Prudential Assurance Company

Stewardship Report 2021

April 2022

Contents

Welcome by the Head of Treasury & Investment Office

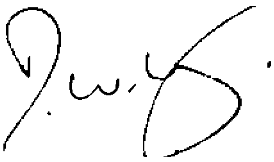
Welcome to our 2021 Prudential Assurance Company (PAC) Stewardship Report.

At M&G and within PAC we believe that a well governed business run in a sustainable way, delivers stronger, more resilient investment returns in the long term for customers, clients and shareholders, and better outcomes for society and the environment. That's why we incorporate sustainable thinking into everything we do – from the way we invest, to the way we operate our offices and interact with our customers and clients.

With this report we aim to provide an overview of the sustainability and stewardship activities the Prudential Assurance Company has carried out over the past year in line with the Financial Reporting Councils' UK Stewardship Code, and how we continue to support M&G's and our own purpose, values and commitments.

We hope you find this report useful and interesting.

Best wishes,



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

Foreword

An extended welcome to the Prudential Assurance Company Annual Stewardship Report for the year ended 31 December 2021.

The Prudential Assurance Company is the asset owner business of M&G plc ('the group'). As an asset owner, we believe that our objectives must be consistent with delivering our group's purpose, priorities and commitments.

M&G plc's stated purpose is to help people manage and grow their savings so they can live the life they want, making the world a little better along the way. As an asset owner, we deliver on our group's purpose through addressing our savers' requirement for good financial returns while regarding the wider needs of society through considering the material impacts of Environmental, Social and Governance (ESG) factors to the economy, society and the environment as a whole.

In the last year, we in the asset owner have continued to focus in further progressing our work in developing and embedding ESG activities, including those related to effective stewardship, across the business.

The management and consideration of the impacts from climate change continue to be a key priority for us. Because of this in 2021 we became a member of the Net Zero Asset Owner Alliance (NZAOA), which will help us deliver on our goal of aligning portfolios with a 1.5°C scenario in accordance with the Paris Agreement.

Having a diverse and inclusive workforce is another key area of focus. In 2021 M&G plc published its first Gender & Ethnicity Pay Gap Report, a key tool which will help us achieve greater representation of gender and ethnicity in our senior leadership and in achieving our goal of 40% female representation and 20% representation from Black, Asian and minority ethnic backgrounds by 2025. As members of the 30% club (a global campaign taking action to increase gender diversity at board and senior management levels) M&G have also been examining board composition to identify the diversity laggards, and we rely on our asset managers to engage companies to improve diversity.

While we continue to focus on strategic priorities such as climate change and diversity & inclusion, we are still alert to the wider ESG topics that may impact our business and hence our key stakeholders, and we continue to monitor and assess these.

To help us, as an asset owner, meet our wider ESG, including climate change and diversity & inclusion, ambitions, I head the ESG & Regulatory Team within the Treasury & Investment Office, working collaboratively with teams across the business, ensuring ESG remains a key area of focus and is integrated into decision making.

In this report we detail some of the actions that we have taken and the initiatives which we have been involved in over the past year, offering case studies and examples on how we deliver on our ESG commitments and stewardship responsibilities.

I hope this report gives you a better insight into our asset owner activities and how we continue to put our customers and sustainability at the heart of everything we do.

Jin Wee Tan
Head of ESG & Regulatory

Executive Summary

M&G plc (M&G) is a leading international savings and investments business, managing money for both individual savers and institutional investors in 28 markets. As at 31 December 2021, M&G has £370 billion of AUMA, of which £187.3[1] billion belongs to the asset owner. With a heritage dating back more than 170 years, M&G has a long history of innovation in savings and investments, combining asset management and insurance expertise to offer a wide range of solutions. For the purposes of stewardship, M&G can be thought of as comprising two entities within the same group, the asset owner (referenced above) and the asset manager. The asset owner corresponds to the Prudential Assurance Company (PAC), while the asset manager corresponds to M&G Investments. This report reviews the stewardship activities conducted by the asset owner.

Our M&G and asset owner purpose and governance

We have a clear ambition of what we want our culture to be and how we want working at M&G and PAC to be, including ensuring that we operate in line with a "One M&G" principle, where everyone is aligned to one purpose and one vision. Our culture and core values underpin everything we do. Above all we act with care and integrity, and this culture is central to how we operate.

We believe that a well governed business, run in a sustainable way, delivers stronger, more resilient investment returns in the long-term for customers, clients and shareholders, and better outcomes for society. That's why sustainable thinking is being incorporated into everything we do. To enable our sustainability-driven ambitions, we have identified climate change and diversity and inclusion as key priorities in the ESG, sustainability and the stewardship space. These priorities span across the entire group, including the internal asset manager.

Whilst governance and processes around ESG activities continue to evolve, significant progress has been made to date in ensuring that ESG and effective stewardship activities are embedded across the business and are an inherent part of our governance structure and processes. The establishment of the Asset Owner ESG Working Group and the Net-Zero Asset Owner Alliance Target Setting Working Group provide an example of the continued strengthening of stewardship, decision making and related governance processes within the asset owner.

Our governance structure ensures that discussion and decision making is carried out at the appropriate level of the company. 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 Prudential Assurance Company and Prudential Pensions Limited Executive Investment Committee, which is chaired by the Managing Director for Retail & Savings.

From 2021, all employees of M&G's Investments division (spanning both the asset owner and the asset manager) have an ESG-related objective which requires each person to take into account ESG considerations in their day-to-day work. Compensation decisions are based on a holistic appraisal process with appropriate objectives set according to the role. Everyone is also encouraged and supported to keep abreast of developments in stewardship, ESG and ESG investing, as well as having a wider understanding of the ESG and sustainability subject, hence ESG-wide training programmes are promoted across the business.

[1] **Including With Profits funds, Unit Linked funds, Shareholder assets (including annuities) and other AUMA; note numbers are on a group basis**

Across the business we are required to maintain and operate effective organisational and administrative arrangements with a view to taking all appropriate steps to prevent conflicts of interest from adversely affecting the interests of clients. The effective management of conflicts of interest is key, and within our company this is supported and enabled by M&G's Code of Conduct and the M&G Conflicts of Interest Policy. These help manage conflicts, such as the conflict with the internal asset manager, and are designed to ensure that we effectively protect the interests of all our customers, clients, and end-investors, and to ensure compliance with regulatory requirements. An example of our management of conflicts of interest is evidenced by the triennial fee review, a process where conflicts have to be carefully managed between the asset manager and asset owner when negotiating product fees to ensure a fair outcome for our customers.

We also adhere to the risk management frameworks and processes and Three Lines of Defence model. Everyone within the company is tasked with identifying, assessing, managing and reporting risks within their area of responsibility. In line with the risk management frameworks, we have a robust and effective risk identification process that identifies both micro / security-specific risks and macro / market-wide and systemic risks. Where we identify macro risks, we may choose to work with industry bodies, regulators and market participants to create risk mitigation solutions. As part of our responsibilities as an asset owner, we have participated in the Bank of England's Biennial Explanatory Scenarios (CBES), which required participants to model their assets and liabilities under a number of different climate scenarios.

In the context of our investment processes we have also considered what effective stewardship means. Principles of stewardship are integrated into our overarching framework for investments, and into our ESG Investment Policy. These require us to take a long-term approach and consider wider impacts than just financial risk and returns. All of our ESG and stewardship related policies are subject to thorough governance review processes to ensure these are and remain accurate and appropriate. These are also aligned with the policies of the internal asset manager where possible and applicable, in line with the "One M&G" ethos.

Our asset owner investment approach

Through engagement with Independent Financial Advisers (IFAs), policyholders and via third parties, we continue to build and evolve our understanding of customer needs, expectations and views via tools such as surveys and forums. Seeking input from both IFAs and end customers allows us to gain the perspectives of both professionals and members of the public, creating a more complete understanding. IFAs insights also allow us to tap into the expectations and views of their underlying clients.

With the aim of meeting our customers' needs, the Treasury & Investment Office creates asset allocations and investment strategies to meet specific product requirements, delivering a required investment outcome to customers in line with the product risk level. The delivery of PruFund Planet epitomises this, as this aims to meet increasing investor demand for products that deliver positive environmental and social outcomes, whilst still benefitting from the smoothing investment experience that the flagship PruFund product offers.

These investment strategies have to be managed by suitable asset managers that are capable of managing all risks, including ESG risks, appropriately and at the desired cost. Manager Oversight seek to identify top quartile managers with the conviction that they will be able to generate return for policyholders on a forward looking basis. To this end, the asset owner only appoints asset managers that it judges as capable of doing this.

As asset owner, we also expect asset managers to engage on our behalf and we evaluate our managers' shareholder engagement and voting policies in addition to their ESG policies as part of our SRDII reporting to ensure alignment with our own policies and standards. We also rely on data provided by asset managers and third-party data providers to carry out our ESG and stewardship activities, with ongoing engagement and review to ensure data provider appropriateness.

Our asset owner engagement approach, including exercising rights and responsibilities

To fulfil our fiduciary and stewardship duties to all our customers, 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 customers' long-term savings and financial security. This may include undertaking collaborative engagements where appropriate. Whilst not a requirement, we expect underlying asset 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 also believe that active ownership that aims to influence positive corporate behaviour is essential to generating long-term investment performance for our customers. We therefore appoint asset managers that positively influence corporate behaviour. Our favoured approach to engaging with investee companies is active ownership practices such as shareholder voting, rather than restricting investment opportunities through exclusion. Any engagement or escalation of stewardship activities is done through the relevant asset managers, which we rely upon to carry out engagement activities on our behalf. As evidence of this in 2021 our internal asset manager, on behalf of the asset owner, engaged with an investment holding firm focused on the development and operation of Power Plants with the aim of improving its disclosures in relation to emissions positioning, renewable investments and its roadmap to net-zero.

We also expect our asset managers 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. Furthermore, 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.

Introduction

UK Stewardship Code 2020

The UK Stewardship Code 2020 sets high stewardship standards for both asset owners and asset managers. The Code comprises a set of 'apply and explain' principles, but does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy.

The 2020 code reflects the fact that the investment market has changed considerably since the publication of the first UK Stewardship Code in 2010, with significant growth in assets other than listed equity, including fixed income, real estate and infrastructure. These investments have different terms, investment periods, rights and responsibilities, and signatories to the 2020 Code need to consider how to exercise stewardship effectively, and report accordingly, across asset classes.

Of note, environmental – particularly climate change – and social factors, such as Diversity & Inclusion, in addition to governance, continue to be key issues for investors which need to be considered when making investment decisions and undertaking stewardship.

About M&G plc

M&G plc is a leading international savings and investments business, managing money for both individual savers and institutional investors in 28 markets. As at 31 December 2021, M&G plc have £370 billion of assets under management and administration (AUMA), over 5 million retail customers and more than 800 institutional clients. 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. M&G plc serves its savings and insurance customers under the Prudential brand 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 Prudential 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 customers, including retail customers, 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. 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.

The asset owner endeavours to appoint asset managers that it deems to be best-in-class for an appropriate fee. The asset owner can, and does, appoint asset managers that are external to M&G plc. The external asset managers that the asset owner has appointed for the Life Fund are:

- Blackrock
- Granahan
- EARNEST Partners
- Value Partners
- Goldman Sachs Asset Management (GSAM)
- MFS
- Eastspring Investments
- Robeco
- Pictet
- Wellington
- Invesco Canada
- Lazard

The internal asset manager in turn can, and does, manage assets for third-party customers 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 customers receive the best possible outcome. The asset owner endeavours to treat the internal asset manager as it would an external manager. Where the internal asset manager has been appointed to manage a portfolio, it has met the same criteria and reached the same standards as any external asset 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 also required to meet specific criteria prior to be appointed (in line with the appointment criteria of all asset managers), including having to meet the minimum threshold of being in the top quartile of their investment universe.

Prudential Assurance Company 2021 Stewardship Report

The asset owner became a signatory of the Stewardship Code in 2021. The 2021 report has been drafted by the Treasury & Investment Office ESG & Regulatory team, with input from and reviews performed by a suite of key stakeholders and forums, including reviews by Risk & Compliance, Marketing Compliance and the M&G plc ESG Disclosure Panel. The report was ultimately reviewed and approved by the Prudential Assurance Company and Prudential Pensions Limited Executive Investment Committee (EIC) and the Prudential Assurance Company Board. See Principle 5 within the report for further detail on the review process.

In this report, we provide an overview of our stewardship approach as an asset owner, specifically outlining how we adhere to the principles within the code (see Principles below).

Note the internal asset manager has its own separate Stewardship Report.

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

Note the report is intended for use by a wider audience. We are conscious of the length of the document and we have hence developed an Executive Summary to provide a high-level overview of the content of the report. If needed, we recommend retail clients get in touch with their advisers for specific questions on their products and how stewardship and ESG are considered and / or integrated within, or alternatively refer to the 2021 With-Profits Fund Stewardship Report.

Disclosure by Principle

The following sections set out how the asset owner complies with the various principles of the 2020 Stewardship Code, with supporting examples. The disclosure is laid out by Principle.

Note, where applicable, some Principles will include sections pertinent to both M&G plc and the asset owner as we adopt the position of M&G plc in addition to our own.

Unless otherwise stated, when we refer to 'the internal asset manager' in this document, we mean M&G Investments. When we refer to 'we' or 'our', we are referring to our asset owner business or M&G plc, dependant on the section and / or the applicability of the context to both entities.

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 so they can live the life they want, while making the world a little better along the way.

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 operate towards a "One M&G" principle, where everyone is aligned to one purpose and one vision.

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

- **Act with care** – treating customers, 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 our people 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 behaves towards each other, how they interact with stakeholders, and above all, how the business will deliver on its purpose.

Business-wide principles

We have has a set of key principles, which guide how we do business, and what matters most in decision making:

- **Impact** – using financial power as a force for good
- **Inclusion** – opening up opportunity for more people around the world
- **Innovation** – focusing on changing things for the better

ESG, sustainability and stewardship priorities

We believe that a well governed business, run in a sustainable way, delivers stronger, more resilient investment returns in the long-term for customers, clients and shareholders, and better outcomes for society. That's why consideration of sustainability is being incorporated into everything we do.

To enable our sustainability-driven ambitions, we have identified the following key priorities in the ESG, sustainability and stewardship space:

- **Climate change** – committing to being carbon net zero in our own business operations by 2030 at the latest and committing to achieve carbon net zero investment portfolios by 2050, across total assets under management, to align with the Paris Agreement on Climate Change.
- **Diversity and inclusion** – committing to achieving greater representation of gender and ethnicity in senior leadership (Executive Committee and their direct reports) with goals of achieving 40% female representation and 20% representation from Black, Asian and minority ethnic backgrounds by 2025.

At M&G, and as the asset owner, we also acknowledge the importance of the wide spectrum of ESG issues, and we have investment strategies and engagement activities in place for many of them. To ensure appropriate consideration of ESG and sustainability in everything we do, we adopt the following sustainability principles, as outlined within the M&G plc Sustainability Report (see the 2020 report **here**):

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

- To manage our businesses to the same principles of acting responsibly that we would hold our investee companies to account on.
- To identify and incorporate ESG risk factors into our general risk management process.
- To review our sustainability thinking regularly in order to align with scientific and technological improvements, and changes in the global economy, ethics and consumer preferences. We aspire to be a thought leader, to innovate, and to advance understanding of sustainability issues.
- To use our influence as a global investor and asset owner to drive positive change in sustainability policy and corporate standards. We believe in active asset ownership and management which encourages companies to transition towards a sustainable future.

Strategy

M&G's strategy supports the company's vision to become the best-loved and most successful savings and investment business. With an established track record in growing business and entering new markets, the company is ideally placed to capitalise on supportive long-term economic trends to deliver superior outcomes for customers whilst continuing on the journey to pivot the entire business to sustainable investing, so that as the stewards of the long-term savings of millions of people, it makes an even bigger difference to people and the planet. The execution of the strategy is based on key strategic priorities, underpinned by the One M&G strategic priority, which expresses the alignment to a single purpose, driving the values of care and integrity and the focus on sustainability. These strategic priorities cover M&G's four growth markets of the UK, Europe, other International markets in Asia, the US and Africa, and Institutional Asset Management. They also include the Heritage business, a portfolio of annuities and traditional with-profits policies that are closed to new business. M&G's responsibility is to create the best customer outcome in terms of general well-being in line with its fiduciary duty, taking into consideration financial security.

Business model

Caring for customers for more than 170 years

We have been serving individual savers since 1848 and continue to help millions of people to manage and grow their savings. We also work with financial partners around the world to help clients build and manage their investments. We serve more than 800 institutional clients such as pension funds and insurance companies.

Serving a wide range of customers and clients

We believe customers choose our business because they prefer the quality of our savings and investment solutions, and appreciate the care with which we look after their money. Our investment practices are driven both by our purpose, which is centred on helping each customer manage and grow their financial resources, and our values, which guide our investment practices to help customers achieve the financial outcomes they want in a sustainable way.

- **Individual savers and investors:** customers invest with us to save for their own and their families' future or draw an income from long-term savings.
- **Institutional clients:** we partner with pension funds, insurers and others to design long-term investment solutions.
- **Professional investors:** we work with financial partners worldwide to meet clients' investment needs in the long-term.
- **Financial advisers and paraplanners:** we have a range of products, educational and business development services to help financial advisers and paraplanners to serve clients better.

Asset owner

Our investment beliefs

We, as the asst 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 is illustrated in Figure 1.

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 with a long-term issue
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 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 respond 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 customers. We also understand the importance of ESG factors in investment decisions and their potential to materially impact our customer 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 customer 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 asset owner's ESG Investment Policy), and to actively steer our investee companies towards more sustainable practices. We rely on our investment managers to actively engage with our investee companies on our behalf and to protect and enhance the long-term value of our assets, whilst assessing their engagement processes and ensuring they comply with the standards set out in the Shareholder Rights Directive II (SRDII) and the UK Stewardship Code. However, we recognise that we cannot always effect the change we wish to see and there are certain behaviours with which we do not wish to be associated. In such instances, we may exclude a particular company from the portfolio in question.

Meeting our customers' needs

As an asset owner we also ensure that customer 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 – e.g. meeting of guarantees, time horizon, lapse rates and maximum levels of risk – with reference to the needs of those customers whom the asset owner has written the business for.

We also measure our success in meeting customer requirements in a number of different ways. The needs of our annuity customers and our unit-linked customers are met if they receive the outcomes defined for them when they bought the product. More specifically, the annuity customers' outcomes are met if they receive the income that had been promised to them upon purchase, whilst the needs of the unit-linked customers are met if the investment objectives that had been set are adhered to. Both are overseen and monitored by the EIC. The interests of our With Profits and our corporate pensions customers are represented on an ongoing basis by two independent committees, the With Profits Committee and the Independent Governance Committee.

Our asset owner investment team, the Treasury & Investment Office, have regular dialogue with and support these committees to ensure the customers' needs are met. 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, we have improved our management information on ESG, and are shifting reporting from measuring levels of activity in the engagement and stewardship space, to measuring results.

See also Principle 6 for further information on how we continue to aim to meet our customers' needs.

Our product offerings

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

For example, customers 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 strategic asset allocation for our PruFund range with respect to the required risk levels and our customers' preferred time horizon. The latter is generally medium to long term, as our customers 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 17 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, our asset owner's Thermal Coal Policy) 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**).

Principle 2: governance, resources and incentives

'Signatories' governance, resources and incentives support stewardship'

M&G plc

Governance structure

M&G is a leading savings and investments business which was formed in 2017 through the merger of Prudential plc's UK and Europe savings and insurance operation and M&G Investments, its wholly-owned international investment manager.

The M&G Board ('the board') is comprised of six Directors: a Non-Executive Chair, one Executive Director, a Senior Independent Director and three Non-Executive Directors (As reported in the 2021 M&G Annual Report and Accounts).

The board has a fiduciary responsibility to promote the long-term success of the company for its shareholders, while considering all its wider stakeholders. Regulators require that its pensions and investment business and its asset management arm – the asset owner and the internal asset manager – are separately regulated groups with independent boards with a fiduciary duty to act in the best interests of their respective policyholders and customers. M&G's governance structure is therefore designed to ensure it delivers on all these responsibilities to its stakeholders and manage conflicts between the interests of stakeholder groups.

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. The Executive Committee has been prioritising sustainability as a core component of the business' strategy, ensuring that the sustainability principles are embedded in everything the organisation does.

Whilst governance around ESG activities continues to evolve, significant progress has been made to date in ensuring that ESG and effective stewardship activities are embedded across the whole firm and are an inherent part of the governance structure.

Over 2021, the board spent more time considering ESG matters in preparation for delivering enhanced sustainability disclosures. The board has also considered its own role in overseeing ESG matters, taking into account the increasing focus of stakeholders on firms' reporting on climate risk and other ESG matters and the new disclosure requirements.

Reflecting the scale and scope of its sustainability commitments and ambitions, the ESG programme is sponsored by the M&G plc Chief Executive. The overall strategic priorities of the programme are agreed by the Executive Committee with overall responsibility for sustainability strategy allocated to the M&G plc Chief and Innovation Officer. The programme is now extending to deliver against a broader set of objectives, including ongoing ESG integration and regulatory compliance, with further ESG and sustainability-related transformational workstreams being set up to deliver on the sustainability objectives.

To date decisions within the ESG space have been taken independently within asset owner and internal asset manager, using existing governance structures (see below details on the asset owner's governance and processes), whilst ensuring ongoing dialogue and alignment, and management of conflicts of interest (see Principle 3).

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

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.

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 Executive Investment Committee (EIC), which is chaired by the Managing Director for Retail & Savings.

All investment decisions, including those taken in the ESG, sustainability and stewardship space, are channelled through this governance structure, and ultimately, through the EIC, which in turn, reports to the asset owner company boards. The EIC takes into account ESG factors and the interests of customers when making its decisions, in accordance with our asset owner's ESG Investment Policy. In 2022 the EIC terms of reference (ToR) have been updated to ensure these responsibilities are explicitly and formally denoted.

We aspire to act nimbly and decisively in response to changes, and our flat governance structure is one way which facilitates this. We believe that the clarity of the ESG investment principles (see Processes section) 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.

Case study: Establishing an 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 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 EIC where required. Representatives from the M&G Stewardship & Sustainability ESG Policy & Disclosure team are also invited to ensure the asset owner initiatives are delivered in accordance with the group's ESG commitments, and with consideration of the internal asset manager's own initiatives.

In 2021, the asset owner joined the NZAOA with the aim of working towards the goal of aligning portfolios with a 1.5 oC scenario in accordance with the Paris Agreement (see Principle 10). An NZAOA Target Setting Working Group was subsequently established to help discharge the oversight responsibilities from the Asset Owner 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 Asset Owner 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 EIC).

Both working groups have helped provide more structure in effectively reviewing and overseeing key ESG activities, and in providing relevant input to enable the delivery of our Net Zero ambitions. However, 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 4).

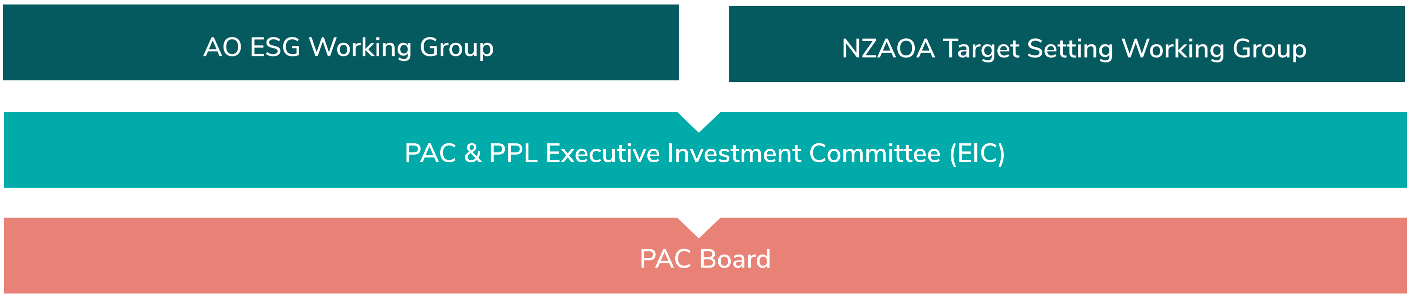


Figure 2: High-level asset owner governance structure for ESG-related activities

Resources

Within the Treasury & Investment Office are a number of teams tasked with ensuring customers receive good investment outcomes. The overall business area comprises of approximately 60 people, with additional support, oversight and advice provided by the second line of defence functions. A schematic showing the organisation and component teams of the Treasury & Investment Office is illustrated in Figure 3.

Management by the Investment Office	
Risk & Compliance Oversight	• All portfolio positions have appropriate second line oversight • Portfolios are managed in compliance with Group Standards and Legal/Regulatory requirements
Annuities & Derivatives Portfolio Management	• Efficient portfolio implementation to ensure annuity funds and overlay hedging programmes are managed in line with objectives and guidelines • Recommendation of new approaches for portfolio optimisation
ESG, Regulatory, Projects	• Efficient portfolio implementation to ensure annuity funds and overlay hedging programmes are managed in line with objectives and guidelines • Recommendation of new approaches for portfolio optimisation
Client Portfolio Management	• Explains the 'who, 'why', 'what' and 'how' for our funds to achieve business objectives for growth and retention
Manager Oversight	• Rigorous oversight of all underlying managers to ensure outcomes are aligned with our needs • Leverage the skillsets of underlying managers for the benefit of portfolios
Research & Strategic Asset Allocation	• Efficient portfolio implementation to ensure funds are managed in line with asset mix and hedging objectives and guidelines • Client reporting to inform clients on portfolio positioning
Multi Asset Portfolio Management	• Efficient portfolio implementation to ensure funds are managed in line with asset mix and hedging objectives and guidelines • Client reporting to inform clients on portfolio positioning

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

The ESG & Regulatory team is responsible for devising the ESG Investment Policy and investment strategy at the asset owner level, and drives these into portfolio allocations, benchmarks and positions (see Processes section). The team comprises of 3.5 full time investment professionals, with an additional full-time resource set to join in April 2022 and with ongoing support provided by other resources in the form of contractors or secondees. The team continues to recruit people with complementary skills. The ESG & Regulatory team also works collaboratively with the M&G Stewardship & Sustainability team, namely the M&G ESG Policy & Disclosure function, and the internal asset manager's ESG 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.

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 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 capabilities, their management of risks, and whether ESG is properly embedded within their processes. The team comprises 7 full-time investment professionals.

Treasury & Investment Office ESG & Regulatory Team	
Jin Wee Tan Years at M&G: 8 Years of Professional Experience: 20 Jin Wee has worked at the nexus of life insurance and asset management for many years. He is a CFA Charterholder, and has held roles in investment, asset allocation, operations and projects. He has led the ESG & Regulatory team for 3 years.	**Niall McCann** Years at M&G: 5 Years of Professional Experience: 9 Niall has worked across investment consulting, asset management and insurance sectors for 9 years, with a focus on risk management, hedging strategies and governance. He has a long-held interest in climate and ecological systems, and has been in the ESG & Regulatory team for 3 years.
Tang Lu Years at M&G: 5.5 Years of Professional Experience: 16 Tang Lu has many years' experience in institutional investments including life insurance and pensions with a variety of roles and responsibilities in Asset Liability Management, investments, regulatory and business projects. He has been in the ESG & Regulatory team for 3 years.	**Guy Rolfe** Years at M&G: 7 Years of Professional Experience: 7 Guy formulates ESG investment strategy, methodology and analysis on behalf of both asset owner and the internal asset manager. He began working in ESG at M&G in 2019, previously he held roles in portfolio management and risk. Guy is a CFA Charterholder.
Teresa Toniutti (secondment) Years at M&G: 5 Years of Professional Experience: 6 Teresa has worked at M&G since 2016 joining as part of the Graduate Scheme. She has worked in a number of risk management roles, including Financial Risk and Organisational Risk, prior to joining the ESG & Regulatory team in January 2022 to pursue a secondment opportunity.	

Treasury & Investment Office Manager Oversight Team	
Ciaran Mulligan Years at M&G: 7 Years of Professional Experience: 20 Ciaran joined the company in May 2015 and leads the Manager Oversight team responsible for assessing the overall suitability of the asset managers used by the Treasury and Investment Office. 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: 23 Years of Professional Experience: 23 Ian joined Prudential in 1999 and transferred to the Treasury & Investment Office in 2010. Prior to transferring to the Treasury & Investment Office, Ian had a number of roles within Finance including Unit Pricing Manager. Ian graduated from Kingston University with a Bsc (Hons) in Accountancy and Law and is a Fellow Chartered and Certified Accountant.
Nick Ridgway Years at M&G: 5 Years of Professional Experience: 20 Nick joined M&G in 2017. Before joining M&G he headed up the Investment Research Team at Buck Consultants, a pensions consultancy. Prior to heading the team, Nick lead the research efforts across Real Estate and Multi-Asset solutions while also covering public markets.	**Ben Hamilton** Years at M&G: 6 Years of Professional Experience: 6 Ben joined M&G in May 2016 as part of the Graduate Scheme, having rotated within the Treasury and Investment Office. Ben studied History at Durham University and is a CFA Charterholder.
Sam Payne Years at M&G: 4 Years of Professional Experience: 4 Sam joined Manager Oversight in 2018 from M&G's Graduate Scheme, having joined M&G in 2017. Sam studied Economics, Politics and Spanish at Exeter University and is a CFA Level 2 candidate.	**Olivia Trevor** Years at M&G: 3 Years of Professional Experience: 3 Olivia joined Manager Oversight in 2019 from M&G's Investment Graduate Scheme, having joined M&G in 2018. Olivia studied Economics at Durham University and is a CFA Level 3 candidate.
Kate Russell Years at M&G: 2 Years of Professional Experience: 2 Kate joined Manager Oversight in 2021 from M&G's Graduate Scheme, having joined M&G in 2019. Kate studied Natural Sciences at Durham University and is a CFA Level 2 candidate.	

Third party and service providers

The ESG & Regulatory and Manager Oversight teams rely on data provided by the asset managers they oversee, alongside third-party data providers, to carry out the relevant ESG and stewardship activities. Third-party screening systems are also used to identify securities and companies that require further attention from a stewardship perspective. 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.

A list of some of our key service providers (non-exhaustive) is illustrated in Figure 4. 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.

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.
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.
Baringa	Baringa, an international consulting firm, provides services including, but not limited to, data, analytics and AI advice and solutions, economic advisory, and ESG services. The asset owner employs Baringa as a climate specialist, utilising their ESG expertise and insight.
Morningstar	Morningstar is a provider of investment research, analysis and management services. Morningstar is utilised to monitor rating updates on an ad hoc basis.

Gender & Ethnicity Balance

M&G is committed in achieving greater representation of gender and ethnicity in its senior leadership (Executive Committee and their direct reports) with goals of achieving 40% female representation and 20% representation from Black, Asian and minority ethnic backgrounds by 2025.

In 2021 M&G published its Gender & Ethnicity Pay Gap report. Whilst there is more work to do, the report shows progress towards a more fully diverse and representative workforce, and aims to support the commitments made as part of M&G's Diversity & Inclusion sustainability priority (see Principle 1). The latest report is available **here**.

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 asset owner's ESG Investment Policy. This defines a number of ESG investment principles, which in turn inform stewardship practices and guidance, ensuring that on matters regarding stewardship and wider ESG issues, the Manager Oversight team will have a central guide to which they can refer on specific matters. In particular, the ESG investment principles require the Treasury & Investment Office to ensure that the impacts of ESG considerations on risk, return and customer interests are clearly set out.[2]

[2] **Note that treasury assets managed by M&G's PruCap entity, held at the M&G plc level and funds with commingled third-party assets managed by M&G Investments are not in scope of the Asset Owner ESG Investment Policy and are covered by separate but closely aligned policies, with ongoing monitoring of the degree of alignment.**

Investment due diligence

For the asset owner, the Manager Oversight team, having regard to good industry practice, 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. The Treasury & Investment Office will also review the asset managers' engagement and voting policies to ensure these are aligned with our own approach and policies, and all monitoring of our managers' engagement with investee companies is carried out in line with our asset owner's Shareholder Engagement Policy, available **here**, and the asset owner's Voting Standard.

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, 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 on existing asset managers to assess their continuing ability to provide expected investment outcomes. Forward-looking attestation that 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.

ESG is a standing item on the formal agenda that all quarterly meetings follow. 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, and through the pertinent governance channels.

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 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.

Working with the asset manager – The Manager Oversight and the Long-term Investment Strategy teams worked with the Wellington Global Impact Bond Fund to assess whether we were able to adopt a benchmark that was more suitable to our requirements. The teams were able to work together to not only implement our ESG exclusions and ensure these were considered, but to also implement a bespoke benchmark which was reflective of our strategic asset allocation needs.

Manager Selection

The Manager Oversight team is responsible for the selection 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 of each asset manager to ensure they align or are congruent with those of the asset owner. The Manager Oversight team will review the managers' strategy against the Treasury & Investment Office ESG Product frameworks 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.

Training

In line with M&G's (and our) 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 subject.

In 2021 a series of mandatory learning modules for all staff was launched. These were integrated into the existing mandatory training programme to signal its importance to the business, and provided an overview of key aspects of sustainability, including what it means, its importance, and how we are putting sustainability into action through our goals, principles and initiatives. The learning modules were issued alongside specialist training on sustainability and ESG data and products already undertaken by investment professionals and sales people. The M&G Board also received dedicated training sessions and update material on ESG matters, to ensure collective skills were enhanced in line with its increased responsibilities (see M&G's Annual Report and Accounts for more information).

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

The launch of M&G's Sustainability Hub was key to ensure all employees had a central place 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 our work with key stakeholders, and on how we are building sustainability into our business activities and processes.

To fully embed awareness and understanding of sustainability there is a need to further progress and streamline our training and communications on ESG topics, a key priority which will be reviewed across 2022.

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. From 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 2021 Long Term Incentive Plan (LTIP) for executives now 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), 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.

How ESG, sustainability and stewardship objectives are reflected in our incentive schemes will be a key factor for consideration in future reviews of the M&G plc Remuneration Policy.

Outcome

Overall the combination of the current expertise, experience and diversity of the teams 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.

In 2021 M&G's focus was to continue to assess the effectiveness of its governance structure as a standalone newly-publicly listed corporate entity, and ensuring adequate governance across ESG activities. Over 2021, the M&G Board spent more time considering environmental, social and governance matters in preparation for delivering enhanced sustainability disclosures. The M&G Board has also considered its own role in overseeing ESG matters, taking into account the increasing focus of stakeholders on firms' reporting on these matters. Overall, we believe significant progress has been made on the governance around ESG and stewardship activities, with examples of this illustrated in the earlier case study.

See also the "Putting our Principles into Practice: PruFund Planet Case Study" at the end of the report

Principle 3: conflicts of interest

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

M&G plc

It is a fundamental requirement for a financial services firm such as M&G and its underlying entities to act in the best interests of its clients and/or its beneficiaries, and identify and manage conflicts of interest. This is central to their duty of care. Accordingly, it is important for our clients to know that we will use all reasonable endeavours to identify conflicts, manage them effectively and treat clients fairly.

Management of conflicts of interest

M&G and its underlying entities, including the asset owner, are required to maintain and operate effective organisational and administrative arrangements with a view to taking all appropriate steps to prevent conflicts of interest from adversely affecting the interests of clients.

The effective management of conflicts of interest is key, and within the organisation this is enabled by a wide range of processes and policies. The expectations for managing conflicts of interest are denoted within the M&G plc Code of Conduct, and all staff 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.

M&G has a Conflicts of Interest Policy which reflects both the nature of its business activities and its ownership structure (including any potential conflicts arising from the asset owner’s ownership by M&G). This Policy applies to both the internal asset manager and the asset owner, and is designed to ensure that M&G effectively protects the interests of all its customers, clients, and end-investors, and to ensure compliance with regulatory requirements. In certain jurisdictions the Policy is also supplemented, where appropriate, by local compliance manuals, policies and procedures. The M&G plc Conflicts of Interest Policy is reviewed at least annually, or where there is a material update that requires addressing, which ensures this remains effective for the ongoing management of conflicts of interests.

All key changes made to the Policy are subject to review and approval by the relevant Governance Committees. All business areas are expected to comply with the policy and to escalate any breaches to the appropriate channels.

In line with the Conflicts of Interest Policy, the steps taken by M&G to manage actual and potential conflicts can include, but are not limited to:

- Effective procedures to prevent or control the exchange of information between relevant persons engaged in activities involving a risk of a conflict of interest where the exchange of that information may harm the interests of one or more clients;
- The separate supervision of relevant persons whose principal functions involve carrying out activities on behalf of, or providing services to, clients whose interests may conflict, or who otherwise represent different interests that may conflict;
- The removal of any direct link between the remuneration of relevant persons principally engaged in one activity and the remuneration of, or revenues generated by, different relevant persons principally engaged in another activity, where a conflict of interest may arise in relation to those activities;
- Measures to prevent or control the simultaneous or sequential involvement of a relevant person in separate investment or ancillary services or activities where such involvement may impair the proper management of conflicts of interest;
- Reporting lines which limit or prevent any person from exercising inappropriate influence over the way in which a relevant person carries out investment or ancillary services or activities;
- Requirement by all employees to identify and disclose any personal associations that may give rise to an actual or perceived conflict of interest;
- Internal guidance and training on how to identify, prevent and/or manage potential and actual conflicts of interest;
- Processes to ensure that issues identified are referred to and considered at the appropriate level within M&G.

Asset owner

Governance and policies

As an asset owner, we comply with all of the group's conflicts of interest management processes outlined in the previous section. When conflicts of interest are identified, we ensure these are clearly articulated, including detail on what the underlying conflict is, and we ensure we consider the various parties' interests when we make a decision – this approach is followed across all conflicts and is well-documented. A conflicts of interest register is also held by business areas to enable ongoing monitoring and resolution.

To ensure the effective management of conflicts of interest in its own operations, the asset owner also ensures that its key documents and processes articulate how conflicts of interests will be managed. For example:

- Our asset owner's Shareholder Engagement Policy 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.
- Our asset owner's Voting Standards state 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 investment manager).

The EIC Terms of Reference also formalise the need to consider conflicts of interests at each meeting.

Types of conflicts of interest

Our Customers

The key conflicts arising for the asset owner are those between different groups of customers, as well as between customers and the shareholder. How we identify and manage these conflicts is set out in our Principles and Practices for Financial Management ('PPFM') document, for With Profits Business (**pru.co.uk/funds/ppfm**), and Prudential's Statement of Unit-linked Principles and Practices, for unit-linked business (**pru.co.uk/funds/psulpp**).

Treating customers fairly is a basic tenet of our investment processes. Every investment decision that we take is considered in light of how customers are treated, to ensure that they receive a fair outcome, with major decisions requiring input on customer fairness from customer advocates in our governance structures. 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. The With Profits Committee in particular is empowered to discuss and advise the asset owner company board on sufficiently material investment matters.

Our portfolios are therefore managed using well-defined decision-making principles to ensure that conflicts between the shareholders and customers, as well as between different groups of customers, are properly resolved. Certain well-defined conflicts may be managed using frameworks specifically drawn up for that purpose. For example, we have hedging frameworks and protocols to ensure that any hedging in our With Profits portfolios is carried out with appropriate regard to the interests of our customers, both in the long term and the short term. This includes the Treasury & Investment Office Inter fund transfer and allocation standard, which is also designed to help manage conflicts when these activities occur.

Asset owner vs internal asset manager

We also have a potential conflict with the internal asset manager, given that both entities are part of the same group. This conflict is managed by ensuring governance, operations and investment decisions are kept separate and independent, with the flow of information between the asset owner and the internal asset manager being carefully 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). The Chief Investment Officer straddles both businesses, as does a member of the Treasury & Investment Office ESG & Regulatory team. Support functions, such as human resources, legal, accounting, marketing, and risk & compliance are shared functions. However, the inherent conflicts of interest are managed in accordance with the Conflicts of Interest Policy and associated key controls.

We require that information sharing only takes place on those 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 asset owner's ESG Investment Policy and underlying positions on specific ESG issues.

Other, more general conflicts are managed on a case-by-case basis, drawing on the principles previously articulated, i.e. we aim to treat all customers as fairly as possible, aiming to deliver a fair outcome.

Outcome

We aim to continuously manage conflicts of interest by putting the best interests of clients and beneficiaries first through appropriate governance channels and compliance to our existing policies.

Case Study: Fee review process

Conflict management between policyholder and shareholder interests has been an important part of every Triennial Fee Review. Previously this was the case when allocating to managers within the wider Prudential group and this conflict remains post de-merger given our allocations to the internal asset management business within M&G. To manage the potential conflicts between policyholders and shareholders throughout the process (as required by the Fee Review Framework), a robust set of conflict management components have been put in place. These are in line with the process agreed three years ago and include:

- Engaging the Treasury & Investment Office Compliance Team when writing the Fee Review Framework – building on the framework developed with significant risk and compliance input 3 years ago.
- Selection of a third-party fee benchmarking provider to provide independent data following a full Request for proposal (RFP) process – a process involving assessments of proposals.
- Continuous engagement with the With-Profits Actuary (WPA) to ensure appropriate scrutiny and challenge.
- Full visibility of the framework, negotiation stances and negotiation outcomes for the EIC, With Profits Committee and PAC Board following the agreed governance processes.

In order to further manage conflicts, the asset manager Chief Financial Officer negotiated on behalf of the underlying asset managers and the Treasury & Investment Office negotiated on behalf of the asset owner, ensuring a clear division of responsibilities. This, alongside the above elements, ensured that any potential conflicts have been effectively managed throughout the Fee Review Process, leading to a fair outcome for policyholders.

See also the "Putting our Principles into Practice: PruFund Planet Case Study" at the end of the report.

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

The M&G Board ('the board') have ultimate responsibility for risk across M&G. To assist the board in discharging its responsibilities M&G has a comprehensive approach to identifying, measuring, managing, monitoring and reporting current and emerging risks (the risk management cycle), supported by an embedded risk culture and strong risk governance. The Risk Management Framework is designed to manage risk within agreed appetite levels which are aligned to delivering M&G's strategy for customers, clients and shareholders.

The board is responsible for instilling an appropriate corporate risk culture within M&G. M&G's approach to 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 customers and clients, stakeholders and the business.

M&G's Risk Committee supports the board in its risk activities, providing leadership, direction and oversight, and the Audit Committee assists the board in meeting its responsibilities for the integrity of our financial reporting, including obligations for the effectiveness of our internal control and risk management systems. The Remuneration Committee ensures that compensation structures place appropriate weight on all individuals adopting the required risk culture and behaviours. The system of internal control, including risk management, which supports the board and Risk and Audit Committees is based on the principles of 'Three Lines of Defence': 1) risk identification and management, 2) risk oversight, advice and challenge and 3) independent assurance.

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

ESG Risk Management

The identification, assessment and management of ESG risk is conducted in line with the M&G Risk Management Framework, with risk governance based on the 'Three Lines of Defence' model.

Recognising the complex range of risks that sit under ESG, M&G have developed a specific ESG risk management framework to further enhance the approach to the identification, assessment and management of ESG risks. The framework, which has been approved by the M&G plc Risk Committee in 2021, is intended to help inform, educate and communicate the importance of ESG risk across the business and consists of five core components: ESG risk culture, identifying and assessing ESG risk, managing and reporting effectively on ESG risk, embedding risk governance and protecting reputation.

The framework is supported by 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. The policy was developed in 2021 and went live in early 2022.

ESG risks are escalated within risk reporting provided to the Executive and Board Risk Committees, with further escalation to the board as required.

Asset owner

Market-wide and systemic risks

As asset owner we adhere to the risk management frameworks and processes, and Three Lines of Defence model established at the group level. As a significant investor across various products (including With Profits and Annuities), we have a responsibility to consider and meet the needs of all our customers. Everyone within the company is tasked with identifying, assessing, managing and reporting risks within their area of responsibility.

In line with the risk management frameworks, 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 solutions.

Our asset owner's 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. As our customers' and wider stakeholders' expectations, and the broad array of ESG issues, are dynamic, the policy does not prescribe the investment treatment of each ESG issue – instead it 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;
- We identify ESG theme and risk factors and incorporate them into our general risk management process; and
- We explicitly take into account various ESG factors when determining the risk and return assumptions that enable us to set our strategic asset allocations, mandate constructions and portfolio benchmarks. These ESG factors may change from time to time.

The asset owner's ESG Investment Policy can be found **here.**

M&G's Biodiversity position statement

M&G's Biodiversity Position Statement acknowledges biodiversity's significance for planetary sustainability and the need for a just transition towards more sustainable global production and consumption methods. It outlines M&G's approach to supporting biodiversity through its roles as an asset manager, an asset owner and a business.

Biodiversity is the variety of life on earth. It is a feature of healthy natural capital assets such as fertile soil and clean water, and helps nature's capacity to perform vital ecosystem services, such as purifying water, fertilising land, and pollinating crops. Biodiversity is therefore fundamental to human well-being, a prosperous society and a healthy planet.

As M&G's purpose is to help people manage and grow their savings so they can live the life they want while making the world a little better along the way, it seeks to manage and mitigate long-term risks like biodiversity loss and climate change for its customers, and to make a positive contribution to the environment and society. M&G's two sustainability priorities – climate change and diversity and inclusion – are both closely connected to the preservation of biodiversity and natural capital such as plants, animals, soils, minerals and ecosystems.

As an asset owner, on behalf of our policyholders and customers, we therefore:

- design our investment mandates to include consideration of the drivers and causes of biodiversity loss, as well specific mandates which directly support the transition to nature-positive outcomes;
- appoint asset managers that can screen and analyse investment strategies and portfolios for drivers and causes of biodiversity loss, identify risk mitigating investment actions, and engage with investee companies to bring about positive change;
- monitor the biodiversity impacts of mining, deforestation, pollution and carbon emissions;
- are willing to ask our asset managers to divest from investees which cannot or will not engage on this issue.

See the full statement **here**

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 (LTIS) Team recommends the asset allocation of the asset owner's fund ranges.

Market and systemic risks are integrated into the strategic asset allocation 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 for each asset class. Geographical coverage is built out using a country risk categorisation framework.
- **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 strategic asset allocation 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. One example was the Bank of England's Biennial Explanatory Scenarios (CBES) – see the case study.
- **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: Climate Biennial Exploratory Scenario (CBES) exercise

In 2021 M&G participated in the Bank of England's CBES exercise. This exercise required participants to model their assets and liabilities under a number of different climate scenarios. The desired outcome of the exercise were to 1) size financial exposures to climate-related risk; 2) understand the challenges these risk pose to business models and likely response; and 3) to assist firms in enhancing their management of climate related risk.

The asset owner has worked collaboratively with industry representative bodies such as the Association of British Insurers and other insurance peers to define response parameters, gather suitable data and standardise modelling approaches.

Overall, the exercise enables the asset owner to understand the climate risk embedded in its own portfolios better, and create better responses to mitigate these risks.

The results from the exercise will be published on an aggregated basis by the Bank of England in due course.

Work with other stakeholders to improve functioning of financial markets

Membership of and engagement with various industry initiatives allows us to gain understanding of the wider industry's thoughts on current relevant events.

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:

- The Association of British Insurers (ABI), which brings insurance and long-term savings industry peers together to discuss and respond to risks, policy and regulation. The Managing Director of Retail & Savings is a Board member of the ABI Board, and M&G have a standing representation on a number of ABI committees, working groups and networks, and are regular attendees at ABI conferences and roundtables.
- The CRO forum, which seeks to advance risk management practices within the insurance industry.
- The Investment Association, a trade body that represents Investment Managers & Investment Management Firms in the UK. M&G is a member of various committees and feed into their policy responses.
- The CityUK, which champions the UK-based financial and related professional services industry. M&G have been on the Leadership Council of CityUK and have had people speak at their events. M&G participate in their meetings with policymakers and sit on various of their committees.
- The Investing and Saving Alliance's (TISA), which 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 various committees and feed into their policy documents.
- The International Regulatory Strategy Group (IRSG), 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 many of their committees.
- The Net Zero Asset Owners Alliance (NZAOA), which drives industry best practice towards alignment with the Paris Agreement (see Principle 2 and 10).

The PRA is 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. Among systemic risk topics that M&G have engaged with the PRA on recently are climate change and Brexit.

Outcome

With the aim of promoting a well-functioning market, and safeguarding all of our key stakeholders, it will always remain a priority to keep abreast of the risks and challenges that our industry and organisation face. Whilst remaining abreast of the wide-range of risks our industry faces will remain an industry-wide challenge, our ongoing monitoring processes in our own and other areas of responsibility in combination with our expertise and ongoing dialogue with regulatory and industry bodies, allows us to meet our responsibilities, with appropriate integration of such risks and factors within our investment activities.

Case study: Asset Owner Thermal Coal Policy

As outlined in Principle 1, and aligned to our M&G commitments, the asset owner's ESG priorities, including in the engagement space, are 1) to invest to mitigate the effects of climate change and 2) to improve diversity and inclusion within the asset managers that it appoints.

To achieve our net zero carbon emissions target across our asset book by 2050 and help keep the earth's average warming within the Paris Agreement's temperature targets we apply restrictions to coal related investments. The asset owner adheres to the M&G Thermal Coal position which is aligned to the requirements of the Powering Past Coal Alliance (PPCA), of which we are a member. Additionally, the asset owner includes the NZAOA Position on Thermal Coal, as well as applying its own respective thresholds and timelines. Companies that fail the asset owner coal screen and have no credible plans to alter their business behaviours to adhere to our policy, will be excluded from our asset book. Phase out requirements are staggered, with companies based in EU/OECD nations required to phase out coal by 2030, while non-EU/OECD based companies have until 2040. As such the latter companies may be afforded more time to adhere to our policy and to publish phase out plans. We will also continue to invest in companies where we believe our engagement process bears results, with these companies reducing the extraction of thermal coal and the use of coal to generate electricity from their operations, to the levels allowed by the PPCA's requirements.

M&G's position on Thermal Coal can be found **here**.

Principle 5: review, assurance and assessment

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

Asset owner

Review of policies and assurance of processes

We have considered what effective stewardship means in the context of our investment processes. Principles of stewardship are integrated into our overarching framework for investments, and into our asset owner's ESG Investment Policy. These require us to take a long-term approach and consider wider impacts than just financial risk and returns.

All asset owner ESG and stewardship related policies, including the asset owner's ESG Investment Policy, the asset owner's Shareholder Engagement Policy and asset owner's Voting Standards, are subject to thorough governance review processes to ensure these are and remain accurate and appropriate. These are also aligned with the policies of the internal asset manager, where possible and applicable, in line with the "One M&G" ethos outlined in Principle 1.

The first version of the policies are approved by the PAC Board or a relevant sub-committee (e.g. EIC). The policies are refreshed at least annually, with any changes proposed as a result of the refresh requiring approval at the EIC. The EIC may also escalate any changes the Chair deems material to the PAC Board for final approval.

Across the review process for each policy, input and oversight is sought by Risk & Compliance to ensure appropriate 2LoD oversight has been conducted (see Principle 4). The Risk & Compliance function will review all documents subject to review at the EIC and draft a respective risk opinion.

Where documents require or are subject to disclosure, review is also sought by the appropriate governance, including review by the M&G ESG Disclosure Panel and the M&G Management Disclosure Committee. This ensures an additional level of assurance that the reports are appropriate for external stakeholders.

Stewardship Assurance

We report periodically to a number of asset owner company boards (as well as to our With Profits Committee and Independent Governance Committee) on our oversight responsibilities.

As indicated in the Introduction, our stewardship report has undergone extensive review to ensure disclosure of accurate information, and that the overall report is fair, balanced and understandable. This includes engagement with and reviews undertaken by Risk, Compliance and Marketing Compliance, as well as reviews at several different levels (at team level, and again at executive level, including at the EIC) before being submitted to the board for review and approval.

Policies and reports that are submitted to the EIC and PAC Board for review and approval, including the stewardship report, include consideration of the respective customer outcomes and implications, providing an additional layer of assurance that the reports are considerate of our stakeholders (and are hence fair, balanced and understandable).

In 2021 we continued to provide ESG, sustainability and stewardship reporting to our With Profits Committee and Independent Governance Committee. These bodies represent the interests of with-profits customers and corporate pensions customers respectively. We continue to aim to meet our stakeholders' requests and expectations, and following feedback we have shifted from measuring the stewardship activity to measuring the results of the engagement and inherent proposed changes.

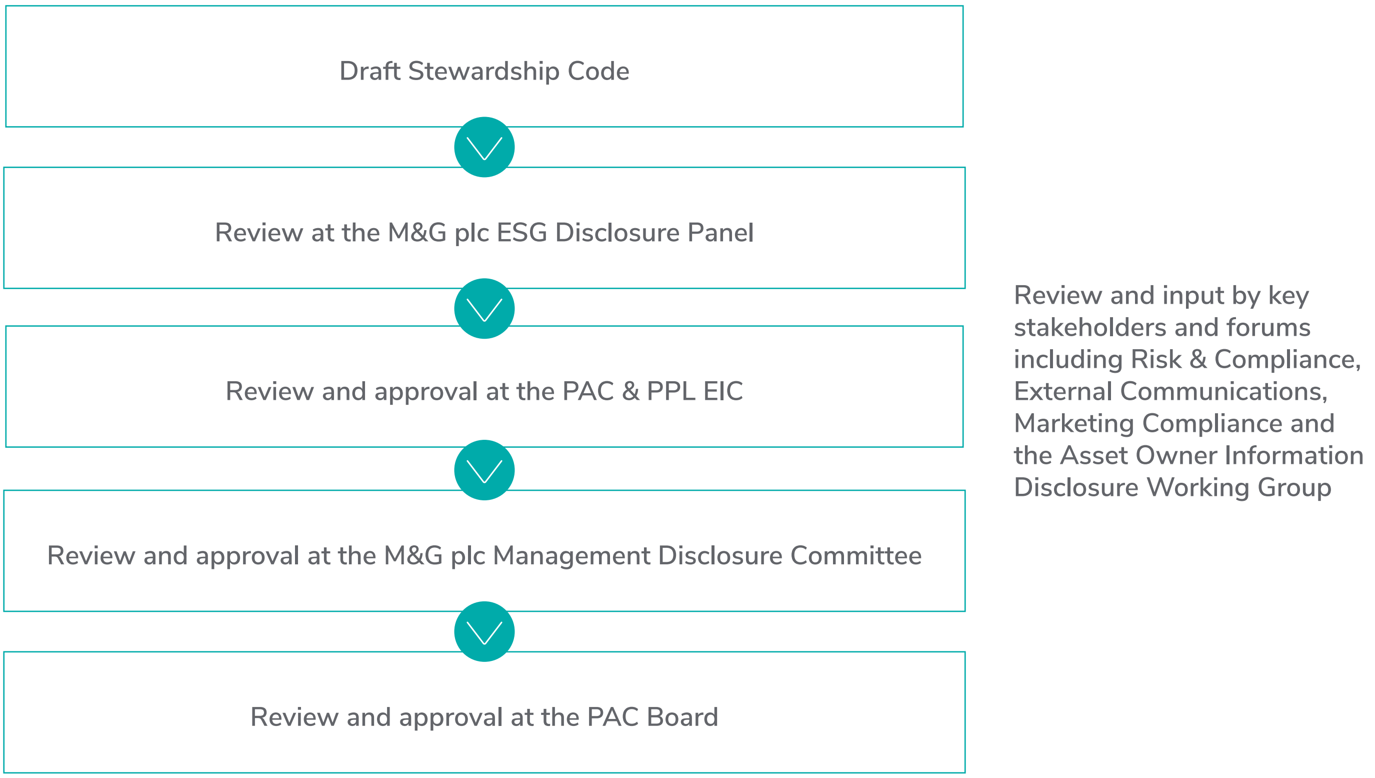


Figure 4: High-level overview of the review process undertaken for the PAC Stewardship Report 2021

Outcome

Our stakeholders, including board directors, are requesting reporting on stewardship matters that are increasing in complexity and scope (for example, engagement is a multi-year process and the criteria to determine whether engagement has been successful is not well-defined and often subjective). Despite these challenges, we endeavour to meet these requests and ensure we continue to meet our stakeholders' needs.

Following our first submission in 2021 and feedback from the FRC, and with the aim of ensuring ongoing effective reporting, the asset owner now has a fully-documented process for the production and approval of this report, including explicit detail on the key stakeholders that need to be engaged, and the required governance path for approval. Whilst in principle the same approach has been undertaken for all other reports and policies, the asset owner will be formalising this process by constructing a clear project/governance plan.

We always aim to improve our assurance practices with respect to our stewardship activities. To provide ongoing internal independent assurance the stewardship code has been added to our internal audit library – to be audited on a cyclical basis as part of our multi-year risk based audit plan of coverage. We will also aim to seek external assurance for future iterations to ensure an additional layer of assurance review is undertaken.

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 2021, were £370.0 billion.

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

For the year ended 31 December 2021 (£bn)	Total
UK	299.9
Europe	48.3
Asia-Pacific	9.5
Middle East and Africa	11.0
Americas	1.3
Total assets under management and administration	**370.0**

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 £370.0 billion (2020: £367.2 billion) is £7.9 billion (2020: £6.5 billion) of assets under advice.)

Asset owner

Financial overview

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

With Profits	£143 billion
Unit-Linked	£16.1 billion
Shareholder-backed annuity and other	£24.5 billion
Other AUMA	£3.7 billion

Source: M&G Annual Report and Accounts 2021 (other AUMA is a subset of reported figures [see also below table]); note numbers are on a group basis.

PruFund's (the investment solution offered to customers of both Wealth and Other Retail and Savings) assets under management and administration equated to £58.4 billion.

The asset owner's total number of in-force policies as at March 2022 was 4,941,512 (this excludes heritage PIA and Rothesay annuities).

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

For the year ended 31 December 2021 (£bn)	With Profits	Unit Linked	Shareholder backed annuities and other long-term business	Other AUMA
Equity Securities and pooled investment funds	72.4	10.7	–	–
Debt Securities	42.6	3.3	18.2	–
Loans	1.4	–	2.2	–
Deposits	11.9	1.3	1.0	–
Derivatives (shown net of derivative liabilities)	1.4	–	(0.6)	–
Investment property	9.4	0.1	1.1	–
Reinsurance assets	–	0.2	1.5	–
Cash and Cash equivalents	2.5	0.2	1.0	–
Other	1.4	0.3	0.1	–
Total	**143.0**	**16.1**	**24.5**	**3.7**

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 2021

Meeting customer needs

The key customer for the asset owner are UK financial advisers, who account for approximately 95% of our new business.

Through engagement with IFAs, policyholders and via third parties, we continue to build and evolve our understanding of customer needs, expectations and views: the primary tools used are surveys and forums. Seeking input from both IFAs and end customers allows us to gain the perspectives of both professionals and members of the public, creating a more complete understanding. IFA insights also allow us to tap into the expectations and views of their underlying 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 customers.

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

We understand our customers have differing requirements when it comes to accessing information, and we aim to tailor our approach to our customers wherever possible. Our website is just one avenue through which our customers 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 header on our main website, and includes applicable policies, reports, and information. This includes access to M&G's Sustainability Report, which outlines M&G's commitment to putting sustainability at the heart of everything it does and M&G's ten-point Sustainability plan (find M&G's 2020/2021 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 customers and have increased information availability, both in general and for ESG matters specifically, through new written material, WebEx's and regular meetings.

With the aim of increasingly providing additional information to our customers, in 2022 we will be publishing the first edition of our With Profits Fund Stewardship Report. This will be available to all customers and will include digestible information on how we look after our clients' money.

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. At M&G we take a long term approach to investing because we believe this yields the best outcome for our customers.

Our With Profits portfolios are invested on a medium to long term time horizon in line with our strategic asset allocation, utilising 5-10 year projections and assumptions (this is communicated to our customers 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 customers' financial needs. Broadly, our With Profits customers only bear a portion of the investment risk due to the impact of smoothing and guarantees, and the most appropriate time horizon for most customers to be exposed to investment risk is for the medium to long term. We believe that equities are a good asset to invest in to capture medium and long term returns, as investing a major proportion of our With Profits portfolios in equities allows us to capture the equity risk premium over the medium to long term, whilst at the same time retaining flexibility to make meaningful tactical decisions over a shorter time horizon.

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 customers investing for the long term. We believe that our customers select those funds because they believe in our investment approach. Investment into equities is a core part of our investment strategy, as we believe that equities are good assets 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.

Outcome

At M&G and within the asset owner we believe in putting clients first and ensuring they are able to live the life they want. We believe that being mindful of our customer needs and taking these into account in our activities, including establishing appropriate time horizons and disclosing information when required, is a key element to our business principles and in driving our own success.

Balancing financial performance and non-financial issues is situation specific, but we have made and continue to make judgements on these taking both into account (as exampled by our asset owner's Thermal Coal Policy (see Principle 4)). We continue to assess the need of customers with respect to their financial and sustainability preferences, with consideration on how we can support a liveable planet, in line with M&G's sustainability principles (see Principle 1) and underlying sustainability position statements (**Just Transition** and **Biodiversity**) and our asset owner's ESG Investment Policy and underlying principles.

Meeting customer needs through new investment propositions

In our 2020 Stewardship Report we noted how the asset owner had carried out market research to ascertain the appetite for sustainability investment products within its target customer groups, including the desired level of sustainability and ESG integration.

Based on the insights from this research, the asset owner designed a new suite of investment propositions based on its PruFund range that incorporates various sustainability objectives to meet customer demand appropriately: the PruFund Planet Range. See the "Putting our Principles into Practice: PruFund Planet Case Study" at the end of the report.

In 2021 M&G also announced its With-Profits Fund would allocate up to £5 billion into privately-owned enterprises working to create a more sustainable world. Part of the long-term savings of the asset owner's customers would be channelled into meeting the rising global demand for capital from innovative responsible enterprises which are currently underserved by providers of institutional finance. See the full press release **here**.

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

M&G takes its responsibilities as long-term stewards of customers’ and clients’ money seriously and believe that long-term investment returns are underpinned by good governance and sustainable business models. M&G subscribes to the UNPRI-endorsed definition of ESG integration as being the explicit and systematic inclusion of ESG factors in investment analysis and investment decisions. Implementation of these principles rests on three pillars:

1. Integration of ESG issues into investment research;
2. Integration of ESG issues into investment decision making and portfolio construction;
3. Periodic ESG portfolio review.

In line with its sustainability strategy and commitments, M&G, including the asset owner, have identified the following key priorities in the ESG, sustainability and stewardship space: Climate change & Diversity & Inclusion (see Principle 1 for further detail). These key ESG areas are integrated within our investment and stewardship responsibilities, as outlined in Principle 4 and illustrated in the respective case studies.

Asset owner

Ensuring integration

Our Treasury & Investment Office team creates asset allocations and investment strategies to meet specific product requirements, delivering a required investment outcome to customers in line with the product risk level. These investment strategies have to be managed by a suitable investment manager that is capable of managing all risks, including ESG risks, appropriately and at the desired cost. The Manager Oversight team also seek to identify top quartile managers with the conviction that they will be able to generate return for policyholders on a forward looking basis.

We rely on the asset managers we appoint to exercise appropriate stewardship and to manage ESG risks on our behalf. To this end, we only appoint asset managers that we judge as capable of doing this.

The investment mandates awarded by the Treasury & Investment Office specifically reference time horizon, target return and desired risk levels for each manager. Specific ESG and stewardship requirements and restrictions are also specified, especially where a product may have an explicit ESG tilt or strategy.

As disclosed in Principle 2, Manager Oversight also actively work with the managers to develop strategies that suit the needs of the asset owner. All asset managers are required to have appropriate ESG and stewardship policies, which are assessed for alignment with the asset owner’s ESG Investment Policy. This is a key consideration when assessing asset managers – indeed, an asset manager whose ESG policy does not align, or would not deliver the relevant stewardship requirements, would not be appointed. These ESG policies are reviewed regularly to ensure that they continue to align with the asset owner’s requirements, which in turn continue to evolve and improve.

These considerations form part of the Manager Oversight team’s due diligence processes, which encompass all aspects of working with a particular investment manager. When assessing our mandates we set clear expectations on ESG and stewardship factors alongside financial performance factors, with a view over the longer-term. If our asset managers are seen to fall short of these expectations, we will consider withdrawing the mandate, but only after having engaged with our asset managers to enact the changes we believe are necessary for effective stewardship and performance.

In extremis, it may be that an investment mandate is withdrawn from a particular manager, if the manager is unable to manage it in accordance with the asset owner’s requirements (including ESG and stewardship requirements), and placed with a new manager that has the appropriate capabilities.

All equity asset managers are required to provide voting records, including examples of when they have voted against management. In addition, asset managers are required to provide examples of engagement, where they have worked with a company to influence its behaviour and create an improved ESG outcome. These datapoints enable the Manager Oversight team to assess the effectiveness of the manager's stewardship and ESG risk management on an ongoing basis.

Stewardship activities extend beyond equity, and we are keen to ensure these factors are reflected across all mandates, asset classes and geographies. For fixed income, opportunities for effective stewardship are less common given the lack of engagement channels such as shareholder voting, although we do expect our managers to engage as appropriate. For other asset classes such as property and alternatives, formal avenues for exercising stewardship are replaced by more informal methods of discussion given the nature of the investment class.

Case study: Integrating ESG

Over 2021, Manager Oversight conducted a universe assessment and selection process for US Large Cap Equity. This included a process involving assessments of proposals received and virtual meetings with investment teams and senior management to identify a short-list of potential managers. Early on, it was identified that ESG capabilities and integration would be a key comparative advantage going forward for US Equity managers and therefore strength in this area would be a requirement for any manager we selected. As a result, during the selection process, multiple managers were excluded from the final shortlist, with a weakness in ESG being a key driving factor.

See also the "Putting our Principles into Practice: PruFund Planet Case Study" at the end of the report

Principle 8: monitoring of service providers & asset managers

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

Asset owner

Monitoring of service and research providers

As referenced in Principle 2, we rely on data provided by asset managers and third-party data providers to carry out our ESG and stewardship activities. To ensure service providers continue to provide appropriate services to our business we hold regular meetings to review the quality of their services and data provided. Research providers are monitored and scrutinised for accuracy, and we hold regular meetings to understand new functionality or to suggest areas we think can be improved, and have regular dialogue to query any issues which arise during the year. M&G has a central team to act as a formal point of contact for our service and information providers.

Monitoring of asset managers

The Shareholder Rights Directive (SRDII) establishes specific requirements to encourage shareholder engagement and it is the asset owner's responsibility to work closely with our asset managers that engage with investee companies on our behalf.

In 2021 the asset owner conducted its second annual SRDII review (see findings below). The SRDII review covers all equity managers of segregated and pooled accounts, where policies, voting record, engagement and incentivisation are scrutinised. As part of this responsibility, our Manager Oversight team review our funds on an annual basis to monitor and ensure that our underlying managers are aligned with the asset owner's 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 manager to decide on the most effective route of engagement.

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

Outcome

The second SRDII review included 135 funds with direct equity holdings that are managed by 31 different asset managers, including segregated mandates and collectives managed by the internal asset manager alongside a number of collectives managed by external companies. Details of key findings from the review are disclosed in the case study.

Following the 2020 review, a number of changes were made to the questions as a result of the variety of responses received and due to the changes in requirements. These amendments helped enhance the process and improve the quality and relevance of data provided by managers. Following a review of this year's process, changes will also be made to the next questionnaire to take into account any areas of ambiguity with asset manager responses, for example the tolerances applied to changes in turnover and transaction costs. Further conversations will take place with the asset manager to improve the provision of data (for example, consistency and relevance) and reduce the burden it places on the teams within the business.

Discussions on voting and engagement are now part of the quarterly due diligence meetings that are carried out by the Manager Oversight team with asset managers. 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.

Case Study: Findings from the 2021 Shareholder Rights Directive II

Key findings of the 2021 SRDII showed that, in general, responses were aligned with expectations of the 31 in-scope managers. As a result the majority of ratings assigned were either 'Positive' or 'Neutral' at an overall level. Manager Oversight found the following regarding the key areas assessed as part of this second SRD II annual review:

- There was a variance in the level of detail provided regarding the ESG and shareholder engagement policies of in scope firms, although the variance was less compared to the 2020 responses. We considered this as a key metric for our assessment. In general, managers which provided less/no information for both assessment cycles would be rated as negative, while managers which 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. The details provided by one asset manager were insufficient to rate this key metric and as a result follow up work is being carried out with this manager.
- Voting engagement tended to be very high, with few managers falling below a threshold of 85% participation of eligible votes. As a result most managers scored very highly in this area, with two exceptions (see Principle 12).
- 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); we note that Social issues tended to feature less frequently on managers' engagement agendas. For example a 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).
- In general the remuneration of managers was in line with expectations, with incentives linked to performance and therefore aligned with the best interests of customers.

Principle 9: engagement

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

Asset owner

Engagement policy

To fulfil our fiduciary and stewardship duties to all our customers, 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 customers’ long-term savings and financial security.

Our asset owner’s Shareholder Engagement Policy (**pru.co.uk/srdii/**) and asset owner’s Voting 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.

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 (which are regularly reviewed to ensure they are aligned to our asset owner’s ESG Investment Policy), 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.

Improving diversity & inclusion – We believe that consideration of ESG will enable a transition to a fair economy and ultimately enhance the value of assets of our stakeholders. In alignment with our ESG priority of Diversity & Inclusion and the UN Sustainable Diversity Goal 7 (Gender Diversity), we sought to improve the gender diversity of the Board of a manufacturer group via the internal asset manager. In 2021, the internal asset manager sent a letter to the company CEO prior to the annual general meeting (AGM) communicating that the current Board composition of the organisation did not align with our gender diversity expectations. Our internal asset manager, on our behalf as their largest client, and third-party clients, then voted against the Nominating Committee Chair at the August 2021 AGM.

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.

Asset managers should actively participate in shareholder voting on our behalf (in line with our asset owner's Voting Standard where relevant) 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 investment managers to vote on our behalf, we require them to make voting decisions in the best interests of our customers. When determining how to vote, an investment manager should assess the impact on the value of the investment and the long term interests of our customers. This voting approach should focus on supporting real world 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 customers live. Managers should have a voting policy in place and declare any Proxy Voting Service providers utilised.

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. While the purpose of the portfolio is to recreate the financial return arising from the benchmark index at a minimum cost, we believe effective stewardship improves companies' financial performance and hence investment returns, for both passive and active portfolios.

Portfolio monitoring

As part of this responsibility, our Manager Oversight team review our funds on an ongoing basis to monitor and ensure that our underlying asset managers are aligned with the asset owner's 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 manager to decide on the most effective route of engagement.

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 ensures suitable oversight and prompts further engagement when deemed necessary.

Outcome

We continue to engage with asset managers to ensure we meet our customer needs and enhance the value of their assets.

Case study: engaging with asset managers

- We engaged with a UK manufacture to improve their public disclosures on remediation efforts and community engagement processes. We are satisfied that our concerns have been adequately addressed. We are also comfortable that the remediation efforts are underway to re-establish a good relationship with their local community.
- A Brazilian company was aiming to improve board composition and requested support to one of our asset managers to help with female candidates, with one of the analysts suggesting a female executive to potentially join the board. The company is currently in the process of considering candidates for the board roles.

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 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 customers, 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 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.

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 NZAOA	We joined the UN-convened NZAOA in 2021, the global institutional investor group acting to help limit global warming to 1.5 degrees in line with the Paris Agreement.	Member
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 focuses investors, companies and governments on measuring and acting upon their environmental impact. We responded to the CDP annual survey in 2021 as a joint entity alongside the internal asset manager, in recognition that measurement and disclosure is one of the first steps to improving on our performance with respect to emissions and other climate related factors.	Signatory
UN-backed Principles for Responsible Investing (UNPRI)	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+	On behalf of 617 global investors, M&G Investments co-leads active engagement with three companies on the Climate Action 100+ list of the world's largest corporate greenhouse gas emitters: miner Rio Tinto, chemicals company BASF, and auto maker VW.	Signatory

Race to Zero	M&G joined Race to Zero in September 2021, the global alliance of businesses, investors, cities and regions committed to achieving the Paris goals on climate, in line with its goal to achieve net zero carbon emissions across its investment portfolios by 2050.	Member
30% Club	M&G is a member of the 30% Club, a campaign group seeking to increase gender diversity on boards and senior management teams. We hosted the first 30% Club meeting of 2020, where we talked through progress made by various workstreams, including the FTSE 350 letter campaign for 'one and done' boards, all male executive committees and those companies at less than 30%.	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.

Case study: Working with the NZAOA towards our climate change priority

We joined the NZAOA in 2021, working alongside 68 institutional investors towards the joint goal of aligning portfolio's with a 1.5°C scenario in accordance with the Paris Agreement.

This collective engagement aims to drive the development of industry best practices and the catalysation of global economy decarbonisation. The Alliance works in tandem with initiatives including Climate Action 100+, 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.

As an asset owner, this involves engaging with our 20 top emitting companies, or those responsible for a combined 65% of owned emissions, setting sector targets and contribution towards promotion of both sector policies to accelerate decarbonisation and the energy transition, and mandatory climate reporting and business transition plans from investee companies.

We continue to actively engage with the NZAOA, joining the workstreams' monthly calls and engaging in ongoing discussions aimed at facilitating and progressing our NZAOA objectives.

Case study: Engagement with a German Chemicals Company

As outlined in the Principle, we delegate engagement responsibility to our asset managers on behalf of the asset owner. Our internal asset manager is a co-lead on various companies to support the CA100+ objectives; an active member of working groups on energy and chemicals companies; and it sits on the Corporate Programme Advisory Group, which helps set future CA100+ priorities.

In 2021, the internal asset manager met with a German chemicals company to urge the firm to agree to a net zero carbon target by 2050 for scope 1 and 2 emissions, and a reduction in scope 1 and 2 emissions by 2030. Having previously resisted disclosure of more ambitious targets, the organisation announced its 2050 net-zero target during its capital markets day in March 2021.

As we moved through 2021, the internal asset manager's conversations with the organisation continued. The company, and the chemicals sector as a whole, continues to face challenges in measuring and setting targets on scope 3 emissions. The organisation has remained ambitious and committed to reducing all emissions, but faces significant difficulties accounting for scope 3 downstream emissions and end-of-life treatment of products. In addition to highlighting the actions to reduce scope 1 and 2 emissions, the focus of their engagements has been around encouraging the company to articulate its strategy to quantify and influence the remaining emissions going forward, and disclose what scope 3 details it has available.

Principle 11: escalation

'Signatories, where necessary, escalate stewardship activities to influence issuers'

Asset owner

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

Our favoured approach to engaging with investee companies is active ownership practices such as shareholder voting, rather than restricting investment opportunities through exclusion. Any engagement or escalation of stewardship activities is done through the relevant asset managers, which we rely upon to carry out engagement activities on our behalf

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 higher impact engagement such as voting and exclusions, to reach the asset owner's desired outcome.

Our asset owner's 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 investment manager may vote against a company's management at a general meeting to help drive the required change.

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. This is done only where deemed appropriate and where we believe the action is likely to succeed.

Our priorities

M&G has identified two ESG priorities, climate change and diversity & inclusion. These have been identified given their importance for the long-term sustainability of our environment, businesses and society as a whole. In line with these priorities, policies have been implemented across the asset owner and the internal asset manager to ensure alignment with these goals and to set out clear objectives for escalation.

For example, our Thermal Coal Policy (which is consistent with the M&G 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 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, outlined in our asset owner tobacco position (see our corporate website for more information). We believe tobacco investments are inconsistent with our asset owner ESG principles as these lead to societal issues and expose our customers 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.

Outcome

See the case study for an example of our escalation activities, in line with the expectations detailed above.

Case Study: Engagement with an investment holding focused in the development and operation of Power Plants

The asset owner may seek to escalate stewardship activities to influence their managers and subsequently the underlying issuers. To achieve our net zero carbon emissions target across our asset book by 2050 and help keep the earth's average warming within the Paris Agreement's temperature targets we apply restrictions to coal related investments (see case study in Principle 4). Our asset owner's Thermal Coal Policy seeks to strengthen our stance on thermal coal linked holdings, expected engagement, and where required, divestment thresholds.

The internal asset manager engaged with an investment holding company that invests in, develops, operates and manages power plants and coal mines. Given substantial association with thermal coal power generation, the subsidiary was flagged by our asset owner's Thermal Coal Policy. The holding was subsequently reviewed in line with our requirement of having either a credible plan to end coal mining, or a pathway to transition below the aforementioned thresholds. Despite significant coal generation revenue, the company is one of the largest global investors in renewable energy. Given a willingness to transition, with a proposed 50% capacity from renewables by 2025, and an openness to engagement and open dialogue, escalated engagement rather than divestment was seen as appropriate, although the holding is undergoing ongoing review with active consideration of thermal coal generation activities.

Through escalated engagement and active communication, the company has improved / increased its disclosures, with submissions being made to the Voluntary CDP, and the convening of a Net Zero committee to develop a roadmap to Net Zero. 80% of the company's CapEx in 2021 was committed to renewable projects and the organisation have publicly stated their emissions will peak by 2025. The company have yet to publicly commit to coal phase down or specific emissions reductions targets, but it has founded an internal task force to focus on these matters. Whilst there is evidently further progress to be made, and a clear requirement for ongoing review given current power generation, escalated engagement has thus far proven fruitful to the target of Net Zero alignment.

Note the case study refers to a 2021 holding.

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 and 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 customers. We therefore appoint asset managers that positively influence corporate behaviour where appropriate.

To ensure a consistent and clear stance, we have formulated an asset owner's Voting Standard, which provides supplementary details specifically on voting. The Standards sits underneath the asset owner's Shareholder Engagement Policy, and both act to guide our managers on our expectation of 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. Managers should align voting to support real world outcomes such as climate change and inequitable social structures, factors that threaten the long term performance of our portfolio's and wider society.

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 our asset owner's Voting 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 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 customers, and aligns with the asset manager's position on sustainability, which in turn should support the asset owner's ESG priorities and targets. Additionally, our 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 managers as appropriate.

Note that as part of the annual review process we will aim to update the asset owner's Voting Standard to include specific references to stock lending.

Customer alignment

Across segregated or pooled mandates, we trust our managers to vote on our behalf in line with our customers' 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, the asset owner will evaluate the outcome of the directed shareholder vote and instruct further action if required, including divestment, if appropriate. As part of our ongoing manager oversight activities, we influence our managers' stewardship to align more closely with our policies 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 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

See the below case study for an example on how we exercise our rights and responsibilities.

Case study: Voting engagement

The level of active engagement of our underlying managers is monitored formally on an annual basis. In the 2020 SRDII annual review we noted that voting engagement tended to be very high, with only two managers falling below a threshold of 85% participation of eligible votes, resulting most 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 managers to understand the reasoning for the low score. Through these interactions, the asset owner will continue to engage with these managers in the hope to influence their behaviours and improve their record above 85% in the future. Details of these engagements are included below:

- Manager 1 (62%) – The manager has been rated as negative due to the low engagement ratio. Although we note a slight improvement in engagement (from 53% in the 2020 review), it is still insufficient to rate the manager positively. The 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, our only exposure is to the manager's UK equity funds and for these funds the manager voted on 100% of the eligible votes. As a result, there is no impact upon us and no further action is required.
- Manager 2 (65%) – This manager has clarified that it currently votes on all active UK and International and passive UK holdings. Since they do not vote on International passive holdings unless they are also held actively, the majority of the eligible votes that were not cast fell in this category. The manager has advised that it has been voting on these International holdings during 2021 and informed about the improvement in voter engagement (almost 98%) which shall reflect in next year's numbers.

Putting our Principles into Practice: PruFund Planet Case Study

The following case study provides a real life example on how we adhere to our stewardship practices, in line with the Stewardship Code and its respective principles, through the launch of our PruFund Planet fund range.

Our Purpose and Values

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

To help us deliver on our purpose, values and sustainability ambitions, as outlined within Principle 1, we launched PruFund Planet in the summer of 2021, the first ever fund range for UK savers that aims to deliver smoothed returns alongside positive environmental and societal outcomes.

Fund Development

PruFund Planet is a range of five funds that seeks to deliver positive environmental and societal outcomes, with similar returns, volatility and cost-to-customer as our existing PruFund range. The fund benefits from the smoothing investment experience integrated into the flagship PruFund product and is targeted at clients who want to know their savings are creating positive outcomes for the environment and society.

During development of PruFund Planet, in keeping with the One M&G ethos and in line with Principle 2, a collaborative approach was taken across the asset owner to bring the funds to life. This included collaboration with our Long-Term Investment Strategy, Manager Oversight, Portfolio Management, and ESG & Regulatory teams, and engagement across a multitude of other key stakeholders, including but not limited to Strategic Change, Risk and Compliance and Client teams.

The 'Better Health Solutions' (see later in the case study) was built in consultation with M&G Investments, whilst collaboration was sought with BlackRock to build our bespoke passive solutions, and Wellington to manage GIB against bespoke benchmark to better meet the Strategic Asset Allocations.

Fund and Investment Structure

The funds invest across our spectrum of positive outcomes from protecting to improving the planet, covering areas such as clean technology, renewable energy and social enterprise. PruFund Planet not only integrates responsible investing, but also invests in ESG opportunities that address societal and environmental challenges (often for under-served or disadvantaged groups) whilst aiming to generate competitive financial returns. The strategies that we have invested in through PruFund Planet are assessed against three types of outcomes as defined in our Treasury & Investment Office ESG Product Framework: ESG Risk Focused, Opportunity Focused, and Solution Focused.

ESG Risk Focused

Protecting the planet

Managing ESG risks, and seeking to minimise negative outcomes for stakeholders

e.g. through negative exclusions or considering ESG risks when fundamentally appraising investment opportunities (i.e. integrated into processes)

E.g.

- Strategies integrating ESG risks into investment analysis
- ESG – screened funds
- commercial property funds in planet

Opportunity Focused

All deliver positive outcomes

Pursuing ESG opportunities, and seeking to create positive outcomes for broad stakeholders

e.g. by actively looking for ESG opportunities, selecting companies believed will outperform the market because they operate in a more sustainable way than peers over time

E.g.

- Strategies targeting an ESG outcome

Solution Focused

Improving the planet

Contributing to solutions, and seeking to create positive outcomes for underserved stakeholders

Using capabilities to contribute to solutions to pressing social or environmental issues

E.g.

- Fund targeting specific societal/ environmental issues and focusing on investing in business models that provide solutions to these

Figure 1: PruFund Planet outcomes

The positioning of these three investment outcomes against the Impact Management Project's spectrum of impact is illustrated in Figure 2. The figure shows how PruFund Planet looks to invest client's money to create positive outcomes, whilst emphasising the fact that we don't believe a trade-off in financial returns is required to achieve this.

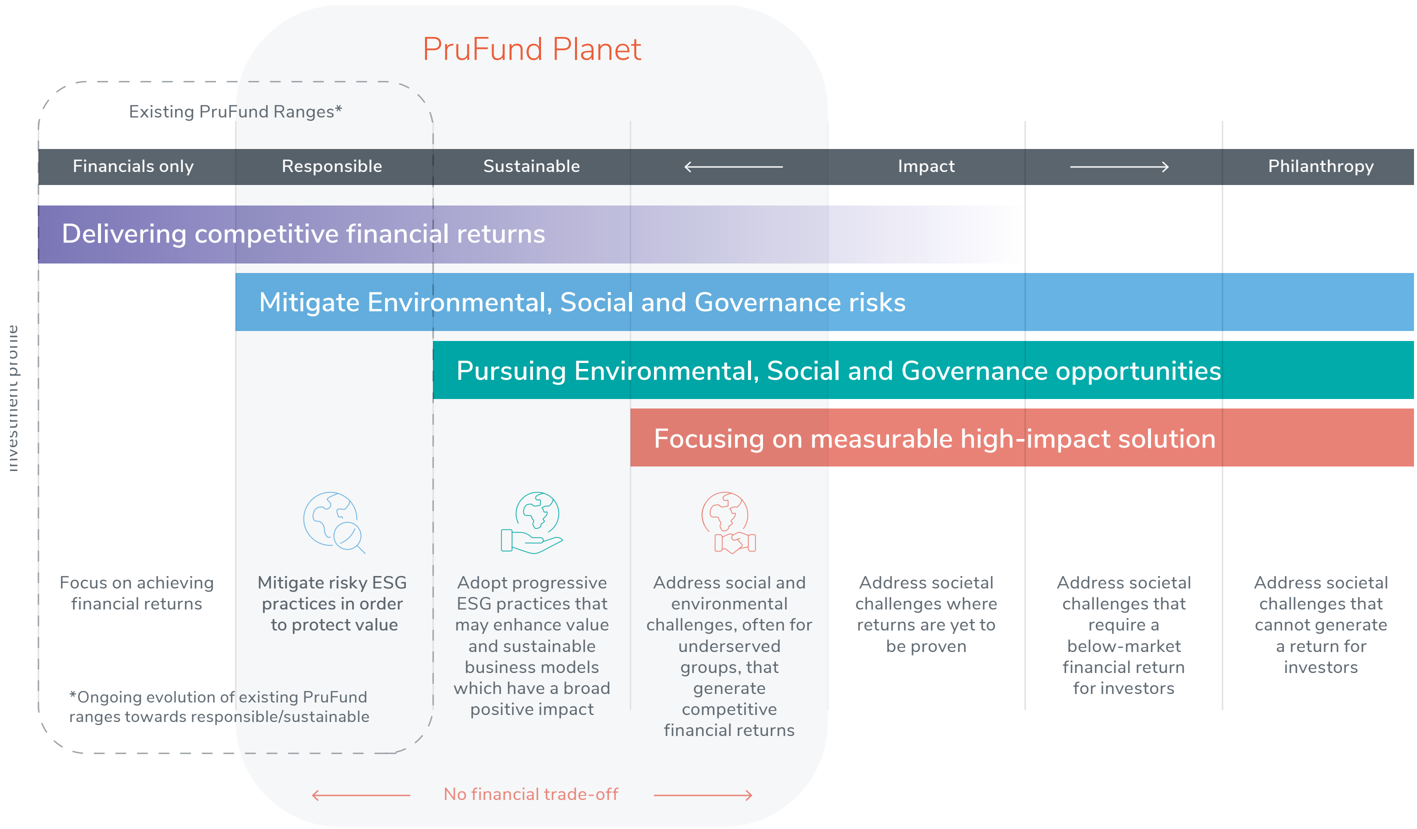


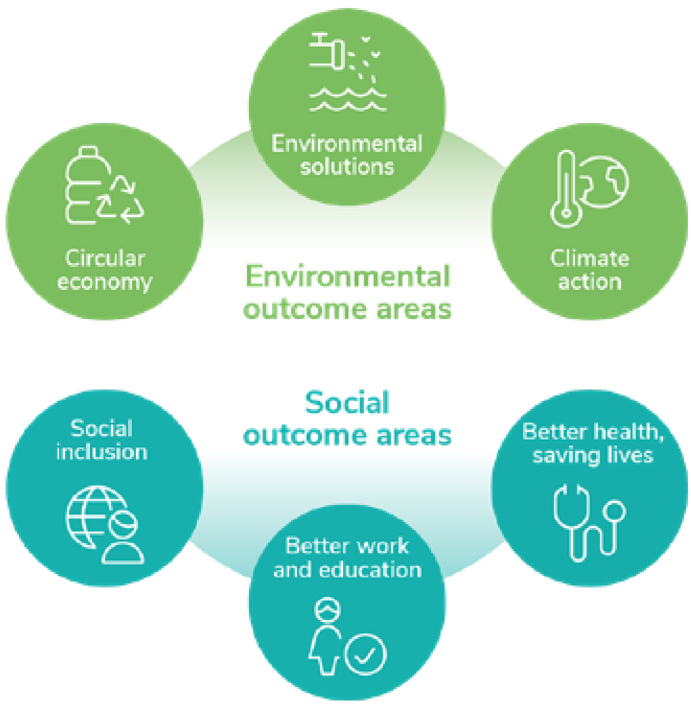
Figure 2: PruFund Planet investment spectrum positioning (source: Impact Management Project)

PruFund Planet looks to broadly and systematically target six different environmental and social areas to create positive outcomes for both the client and the planet, in line with the context denoted in Principle 7, as outlined in Figure 3.

A thematic approach is utilised to assist in targeting these environmental and social areas, with a range of mandates seeking specific outcomes such as Better Health and Gender Equality.

PruFund Planet is brought to life through exposure to six core asset types: Equities, Fixed Income, Property, Alternatives, Tactical Asset Allocation and Cash. As in PruFund, these provide investors with a diverse global exposure across both public and private markets.

Figure 3: Core environmental and social outcome areas



Manager selection and conflicts of interest

Prior to and during product development, the asset owner worked to identify high quality existing solutions that were suitable for PruFund Planet, whilst working alongside the internal asset manager to identify high quality internal propositions. A small number of market leading external strategies were also identified to partner with, which we believe has enhanced the credibility of the product. The asset owner continues to identify, develop and seed new or existing high quality strategies on behalf of our customers.

To ensure appropriate oversight and a consistent approach to allocating capital, assessing mandates, and in managing conflicts of interest (specifically between the asset owner and the internal asset manager), we adopted the respective well-defined framework which is utilised on an ongoing basis. This ultimately ensures all mandates are awarded in the best interests of our clients, as expressed in Principle 3.

Ensuring appropriate due diligence

The asset owner regularly evaluates the suitability of all managers on merit, including an assessment of performance, the quality of the proposition and the conviction in the manager's ability to deliver positive returns. Ongoing due diligence is performed to ensure continued alignment, and the asset owner reserves the right to make changes to the underlying manager allocations should our conviction change and where it is felt this will achieve the best outcome for our customers. Importantly, managers are evaluated in line with their classification as either a Risk, Opportunity or Solution Focused fund to ensure a fair evaluation assessment of engagement and fund management. This enables us to hold our managers to account, in line with Principle 8.

Prior to initial selection and onboarding, a thorough Investment Due Diligence process is performed to evaluate the merit of all potential mandates, and includes an assessment of eight key areas that allow us to form a view on the funds capabilities. The due diligence process ensures our view is not clouded by historical performance and that the fund has a sustainable competitive advantage. This exemplifies the resources allocated in support of stewardship, as outlined in Principle 2.

During the Due Diligence process, members of the Treasury & Investment Office conduct numerous meetings with key members each of the managers' investment teams, as well as other key stakeholders across the business including senior management. In conjunction with these interactions, quantitative and qualitative analysis is used to form a comprehensive view of potential managers.

From the product's launch to the ongoing monitoring of managers, the appropriate governance channels have been utilised, with relevant board and committee approval ensuring alignment and compliance, including oversight from the EIC.

PruFund Holding

Within M&G we hold one of the world's most sustainable logistics businesses. The company is part of the backbone of global supply chains, operating across more than 60 countries, and it leases out its reusable pallets, containers and crates for companies to transport their goods, transferring them from customer to customer after use.

The organisation is a market leader in several regions, and its scale and density of its global network of hubs and delivery points means it can service its customers efficiently and flexibly, whilst benefitting from economies of scale. Its circular, share and re-use business models puts the organisation in a stronger position than single-use competitors to meet demand from businesses to reduce the carbon footprints of their supply chains.

This business model is assisting in the transition to a more circular economy, one of the targeted environmental outcomes of PruFund Planet. The re-use of pallets, containers and crates saves waste and natural resources including wood and water, compared to disposable single-use alternatives. The efficiency of the company's extensive logistics network also reduces the carbon-intensity of logistics. By enabling its customers to move goods around the world in a more resource-efficient and environmentally friendly way, the business contributes to the achievement of UN Sustainable Development Goal (SDG) 12 – moving towards sustainable patterns of consumption and production.

Glossary

Carbon dioxide

Colourless, odourless gas that results from fossil fuel combustion and is normally part of ambient air

Carbon Footprint

Annual amount of greenhouse gas emissions, mainly CO_2 that result from the activities of an individual or group of people, especially their use of energy, transport and consumption of goods and services. Its measured in kilogrammes or tonnes

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

Environmental sustainability

Aspect of sustainable development that focusses on the stability of biological and earth systems and on the maintenance of a healthy natural environment

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

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 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 – trustees

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 the clients best interests and with due care

Fossil fuels

Buried fuels derived from past living plant and animal materials that have been modified and buried by geological processes- coal, oil, gas

Greenhouse effect

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

Inter-governmental Panel on climate change – IPCC

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 degrees Celsius

Mitigation

Measures taken to reduce adverse impacts on the environment

Proxy voting

Most institutional investors don't attend Annual General Meetings (AGM) they are represented through proxy votes – through which they instruct someone who is usually attending to vote in a certain

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

Responsible investment

An investment approach that includes ESG issues and broader systemic issues – for example climate change and sustainable development – along with active ownership (stewardship)

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 effect 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

Broad term for an investor operating as a good long term owner of asset, standing in the shoes of their underlying clients to ensure value is added or preserved over time. As per the FRC definition: 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

"the ability to sustain". The most widely accepted definition is that which meets the needs of current generations without compromising the ability of the future generations to meet their own needs"

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 environment and anti corruption

United Nations Principles for responsible investment

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

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