source: Internal Asset Manager

This case study offers a view of engagements conducted by the internal asset manager with a Danish stone wool insulation company ('the company') across different ESG themes.

Environmental

Net Zero

Objective

To encourage a Danish stone wool insulation specialist company's decarbonisation plans, including the introduction of a net zero target.

Approach

The internal asset manager's engagement with the company took the form of calls which enabled the discussion on the company's net zero approach.

Outcome

The production of stone wool insulation is energy intensive – traditionally relying on coking coal – and the company is in the process of converting factories to bio/gas or electricity, dependent on availability, while all new factories will run on bio/gas or electricity. The company's products from these plants will have the lowest embedded CO_2 of any insulation. In Norway, for example, the company replaced a coal furnace with electricity, which lowered the factory's CO_2 footprint by 80%. The company has near-term targets to reduce absolute scope 1 and 2 GHG emissions by 38% by 2034 from a 2019 base year, validated by Science Based Targets initiative (SBTi). Meanwhile, it has committed to reduce absolute scope 3 emissions by 20% within the same timeframe. The company has also made a UN SDG commitment to reduce carbon intensity by 20% by 2030, and it believes it will surpass this target. The internal asset manager expressed support for the company's current undertakings, and encouraged it to consider setting a long-term net zero target. The internal asset manager will continue engaging with the company, offering support for its climate ambitions.

Social

Human and labour rights (for example, supply chain rights and community relations)

Objective

To ask the company to upgrade its current 'human rights commitment' to a more detailed human rights policy, to ensure it takes into account all appropriate human rights-related risks.

Approach

The internal asset manager met with the company's Director of Group Public Affairs & Sustainability and Investor Relations to make its requests, and to receive an update on community relations at the company's new plant in West Virginia, and the role-out of its decarbonisation plans.

Outcome

The company welcomed the internal asset manager's request and confirmed that it was in the process of drafting a full-fledged human rights policy. It said the policy would make clear reference to Organisation for Economic Co-operation and Development (OECD) guidelines, it would have clear commitments, and it would reference salient risks and improve due diligence. The company also noted that they would focus on three areas: environment and communities, which includes its factories; supply chain (where a new position of responsible sourcing manager was put in place last year); and human rights in its own operations – including, for example, working hours in Asian markets and rights for contingent workers. The company said it would also be strengthening its wider code of conduct. The internal asset manager was pleased with the company's progress in this area and is looking forward to reading the new policy once published.

Governance

Strategy, Financial and Reporting – Risk management (for example, operational risks, cyber/information security and product risks)

Objective

To request that the company provide full transparency and reporting on how funds earmarked for 'reconstruction of Ukraine' would be dispersed, and the governance mechanisms in place to ensure those funds are used appropriately.

Approach

The company called an Extraordinary General Meeting (EGM) to seek shareholder approval for a single resolution: that the board be authorised to make donations up to DKK 100-200 million (USD 14.2-28.3 million) to support the reconstruction of Ukraine. In the run-up to the vote, the internal asset manager did not feel that there was adequate disclosure regarding how these proceeds would be deployed, raising concerns over risk, governance and potentially unintended consequences – i.e., misuse of proceeds. The internal asset manager wrote to the company to explain their vote 'against' the resolution, and to make requests in relation to the resolution known.

Outcome

The resolution passed with a strong majority, and the internal asset manager awaits details of how the funds will be distributed and the governance mechanisms surrounding this. This engagement is ongoing, and the internal asset manager will follow up in due course.

Conclusion

Maintaining a focus on stewardship & sustainability

M&G has set a clear purpose of helping clients manage and grow their savings and investments, responsibly. As an asset owner, we abide to the same purpose and ambitions, and we will continue to review, enhance and to focus on our stewardship activities, and to make a conscious and continuous shift from value-based investing on behalf of our clients to a more values-based approach, whilst considering the evolving nature of sustainability.

Our PAC ESG Investment Policy will remain a core document to set our expectations and to guide the business to embed ESG and stewardship principles and targets across our activities. Our targets on climate change and diversity & inclusion will remain paramount to our overall investment objectives, as evidenced by the release of our NZAOA interim targets and will be complemented by additional focus on other key ESG issues (such as Modern Slavery) and a focus in enhancing ESG stewardship due diligence processes.

Focusing on enhanced review and assurance processes

We believe our assurance processes are effective in the context of our business as we aim to set clear accountability, independent reviews and challenges, alignment and oversight from both the Group and asset owner entities, and appropriate due diligence for disclosures, especially in the context of rising greenwashing risks. To support our ongoing improvements in the validity and quality of data and our processes, we will continue to consider opportunities to enhance our assurance processes. The creation of the M&G plc Central Sustainability Office and the M&G plc Executive Sustainability Committee provide evidence of how such enhancements in the context of further assurance on stewardship and sustainability matters have been implemented.

Taking into account client and beneficiary needs

As it is our fiduciary duty to meet the demands of our clients, both M&G and the asset owner will continue to value and take into consideration our client and beneficiary needs. To this end, we seek to act on and respond to client feedback and concerns, as evidenced by the development of our position on Animal Welfare and the launch of our PAC Responsible Investing Webpage (which aims to provide transparency on and a view of our key ESG activities and reports). As we move forward, we will strive to continuously improve the quality of the data and information we provide to our clients, and to meet their needs through our product propositions. We will continue to invest in our digital capabilities to improve client journeys and services to support our clients.

Monitoring and holding to account asset managers

Whilst we do not engage directly with investee companies, relying on our appointed asset managers to do so on our behalf, we still hold ourselves accountable for the outcome of our asset managers' activities, and we expect all appointed asset managers' activities and engagement behaviour to be aligned to or comply to the PAC ESG Investment Policy, Shareholder Engagement Policy and Voting Standard and the agreed upon mandate. Having robust processes in place to effectively monitor and review our asset managers' activities, including those inherent to engagements and ESG, is therefore key.

To strengthen our due diligence and monitoring process, in 2022 we developed a suite of new ESG and Stewardship documents and processes. This includes the RfP ESG Due Diligence Questionnaire, to enhance the selection of asset managers to consider a wider scope of ESG factors in alignment with our PAC ESG Investment Policy; the ESG Engagement Template, to collate and review data on our appointed asset managers' engagement activity in a standardised manner; and the Quarterly ESG Due Diligence Questionnaire, to systematically monitor any material changes in asset managers' ESG activities. Having developed these processes, our focus for 2023 will be on further embedding these and building on our oversight of both internal and external asset managers via structured data driven quarterly analyses (an enhancement which we hope will be reflected in the 2023 Report).

Glossary

Climate change

A variation in climate usually longer than a decade. Often now used to mean changes in climate attributed to human activity that alters the composition of the atmosphere – greenhouse effect

Collective engagement

Form of engagement carried out alongside other investors. Sometimes also referred to as collaborative or cooperative engagement, but collective seems to be used as the broadcast term. Collective engagement can be either formal coalitions of investors or informally through coordination between individual fund management houses

Emissions

Pollution discharged into the atmosphere

Environment

The sum of all external conditions effecting life, development and survival of an organism

Engagement

The active process of dialogue with a company, where an investor is seeking specific change. This can often be a lengthy process and may involve many iterations of contact with senior representatives of the company

Environmental, Social, Governance (ESG)

The grouping for a range of underlying issues, where those that are material will impact the long-term business performance of a company and influence its attraction as an investment

ESG Risk

The risk that M&G plc, through its strategy, executive of business objectives, communication approach and/or response to internal / external ESG events, fails to meet its stakeholders' ESG expectation, impacting on the Group's reputation and stakeholder trust, undermining our financial, non-financial performance and ability to deliver / create value for clients

Escalation

Process whereby an investor takes increasingly strong steps to advance their engagement agenda. This can involve seeking additional meetings, going public, working with others

ESG Integration

The inclusion of ESG considerations within financial analysis and investment decisions. This may be done in various way, tailored to the investment style and approach of the fund manager

Exclusion(s) list

A formal list of companies (in some cases sectors) that an investment institution may not invest in. These companies/sectors are said to be excluded

Fiduciary

Anyone with expertise or a special skill who is vested with care of assets on behalf of another

Fiduciary duty

The responsibility borne by a trustee, or any investor charged with looking after assets on behalf of another. At its core is the responsibility to always act in their clients' best interests and with due care

Greenhouse effect

Gases including CO2, water vapour, methane, nitrous oxide and other trace gases. Scientists believe that this builds up, allowing light from the sun's rays to heat the earth but prevents a counterbalancing loss of heat

Inter-governmental Panel on climate change

UN inter-government body dedicated to providing an objective, scientific view of climate change and its impacts. Thousands of scientists and experts from around the world contribute to IPCC reports, who issue reports every 7 years reviewing the state of climate science. They also produce special reports on how to prevent global warming of more than 1.5°C degrees Celsius

Mitigation

Measures taken to reduce adverse impacts on the environment

Principles for Responsible Investment (PRI)

UN linked initiative by investors to emphasise the importance of ESG matters and to support and encourage their peers to incorporate ESG considerations into their investment processes

Proxy voting

Most institutional investors do not attend Annual General Meetings they are represented through proxy votes – through which they instruct someone who is usually attending to vote in a certain way

Proxy voting adviser

Firms which provide the pipework to deliver proxy voting decisions. Usually provide voting analysis and advice on decision making. Market is dominated by ISS

Risk Control Self-Assessment (RCSA)

This exists to improve risk-based decision making across M&G plc by providing a structured and consistent approach to identifying, assessing, managing and reporting risk, in line with policy and regulatory expectations

Risk appetite

The amount of risk that M&G plc is willing to take in pursuit of its strategic objectives

Reputational risk

The risk that M&G, through its activities, behaviours, and/or communication, does not meet stakeholders' expectations in way which adversely impact trust and M&G plc's reputation – potentially leading to a decline in revenue, increased costs, the loss of key personnel and/or adverse regulatory reaction

Shareholder rights directive

EU law implemented in June 2019 into the local laws of each member country. It sets the standards for treatment of shareholders by European countries

Social issues

Issues that affect business more directly such as violations of human and labour rights, issues regarding occupational health and safety of employees and product recalls due to product safety

Stewardship

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society

Sustainability

Sustainability is defined as the ability for an organisation to maintain a balance of resources and relationships, with the objective of meeting the needs of current generations without compromising the ability of future generations to meet their own needs

United Nations Sustainable Development Goals (SDGs)

Measures for economic development that maintain a balance with social and environmental needs. There are 169 underlying indicators and 17 categories

United Nations Global Compact (UNGC)

UN initiative for businesses seeking to ensure that they avoid poor business behaviours in the areas of human rights, labour relations, the environmental and anti-corruption

Acronyms and abbreviations

1LOD	First Line of Defence
2LOD	Second Line of Defence
3LOD	Third Line of Defence
ABI	The Association of British Insurers
AO	Asset Owner
BAC	Board Audit Committee
CA100+	Climate Action 100+
CAC	Coal Appeals Committee
CDP	Carbon Disclosure Project
CFO	Chief Financial Officer
D&I	Diversity & Inclusion
EGM	Extraordinary General Meeting
EMEA	Europe, Middle East and Africa
ESG	Environmental, Social, Governance
EU	European Union
FRC	Financial Reporting Council
GGF	Group Governance Framework
IA	The Investment Association
IDD	Investment Due Diligence
IDWG	Information Disclosure Working Group (Asset Owner)
Internal asset manager	M&G Investments
IO ExCo	Investment Office Executive Office
IRSG	The International Regulatory Strategy Group
IWC	Investing in Women Code
MDC	Management Disclosure Committee
NZAMi	Net-Zero Asset Managers Initiative

NZAOA	Net-Zero Asset Owner Alliance
OECD	Organisation for Economic Co-operation and Development
OGMP	Oil and Gas Methane Partnership 2.0
OHCHR	Office of the High Commissioner for Human Rights
PAC	Prudential Assurance Company
PPCA	Powering Past Coal Alliance
PPFM	Principles and Practices for Financial Management
PRA	Prudential Regulatory Authority
PRI	Principles for Responsible Investment
R&S EIOC	Retail & Savings Executive Investment Oversight Committee
RCSA	Risk and Control Self-Assessment
RfP	Request for Proposal
RMF	Risk Management Framework
SAA	Strategic Asset Allocation
SBTi	Science Based Target Initiative
SRDII	Shareholder Rights Directive II
the Board	The M&G plc Board
the Report	The PAC Stewardship Report
the Standard	the PAC Voting Standard
the Template	the ESG Engagement Template
TISA	The Investing and Saving Alliance
ToR	Terms of Reference
TNFD	Task Force on Nature-Related Financial Disclosures
UN SDG	United Nations Sustainable Development Goals
UNGC	United Nations Global Compact

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