M&G plc
Sustainability Report 2022/23

Our purpose is to help people manage and grow their savings and investments, responsibly.

M&G at a glance

We help our clients to save and invest through responsible, long-term stewardship and decision-making.

Our purpose

To help people manage and grow their savings and investments, responsibly

Our values

Care

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

Integrity

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

Our business

£342.0bn[i]
total assets under management and administration (AUMA)
(2021: £370.0bn)

Asset Management

£154.2bn
third-party assets managed
(2021: £156.7bn)

£149.9bn
Retail and Savings assets managed by our Asset Management business
(2021: £168.6bn)

£36.5bn
Retail and Savings assets not managed by our Asset Management business
(2021: £42.5bn)

Retail and Savings

Our international reach

26 markets globally

37 offices worldwide

4 continents

Who we serve

4.8m retail clients

800+ institutional clients

i Total AUMA includes £1.4bn (2021: £2.2bn) of corporate assets not recognised within either Asset Management or Retail and Savings.

Highlights

Here we present a snapshot of sustainability-related highlights and progress at the end of 2022, including on our priority areas of climate, and diversity and inclusion.

£92bn
Group AUMA (30.4%) covered by interim decarbonisation target
(2021: £58bn, 20%)
CLI

64%
reduction in operational Scope 1, 2 and selected* Scope 3 emissions, against 2019 baseline
REM CLI

54%
of SICAV fund range either SFDR Article 8 or 9
(2021: 30%)

49
funds in Planet+ range
(2021: 32)

37%
female representation on M&G Executive Committee and direct reports
(2021: 35%)
REM D&I

12%
ethnic diversity within the M&G Executive Committee and direct reports
(2021: 13%)
REM D&I

£4.3m
total community investment spend

16
private emerging market impact strategies through responsAbility (US$3.5bn AUM)

Asset owner publishes interim NZAOA decarbonisation targets (September 2022)
Read more Page 13

Asset manager Thermal Coal Investment Policy comes into effect (April 2022)
Read more Page 14

Central Sustainability Office is established (October 2022)
Read more Page 33

Key

CLI Linked to climate commitment
Read more Page 5

D&I Linked to diversity and inclusion (D&I) commitment
Read more Page 29

REM Linked to remuneration measures for Executive Directors
Read more Page 34

*Selected Scope 3 emissions cover business travel, water and waste.

Welcome to our 2022/23 sustainability report

from our Group Chief Executive Officer

> "There can be no doubt that client interest in sustainable long-term investment solutions has increased.
>
> To meet that need, we are developing more thematic and sustainability-focused strategies across a broad range of asset classes, both in public and private markets."
>
> **Andrea Rossi**
> Group Chief Executive Officer

Sustainability is a core element of our purpose: to help people manage and grow their savings and investments, responsibly.

By using our scale and strength in the market, we can be a force for good through our investment decisions and use of our influence to deliver positive change through stewardship and broader advocacy.

The savings and investments industry plays an important role in supporting the global economy to become more sustainable for the benefit of the environment, individuals and wider society. We face a rapidly changing world and must play our part to support a just transition to a more sustainable economy, and meet the evolving needs of our clients. We also work with the companies we invest in, helping to progress their own transitions.

Recently we have focused on strengthening our foundations and further developing our governance, data and climate modelling capabilities.

Our approach to sustainability is evolving as we deepen our sustainability expertise across the business. Our two priority areas are climate, and diversity and inclusion. Both reflect our purpose and values, as a long-term steward of our clients' assets.

Strengthening our foundations

Having strong foundations to build on is vital to evolving our sustainability strategy. Our Chief Financial Officer, Kathryn McLeland, who joined the business in May last year, is now the executive member with responsibility for sustainability.

She has brought a wealth of experience to M&G and is well placed to oversee our sustainability agenda.

Since joining, Kathryn has led the developments in our sustainability governance model. We are also improving our data and disclosure – developing further metrics to monitor and manage climate-related risks and opportunities, including strengthened scenario modelling capabilities. This will help us meet the many regulatory changes and evolving reporting requirements we face.

Our success depends on our colleagues being inspired to do their best. By embedding sustainability across our organisation and creating a great place to work, I believe we can create a positive, diverse and inclusive environment to better support delivery of real-world positive change.

Working together for our clients and driving positive change

There can be no doubt that client interest in sustainable long-term investment solutions has increased. To meet that need, we are developing more thematic and sustainability-focused strategies across a broad range of asset classes, both in public and private markets. We've added to our impact investing capabilities through the acquisition of responsAbility, which complements our Catalyst strategy of financing and deploying capital to drive positive change.

It's important we also use our influence as a global investor and asset owner. I believe in active asset ownership and management, encouraging companies to transition towards a sustainable future. We are continuing to engage with the companies in which we invest on their ESG actions, policies and plans. Implementation of our asset manager Thermal Coal Investment Policy continues as we seek to ensure the phase-out of this major source of carbon emissions.

The path ahead

We have great capabilities and are putting strong foundations in place for long-term, sustainable growth. Over the next year we plan to evolve our sustainability strategy as we further develop our climate transition plan and continue to develop our approach to nature-related risks and opportunities.

Climate mitigation and adaptation require significant commitments, both from a capital and time perspective. By continually engaging with colleagues on how they can support sustainability at M&G, and offering our clients more solutions to support their own sustainability journeys, we hope to continue to contribute to the just transition to a sustainable world.

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

Andrea Rossi
Group Chief Executive Officer

Q&A with Kathryn McLeland

Group CFO and executive responsible for sustainability

> "Our focus at the moment is on strengthening our foundations – building out our sustainability capabilities to continue to meet the increasing expectations of stakeholders, and position us for the next phase of our sustainability strategy."
>
> **Kathryn McLeland**
> Chief Financial Officer

Q What have been your first impressions of M&G's approach to sustainability?

KM: In the year since I arrived at M&G, I've met a lot of committed colleagues and seen the exciting work in sustainability we are doing across the business. I care about being in a company that delivers for all stakeholders, including the wider world, and this was a key consideration in my decision to come to M&G.

I believe in responsible leadership and am pleased to have the opportunity to help shape the agenda in this space. Like our peers, we are on a journey and our approach to sustainability will continue to develop and evolve.

Q Where is M&G on its sustainability journey?

KM: Our objective is to drive real-world positive change by being a long-term responsible investor, and authentic advocate for a just transition to a sustainable economy.

Our focus at the moment is on strengthening our foundations – building out our sustainability capabilities to continue to meet the increasing expectations of stakeholders, and position us for the next phase of our sustainability strategy.

We should be proud of what we've achieved so far – across both our Asset Management and Retail and Savings businesses – in developing solutions for our clients through initiatives such as Catalyst and Planet+, and in our priority areas of climate and diversity and inclusion where we have set clear commitments.

Q How is M&G developing its approach?

KM: With the significant shifts and ongoing uncertainty in the global economic and political environment, as well as increasing expectations from stakeholders and evolving needs of clients, it is essential that our approach to sustainability is strong enough to adapt to these changing circumstances and requirements.

At the end of last year, we established a new Central Sustainability Office, which now acts as a hub for our Group-wide sustainability governance and strategy development. Key to this was the creation of the Executive Sustainability Committee with representation from our business CEOs, providing accountability for sustainability across the Asset Management and Retail & Savings businesses.

Q What areas of sustainability are important to you?

KM: Having worked in the finance industry for around 30 years, it's clear to me that we all need to do more work on diversity and inclusion, and that those organisations who create the most inclusive working environment and culture, with diversity of thought, will be best placed to succeed. M&G has clear targets for ethnicity and gender – you can track our progress in this Sustainability Report and in our Annual Report.

Of course, climate change and its wider impacts on nature affect the health and well-being of populations as a whole, and present systemic financial risks. I feel strongly that M&G has an important role to play here.

We can help finance the transition required by working with our clients to allocate capital to companies that are well positioned to deliver real-word positive change.

Q What does success look like to you?

KM: As Group CFO, I need to ensure we are on track to achieve our financial commitments to our shareholders. However, success is much more than that to me personally – we need to be thinking about our impact on society, on communities and on the planet. The climate and social aspects are both incredibly important issues that are inter-linked in complex ways. Success is about authentic action to achieve real-world positive change rather than just seeking to lower the carbon intensity of portfolios.

I believe success is also about achieving our purpose – I'd like to see M&G responding to our clients' needs and helping with the flow of capital into sustainable investments. It's clear that our colleagues also support M&G's purpose, and the importance of 'responsibly' helping to manage and grow people's savings and investments.

We want to help all parts of society deal with the transition, no matter where they start from or what pathway they are on: it's about implementation, transparency, collaboration and advocacy, while constantly asking ourselves if we are doing enough. I know there's still a huge amount to do – and I think we can have a very exciting role to play.

Kathryn McLeland
Chief Financial Officer

Our sustainability commitments

Our sustainability strategy prioritises two areas for action: climate change and diversity and inclusion. We hold ourselves accountable with specific commitments in these areas.

Climate commitments

Net zero by 2050 across operations and investment portfolio

Supported by the following interim targets:

Operations	Asset Manager	Asset Owner
46% reduction in Scope 1 and 2 emissions by 2030*.	50% reduction in emissions intensity (tCO_2e/$m invested) for in-scope public equity and corporate debt by 2030*†.	50% reduction in emissions intensity (tCO_2e/$m invested) for in-scope public equity and corporate debt by 2030*†.
46% reduction in Scope 3 business travel emissions by 2030*.	36% reduction in emissions intensity ($kgCO_2/m^2$) for in-scope real estate assets by 2030*†.	36% reduction in emissions intensity ($kgCO_2/m^2$) in our directly owned real estate portfolio by 2030*†.
Engaging with suppliers to encourage them to set ambitious carbon reduction targets aligned with climate science, covering at least 67% of our operational supply chain emissions by 2030.	Further details on these targets, including assets in scope, are on page 12.	Engagement and sector-level decarbonisation targets can be found on page 13.

* 2030 refers to end of 2029. Target against 2019 baseline.

† The interim decarbonisation targets for public assets and real estate cover Scope 1 and 2 financed emissions.

Diversity & Inclusion (D&I) commitments

Achieve 40% female representation and 20% representation from Black, Asian and minority ethnic backgrounds at the Executive Committee and their direct reports by 2025.

As an asset owner, to evaluate the diversity policy of investment managers that manage assets on our behalf, and how investment managers challenge investee companies to improve and maintain diversity.

Continue to meet external benchmarks, including the National Equality Standard and LGBT Great Equality Index.

Sustainability in context

We live in a complex and fast-changing world, where businesses face a wide range of environmental and social challenges. Here are four interconnected themes that set the scene as we continue to embed sustainability throughout M&G.

Energy transition

The energy crisis, exacerbated by Russia's war on Ukraine, has intensified action by governments to address the trilemma of energy security, affordability and sustainability.

Increasing investment in renewable energy helps to mitigate future geopolitical risk and energy price inflation, and presents opportunities for innovation and new infrastructure, spurring economic development.

The scientific backdrop is clear: to meet the Paris Agreement temperature goals, the global energy system needs to decarbonise on a steep pathway, reaching net zero by 2050.

Nature loss

Nature plays a critical role in the fight against climate change and in protecting our food systems.

Effective mitigation and adaptation depends on preserving the capacity of natural systems to sequester carbon and regulate the climate.

In 2022, the UN Biodiversity Conference (COP 15) ended with an agreement to halt and reverse nature loss.

We believe measuring and reporting on companies' direct and indirect impacts on nature will become increasingly important.

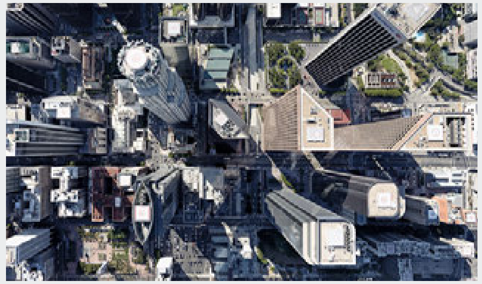
Just transition

The world's poor are particularly vulnerable to the effects of climate change, yet are the least responsible for historical emissions.

The investment needed to decarbonise the global economy is enormous, bringing major opportunities to transform industries and enable the 'Global South' to develop more sustainably.

Success hinges on a just transition – one that protects the lives and livelihoods of all those affected. The public and private sector need to work together to ensure that capital flows to where it is most needed.

Economy-wide change



We consume more resources than the Earth can regenerate and are at risk of breaching planetary boundaries and tipping points, beyond which we could face fast and irreversible environmental change.

Addressing these threats requires major structural economic and behavioural change, including proper pricing of externalities, and incentives for solutions.

As investors, we believe stewardship, advocacy and direct capital deployment towards solutions are important to support adoption of sustainability across the economy.

Sustainability at M&G

With the significant shifts and ongoing uncertainty in the global economic and political environment, increasing expectations from stakeholders and evolving needs of clients it is essential that our approach to sustainability can adapt to changing circumstances and requirements.

Our sustainability principles

We consider sustainability and ESG factors when determining our corporate strategy and new business initiatives.

We embed sustainability considerations throughout our business.

We consider the interests of all our stakeholders and ensure our views on sustainability are consistent with our long-term approach.

We manage our businesses – and hold our investee companies – to the principle of 'acting responsibly'.

We identify and incorporate ESG risk factors into our general risk management process.

We regularly review our sustainability thinking 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.

We 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, encouraging companies to transition towards a sustainable future.

Strengthening our foundations

In 2022, we focused our efforts in the following key areas

Build out sustainability capabilities and supporting governance framework
Find out more pages 22 and 33

Enhance sustainability knowledge
Find out more page 34

Improve climate data and modelling
Find out more pages 27 and 39

Our next steps

Refresh and refine our overall approach:
Continue to develop our overall sustainability approach, refocus our strategy to meet evolving client needs, and embed new governance structures.

Update our existing climate transition plan.

Strengthen our stance on a just transition:
Work across our business areas to support the practical implementation of our position on a just transition, leveraging evolving best practice.

Develop our approach to nature loss and biodiversity:
Continue to review and assess developments to improve nature-related measurement and transparency.

Contributing to the just transition to a sustainable world by considering our stakeholders, while being a trusted partner to our clients

Risks and opportunities in sustainability

Sustainability presents a range of risks and opportunities for M&G, influencing our ability to create long-term value for our stakeholders.

Opportunities

Sustainability and impact-orientated investment strategies
Meeting changing client preferences, in public and private markets.

Capital allocation to sustainability solutions
Helping finance and enable solutions to sustainability challenges.

Operational transition to improve environmental and social impacts
Leading by example and engaging our supply chain to accelerate the transition to sustainability.

Examples of opportunities include:

Planet+
Read more on page 18

Catalyst and responsAbility
Read more on pages 11 and 20

Waste, energy and travel
Read more on page 26-28

Diversity and inclusion
Read more on pages 29-30

Risks

Policy and regulation
Changing policy landscape forcing business adjustment and greater transparency.

Technological disruption
Cleaner technologies causing obsolescence and stranding of polluting and uneconomic assets.

Changing sustainability expectations and preferences
Evolving consumer and investor decision-making criteria.

Physical risks due to climate change and nature loss
Damage and disruption caused by extreme weather, chronic physical impacts and less resilient ecosystems.

Litigation and reputational damage
Mismanagement of impacts or greenwashing, leading to reputational damage and potential legal action.

Examples of risk monitoring and management include:

Net Zero Investment Framework
Read more on page 37

Thermal coal policies
Read more on page 14

ESG Risk Management Framework
Read more on page 35

Supply chain due diligence and engagement
Read more on page 27

Some risks also present opportunities for M&G, such as technological disruption and changing client expectations and preferences

Achieving our commitments

Our approach to achieve our sustainability ambitions and targets

Our 10-point approach sets out key steps and enablers to drive sustainability and support positive real-world change.

The 10-point approach has clear objectives to help us embed sustainability across M&G and support positive real-world change.

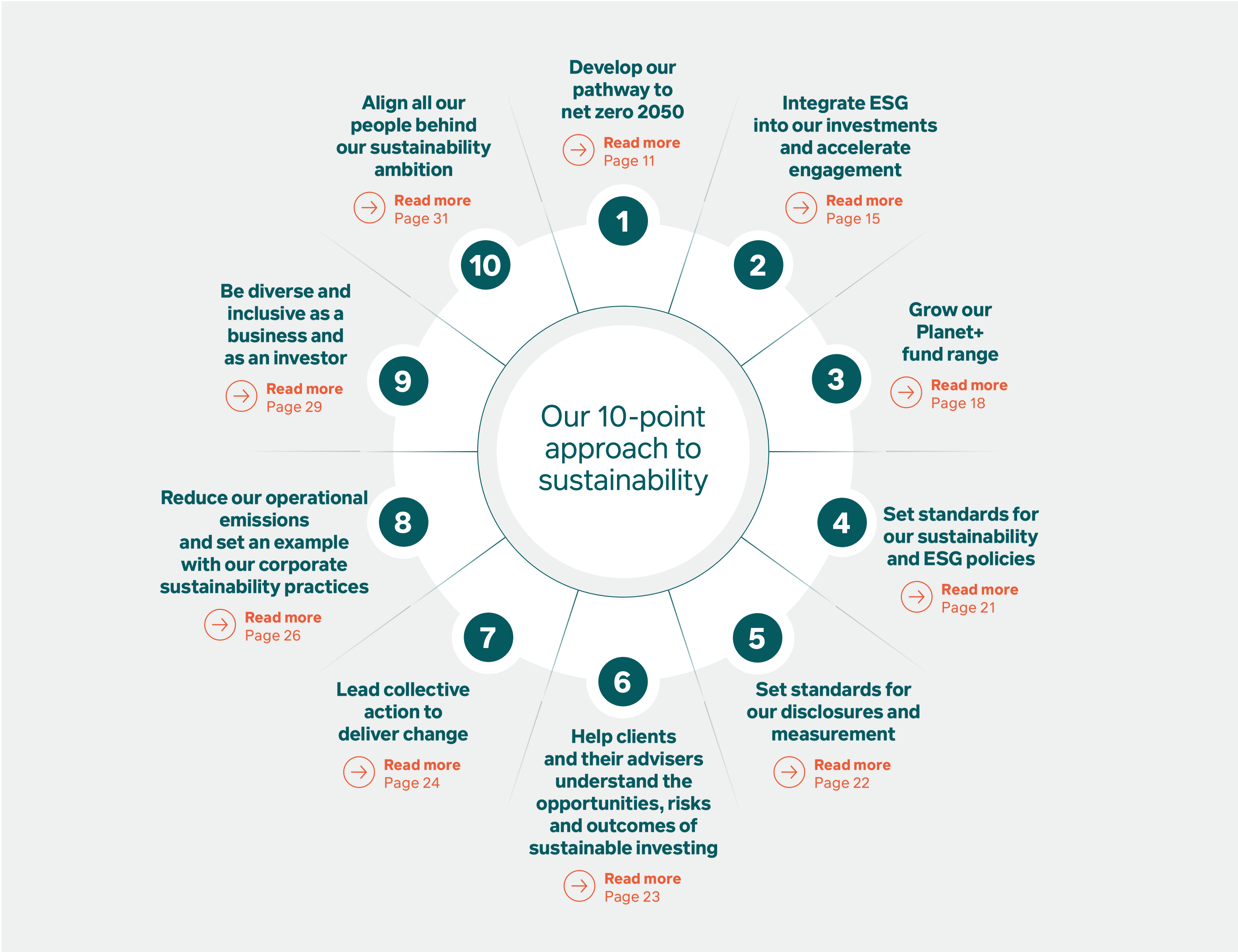
Climate change is a major focus from an operational and investment perspective. We take into account related challenges such as biodiversity loss and social inequality, which require economy-wide action too.

We believe the integration of environmental, social and governance (ESG) factors, and active ownership through engagement and voting, is a key element in managing and growing our clients' assets.

Demand for sustainability and impact-focused investment strategies is increasing, and our offering covers themes that meet evolving client preferences.

Our sustainability-related policies help us take a structured and co-ordinated approach, such as our position on thermal coal. We believe measurement is important to assess sustainability profiles and progress of investees, as well as our own operational impact, and we continue to work on metrics and data to support this.

We place a major emphasis on collaboration and advocacy, working with industry peers and policymakers to lift overall sustainability ambition. Delivering on our plan and wider strategy is only possible with the right culture. Ensuring a diverse and inclusive workplace, and building company-wide awareness of sustainability, is critical.



1 Develop our pathway to net zero 2050

Why this matters

The Intergovernmental Panel on Climate Change (IPCC) is clear that all pathways that limit global warming to 1.5°C – with no or limited overshoot – as well as those that keep the temperature rise within 2°C, require rapid and deep greenhouse gas emissions (GHG) reductions this decade (for 1.5°C, a 43% decrease by 2030 against a 2019 baseline).

The world is not decarbonising at anywhere near the scale and pace needed.

The financial services sector play a major role in addressing climate change, through the signals we send, and by channelling capital towards mitigation and adaptation.

At M&G, we recognise the urgency of near-term action and are committed to using the levers at our disposal to support real-world emissions reductions and economy-wide change. Collaboration with our clients is critical to support our climate objectives and address related issues through our investments and stewardship.

Our climate objectives

- Reach net zero emissions by 2050, following Paris-aligned decarbonisation pathways for our investments.
  This is supported by our interim targets set across our asset manager and asset owner businesses.
- Contribute to real-world positive impact by scaling investment in climate solutions.
- Support a just transition and advocate for economy-wide change.

Developments in 2022

In September 2022, our asset owner published its first interim targets as a member of the Net Zero Asset Owner Alliance (NZAOA), including asset level, sectoral and engagement commitments (see page 13).

Our asset manager also published its first progress report as part of the Net Zero Asset Managers initiative (NZAMi). Assets in-scope of our interim climate targets have increased, reflecting asset owner and asset manager alignment.

Our position and policies on thermal coal are an example of our stewardship and real-world focus, including a time-bound engagement approach to ensure phaseout of this major source of greenhouse gas emissions. In April 2022, our M&G Investments Thermal Coal policy became effective (read more page 14).

With our acquisition of impact investing specialist responsAbility, we can now support decarbonisation and adaptation in emerging markets, including through blended finance (read more on page 20). Combined with Catalyst, our purpose-led global private assets strategy with a dual objective to achieve an attractive financial return while making a positive difference to the environment and society, we are well positioned to help scale the financing and deployment of climate solutions.

The acquisition of a controlling stake in M&G Southern Africa has increased our overall carbon intensity, due to higher emissions profiles of issuers in the region (a large share of thermal coal in the energy mix). We believe this is an opportunity to support a just transition as most countries are on different decarbonisation pathways. We hope that by engaging with government departments, local companies, and industry bodies we can encourage initiatives that reduce the fossil-fuel dependence of the South African economy.

Net zero actions

Our transition implementation strategy has four key actions:

- Engage with investees to set and track progress against their net zero targets, ideally validated by the Science Based Targets initiative (SBTi)
- Engage with clients to encourage a move towards Paris-alignment of mandates and fund objectives
- Increase capital directed to climate solutions, companies and projects
- Transition portfolios, or if unsuccessful, divest

These are supported by:

- Collective action to accelerate investee alignment with the Paris Agreement climate goals
- Collaboration with regulators and organisations to improve climate data reporting and standardise measurement methodologies
- Developing our own processes, data and reporting, so we can deliver on our plans and commitments effectively with clear accountability
- Growing our range of sustainability and climate-focused investment strategies
- Implementing the asset manager Thermal Coal Investment Policy, with a just transition focus in non-OECD countries

Read more
Page 14

1 Develop our pathway to net zero 2050

Asset Manager

Progress as an asset manager

We continued to implement our asset manager Thermal Coal Investment Policy, to ensure all in-scope investees align with our phase-out timeline. Over 2022, we have strengthened our analytical capabilities, including scenario modelling. We are embedding relevant metrics and information into our investment teams' tools and workflows. Our climate engagement programme is also progressing with our Hot 100 list of high-emitting investees and those with thermal coal exposure (see page 14).

Interim targets

As a member of NZAMi, we made an initial commitment to halve the carbon footprint of 20% of AUMA (£58bn) by 2030 (Scope 1 and 2 emissions) on behalf of our asset owner business. This intensity-based target has a 31 December 2019 baseline.

In September 2022, we published our first NZAMi progress report detailing our work to date.

Following our asset owner's setting of interim targets, we have worked to align our commitments. As a result, the assets in scope of our targets have increased significantly, from 20% to 30.4% of AUMA, representing c.£92billion of our asset owner's capital as at 31 December 2022.

By the end of 2022, the emissions intensity ('carbon footprint') of in-scope public corporate debt and equity assets had decreased by 24.3% and 18.5%, respectively, against the 2019 baseline. The real estate emissions intensity had fallen by 11.8% over the same period (see table).

NZAMi targets

- 50% reduction in emissions intensity (tCO_2e/$m invested) by 2030 for in-scope equity and corporate debt assets relative to a YE 2019 baseline.
- 36% reduction in emissions intensity ($kgCO_2/m^2$) by 2030 for in-scope real estate assets relative to a YE 2019 baseline.

	Updated 2019 baseline	Coverage	YE 2022	Coverage
Public corporate debt Carbon footprint Scope 1 & 2 (tCO_2e/$m invested)	**73.7**	45%	**55.8**	46%
Listed equity Carbon footprint Scope 1 & 2 (tCO_2e/$m invested)	**102.7**	91%	**83.8**	98%
Real estate Emissions intensity ($kgCO_2/m^2$)	**38.0**	100%	**33.5**	100%

Note: NZAMi metrics are reported in USD. Coverage is the proportion of assets included in the target with available emissions data.

Private assets

Private markets often have less available climate data, and modelling and decarbonising assets can be sector specific. We have recently focused on enhanced data collection, management and reporting for our private and alternative assets, and will continue to do so.

Real estate

We recognise our business activities have wide-ranging social, environmental and economic impacts, with the built environment contributing over 40% of global carbon emissions.

We have committed to achieve net zero by 2050 across all assets we manage. Our net zero journey for our global real estate portfolio is based on the following principles:

- All buildings must be highly energy efficient and meet certain thresholds of energy use
- All assets we manage will be powered by renewable energy
- All assets operated by our occupiers will be powered by renewable energy
- All refurbishments and developments will be net zero whole-life carbon
- Carbon offsetting will be used only where emissions can not be eliminated by the above

We have interim targets for our real estate operations to guide our initial steps towards net zero (for more detail see page 38).

Infrastructure equity

Climate impact is a strategic priority for our private infrastructure arm Infracapital. Infracapital is focused on Paris-aligned net zero roadmaps and is working with each portfolio company to ensure robust climate reporting.

In 2022, Scope 3 emissions were a major focus, with over 80% of the portfolio now disclosing selected Scope 3 data.

During 2022 and into 2023, Infracapital worked with a third-party specialist, Marsh to conduct physical climate risk scenario analysis on critical sites across its portfolio. The results suggest that from the assets modelled, only a relatively small proportion of assets are at high risk from future climatic conditions.

Climate solutions

Investing in cleaner transport

In August 2022, Infracapital announced a £200m investment in Gridserve, one of the UK's largest electric vehicle charge point operators. What makes Gridserve different is its 'sun-to-wheel' concept: its rapid chargers are partially powered by renewable energy from its hybrid solar farms. Just one acre of solar panels in England can generate enough energy for one million miles of EV driving each year.

1 Develop our pathway to net zero 2050

Asset Owner

Progress as an asset owner

In September 2022, our asset owner published its first interim targets as a member of the NZAOA, including asset level, sectoral and engagement commitments. These targets cover c.£92bn of policyholder and customer assets within our Retail and Savings business (as at December 2022), managed by M&G Investments and a number of external asset managers. The coverage of these targets represents 49.4% of Retail and Savings AUMA (as at December 2022).

Based on NZAOA's Target Setting Protocol, we have decarbonisation targets for our public equity and corporate issuer debt exposures, our direct real estate exposure and higher emitting sectors (see box). We are now identifying individual portfolio actions to achieve these targets.

We are also committed to engaging with the 40 biggest carbon emitters in our portfolios, to encourage them to set net zero targets in line with best practice criteria. These issuers account for more than 50% of owned emissions within our equity and corporate fixed income portfolios.

Engaging asset managers

We rely on our asset managers to engage with investee companies to change behaviour, improve disclosure and reduce emissions, as well as allocate capital towards low-emission sectors of the economy, including climate solutions.

Our asset managers report on their engagements, including objectives and progress. We monitor these engagements to inform our strategies and positions. (Read more on how our manager selection process supports our net zero goals on page 17).

We tilt our portfolios away from investee companies with insufficiently ambitious emissions-reduction paths, and instruct our asset managers to change relative exposures on our behalf.

Excluding a company from a portfolio on the basis of their carbon emissions is a last resort, only taken if we are certain our engagement will not lead to meaningful strategic and operational change.

How we will measure our progress

We continually monitor our progress to net zero through tracking and monitoring of performance against our asset manager and asset owner interim targets.

Asset owner interim commitments

Engagement
Engaging with the 40 biggest contributors to our financed emissions, encouraging them to set net zero targets and meet best-practice criteria by 2030

Public equity and corporate debt
50% reduction in emissions intensity (tCO_2e/$m invested) for each asset class by 2030*

Real estate
36% reduction in emissions intensity ($kgCO_2/m^2$) in our directly owned real estate portfolio by 2030*

Sectoral decarbonisation
Reducing emissions intensity (tCO_2e/$m invested) by the amount below by 2030*, across the named sectors

Utilities	Oil, gas and coal	Materials, steel
60%	50%	40%
Transport, road	**Transport, aviation**	**Transport, shipping**
50%	25%	25%

*2030 refers to end of 2029. Targets cover Scope 1 and 2 emissions against 2019 baseline.

Spotlight on coal

Thermal coal is the largest energy source for power generation globally, and the single biggest contributor of carbon dioxide emissions.

Our approach to coal

Phase-out a necessity

According to the IPCC, projected emissions from existing fossil fuel infrastructure without additional abatement already exceed the carbon budget for 1.5°C.

When including planned fossil fuel infrastructure, the expected cumulative emissions are roughly equal to the total remaining budget for 2°C.

To meet the Paris Agreement, existing coal-fired power plants need to be phased out on an ambitious timeline, with no room for additional coal capacity.

Issuers that do not commit to retiring coal production and use are at odds with the science, and expose investors to likely stranded assets as global efforts to decarbonise intensify.

Our coal position

We take a forward-looking and engagement-focused approach to coal phase-out, as we believe this is more likely to drive positive real-world change.

We expect issuers in the OECD and EU to cease coal-related activities by 2030, with a 2040 deadline for the developing world.

We recognise that the effects addressing climate change should not be disproportionately borne by the poorest, who are least responsible for historical emissions.

We believe in a just transition, where the costs and benefits of the transition to a low-carbon, more sustainable economy should be shared fairly between generations, communities and regions.

Our coal policies

The asset manager Thermal Coal Investment Policy, effective from April 2022, applies to all listed equities and public fixed income investments (excluding those managed by M&G Southern Africa) actively managed on behalf of clients, unless a client has requested to opt out.

In implementing the Policy, we:

- Seek credible public disclosures and 2030/2040 phase-out plans for coal from our investee companies.
- Prioritise engagement to influence companies to adopt credible coal phase-out plans.
- Where companies cannot or will not adopt a credible plan, we will classify for divestment and exclude from further investment.

In the second half of 2023, our Thermal Coal Investment Policy will move from an OECD focus towards consideration of investee companies in non-OECD countries, with divestments in these countries being considered from March 2024 where our expectations following engagement are not met within agreed timeframes.

We will assess and update our policy scope by the end of 2023. We recognise the OECD and non-OECD consideration of thermal coal needs to be viewed in the context of economy-wide change, and regions require different approaches.

Our asset owner has developed its own thermal coal policy, covering public assets. The policy complies with M&G's position on thermal coal and the internal asset manager's policy, with tighter thresholds and development restrictions, in part due to the NZAOA's requirements around new coal assets. A number of thermal coal divestments were first considered in 2020, resulting in exclusions across our shareholder annuity and With-Profits Fund that were implemented throughout 2021.

In 2022, quarterly ESG screening reviews were implemented to ensure review of ESG issues, including thermal coal, within investment portfolios leading to engagements throughout the year.

Taken together, our asset manager and asset owner policies covered 40% of the Group's AUMA at the end of 2022.

2 Integrate ESG into our investments and accelerate engagement

Principles of ESG integration across M&G

ESG integration is key to our role as stewards of our clients' assets, and informs how we allocate, manage and provide oversight of capital to create long-term value for clients and beneficiaries.

By thinking holistically about value creation, we seek to deliver benefits for our clients, the economy, society and the environment.

We believe ESG integration is the explicit and systematic inclusion of ESG factors in investment analysis and investment decisions. Our ESG pillars are:

1. Integrate ESG issues into investment research.
2. Integrate ESG issues into investment decision-making and portfolio construction.
3. Portfolio construction, overseen through periodic ESG portfolio reviews (and in-scope unlisted) fixed income and equity.

We recognise that ESG integration alone does not necessarily mean sustainability. It is about assessing the size of unpriced environmental and social impacts, or externalities. Given the necessity of addressing challenges such as climate change and biodiversity loss, and our long-term investment approach, we believe ESG is important in assessing the future growth potential of an investment.

Asset Manager

Why this matters

ESG issues are key to understanding long-term prospects for an investment and essential inputs into stewardship and capital allocation decisions.

We believe in proactive ownership, preferring asset selection, engagement and voting over exclusion. We support companies that are aligned, or aligning, with the transition towards a more sustainable economy.

Key developments in 2022

The M&G Investments Thermal Coal Policy became effective, with implementation under way through an active engagement programme with companies identified as having thermal coal exposure and potentially breaching our policy thresholds. This forward-looking and time-bound approach serves as a foundation for our approach to decarbonisation.

We are working to increase the proportion of funds in our SICAV fund range compliant with SFDR Articles 8 (where a financial product promotes environmental or social characteristics) and 9 (where a financial product has sustainable investment as its objective).

Our Planet+ range of sustainability and impact-oriented strategies covers a wide selection of themes (see page 18), catering for our clients evolving preferences.

Our acquisition of impact investor responsAbility gives us the capability to support positive real-world change in emerging markets.

Read more
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Engagement and stewardship

Our main areas of engagement focus in 2022 were on climate, diversity and inclusion, and developing our thinking on biodiversity, a topic that is clearly gaining momentum for investors. In 2023 we are aiming to extend our climate engagements to include biodiversity where it is relevant.

Under our commitment to the Net Zero Asset Managers initiative (NZAMi), we have undertaken to engage with companies representing 70% of our financed carbon emissions, to help ensure those investees are Paris aligned and have started engagement.

With significant rates of nature loss, and increasing recognition of the risk this poses to people and economies, biodiversity is under increasing scrutiny. As a member of the Taskforce on Nature-related Financial Disclosures (TNFD) Forum, we have continued to support the development of decision-useful metrics and information. The market continues to evolve in this space following publications such as the Dasgupta Review, and we managed to engage with a few companies on this critical topic during 2022.

We published our expectations on diversity at board level for our investee companies, and contacted over 1,200 of them explaining those expectations. We also compiled a list of 200 laggard companies that do not meet our requirements, and are focusing our diversity engagement efforts on these through 2023.

Based on our minimum expectations, we voted against directors at 24 UK and 254 international companies.

Tools and analytics

It is critical that all our investment teams have access to high-quality, decision-useful ESG information on existing and prospective investments We are building out our proprietary tools, with a focus on climate-related data and analytics, including scenario modelling.

How we will measure our progress

- Our portfolio analytics tool (PAT) enables us to understand and analyse ESG integration at a fund level.
- We will measure the impact of engagements undertaken by benchmarking progress against objectives in Public and Private assets.

Ongoing activities

- Engaging on emissions exposure, to understand and advocate for improvements to climate transition plans; using our vote to encourage alignment to Paris goals on climate change.
- Transition further funds to Article 8 and 9.
- Building out and enhancing our proprietary toolkit, expanding their application and capability.
- Developing methodologies for estimating private asset emissions data.

2 Integrate ESG into our investments and accelerate engagement

Real estate

Why this matters

We take a long-term, active approach to investing in property. We aspire to create and manage exceptional places that enrich the lives of people and communities to deliver long-term value for our investors, society and the environment. Through our real estate ESG strategy, our long-term aim is to deliver:

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

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

Good governance – strong governance and accountability through robust implementation and reporting of performance.

Enhanced ESG data management capability

M&G Real Estate uses industry-leading sustainability data management software called SIERA, developed for the real estate investment market. We use SIERA across our global portfolio, centralising key ESG data and information.

We can monitor the ESG performance of our individual assets, and take appropriate action where required. Key metrics at an individual asset and portfolio level include energy, greenhouse gas emissions, water, waste and social (people reached and events held) performance data.

External validation

We submit fund data to the Global Real Estate Sustainability Benchmark (GRESB) every year to better understand our performance against ESG best practice and our peers. As at December 2022, 72% of real estate AUM achieved a GRESB 4-star rating or above, with four funds achieving the highest 5-star rating.

How we will measure our progress

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

Ongoing activities

- We will set interim carbon reduction targets and develop the means to track progress for our largest pooled funds .
- We will further train our Portfolio and Asset Management teams to help ensure that net zero becomes ingrained within our investment thinking.
- Expand our efforts to improve and automate the collection of tenant energy data.
- Engage with occupiers and work towards increasing the adoption of green leases.
- Look for opportunities to use renewable energy, through both on-site investment and procuring green energy contracts where feasible.
- Work towards embedding physical climate risk into our investment processes to ensure our portfolio remains resilient.
- Invest in buildings with sector-leading environmental and social credentials, and aim to improve existing buildings through targeted investment.
- Measure progress through recognised green building certification schemes, and aim for at least 50% of our portfolio to hold certification by 2025 and 90% by 2030.
- Work with design and engineering consultants Arup to refresh and update the M&G Sustainable Development and Refurbishment framework.
- Engage with third-party vendors and developers on ESG issues to deliver best-in-class and future-proofed assets.

Read more
Page 38

Infrastructure equity

Why this matters

Infracapital is our private infrastructure equity business, investing in, building and managing essential infrastructure businesses across Europe. As long-term investors, providing essential infrastructure services to society, we have the opportunity to make economic growth more inclusive and sustainable.

We aim to invest in businesses with scope for environmental and social impact. Our investments directly address UN Sustainable Development Goal (SDG) 9: Industry, Innovation and Infrastructure, and affect other SDGs.

Our responsible investment approach is rooted in our fiduciary duty to our investors: to enhance and protect the value of their investments in the long term. ESG is integrated throughout the investment lifecycle and formalised in Infracapital's ESG Management System, which covers investment strategy, investment appraisal, active asset management, and monitoring and oversight.

We seek controlling or significant minority stakes in our investee companies so we can take an active asset management approach. We work closely with the management teams of our investee companies to ensure effective management of ESG issues, strong governance, and to build businesses that are committed to sustainability, with the ability to generate stronger risk-adjusted returns.

The climate transition is an important theme for Infracapital, and we support major decarbonisation initiatives, including energy storage. For example, Zenobe's landmark 100MW battery storage project at Capenhurst went live in 2022. This is the largest transmission-connected battery in Europe and a significant milestone toward enabling a zero carbon power system and meeting the delivery of the UK's net-zero ambitions.

2 Integrate ESG into our investments and accelerate engagement

Asset Owner

Why this matters

As an asset owner, sustainability is an important part of our decision-making. We believe that well-governed businesses, run in a sustainable manner, deliver stronger, more resilient investment returns, creating better outcomes for society and the environment.

Asset manager selection and monitoring

We consider the purpose of manager selection is to identify an investment manager with the resources, process and expertise to meet ESG requirements in an investment mandate.

Our manager selection process includes a comprehensive assessment against ESG-specific criteria, to review the managers' alignment with our purpose, values and priorities.

Our bespoke request for proposal (RfP) process includes a dedicated section of detailed ESG investment-led questions. In turn, this is supported by the RfP ESG Due Diligence (DD) questionnaire, to assess managers' wider stances on key ESG issues and activities. Once an investment manager is selected and onboarded, we conduct ongoing DD reviews, including an assessment of any changes to the managers' ESG activities or priorities.

Engagement

Although engagements are led by the asset managers we appoint, we are accountable for the framework used when interacting with investee companies. We commit to engaging with our asset managers to deliver our desired results.

We expect engagement processes and actions to align with the asset owner ESG Investment Policy, Shareholder Engagement Policy and Voting Standard, as well as those agreed upon mandate. We have specific positions on important issues such as thermal coal (see page 14). For persistent misalignment, we will escalate with the asset manager.

We follow a structured engagement approach:

- Annual letter of ESG priorities: sent to all our asset managers, outlining our key areas of focus, which form the basis of requests and dialogue throughout the year.
- ESG engagement and voting analysis: all asset managers to submit regular ESG engagement and voting templates to update on their stewardship activities. This is regularly reviewed and assessed.
- Ad-hoc ESG engagement: if specific engagement activities require further due diligence/escalation, or where specific changes have occurred within the managers' ESG activities or priorities that are a cause for concern, the ESG & Regulatory team will organise ad-hoc engagement meetings with the asset managers.

Climate change and D&I are our thematic priority areas. We have also increased our efforts to understand any potential exposure in our portfolios to modern slavery. During 2022, we identified 21 company holdings we consider at high risk of modern slavery exposure. We will continue to engage on this serious issue in 2023.

How we will measure our progress

- Monitor asset managers for engagement success according to their individual engagement methodologies and processes. A key success metric is if the manager's engagements result in real world positive change in investee company behaviours.
- Engagement is a multi-year process, and success may come after several years of little progress. We consider each manager's key engagements on an individual basis.
- We align our engagement strategy with the requirements of the UK Stewardship Code.

Ongoing activities

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

Act responsibly

Helping to create high-skilled jobs in the north of England

In May 2022, M&G became a cornerstone investor in Northern Gritstone, the new investment business focused on university spin-outs. Northern Gritstone's philosophy of 'profit with purpose'; seeking to combine attractive returns for shareholders with wider positive, societal and economic impact; is strongly linked to our purpose.

Northern Gritstone aims to help academics commercialise ground-breaking scientific ideas, creating new businesses and high-skilled jobs. Alex Seddon, head of M&G's Catalyst team, explains: "British universities have a growing reputation for exceptional research capabilities, successful spin-outs and innovation hubs. The momentum around Northern Gritstone is fuelling a thriving northern venture ecosystem, widening access for investors to back exceptional talent."

3 Grow our Planet+ fund range

Why this matters

Investing responsibly is increasingly important for many of our clients. Our Planet+ range allows them to invest with confidence in a range that clearly communicates its approach to sustainable investing. This allows them to select funds that best meet their specific sustainability preferences.

What we have achieved so far

We have seen an increase in AUMA across our SICAV fund range within Planet+, as a result of the work we have done to improve the sustainability credentials of funds within our asset manager business. The proportion of funds in our SICAV fund range compliant with SFDR Articles 8 and 9 has increased to 54% at the end of 2022, up from 30% at the end of 2021. Work continues to incorporate further ESG criteria in the investment process, delivering enhanced sustainability outcomes for our clients.

We also manage 9 funds with sustainable investing features that sit outside of the Planet+ range. This represents a further £15.8bn of AUMA. These products typically meet the specific needs of sophisticated investors for a product with a different sustainability profile from our Planet+ range.

Through acquisition of responsAbility in 2022 we added 16 impact funds to our wider product range, representing US$3.5bn AUMA, which focus on private equity and debt financing in emerging markets.

Planet+ principles

In addition to integrating ESG factors and house policies, all Planet+ funds, as a minimum:

- Exclude some investments to help mitigate the funds' potential negative effects on the environment and society, and some funds make further exclusions to assist them in investing sustainably.
- Consider the main ways in which the investment decisions can be harmful to the environment and society (a process SFDR terms 'considering Principal Adverse Impact Indicators').
- Make a minimum allocation to sustainable investments (unless not feasible for the asset class/type).

As at end of December 2022, our Planet+ range consisted of 49 funds representing £23.4bn of AUMA. These strategies span a wide range of asset classes, including equity, fixed income, multi-asset, real estate, infrastructure, private credit and private equity.

In our last sustainability report we stated our ambition to grow our Planet+ range, and we said we would measure the year-on-year growth of assets under management in Planet+ products. During the year 2022 we transitioned 11 existing funds to the Planet+ principles. We also launched six new Planet+ funds.

Other launches

We work closely with our wholesale and institutional clients around the world to understand how their needs, and those of their clients, are evolving. We then tailor strategies to client objectives, such as sustainability.

We launched our Real Asset Impact Fund in 2022, focused on agriculture, infrastructure and natural capital. This is complemented by emerging market impact funds offered by responsAbility.

Work continues to develop new strategies to enhance the range of sustainable investing options we offer.

SFDR disclosures

In 2023 we are implementing a number of changes to the information disclosed on our website as a result of the increased reporting requirements applicable under SFDR for products in scope. These include:

- For Article 8 and 9 funds a product level disclosure will be made available.
- Fund-level disclosures will include characteristics for the fund, how these are measured and monitored, due diligence on the underlying assets, data sources and any limitations met.

We are continuing our work to convert more SICAV funds to SFDR Article 8 and 9. By the end of 2023, in line with regulatory deadlines, we will have published product level disclosures for all Article 8 and 9 products that will reflect the funds invested in over the period and link to the investment manager's fund report. This information will also be added to Annual Benefit Statements for our Prudential International Assurance clients.

3 Grow our Planet+ fund range

PruFund Planet

As our PruFund Planet range, developed by our asset owner business, approaches its second anniversary it continues to see positive growth against a backdrop of a tough investment environment, having exceeded £150m in assets under management across all five funds in the range.

Through our PruFund Planet range policyholders are able to access specialist sustainable and impact strategies, that contribute to PruFund Planet's environmental and social objectives. These objectives are strongly interconnected and aligned with six of the United Nations Sustainable Development Goals (see diagram).

Over 2022, the team made a number of new investments that PruFund Planet clients will benefit from, such as acquiring a majority stake in a sustainable housebuilder whose energy efficient homes capture more carbon than is emitted over their lifetime.

How we will measure our progress

We will continue to measure progress with the year-on-year growth of assets under management within our sustainable product range.

PruFund Planet also invests in a broader range of solutions that will all contribute in the journey to net zero, like real estate, investment grade corporate bonds, and large cap equities.

PruFund Planet has also invested in two responsAbility strategies which aim to create positive impact through private investing in emerging markets – in particular, these investments focus on sustainable food opportunities across the food value chain in Latin America and Asia.

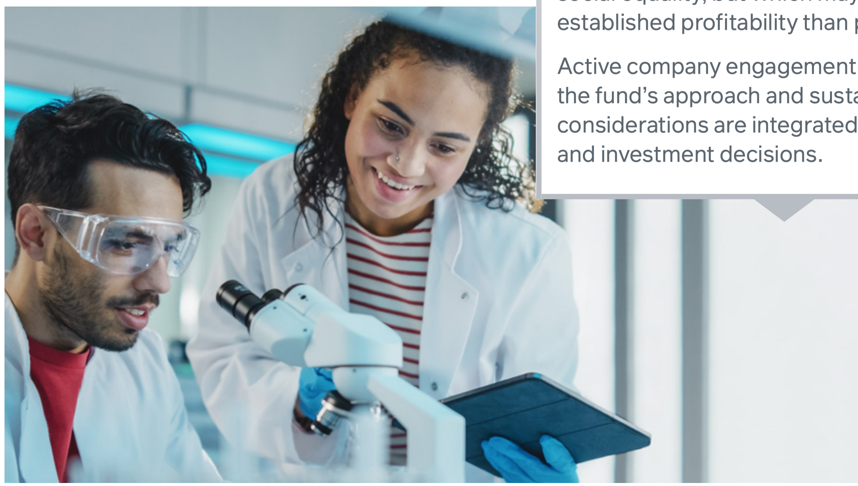
As markets evolve we will continue to develop our underlying portfolios. A recent addition includes investment in the Columbia Threadneedle UK Social Bond fund.
In partnership with the Big Issue Group as the Social Advisor, the fund looks to create positive outcomes through investment in bonds throughout the UK.

The themes in the diagram (left) are linked to the UN SDGs – 'Sustainable Development Goals'. While we support the UN SDGs, please note that we are not associated with the UN and our funds are not endorsed by the organisation.

A recent notable investment is a Sustainability Bond of a water company, where the proceeds go towards supporting vulnerable and low-income customers struggling to pay their water bills in the current inflationary environment and cost-of-living crisis.

2022 was particularly challenging for many sustainable and impact strategies and whilst PruFund Planet was not immune, the combination of global diversification across asset classes and public and private markets, along with a proven smoothing process meant the range produced strong relative returns.

We are excited about the progress of PruFund Planet since launch, and continue to enhance the fund range to ensure that it continues to meet our clients' evolving ESG and sustainability needs and investment objectives.



Solutions focus

Health and well-being in Planet+

In 2023, our asset manager launched a SICAV version of our Better Health Solutions fund classified as Article 9 under SFDR. This fund aims to invest in companies delivering solutions that address health and well-being issues.

It uses the United Nations Sustainable Development Goals framework and is focused on goals such as: Good Health and Well-being; Zero Hunger; Clean Water and Sanitation. The fund selects companies that fall into the following three categories:

Pioneers – whose products or services have or could have a transformational effect on social equality.

Enablers – who provide the tools for others to empower social equality.

Leaders – which spearhead and mainstream sustainability in industries empowering social equality, but which may have more established profitability than pioneers.

Active company engagement is key to the fund's approach and sustainability considerations are integrated into analysis and investment decisions.

Spotlight on responsAbility

responsAbility

Our acquisition of impact asset manager responsAbility in 2022, is part of our effort to scale and accelerate investments that bring real-world change. responsAbility brings significant experience in private equity and debt financing in emerging markets, where capital is scarce and the need for sustainable development financing enormous. According to the UN there is an annual funding gap of US$2.5 trillion to meet the Sustainable Development Goals (SDGs) by 2030, a number that is likely to be significantly higher when factoring in the economic damage caused by the COVID-19 pandemic.

responsAbility focuses on three investment specific SDG themes: Financial Inclusion, to finance the growth of MSMEs (micro-, small- and medium-sized enterprises); Climate Finance, to contribute to a net zero pathway; and, Sustainable Food, to sustainably feed a growing global population. The majority of responsAbility investment solutions classify as Article 9 under SFDR, ensuring measurable impact alongside targeted financial returns.

Since its inception in 2003, responsAbility has deployed over US$13.4 billion in impact investments across emerging markets. At year end 2022, the company was managing US$3.5 billion in assets across 276 portfolio companies in 74 countries.

In 2022 M&G plc committed £200 million to two impact investment strategies to be launched by responsAbility. The demand for healthy and sustainable food is set to only increase as the global population grows and consumers change their diets and consumption patterns. For example, it is expected that the consumption of fruits and vegetables will have to double in the next 30 years. The two investment strategies in Asia and Latin America are designed to improve the production and availability of healthy food worldwide, while strengthening the agricultural value chain by building resilience to climate change.

> "We invest to help tackle some of the most pressing issues of our time. Our expertise is greatest in climate finance, financial inclusion and sustainable food, so this is where we focus our efforts."
>
> **Rochus Mommartz**
> CEO responsAbility

responsAbility's two-step process

1 Selection of impact strategies that target specific SDGs

Core SDGs: Climate Finance
- 7 Affordable and clean energy
- 9 Industry, innovation and infrastructure
- 13 Climate action

Core SDGs: Financial Inclusion
- 1 No poverty
- 5 Gender equality
- 8 Decent work and economic growth

Core SDGs: Sustainable Food
- 2 Zero hunger
- 9 Industry, innovation and infrastructure
- 12 Responsible consumption and production

2 Management of each strategy, based on five dimensions to maximise impact

1. What problem are we addressing?
2. Who will benefit?
3. How big is the impact?
4. What is our contribution to the impact?
5. How do we address the risk?

US$13.4bn invested across emerging markets*

US$2.1bn invested in sustainable food*

US$1.3bn invested in climate finance*

106m people provided with access to clean energy*†

*Since inception.

†Based on total number of people from households benefitting from energy access solutions sold by companies to whom responsAbility has provided funding.

Deliver outcomes

Arya Group

Conveniently located storage infrastructure for farmers in rural India is lacking, and the availability of financing for such infrastructure is grossly inadequate. Arya Group's business model is based on moving closer to rural, untapped markets from the warehouses in Tier 1 cities. This model has allowed Arya Group to expand into providing financial access to smaller retailers, farmers and farmer producer organisations (FPOs). These borrowers use the facilities to store their commodities for better prices and to protect themselves against external shocks.

responsAbility started a financing relationship with Arya Group in 2020 and has expanded these ties by including several of the company's affiliates. Arya Group has helped aggregate the produce of more than 100,000 farmers in the last year. It facilitates over US$350 million worth of loans annually. About 40% of its clients are first-time borrowers.

Source:
responsAbility Social Bond Impact Report June 2022

4 Set standards for our sustainability and ESG policies

Why this matters

Our approach to sustainability is to identify forward-looking pragmatic actions that can deliver real-world positive change. This presents major challenge, especially in implementing formal policies while remaining flexible, balancing the delivery of financial returns with actions to address climate change, protect biodiversity and restore natural capital, while supporting a just transition worldwide.

What we have achieved so far

Supply chain policy

Our supply chain accounts for an estimated 90% of our 2019 total baseline emissions for our operations. Our Supplier Code of Conduct requires all suppliers to have clear procedures in place to ensure their direct and indirect environmental impacts are understood, measured and managed. It also includes conditions around social factors, such as wages and working hours.

In 2022, we contacted over 1,000 suppliers to better understand and assess our supply chain emissions. With actual supplier emissions data, we have improved the quality of our supply chain data and have reduced our calculated supply chain emissions by 42%. Our preferred supplier list incorporates minimum sustainability standards and disclosures as a threshold for procuring goods and services.

More information on the work we have done on our supply chain is detailed on page 27.

Corporate Environment Policy

Our Environment Policy manages our direct impacts and promotes environmental sustainability best practice across our operations. As per our ISO14001 certification, the formal scope of the policy is our UK offices, though we encourage adoption across our operations. In 2022, we extended the ISO14001 certification to Broadstone and Bath offices, with Kildean added in 2023.

Engagement and Voting policies

The asset manager applies M&G Investments' ESG Investment Policy and Engagement Policy, which set out how to undertake stewardship activities, such as monitoring and engaging with investees. The policy identifies issues that may affect a company's ability to deliver long-term sustainable performance and value to our clients, as well as various methods of engagement.

An active and informed voting policy is an integral part of our investment philosophy. Our approach, founded in UK corporate governance best practice and investment stewardship, is similar across international markets where we expect investee companies to be sustainable and successful in the long-term through a balance of strong leadership and accountability.

We regularly review M&G's Investments' Voting Policy in consultation with investment teams. In 2022, we voted at 3,756 meetings (799 UK and 2,957 international), equating to 97.6% of eligible votes. At 1,897 meetings, we voted against at least one resolution. A key focus in 2022 was board gender diversity: we vote against companies that fail to meet our voting policy thresholds, as set out in our asset manager Stewardship Report, unless there are extenuating circumstances.

Over the past three years, the asset owner has developed and disclosed a suite of ESG & Stewardship Policies, including the PAC ESG Investment Policy, Shareholder Engagement Policy and the Voting Standard.

We are embedding the expectations and targets in these policies across investments through portfolio construction and monitoring, and investment managers' selection.

In 2022, we developed more ESG due diligence processes, including the ESG Engagement Template. It facilitates monitoring our investment managers' engagement activity by allowing appointed managers to update their engagement activities in quantitative and qualitative terms.

The ESG Investment Policy sets out ESG investment principles to inform and guide any ESG investment practice. In 2022, we enhanced the Policy to include more detail on our expectations on specific ESG issues, including Modern Slavery.

Coal engagement progress

We continue to apply our thermal coal policies across both the asset management and asset owner businesses.

In implementing our M&G Investments Thermal Coal Investment Policy, we analysed holdings to understand the coal-related positions that fell foul of the exclusion criteria, or were exempt from the policy.

The asset manager holds a Coal Appeals Committee that adjudicates on investments where the fund manager instigates an appeal for the issuer to be treated as an exception to the Thermal Coal Investment Policy. An exception may be granted in certain instances where there is credible evidence that the issuer complies with the material features of the Policy.

Our Coal Appeals Committee identified a number of companies in OECD countries where transition plans were unclear or non-existent, or that did not appear to meet our timing expectations by 2030. We provided time-limited divestment exceptions and engaged with those companies in line with their timetables. This resulted in nine new engagements in 2022, with more to come in 2023 (in addition to the 18 coal engagements in 2021, ahead of the coal policy going live).

Of the nine coal engagements undertaken in 2022, three were successful – these companies are now compliant with the asset manager policy and eligible for investment. Two of the engagements were unsuccessful, resulting in those investees being added to the coal exclusions list and divested. We are continuing to follow up on the remaining four.

How we will measure our progress

We will review our policies taking into consideration market developments and our participation in CDP, UN PRI and other voluntary disclosures, as well as our regulatory TCFD and SFDR disclosures.

5 Set standards for our disclosures and measurement

Why this matters

Sustainability reporting requirements for companies and mandatory disclosures by financial services firms are expanding rapidly, and have not yet fully settled.

We recognise the importance of clear and decision-useful sustainability disclosures so all stakeholders can assess our strategy and progress. This is reflected in the increasing demand in the market for this information.

We continue to invest in our sustainability reporting capabilities, as increased disclosure will help provide transparency for investors, and increases accountability across the industry.

We support disclosure developments and increased availability of data (particularly in emerging areas such as biodiversity and social equality) in sustainability reporting standards. We aim to adopt these voluntarily where we see value for our stakeholders.

How we will measure our progress

- Benchmark ourselves against best practice standards and peers through our participation in CDP, SASB, UNGC, UN PRI and other voluntary disclosures, as well as our regulatory TCFD and SFDR disclosures.
- Increase the proportion of our assets under management with published net zero targets, in line with our member commitments of NZAOA and NZAMi.
- Expand the scope of our entity and product level TCFD reporting as more group entities fall into scope of TCFD reporting under FCA and Companies Act requirements.

What we have achieved so far:

as a plc

TCFD

Our 2022 Annual report and Accounts include the recommended disclosures in the 2021 TCFD Annex, prepared in line with the all-sector guidance and the supplementary guidance for asset owners and asset managers.

We have also enhanced our approach to scenario modelling across our portfolios. We licensed a new scenario model in 2022 (Aladdin Climate) and our modelling now covers new asset classes.

UN Global Compact (UNGC)

We continue to report Communication on Progress annually in alignment with the UNGC's reporting framework. This is a voluntary submission, including a standardised questionnaire covering human rights, labour, environment and anti-corruption.

Sustainable Accounting Standards Board (SASB)

The SASB Standards identify ESG issues most relevant to financial performance in different industries. This year, in addition to applying the SASB standard for 'Asset Management and Custody Activities', we applied metrics derived from the SASB standard for 'Insurance', where applicable, to our Retail and Savings business.

as an asset owner and asset manager

Stewardship reporting

Our asset manager and asset owner businesses are both signatories of the UK Stewardship Code and have produced annual stewardship reports for 2022. These reports set out our approach to meeting the 12 voluntary principles of the FRC's UK Stewardship Code, across purpose and governance, investment approach, engagement and exercising rights and responsibilities.

NZAOA and NZAMi

In September 2022, our asset owner published its first interim targets as a NZAOA member, including asset level and sectoral commitments. Under the NZAOA framework, we must set engagement targets for companies in our investment portfolios that emit the highest levels of GHG emissions. We are starting these engagements in 2023.

We will continue to set targets in line with the NZAOA Target Setting Protocol, expanding our scope as required.

In September 2022, we also published our first NZAMi progress report, against the in-scope assets in 2021 of £58 billion. The assets in-scope of our NZAMi targets have been increased to align with the scope of the asset owner targets, now representing approximately 30% of our asset manager AUMA.

other reporting

SFDR

For the first time in 2023 we have produced SFDR reporting for our European entities. This consists of a Group Sustainable Finance Disclosure Statement, covering all our asset manager business and Principle Adverse Indicator (PAI) Statements for our asset managers in Luxembourg and Ireland.

These statements detail the principal adverse impacts on sustainability factors and policies in place to identify and prioritise these impacts.

FCA ESG Sourcebook

This year, we published TCFD reports for two material subsidiaries – The Prudential Assurance Company Limited and M&G Investment Management Limited – for the first time. These reports were prepared in accordance with the FCA Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers policy statement.

In line with the FCA guidance we have also published TCFD reports for a number of our UK products.

Our full disclosures at Group, entity and product level can be reviewed online.

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

Why this matters

We aim to deliver strong outcomes for our clients through innovative propositions that address their financial needs. Engaging with our clients is a critical part of our sustainability journey.

As a responsible corporate, we aim to make financial advice more accessible, and advance sustainability inside and outside M&G. We are developing innovative sustainable and focused products and education, as well as wider community support.

What we have achieved so far

Our clients require different ways of accessing information, and we tailor our approach wherever possible. Our website provides a wide range of information, including applicable policies and reports. Our focused resources help advisers support and inform existing and potential clients across investment and sustainability-related topics.

We review our fund-related disclosures in line with the latest sustainable finance regulations and add relevant metrics and information to fund reports and factsheets, including sustainability indicators for our Article 8 and 9 SICAV funds.

MyView

To better understand our retail clients, we use the 'MyView' research platform, with panels dedicated to both asset management and asset owner clients. This provides a ready group of clients and advisers who take part in research. MyView includes monthly engagement activities, such as polls and forums, and the capacity for larger projects. Our in-house insights and strategy team leads all our research and provides content for Our Insights Hub, launched in April 2022.

We regularly share our plans and seek retail client and adviser insights through MyView.

In 2022, MyView held its first in-person events with retail clients since the pandemic to discuss how M&G can better support them in achieving their financial goals.

Resulting actions and insights are shaping our client priorities in 2023. For sustainability, this revolves around educating investors on climate change.

Consumer duty

The FCA Consumer Duty regime will come into effect on 31 July 2023. It requires firms to deliver good client outcomes with a focus on four areas (products and services, price and value, consumer understanding, and consumer support) and to consider the needs, characteristics and objectives of clients at every stage of the customer journey.

During 2022, the Board established its approach to Consumer Duty regulations and received detailed reports on implementing the Consumer Duty regulations. We have created six non-executive Consumer Duty Champions across M&G, under the leadership of the Retail and Savings CEO, who will focus on specific consumer duties of individual entities.

Global Impact Forum

Our asset manager's Global Impact Forum invites clients across our different distribution markets to spend a day with us in London. Through this initiative, we aim to share our expertise on impact investing.

At the 2022 Impact Forum, the main platform was livestreamed globally, and discussed world progress on achieving SDG goals. It referred to our annual SDG Reckoning report, which measures progress on the 17 SDGs. We aim to hold this event annually, with our latest Impact Forum being held in June 2023 for UK investors. We will leverage the Forum platform to test strategies and client expectations with the market.

Sustainability newsletter

In early 2023, we published the first edition of our external sustainability newsletter. This provides clients with information on the market, regulation and our proprietary research. We believe educating our clients is a key part of the solution to a sustainable world.

Asset manager Sustainability Programme

In support of the Sustainability priorities within the asset manager, we continue to manage transformation through the Sustainability Programme. This supports an integrated approach to building our operating capability and client commitments in relation to regulatory, investment and product changes. Decision-making is coordinated through a governance structure that includes members of the asset management leadership team. To ensure alignment with wider priorities, the governance structure supports regular interaction with the asset owner and the M&G plc Executive Sustainability Committee.

How we will measure our progress

- Engage with our clients and seek advisers' and customers' feedback on information we provide about the sustainability outcomes offered.
- Gather feedback on proposed enhancements to our ESG fund reports to ensure they meet client needs.
- Benchmark our fund disclosures against evolving best practice.

The Active Impact Community (AIC)

In September 2022, we launched an AIC platform to explore the connection between sustainability, investments and the role of the finance sector in addressing societal challenges and mitigating climate change.

With 180+ members from across the UK, spanning all age groups and financial literacy, the AIC offers fresh insights on sustainable investing. In 2023, the AIC will review and build on the pilot learnings, expand community reach to increase membership numbers and create more relevant content in response to member needs.

7 Lead collective action to deliver change

Why this matters

We need economy-wide change to tackle climate change, which requires strong policy and regulatory signals. Collaboration with peers is also vital, to promote best practice and support practical implementation across the financial services industry.

M&G is impacted by and engages on a wide range of public policy and regulatory issues. By sharing our expertise with policymakers, we aim to contribute to effective and responsive public policy, which benefits our clients and the wider public.

Our public policy advocacy is guided by three thematic challenges:

- Helping people and society to save for the future.
- Investing responsibly for a sustainable future.
- Championing international openness and collaboration.

We also engage with a wide range of stakeholders to share expertise and draw on specialist knowledge to inform our sustainability strategy and focus areas.

As a large institutional investor, we need confidence that our investee companies have the knowledge and commitment to align to our sustainability priorities.

As an asset manager, our engagements help us make this judgement and as an asset owner, we need to ensure that the asset managers we appoint are aligned with our climate commitments and can demonstrate genuine ESG stewardship.

What we have achieved so far

Public policy advocacy

Public policy is an important driver of M&G's ability to direct capital to sustainable economic activities.

We engage with governments and regulators in their efforts to set out a regulatory policy framework to reduce reliance on fossil fuels and encourage the scaling up of clean energy solutions.

M&G advocates for clear ambitions, interim milestones, consistent definitions, integrated action and interoperability of standards across jurisdictions.

Specifically, we believe policymakers need to:

- Mandate consistent and high-quality corporate disclosures across Scopes 1, 2 and 3 for all sectors of the economy – on carbon and nature.
- Incentivise innovation and deployment of new technologies at scale, which are vital for the net zero transition.
- Enable investment support for companies that can transition to a sustainable business model, especially in high-emitting sectors.
- Broaden policy action to include the natural environment and biodiversity, in addition to carbon.
- Ensure long-term sustainable investment through meaningful prudential regulation reform.

Policy and industry engagement examples

- M&G chairs the ESG Committee of the International Regulatory Strategy Group (IRSG), which provides extensive opportunities to engage directly with – and to influence – both industry peers and regulators/policymakers (including HM Treasury, the European Commission, the FCA, the ISSB, ESMA, the Bank of England).
- We have worked with UK Ministers and government officials to increase institutional investors' commitments to private assets. This can increase capital available to scale-up businesses and encourage investment in the life sciences. We also engaged on live policy regulatory issues, including transition plans, green taxonomies, disclosure regimes and ESG ratings providers.
- M&G co-chairs the FCA-convened working group on creating a Code of Conduct for ESG ratings and data providers.
- We are an active respondent to consultations and calls for evidence on ESG policy topics, at UK and EU levels. For example, the FCA's Discussion Paper addressing the implementation of the new integrated Sustainability Disclosure Requirements (SDR) framework and a sustainable classification and labelling system for investment products at the beginning of 2022. We also responded to the International Sustainability Standards Board's (ISSB) draft sustainability disclosure guidelines, as well as to the UK Transition Plan Taskforce's (TPT) Call for Evidence, to support the creation of a 'gold standard' for credible transition plans.
- We also participated in a roundtable discussion on biodiversity loss and policy action organised by the All-Party Parliamentary Group on Biodiversity in association with ShareAction and UKSIF, where we emphasised the need for a single disclosure framework to help investors with comparable decision useful nature-related data.

7 Lead collective action to deliver change

Powering Past Coal Alliance (PPCA) engagement

As part of our membership of the PPCA, we engaged on its updated Declaration, which reflects the latest scientific consensus and confirms that coal power must be phased out by 2030 and 2040 in OECD and non-OECD economies respectively (in line with M&G Investments Thermal Coal Investment Policy). We provided detailed feedback as part of the PPCA's ongoing Finance Principles refresh, to reflect the latest science as well as the financial service sector's ambition on coal phase-out.

Other sustainability initiatives

Over 2022, we continued to collaborate with CDP on water security and holistic water transition issues, which pose global systemic risks and are closely linked to climate change. We shared detailed feedback on the development of the CDP company water questionnaire, as well as investor challenges and barriers to address nature-related issues.

As members of the Taskforce for Nature-related Financial Disclosures (TNFD) Forum, we attended the Forum's thematic and TNFD framework specific webinars and reviewed the TNFD beta framework iterations released throughout the year.

We participated in external industry events over the year. We joined panel discussions at the Green Finance Institute (GFI) TNFD UK Consultation Group launch, as well as the UNGC Climate Action Summit's event 'Framework for managing nature-related risks', and provided an investor perspective on the decision-usefulness of nature-related disclosures, highlighting our support to the TNFD's work in both instances.

We are co-chairs on the International Corporate Governance Network's (ICGN) Natural Capital Committee, and provided review and input to the Natural Capital Viewpoint published in January 2023. We hope to be active participants in the Nature Action 100 initiative, launched at COP15 in Montreal, when it opens for wider membership.

For climate-related intiatives, we participated in the GFANZ Geneva Group, a cross-industry panel of experts working together to develop a methodology and approach to net zero as part of the portfolio alignment working group.

Through the IFOA (Institute and Faculty of Actuaries) Sustainability Board, we have led collaboration between IFOA and leading scientists on a series of climate papers that cover topics such as tipping points and climate change scenario analysis.

Stewardship

Stewardship, through engagement and shareholder voting, is how we communicate our expectations to investees. Our engagements form an integral part of how we integrate ESG considerations in our investment process.

We subscribe to the definition of engagement, endorsed by the Principles of Responsible Investing (PRI), as interactions between the investor and current or potential investees to influence ESG practices and/or improve ESG disclosure.

As signatories to the UK Stewardship Code 2020, in both our asset manager and asset owner businesses, there are growing legislative and client expectations as stewards of client assets, beyond listed equities.

This includes increased reporting and disclosure requirements, particularly concerning the quantity and quality of company engagements and significant votes.

M&G Investments' Annual Stewardship Report explains how we adhere to the UK Stewardship Code 2020, and highlights our engagement, voting and other responsible investment activities across equities, fixed income, property and infrastructure from throughout 2022.

Our main areas of focus for stewardship in 2022 were on climate – particularly in light of the continued implementation of our Thermal Coal Investment Policy – D&I, and developing our thinking on biodiversity.

Our annual PAC Stewardship Report sets out how we have applied the 12 Principles of the UK Stewardship Code in our activities, and the outcomes of these activities. Both of these reports are on our website.

How we monitor our engagements

- Before starting an engagement, we clearly set objectives, recording actions and outcomes through the life of the engagement.
- Use a 'traffic light' system to highlight if an engagement's objective has been achieved, or if the engagement is ongoing.

8 Reduce our operational emissions and set an example with our corporate sustainability practices

Why this matters

All our corporate activities have a sustainability impact and need to be considered in our operational decision-making. Our corporate operations sustainability strategy addresses three themes:

- **Our Places**: how we can reduce and eliminate emissions from our corporate offices and travel.
- **Our Partnerships:** our indirect emissions through our suppliers and service providers.
- **Our People**: supporting colleagues to think and act sustainably.

What we have achieved so far

A key consideration for sustainability is the impact of climate change, which affects everyone.

Our commitment to supporting the Paris Agreement and being net zero as an organisation by 2050 extends to our own corporate operations.

We have updated our ambition published in 2020 for our corporate operations to align with new SBTi terminology published in 2022.

Our 2030 near-term targets are:

a. Reduce emissions from our corporate offices by 46%, where we have operational control and, by 2025, all electricity we use will be 100% from renewables.

b. Embrace technology to reduce our business travel emissions by 46%.

c. Work with our suppliers to encourage them to set carbon reduction targets aligned with climate science, covering at least 67% of our Scope 3 supply chain emissions.

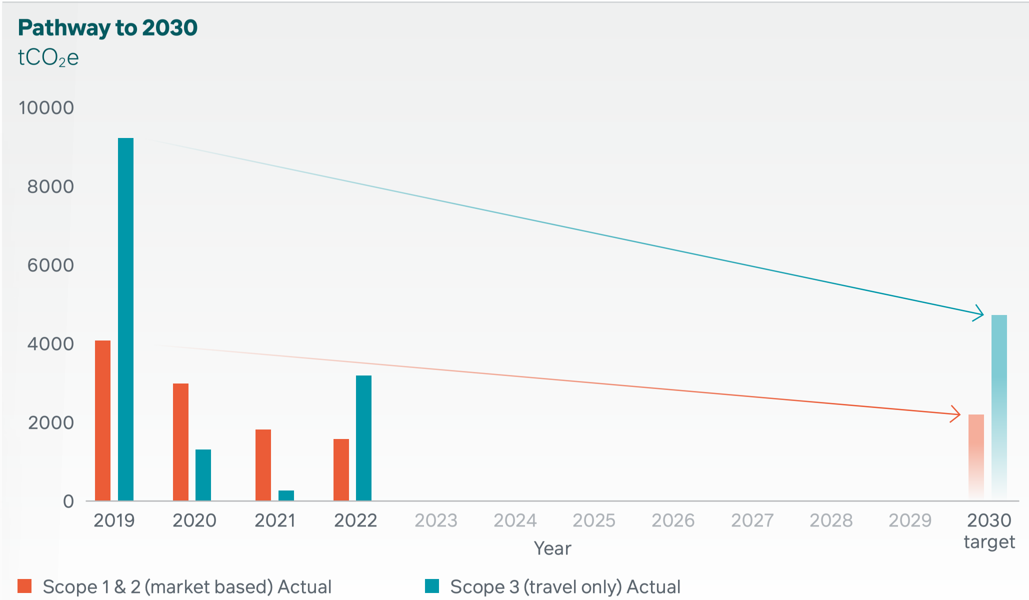
By 2050, we will reduce our 2019 baseline corporate emissions by 90%.

Overview of carbon footprint change against baseline

In 2022, we made good progress in reducing emissions from our corporate operations.

Our 2022 reported Scope 1 & 2 (market-based) emissions for our offices were 1,526tCO_2e; a decrease of 62% from 2019.

Emissions from Scope 3 business travel for the year were 2,903tCO_2e, a reduction of 68% compared to 2019. This drop is in part due to reduced travel due to COVID-19 restrictions, the easing of which is reflected in the increased emissions in 2022 from 2021. We expect this trend will continue in 2023.



8 Reduce our operational emissions and set an example with our corporate sustainability practices

Use of offsets and principles development

Using carbon credits or offsets is no substitute for reducing emissions. While we purchased offsets in 2022 for selected Scope 3 emissions, we remain committed to reducing the environmental and carbon emissions footprint from our corporate operations.

We have established offsetting principles to support selection and manage risk regarding the purchase of carbon credits. All our credits are also third-party verified by Verra. These principles are aligned with the Oxford Principles for Net Zero Aligned Carbon Offsetting and consider the source (accreditations, vintage and leakage), category (avoidance, reduction or storage), type (nature or technology based) and associated co-benefits or unintended consequences of projects.

Our buildings

An important step in reducing emissions from our corporate offices in 2022 was the move from our Craigforth site to our new offices at Kildean Business Park in Stirling. The new office is designed to high sustainability standards and is being assessed by BREEAM. It is 100% electric, removing the use of natural gas from our operations in Scotland. This will reduce our Scope 1 emissions.

As a result of our office moves in 2022, we donated surplus office items including furniture, stationery and kitchen equipment to more than 20 local charities, schools and community organisations.

At our 10 Fenchurch Avenue London head office we are reducing the temperature in our computer rooms and changing lighting controls during low occupancy to reduce our overall emissions. We are now looking at deploying similar initiatives across our estate.

We directly purchase renewable energy for 77% of our office estate. This includes all of our offices in the UK, as well as our Frankfurt, Luxembourg and Warsaw offices. Our office in South Africa generates some of its own electricity via photovoltaic panels on its roof. Our office in Mumbai accounts for 5% of our office electricity use and in 2022, for the first time, we sourced renewable energy for this location.

We bought energy attribute certificates for 38 offices where we were unable to purchase renewable electricity directly. For some of our offices in Asia-Pacific, we are unable to arrange either a renewables energy contract or energy attribute certificates, but we are reviewing opportunities where possible. Overall, we sourced 99% of the electricity we purchase from renewable sources.

We also aim to minimise the environmental impact from our office operations and manage our waste materials responsibly. For our UK offices, where we have operational control, we operate a zero waste to landfill policy and recycled 67% of our UK office waste in 2022.

We work with a specialist technology waste disposal company to ensure that items are either re-used or recycled. In our offices, we want to provide colleagues with more information to make informed decisions and in 2022 began trialling food carbon labels in our UK offices restaurants.

Our travel

We aim to transition to a fully electric fleet by 2026. All new vehicles are restricted to electric or ultra-low emissions vehicles (less than 50g/km) only. By year end 2022, 12% of our fleet comprised electric vehicles. This is expected to increase to 33% by the end of 2023. In addition, all cars available through our colleague salary sacrifice scheme are limited to ultra-low emissions vehicles.

We have increased the number of offices able to book and report travel through our central travel booker, including India, US, Australia, Singapore, South Korea and Europe (excluding Poland). This provides greater transparency of data and opportunities to support lower carbon travel through carbon impact notifications when booking. Our interactive travel reporting dashboard gives detail on carbon impact for business area travel activity.

Our supply chain

Through a targeted supplier engagement programme, undertaken during summer 2022, we have improved our supply-chain carbon emissions data, resulting in a reduction of our estimated carbon exposure of 42%, and establishing that 20% of suppliers' emissions are covered by science-based targets. We identified 90 suppliers, which account for around 75% of our supply-chain emissions.

In addition, we have calculated the emissions and impact of our corporate events, and are identifying opportunities to reduce this impact.

In 2023, we will be:

- Rolling out a programme of energy assessments across our largest offices to identify energy-saving initiatives and opportunities.
- Exploring the use of technology-led occupancy data to influence the indoor conditioning of our offices, to reduce energy use where possible.
- Raising colleague awareness of their lower carbon and active commute options.
- Engaging closely with suppliers of goods and services to assess their environmental footprint and impact on our operations.

8 Reduce our operational emissions and set an example with our corporate sustainability practices

Greenhouse gas emissions statement

We have compiled our global greenhouse gas (GHG) emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

GHG emissions are broken down into three scopes; we have included full reporting for Scope 1 & 2, and selected Scope 3 reporting as best practice.

Scope 1 emissions are our direct emissions from the combustion of fuel, fugitive emissions and company-owned vehicles.

Scope 2 emissions cover our indirect emissions from purchasing electricity (including company electrical vehicles), heating and cooling.
We have reported our Scope 2 emissions using both the location and market-based methods in line with the GHG Protocol Scope 2 Guidance.

Our Scope 3 emissions footprint includes business travel (category 6) booked through our central travel management company, car travel in colleague-owned cars (category 6), water consumption (category 1) and waste generation (category 5) from occupied properties (where data is available).

We are reviewing the extent of our Scope 3 reporting and increasing coverage where practicable. We aim to formally report on purchased goods and services and capital goods (categories 1 and 2). Our Basis of Reporting for further reporting is on our website. Data is presented gross of any carbon offsets.

		2022		2021 (restated)		2019 baseline	
		UK	Total	UK	Total	UK	Total
Scope 1 (tCO_2e)	Natural gas, oil (generators), vehicle fleet, refrigerants	**1,350**	**1,435** Ⓐ	1,629	1,703	1,936	2,128
Scope 2 (tCO_2e) Location based	Electricity, purchased heat and steam	**2,065**	**4,079** Ⓐ	2,253	4,228	4,213	5,849
Scope 2 (tCO_2e) Market based	Electricity, purchased heat and steam	**11**	**91** Ⓐ	3	184	105	1,880
Scope 1 & 2 (tCO_2e)	When reporting totals market-based emissions are used	**1,361**	**1,526** Ⓐ	1,632	1,887	2,041	4,008
Energy	EAC volumes (MWh)	**204**	**3,677**	42	3,555		
	Energy use (MWh)	**16,974**	**21,257** Ⓐ	18,130	22,313	22,941	26,205
	tCO_2e per FTE (Scope 1 & 2)		**0.25** Ⓐ		0.33		0.74

		2022	2021 (restated)	2019
Scope 3 (tCO_2e)	Air travel (booked through central travel booker)	**2,826**	252	8,946
	Land travel (booked through central travel booker)	**77**	21	127
	Water (global where available data)	**4**	3	11
	Waste (global where available data)	**409**	92	365
	Total	**3,316** Ⓐ	368	9,449
	Global Scope 1, 2 and selected Scope 3 (tCO_2e)	**4,842** Ⓐ	2,255	13,457

Data Notes:

Reporting period:	1 January 2022 to 31 December 2022
Baseline year:	2019
Independent assurance:	PwC has provided limited assurance over selected metrics reported for 2022 (as indicated by Ⓐ) in accordance with International Standard on Assurance 3000 – 'Assurance Engagement other than Audits or Reviews of Historical Financial Information (ISAE 3000)', issued by the International Auditing and Assurance Standards Board and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements', issued by the International Auditing and Assurance Standards Board. The assurance statement can be found on our website.
Consolidation (boundary) approach:	Operational control as defined by the Greenhouse Gas Protocol is where the Group has authority to introduce and implement its operating policies at the operations.
Consistency with financial statements:	M&G plc owns and manages certain investments held on its balance sheet in the financial statements, over which it does not have operational control due to fund governance structures. These are excluded from the scope of reporting under the operational control approach.
Emission factor:	Scope 1 and 3 reporting use the UK BEIS 2022 GHG Conversion Factors. Scope 2 calculations use the IEA GHG 2022 Conversion Factors for location-based reporting. Market-based reporting uses supplier emission factors for our UK REGO-backed supply and RE-DISS factors where available.
Accounting methodology:	The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard
Materiality threshold:	5%
Data restatements:	Our 2021 reported Scope 1 & 2, and selected Scope 3 emissions have increased by 5.51% to 2,255tCO_2e (previously 2,137tCO_2e). The increase is largely attributed to additional gas consumption (Scope 1) data received for our UK head office after the reporting period had completed.

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

Why this matters

M&G's long-term success is dependent on our ability to attract and retain the best people, and we recognise the strength that comes from having a diverse workforce. This is why promoting diversity and inclusion (D&I) forms part of our strategic priorities as a business and as an investor.

What we have achieved so far

Increasing and celebrating diversity and inclusion at M&G is embedded in how we work. We have a five-year plan, clear governance model, and different D&I reporting metrics to ensure process, planning and accountability.

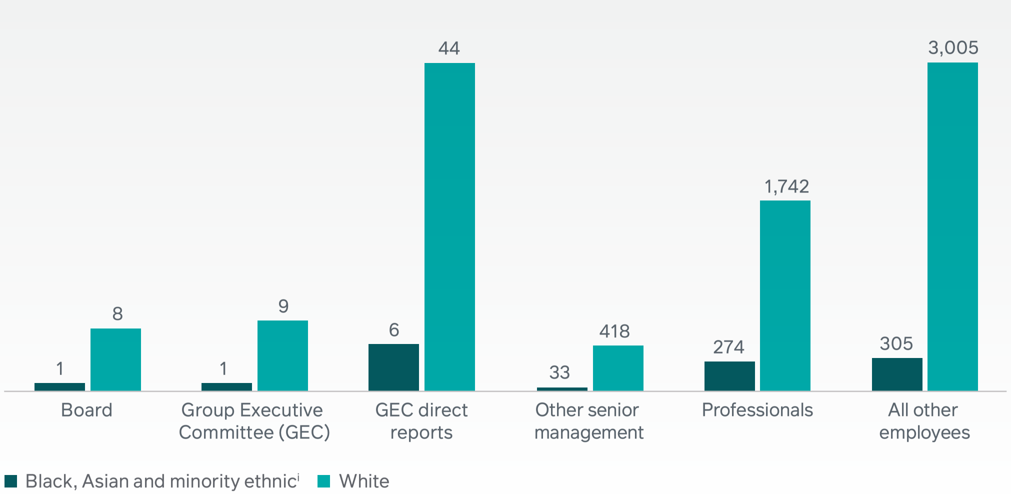
Measuring D&I at M&G

Our targets ensure we are focused on becoming more diverse and inclusive:

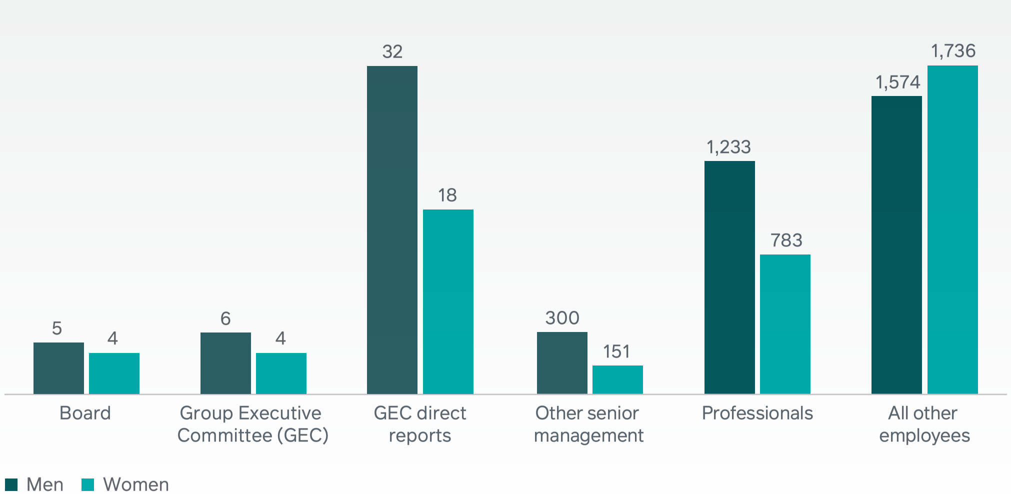
- **Diversity in senior leadership:** 40% women and 20% ethnic diversity in senior leadership by 2025: At end 2022: 37% women (2021: 35%); 12% ethnicity (2021: 13%) in senior leadership
- **Colleague Inclusion Index:** We aim for annual improvements in our Colleague Inclusion Index. From 2022, this is based on new questions and a different scoring methodology. Our 2022 score of 69 will be our baseline, and we will monitor this on a quarterly basis.

We are committed to achieving gender parity across our global operations. We have been a signatory of the UK HM Treasury Women in Finance Charter for five years. In 2022, we became signatories of the Women in Finance Charter in Ireland and the diversity charters in France and Italy, showing expanded support for this ambition internationally.

Employee profile ethnicity diversity
Number of people



Employee profile gender diversity
Number of people



Over the last 12 months, we have decreased the mean gender pay gap to 29.2% (-0.1%) and our mean gender bonus gap to 67.5% (-1.8%). We have more men than women in higher-paying investment management, sales and senior operational roles, and more women in administrative and support roles. We know we have more work to do and believe that increasing female representation in senior roles, through our D&I targets, is key to closing our gender pay gap.

We are also voluntarily disclosing our ethnicity pay gap data for the third year in a row, ahead of a statutory requirement to do so. Our full 2021/2022 M&G pay gap report is available on our website.

In 2022, we reported a 12% female representation at the Executive Committee and direct reports level, as at 31 December 2022, reflecting a 1% decrease since last year. However, M&G's Board has met our commitment to The Parker Review, increasing the ethnic diversity of Board membership. The Board is committed to focus on overall diversity by attracting the broadest range of leaders.

Changes in leadership produce significant shifts in our data. We are committed to deliver our targets by 2025 and are taking steps to improve recruitment and promoting leaders who identify as Black, Asian or minority ethnic.

We will continue to work to build our reputation as a champion of diversity and inclusion.

i Includes our undisclosed population.
All data in graphs as of 31 December 2022.

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

External accreditation

While we acknowledge there is still more we need to do, our progress to date is reflected in our external accreditations, including:

- A Top 75 company in the Social Mobility Employers Index for the 6th consecutive year.
- An overall score of 78.47% against a financial sector average of 74% in the Bloomberg Gender-Equality Index, and a disclosure score of 100% against a financial sector average of 96%.
- One of nine companies to achieve LGBT Great's Financial Services 2023 Gold Standard, for the second year in a row, in recognition of our progress towards being an inclusive organisation.
- Ranked #2 by RateMyApprenticeship, the UK's leading job resource for young people; a Top 100 UK Apprenticeships Employers table in the Savings, Insurance and Investment sectors, and third in the country across all industries.

In April 2023 we successfully achieved reaccreditation for the National Equality Standard (NES).

The assessment, conducted by Ernst & Young every three years, incorporates an in-depth evaluation and a comprehensive review of our policies, culture and practices across 35 standards.

As the UK's leading diversity, equity and inclusion standard, more than 400 organisations have benefited from the rigorous assessment and benchmarking. Scoring 145 out of 175, the NES acknowledged M&G as setting the benchmark and coming top within the financial services industry and in cross-sectional organisations of a similar size (5,000 to 10,000 employees).

What we have achieved so far, as an investor

D&I is also a focus for our engagement teams. Across our investment portfolios, we published minimum diversity expectations for the boards of our investee companies. This is reflected in our engagement activities and voting record (when those expectations are not being satisfied). We voted against directors at 24 UK companies and 254 international companies that were failing to meet them.

We believe that an investee company Board with gender balance and minority ethnic representation, encompassing a diverse range of backgrounds, skills, and experience, provides a balanced input into long-term strategic decisions. We have set an ambition for our investee companies to show Board gender equality by 2027.

Our expectations on pathways to get there differ between large and small companies and across geographies. In our view, companies should disclose sufficient information and proposed plans on diversity to enable shareholders to make an informed judgement on progress.

To provide context for investee companies, our minimum expectations for Board diversity globally on a regional basis are:

a. For companies listed in the UK (FTSE350), Europe, North America and Australia, Boards should be 33% or more female by the 2022 AGM, and progress towards 40% by the 2023 AGM dates.

b. For UK small and AIM-listed companies, the minimum expectation is to be 25% or more female by the 2023 AGM, and a pathway of how to get to gender equality by 2027.

c. For the rest of the world, including emerging markets, the minimum expectation is 10% female by the 2023 AGM, with a published strategy of how the Board proposes to get to gender equality by 2027.

d. Diversity is not just about gender, and our minimum expectation for FTSE100 companies was to have at least one director from a minority ethnic background by the 2022 AGM.

We also expect progression in gender equality among senior management below Board level.

How we will measure our progress

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

Case study

Investing in Women Code

In December, M&G Investments became the first large UK asset manager to sign the UK Government's Investing in Women Code, on behalf of our Catalyst private assets strategy.

Less than 1% of all venture capital in the UK is invested in female-founded ventures, which represents a huge missed opportunity to create growth and jobs in the economy and to create value for investors. As a signatory of the Code, we aim to help female entrepreneurs access the funding they need to scale their businesses.

Working in partnership with a behavioural science consultancy, Catalyst is identifying nudges, or process design interventions, to deliver better diversity outcomes and will be researching new ways to break down barriers that female and other diverse founders experience in accessing funding.

10 Align all our people behind our sustainability ambition

Why this matters

To achieve our sustainability goals, we need the support and engagement of everyone at M&G. This entails proactively communicating the importance of sustainability and our progress across the business. It is vital that each individual knows how they can play their part and adapt their work so that we continue to shape a strong sustainability-driven culture.

What we have achieved so far

Driving colleague engagement through targeted campaigns

Sustainability and ESG feature regularly through communication activities across a mix of channels. We have run several focused campaigns supporting our sustainability initiatives, with leader-led updates and regular news stories.

To maintain awareness of and engagement with our sustainability agenda, we have run campaigns to show the depth and breadth of activity across our organisation. Highlights include our annual Go-vember campaign: nearly 700 colleagues walked 165 million steps throughout November contributing to planting 738 trees, £6,200 in funding for school resources and £6,248 to refurbish homes for those experiencing homelessness.

During 2022 we launched our new purpose: to help people manage and grow their savings and investments, responsibly. This multi-media, all-colleague campaign included videos, digital screens and stories explaining what responsibly means in terms of how we behave and putting our clients' needs first.

We will continue to look for ways to engage with colleagues on how they can support our operational sustainability journey in the future.

Volunteering

Being a responsible business is not only about how we manage investments, it is also about demonstrating our commitment to the communities in which we operate. As part of our wider strategy we aim to deliver support to encourage resilient, inclusive communities through urban regeneration, economic empowerment and community building. Our network of community champions across our offices are an important part of how we connect with our surrounding communities, and they lead and promote local charity fundraising and volunteering.

Working together, we direct funding and volunteering through our local community grants, giving our colleagues ownership and the ability to choose where to focus their support.

In 2022, 1,345 colleagues dedicated 8,964 hours of fundraising and volunteering in our communities.

Highlighting our continued achievements and strategic leadership in sustainability

So that our colleagues can see the real evidence of what we're doing, we make sure significant wins and investments are communicated internally.

We continue to lead from the top. Our Chief Financial Officer, Kathryn McLeland, is now Executive member with responsibility for the Group's sustainability activities. Kathryn has outlined to all colleagues why sustainability is important to her and her priorities. During 2022 our Chief Investment Officer held regular asset management townhalls, including ESG progress updates to the investment management community.

Our ambition and supporting activities were also demonstrated to colleagues through the promotion of awards and industry leading activity, for example signing the UK government's Investing in Women code and our climate team giving their reflections on COP27 through the lens of the asset management industry.

Sustainability training

We provided sustainability training and expertise to enable the Board to perform its role more effectively: covering the link between growth and sustainability, and ESG reporting and assurance for Non-Executive Directors.

In November 2022, a briefing session was provided to the Board, executive management and sustainability leaders by Professor Cameron Hepburn, a Director at the Smith School of Enterprise and the Environment. This session covered a smooth transition to net zero and where potential investment opportunities will arise.

Remuneration

We take into account our sustainability-related metrics when determining our executive Committee's reward structure. More information on this is on page 34.

OneVoice

Employee engagement is the degree to which employees invest themselves to drive positive organisational outcomes. We measure this in our OneVoice survey, asking colleagues how happy they are at work and if they would recommend M&G as a great place to work. The aggregate score (or the average of the responses) across both questions is presented as the sustainable engagement score of 72 for the year 2022. We moved to a new provider for OneVoice surveys in October 2022, including a new question set and new scoring methodology. The 2021 score is therefore not available on the same basis. We scored highly in awareness of culture and purpose, while colleague responses showed key areas to prioritise in 2023 are barriers to execution and team collaboration.

How we will measure our progress

- Monitor progress against past performance, and against peer benchmarks in our employee engagement survey.
- Success in achieving other goals in our sustainability programme, relating to how we invest our clients' money, how and where we spend our shareholders' money, and how we behave with each other.

How we manage our sustainability activities

Sustainability governance

Embedding governance over sustainability

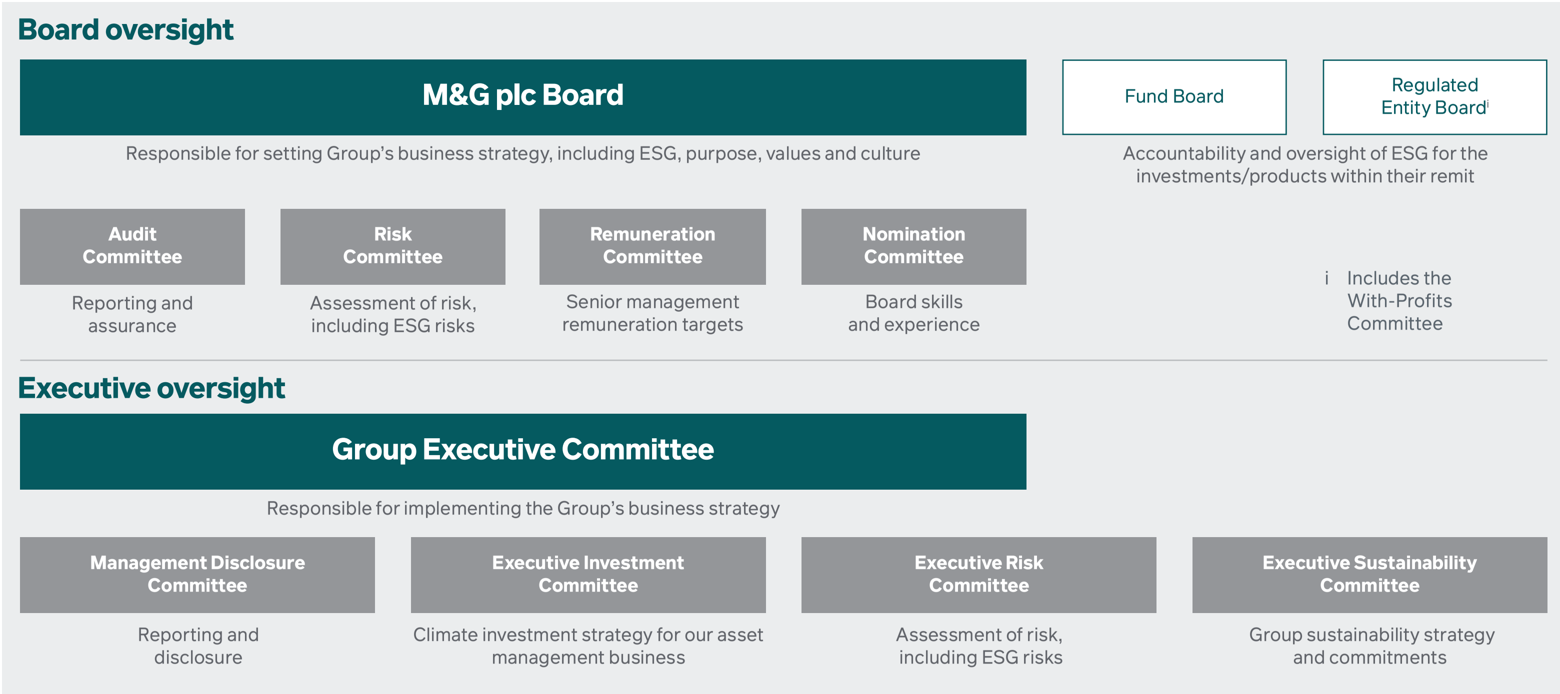
We recognise that sustainability issues, including climate change, have the potential to materially impact our business, both in terms of financial outcomes for our clients and investors, and the extent to which we can deliver our purpose by investing to support a sustainable and just transition.

The Board is ultimately responsible for setting M&G's sustainability strategy and ESG values and principles. The Board delegates specific duties to subcommittees as follows:

- Reporting in the Annual Report and Accounts and any other material public documents in respect of climate change and ESG matters (for compliance with relevant regulations, legislation and standards) is included in the Audit Committee's terms of reference, available on our website.
- Assessment of ESG risk within the Group Risk Management Framework, including climate-related stress and scenario testing, the reporting of climate-related risk disclosures and provision of advice to the Board in setting M&G's ESG strategy, is included in the Risk Committee's terms of reference, available on our website.

Responsibility for sustainability at an individual level is assigned to our Chief Financial Officer. The Chief Financial Officer is a member of both the Board and Group Executive Committee, facilitating communication between the Board and management.

In discharging its responsibilities, including setting M&G's sustainability strategy, the Board is supported by management. There is a clear division of responsibilities between the Chair, the Group Chief Executive Officer, the Senior Independent Director and the Non-Executive Directors through their membership of the Audit and Risk Committees.



Regular Risk and Compliance reporting is provided to both the M&G Risk Committee and the M&G Executive Risk Committee through the Chief Risk and Compliance Officer's report – setting out current risk issues, events in the period and a risk assessment of our key risks against appetite. This includes consideration of sustainability and ESG risks.

The chart above summarises the structures underpinning our governance approach to sustainability.

Management's role

Executive management, as members of the Group Executive Committee, report directly into the Group Chief Executive Officer, allowing material climate and other ESG issues and policy decisions to be escalated to the Board.

In discharging their responsibilities, management attend various committees, such as the M&G Executive Risk Committee and M&G Executive Investment Committee, to enable information sharing between business units and to monitor climate-related issues.

At the Group Executive Committee level, responsibility for sustainability strategy, policy, commitments and governance model, including climate, sits with our Chief Financial Officer.

A Central Sustainability Office was created in 2022 to implement a Group-wide sustainability governance operating model, shape the Group's sustainability strategy and policy, and oversee delivery of its commitments.

As part of this, an Executive Sustainability Committee (ESC) was also formed in 2022, and is chaired by our Chief Financial Officer. The committee supports the Board in the execution of M&G's sustainability strategy.

Sustainability governance

Through its remit, the ESC is also responsible for tracking progress against our targets, reviewing emerging sustainability topics, risks and external ESG disclosures, and driving a collaborative approach across M&G.

Sustainability disclosures and reporting that are considered material to the Group are presented to the Management Disclosure Committee (MDC), which has responsibility for external reporting and disclosure, prior to submission to the Audit Committee. The MDC is also chaired by the Chief Financial Officer.

Across our investments, there are ESG investment policies in place for both M&G Investments and The Prudential Assurance Company Limited (PAC). The M&G Investments Policy is owned by our asset manager's Chief Executive Officer and the PAC Policy is owned by the Head of Treasury and Investment Office.

Our Environmental Policy supports our interim carbon reduction goals across our operational activities.

Skills and experience

Our CFO has previous experience in climate stress testing and sustainable impact investing.

To enable the Board to perform its role more effectively, members were provided with a number of training sessions on sustainability topics during the year, including dedicated training on the link between growth and sustainability and wider training on ESG reporting and assurance for the Non-Executive Directors.

In addition to the training schedule for the year, in June 2022 the Risk Committee received a presentation on greenwashing risk, subsequent to which it approved further action in a number of areas, including updates to staff training, and certain fund-related actions relating to terminology and ratings.

Remuneration

Our Executive Committee's reward structure is linked to core performance management scorecards, which include sustainability-related metrics.

The executive LTIP arrangements for 2022 included a 7.5% weighting attributed to our organisational emissions reduction, and a 7.5% weighting attributed to our gender diversity targets. For the 2023 LTIP, the Remuneration Committee have added an ethnicity diversity target and increased the overall weighting for sustainability related targets from 15% to 25%.

These objectives and remuneration structures, including any sustainability-related targets, are reviewed annually.

Further details on our sustainability governance can be found on pages 36-38 of our 2022 Annual report and Accounts.

ESG risk management

ESG risk management

Sustainability and ESG have been identified as a principal risk to our business.

We consider and act upon a broad range of issues including those concerning greenwashing, climate impact, diversity and inclusion, and corporate governance. ESG Risk is considered in three broad dimensions: Inside out – how our business impacts on the planet and society, as we seek to create and drive value for our clients; Outside in – the impact of ESG factors on our organisation, ensuring that any 'real time' response aligns to our positioning on ESG; and Reputation – our ability to meet a range of key stakeholder expectations on sustainability and ESG issues, while reinforcing our brand values of care and integrity.

Our ESG risk management approach

Recognising the complex range of risks that sit under ESG, we have developed a specific ESG Risk Management framework to further enhance our approach to the identification, assessment and management of ESG risks, based on the three lines of defence model. The framework is supported by the ESG Risk Policy, which articulates our ESG risk appetite and sets out key business requirements.

As climate change is a critical aspect of ESG, it is a key area of oversight for our Risk and Compliance teams.

Consideration and prioritisation of climate risk is built into decision-making and governance processes, and key strategic Board risk assessment papers are reviewed through an ESG and climate risk lens.

Climate change risk is integrated into our scenario analysis process with both top-down and bottom-up considerations over a range of time horizons. As part of our Own Risk and Solvency Assessment (ORSA) we have used our in-house climate modelling expertise to explore the potential financial impacts of physical and transition risks through three different climate scenarios, using the Network for Greening the Financial System (NGFS) phase 2 scenarios as a base. In addition to the overall balance sheet modelling conducted as part of the ORSA, we have also undertaken more granular, asset-by-asset climate modelling to support integration across our investment teams.

The ESG Risk Management Framework consists of five core components as presented in the figure to the right.

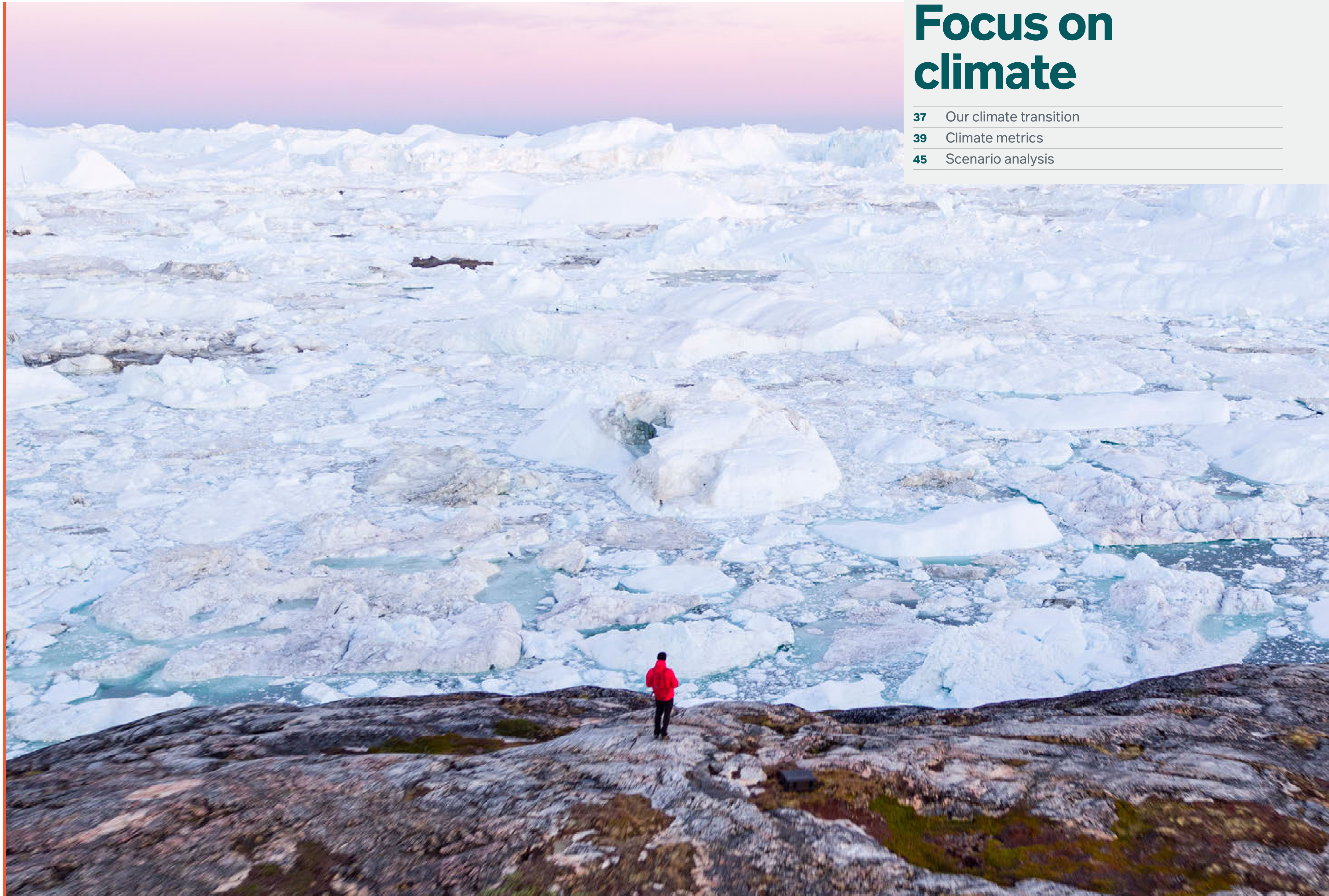
As part of implementing the framework, the ESG Risk Forum was established to promote an ESG risk culture and engage on sustainability across the business. It serves as a dedicated space to promote awareness on hot topics and M&G's related initiatives, impacts and oversight. Attendees from various business units join an active monthly discussion on diverse topics, facilitated by Organisational Risk.

In parallel with our internal risk framework, our investment teams manage and integrate risks generated by their portfolio including those stemming from ESG factors, notably through proprietary tool screening and due diligence processes around asset manager selection and monitoring for our asset owner – these are detailed on pages 15 and 17.

The importance of robust ESG risk management and controls will continue to grow as the industry further develops its approach to ESG, addressing issues such as the quality of ESG data, greenwashing, enhancement of climate change methodologies and implementation of regulatory requirements.

We anticipate the external ESG risk environment to continue to develop, with climate physical and transition risks accelerating, biodiversity emerging and social issues continuing to be important.

Focus on climate



Our climate transition

Our climate transition plan will continue to develop as we take into account feedback and evolving best practice. We now have interim decarbonisation targets across the business, and are improving our ability to assess transition alignment across the assets we manage.

Our main objective is to ensure that the assets we manage and our operations are aligned with the goals of the Paris Agreement, using the levers we have to support the necessary transition to net zero. We recognise that real-world emissions reductions are much harder than portfolio decarbonisation, and dependent on the right policies being in place to steer company and consumer actions. Climate change is a collective action challenge and we fundamentally believe in an open and collaborative approach, to learn from and contribute to best practice.

Say on Climate

In May 2022 we held our first Say on Climate vote, giving our shareholders an opportunity to express their views on our climate transition plan. A majority voted for, but we also received some constructive feedback which we are taking into account as we develop our roadmap. We will continue to engage with our shareholders and other stakeholders, and intend to update our plan as we refine our approach to climate.

Our transition levers

From an investment perspective, there are two key routes through which we can decarbonise the portfolios we manage – investment strategy and stewardship. Divestment does not translate directly into real-world emissions reductions and this is why we place significant emphasis on engagement and voting, to encourage our investees to align with the net zero transition.

Investment strategy and capital allocation to climate solutions, is an important lever, both in public and private assets. Many of the technologies already exist, but there is a huge global climate financing gap to scale and deploy solutions, particularly in developing countries.

Following the acquisition of responsAbility we can now provide investment strategies that directly address this, including the use of blended finance structures.

Another important component of our climate strategy is public policy advocacy, to promote ambitious science-based action and address barriers that may prevent progress. We also recognise that engagement with our clients on their expectations and needs must be a critical component to meaningfully deliver on our climate strategy.

Operationally, we continue to work on ways to reduce our direct and indirect emissions. The latter involves active engagement with our supply chain, to set minimum expectations and support accelerated decarbonisation.

Net Zero Investment Framework (NZIF)

Our asset manager NZIF provides a practical blueprint for achieving our climate commitments. It draws on our work as a member of the Paris Aligned Investor Initiative and of the Institutional Investor Group on Climate Change (IIGCC). Both groups are establishing actions, metrics and methodologies to enable us to decarbonise our portfolios, reduce climate-related risk and allocate more capital to climate solutions.

The NZIF is integrated into our Portfolio Analytics Tool (PAT), providing investment teams with a clear overview of key metrics and ability to assess transition alignment.

We continue to embed and develop the NZIF, to increase its robustness and expand to other asset classes, based on emerging methodologies from IIGCC.

Data and analysis

Data is critical for us to monitor and manage our portfolio decarbonisation. Our climate analysis combines quantitative and qualitative inputs, ensuring our assessments are holistic, forward-looking and focused on the most material and transition-relevant issues.

Scenario modelling is a key tool to help us understand how physical and transition risks, and opportunities, could impact the assets we manage over time. One of the challenges of scenario modelling is how to embed the outputs in decision-making.

Net zero transition

Key climate transition levers			
Investment strategies	**Stewardship**	**Advocacy**	**Operations**
Product design	Investee and investment manager engagement	Policy, industry and client engagement	Energy, travel and waste
Financing climate solutions	Voting	Transparency and disclosure	Supply chain engagement
Real-world change – transition alignment			

Our climate transition

To address this for our fixed income and equity portfolios, we have licensed Aladdin Climate, an investor-focused climate model for assessing transition and physical risk. Aladdin Climate is embedded within the main investment research and monitoring workflows, providing climate information alongside traditional investment information, unlike previous standalone scenario-modelling solutions.

For private assets, we have expanded the existing Marsh model to quantify the potential financial impacts from physical risks on our infrastructure assets, in addition to our real estate equity holdings.

Our investment teams have access to a range of proprietary tools to help them identify, assess and monitor climate risks for different types of assets, drawing on our ESG database:

- Our proprietary ESG scorecard, which is being enhanced to include further climate considerations, including use of Artificial Intelligence and Natural Language Processing to improve our assessment of investees.
- Our portfolio analytics tool (PAT), which incorporates NZIF metrics, allows our investment teams to monitor and visualise climate data and enables them to track progress against relevant benchmarks. In 2022, the PAT was updated to reflect the latest climate science and bring the NZIF in line with relevant IIGCC guidelines.
- Our Coal tool, which allows users to view how portfolios and benchmarks are positioned against the asset manager Thermal Coal Investment Policy.
- Carbonator, a web-based application that combines multiple machine-learning models to estimate the Scope 1 and 2 emissions of private companies that do not disclose adequate climate data.

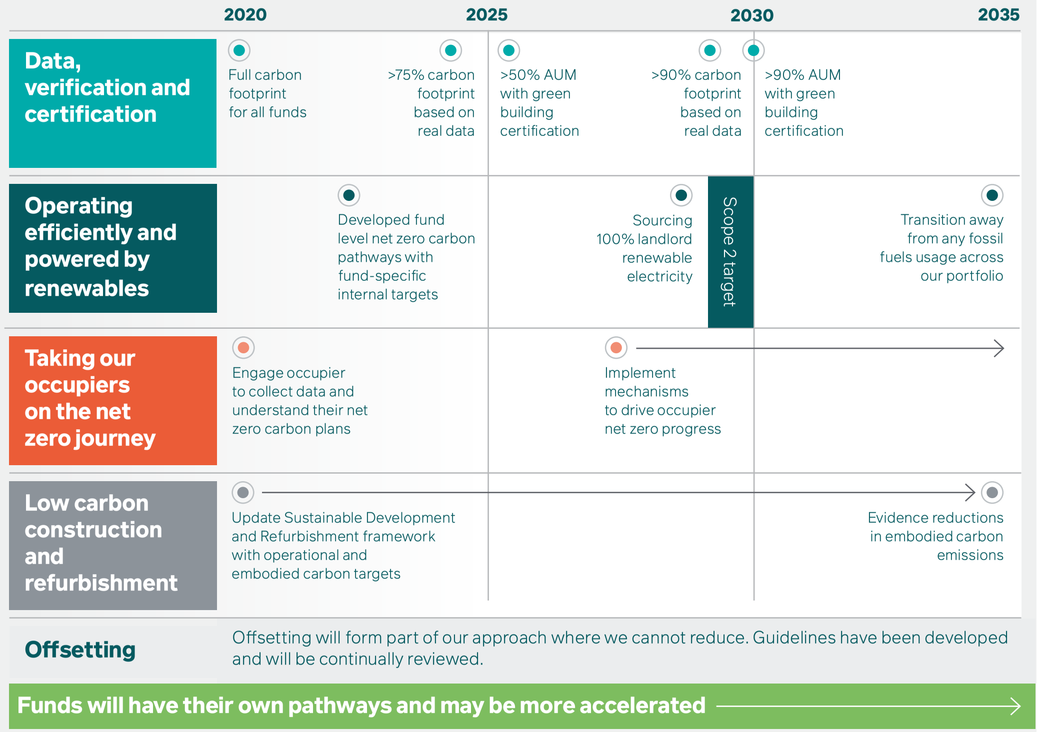
Example transition alignment: Real Estate

As signatories to the UK Better Buildings Partnership's (BBP) Climate Change Commitment, our 2050 target includes operational emissions: Scope 1, 2 and 3 (including whole building emissions associated with our tenants' activities) and embodied carbon emissions from developments, refurbishments and fit-out works. We also co-chair the BBP's Net Zero working group which aims to set standards and share guidance amongst the BBPs membership and wider industry on delivering net zero carbon.

In the past year we have focused our efforts in the following areas:

- Informing our net zero delivery plans with a series of detailed net zero carbon audits at the asset level. These identify cost measures required to hit net zero, and involve active engagement with our occupiers – an important set of stakeholders for decarbonising real estate assets.
- Improving the coverage of tenant utility data, which accounts for a significant proportion of our carbon emissions. In the past year we have launched a major drive to increase portfolio data coverage – including from traditionally harder-to-reach asset classes – through the deployment of innovate data capture, technology and metering solutions.
- Putting steps in place to reduce the physical impacts of climate change. All assets have been assessed for exposure to physical climate risk to 2100 under different emission scenarios. This identifies exposure to a range of climate-related impacts including flooding and storm damage.
- Exploring opportunities to deploy on-site renewable energy systems in new developments and existing assets. In the past year we have investigated the case for installing rooftop solar photovoltaic systems across a range of retail and industrial buildings and have started to work with tenants to deploy these where feasible.
- Strengthening our acquisition due diligence process to include net zero audits which identify any technical barriers to achieving net zero and enable the financial cost to transition assets to be underwritten and managed.
- Engaging with our customers to improve the environmental performance of the buildings they occupy. We continue to attempt to introduce 'green lease' requirements within leases to facilitate greater collaboration and sharing of data. In the past year we also introduced a new green living charter to residential customers.

Our real estate interim targets



Climate metrics

We have made good progress over the past 12 months, enabling greater transparency through an expanded set of climate-related metrics.

Notably, for the first time we have included our M&G Southern Africa business in the reported set of metrics, bringing greater transparency of these higher emitting assets. In addition, we have expanded our asset class coverage and now report on emissions for the sovereign debt we finance, following the release of guidance from the Partnership for Carbon Accounting Financials (PCAF) in late 2022. We have also calculated metrics for our private infrastructure investment arm, Infracapital, for the first time.

The Scope 3 emissions of our investments are also presented for the first time, providing a wider lens through which to view our investments, while noting the inherent limitations of this data, including potential double-counting of emissions.

Our investment-related emissions are much larger than those from our operations and this is why actions across our portfolio are key to achieve our net zero 2050 goal. The calculation of these expanded portfolio metrics is an important step forward in monitoring progress towards our long-term climate commitments and targets, and identifying such actions. We are also publishing metrics that indicate portfolio alignment, in line with our Net Zero Investment Framework and methodology.

This wider set of climate metrics helps us take a more holistic approach to portfolio decarbonisation – one that is more aligned to that of the real world.

There is a confluence of regulation, frameworks and initiatives which continue to drive the rapid evolution of climate disclosures. While the conceptual aims of our current reported metrics will likely remain, the precision of measurement and disclosure may advance significantly. Against this backdrop, we will continue to assess which indicators are most decision-useful and transition relevant.

Limitations

Development of these metrics will allow us to provide trend analysis in future reporting. The calculation of these metrics is subject to limitations that will be addressed over time. More information on the basis of the calculations and limitations is set out in the supplementary information on pages 66-68 and results should be interpreted with these constraints in mind. Coverage is the main area of improvement, and is dependent on availability of good quality data.

Re-baselining of climate metrics

The nature of our portfolios will continue to change, due to a number of factors. For example, investments mature, corporates evolve through mergers and acquisitions, subscriptions and redemptions result in allocation changes, and portfolio reallocation occurs due to better relative opportunities. Changes in our portfolio will drive the requirement for re-baselining our emissions metrics.

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

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

The industry continues to work to build a robust re-baselining methodology in the IIGCC/Paris Aligned Investment Initiative working groups. Once there is stronger consensus on approach, we will need to develop our internal capability to integrate this, to provide transparency and ensure the baseline reflects the underlying portfolio composition over time.

> "We have expanded our set of climate metrics to improve measurement and transparency in relation to our actions, and the outcomes we are seeking to achieve. As we advance in our net zero journey, these metrics play an important role in evidencing progress against our targets and commitments."
>
> **Nina Reid**
> Head of Sustainability: Private and Alternative Assets

Climate metrics

Key information on climate metrics

Metrics have been calculated for equities, corporate and sovereign debt, and, where relevant, real estate and Infracapital. They are presented at asset manager (AM) and asset owner (AO) level, with additional AM data (excluding M&G Southern Africa) in order to show a direct comparison with results from the previous year. The AO results only include AUMA managed internally by our asset manager and therefore form a subset of those for AM. All figures in the following tables are as at YE 2022 unless otherwise stated, and year-on-year commentary has been provided at an M&G plc level (AM includes AO). More information on these metrics and how they are calculated can be found in the supplementary section on pages 66-68.

Public assets

Overall, year-on-year movement in the emissions of our public equities and corporate fixed income portfolios were largely driven by a reduction from financial movements, offset by the addition of our M&G Southern Africa business, with AUMA of £10 billion. Excluding M&G Southern Africa, the FCE (Scope 1 & 2) of public equities and public corporate fixed income portfolios dropped by 23.5% to 9,499 tCO_2e over 2022. While the majority of this reduction was due to factors other than portfolio decarbonisation, a small portion of the reduction can be attributed to divestments driven by sustainability-led considerations and implementation of the Thermal Coal Investment Policy (TCIP) from April 2022, and also due to issuer-level decarbonisation. Similarly, the carbon footprint (Scope 1 & 2) of the portfolio excluding M&G Southern Africa declined by 16.9%, meaning that in aggregate, the emissions associated with each million pound invested across our public corporate assets ended the year lower.

The table below presents metrics relating to public equities and corporate fixed income managed by our asset manager covering AUMA of £175.3 billion (asset manager) and £80.4 billion (asset owner) for 2022 (2021: £178.0 billion and £102.3 billion, respectively).

	2022			2021			
Metric	**AM**	**AM (exc M&G SA)**	**AO**	AM	AO	What this shows	How this metric is used
Financed carbon emissions (FCE) Scope 1 & 2 (000s tCO_2e)	**12,995**	**9,499**	**5,179**	12,412	7,828	The absolute emissions associated with our listed equity and corporate debt investments, where there is available reported data or estimates. Scope 1 is emissions from owned or controlled sources such as factories. Scope 2 is from purchased steam, heat and electricity. Scope 3 emissions are those associated with the upstream and downstream supply chain of a corporate. The FCE calculation is based on the Partnership for Carbon Accounting in Finance (PCAF) methodology, using Enterprise Value including Cash (EVIC) to attribute our emissions' ownership.	Clarity on material contributors to our FCE facilitates targeted engagement with companies to set net zero goals and science-based targets, and was a key driver of our coal policy and engagement plan to transition these assets. FCE helps us monitor progress, but can change due to factors other than decarbonisation (for example AUMA and EVIC movements) and may therefore not reflect real-world emissions reductions. We monitor Scope 3 emissions to inform targeted actions, but data quality remains poor, making it less reliable for decision-making. Re-baselining will be required in order to ensure future comparability and consistency.
Coverage %	*70%*	*69%*	*71%*	*69%*	*75%*		
Financed carbon emissions (FCE) Scope 3 (000s tCO_2e)	**80,683**	**58,254**	**30,788**	n/a	n/a		
Coverage %	*70%*	*69%*	*71%*	*n/a*	*n/a*		
Carbon footprint Scope 1 & 2 (tCO_2e/£m invested)	**105.9**	**83.6**	**90.9**	100.6	102.2	The financed carbon emissions per £m invested normalises FCE to portfolio value, which aids comparison, while acknowledging that FCE is also a primary metric for goals and targets.	Our 2030 interim targets are based on carbon footprint. We monitor this indicator to track progress against both our long-term and interim commitments. Should the AUMA of M&G plc grow or decline through time this metric can track relative progress. However, it is sensitive to financial market movements, which affect the denominator. Future re-baselining will be required.
Coverage %	*70%*	*69%*	*71%*	*69%*	*75%*		
Carbon footprint Scope 3 (tCO_2e/£m invested)	**659.8**	**514.2**	**540.5**	n/a	n/a		
Coverage %	*70%*	*69%*	*71%*	*n/a*	*n/a*		
Weighted Average Carbon Intensity (WACI) Scope 1 & 2 (tCO_2e/£m sales)	**229.6**	**176.3**	**182.0**	244.0	257.1	Provides a single metric summing the individual emissions intensities (by £m of investee sales) of companies in a portfolio, based on their weightings, to enable comparison of carbon intensities across companies and portfolios. WACI is not based on emissions ownership and does not indicate absolute size of underlying investee emissions.	This high-level metric is used by portfolio managers to understand relative carbon exposure (transition risks), as well as in reporting. We observe an industry trend towards FCE indicators and we therefore expect to attach a less priority to WACI within entity-level reporting in future. WACI is sensitive to fluctuations in companies' sales (the denominator). Future re-baselining will be required.
Coverage %	*81%*	*80%*	*82%*	*82%*	*83%*		
Weighted Average Carbon Intensity (WACI) Scope 3 (tCO_2e/£m sales)	**1,233.3**	**1,045.5**	**1,091.4**	n/a	n/a		
Coverage %	*79%*	*78%*	*79%*	*n/a*	*n/a*		

Climate metrics

Sovereign debt

Sovereign debt emissions data is reported for the first time this year, based on £24.7 billion of in-scope AUMA (including assets managed by M&G Southern Africa). In the below table, we have included financed domestic production and consumption emissions, and their respective weighted average intensities. LULUCF stands for Land Use, Land Use Change and Forestry.

	2022				
Metric	**AM**	**AM (exc M&G SA)**	**AO**	What this shows	How this metric is used
Financed sovereign consumption emissions (Scope 1,2,3 excl. exported emissions, incl. LULUCF) ('000s tCO_2)	**17,625**	**12,488**	**3,181**	The emissions associated with our sovereign debt investments. This is calculated according to the Partnership for Carbon Accounting Financials (PCAF) methodology. Production emissions are broadly equivalent to Scope 1 emissions of corporates and consumption emissions broadly equivalent to Scope 1+2+3 emissions of corporates.	PCAF released their guidance on sovereign debt at the end of 2022. These metrics help inform wider group strategy but are still being integrated into tools and workflows.
Coverage %	95.7%	95.7%	99.9%		
Financed sovereign production emissions (Scope 1 incl. LULUCF) ('000s tCO_2)	**8,927**	**6,039**	**1,360**		
Coverage %	99.7%	99.7%	99.9%		
Weighted average sovereign production intensity (Scope 1 incl. LULUCF) ('000s tCO_2/£m GDP PPP)	**0.4**	**0.3**	**0.3**	Provides a single metric summing the individual emissions intensities (normalised by PPP adjusted GCDP for WASCI and by capita for WASPI) of sovereigns in a portfolio, to directly compare across issuers.	
Coverage %	99.7%	99.7%	99.9%		
Weighted average sovereign consumption intensity (Scope 1,2,3 excl. exported emissions, incl. LULUCF) (tCO_2/Capita)	**21.6**	**22.3**	**23.0**		
Coverage %	95.7%	95.7%	99.9%		

Climate metrics

Private assets (M&G Real Estate and Infracapital)

Real estate* has experienced a material increase in absolute emissions, primarily due to an increase in building usage post-COVID, increased portfolio size outside of the UK, and improvements to the calculation methodology for Scope 3 emissions. Real estate metrics are based on £36 billion of AUMA for 2022 (2021: £34.8 billion).

Our Infracapital business has provided emissions data for the first time this year, therefore no year-on-year comparison can be made. The high emissions intensity is expected given the nature of the underlying assets (e.g. utilities). Infracapital metrics are based on £3.8 billion of AUMA for 2022.

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

	2022		2021			
Metric	**AM**	**AO**	AM	AO	What this shows	How this metric is used
Real estate GHG Scope 1 & 2 ('000s tCO_2e)	**123.5**	**42.3**	82.9	35.2	GHG emissions from energy used in assets held by M&G Real Estate funds under management, where the funds are deemed to have operational control over energy services (also known as landlord controlled or managed assets).	Measuring GHG emissions activity in managed assets supports our asset management decision-making, so that targeted investment can be made to improve the energy and carbon efficiency where it is technically and financially feasible to do so.
Coverage %	*85%*	*100%*	*89%*	*100%*		
Real estate GHG Scope 3 ('000s tCO_2e)	**600.6**	**272.3**	607.0	316.4	As above, including relevant Scope 3 downstream and upstream GHG emissions. For M&G Real Estate Fund's the most significant Scope 3 GHG emissions sources relate to downstream leased assets (energy use by tenants) and capital goods (embodied carbon associated with development and refurbishment activity).	Tenant energy use and embodied carbon in developments are significant emissions sources in the real estate sector. By incorporating these Scope 3 emissions activities into our net zero planning we will be better positioned to maintain climate resilience, particularly given carbon and energy building regulation.
Coverage %	*85%*	*100%*	*89%*	*100%*		
Real estate carbon footprint Scope 1 & 2 (tCO_2e/£m invested)	**4.04**	**2.73**	2.68	2.18	The GHG emissions per £m invested normalises FCE to portfolio value, which aids comparison, while acknowledging that FCE is also a primary metric for goals and targets.	The GHG emissions per £m invested allows for an additional lens to view the emissions of these assets. However, this metric is sensitive to asset price movements, which influence the denominator.
Coverage %	*85%*	*100%*	*89%*	*100%*		
Infracapital Scope 1 & 2 ('000s tCO_2e)	**690.8**	**131.1**	n/a	n/a	The emissions of our Infracapital assets, where there is available reported data or estimates. Scope 1 is emissions from owned or controlled sources such as factories. Scope 2 is from purchased steam, heat and electricity. Scope 3 emissions are those associated with the upstream and downstream supply chain of the asset. This is calculated according to Partnership for Carbon Accounting in Finance (PCAF) methodology.	Calculation of FCE allows for monitoring of decarbonisation progress. However, re-baselining will be required in order to ensure future comparability and consistency.
Coverage %	*87%*	*90%*	*n/a*	*n/a*		
Infracapital Scope 3 ('000s tCO_2e)	**8.0**	**1.4**	n/a	n/a		
Coverage %	*89%*	*90%*	*n/a*	*n/a*		
Infracapital carbon footprint Scope 1 & 2 (tCO_2e/£m invested)	**210.5**	**263.5**	n/a	n/a	The financed carbon emissions per £m invested normalises FCE to portfolio value, which aids comparison, while acknowledging that FCE is also a primary metric for goals and targets.	The FCE per £m invested provides an additional lens to view the emissions of these assets, and to compare carbon exposure.
Coverage %	*87%*	*90%*	*n/a*	*n/a*		

Climate metrics

High risk and high opportunity exposures (public assets)

While absolute fossil fuel exposure has decreased, proportional exposure has increased – this reflects the fact that fossil fuel issuers have tended to outperform the rest of the market in 2022. The overall decrease however is offset upon inclusion of M&G Southern Africa in both the high risk and high opportunity exposures. It is important to include the most exposed portion of our books so that we can more effectively decarbonise. Please note that with the ongoing energy crisis and time-lag of Morgan Stanley Capital International (MSCI)'s data, these figures may increase in the near-term. The general increase here is attributed to an increase in issuer value and increasing our positions in these issuers.

The metric previously reported as 'Green Exposure' has been split out into EU Taxonomy-aligned (based on MSCI's Estimated EU Taxonomy-aligned revenue for each issuer) and Green bonds (investments in Confederation of British Industry (CBI) Aligned and CBI Certified Bonds). Both metrics showed growth in terms of absolute value and proportion of overall AUMA. Non-corporate Green Bonds are presented for the first time in 2022. The fossil fuel and EU Taxonomy metrics are based on a pro-rating of exposed/aligned issuer revenue.

	2022			2021			
Metric	**AM**	**AM (exc M&G SA)**	**AO**	AM	AO	What this shows	How this metric is used
Fossil Fuel Exposure (excl. revenue from power gen.) (£m)	**8,780**	**8,306**	**3,997**	8,487	4,782	An overall view of M&G's exposure to fossil fuels (oil, gas, coal extraction value chains) excluding any company revenue derived from fossil fuel power generation. While economies rely on these today, they represent higher transition risks as efforts to decarbonise in line with the Paris Agreement strengthen.	This metric is a principal adverse indicator metric (PAI) as per the EU SFDR, providing greater transparency. The asset manager Thermal Coal Investment Policy went live in April 2022. M&G engages with large exposures through our Hot 100 list of high emitters, and in line with our thermal coal policy. We do this individually and collectively through our active participation in CA100+.
Fossil Fuel Exposure (excl. revenue from power gen.) (%)	***5.0%***	***5.0%***	***5.0%***	*4.6%*	*4.7%*	% exposure aids comparison with peers.	
Fossil Fuel Exposure (revenue from fossil fuel power gen.) (£m)	**1,157**	**996**	**406**	1,029	580	M&G's exposure to companies who derive part of their revenue from fossil fuel based-power generation.	
Fossil Fuel Exposure (revenue from fossil fuel power gen.) (%)	***0.7%***	***0.6%***	***0.5%***	*0.8%*	*0.6%*	% exposure aids comparison with peers.	
EU Taxonomy aligned (£m)	**6,585**	**6,485**	**2,851**	5,115	2,915	This is the 'good news' side of the equation, giving an initial and high-level view of the proportion of our AUMA that are identified as sustainable and climate opportunities, either through corporates that sell solutions (estimated revenues) or through our opportunity to finance climate transition capital/assets such as Green Bonds. It does not include climate solutions investments in some private funds such as Catalyst or Infracapital.	Provides a high-level view of M&G's allocation to climate solutions which, alongside decarbonisation, is a key component of our net zero investment framework. The global financing gap to meet the Paris Agreement goals remains huge, meaning there is significant scope for growth, particularly as governments implement policies aimed at accelerating the climate transition.
EU Taxonomy aligned (%)	***3.8%***	***3.9%***	***3.5%***	*2.9%*	*2.9%*		
Green Bonds – Corporate (£m)	**2,795**	**2,795**	**528**	1,865	664		
Green Bonds – Corporate (%)	***1.6%***	***1.7%***	***0.7%***	*1.0%*	*0.6%*	% exposure aids comparison with peers.	
Green exposure non-corporate (£ms)	**259**	**259**	**48**	n/a	n/a		

Climate metrics

Science-based targets (equities and fixed income)

The table below shows the proportion of our asset manager AUMA that have either committed to or set SBTi targets, together representing £63.3 billion, or a total of 1,398 issuers.

	2022			2021			
Metric	**AM**	**AM (exc M&G SA)**	**AO**	AM	AO	What this shows	How this metric is used
SBTi Target Committed (%)	**12.4%**	**12.6%**	**12.2%**	12.1%	11%	Measures portfolio exposure to companies that have made a public commitment to set a science-based target aligned with Science Based Targets initiative (SBTi) criteria. SBTi is widely recognised as an evolving standard for independently validated science-based targets.	M&G's portfolio emissions are derived from the wider universe of public equity and public fixed income investments, so as these companies set science-based targets and reduce their own emissions, this will feed into M&G's portfolio emissions reductions, and importantly have potential real-world impact.
SBTi Target Set (%)	**23.7%**	**24.9%**	**24.7%**	20.3%	16.4%	As above, but where a company has had its target validated by the SBTi.	These metrics are helpful in monitoring our overall position at portfolio level and form the criteria for some of the NZIF categories.

Asset manager engagement

Engagement as an asset manager is in line with our NZAMi commitment to prioritise the achievement of real-economy emissions reductions within the sectors and companies in which we invest. M&G prioritises its climate engagement programme on the highest carbon emitters within our portfolios.

Portfolio emissions is an aggregation of the owned emissions generated by the underlying companies. Engagement where it influences target setting and emissions reductions by portfolio companies will feed into portfolio emissions with a lag.

We directly engage with companies, both bilaterally and alongside other investors in collective groups such as Climate Action 100+. As members of CA100+ we support engagements conducted by our peers on behalf of this initiative. While the two indicators below overlap, this dual approach allows us to increase our overall impact.

Metric	**2022**	2021	What this shows	How this metric is used
Climate engagements/AM FCE (%)	**31.3%**	33.3%	M&G's bilateral climate engagements in 2022 as recorded by the asset manager's Engagement dashboard, calculated as a % of the Financed Carbon Emissions (FCE) of the portfolio. Engagements are conducted in line with the Principle for Responsible Investment's (PRI) definition between an investor and current investee company, with the purpose of improving practice on a climate target, disclosure or action. Where M&G co-leads a CA100+ engagement – this is included in this metric (some overlap with below metric).	As a global and responsible investor we see our role as encouraging companies to set net zero targets and to impact real-world outcomes, reducing climate transition risk in the future. We can not do this alone, but need to work alongside other investors to influence outcomes.
CA100+ engagements/AM FCE (%)	***38.4%***	*36.7%*	This metric shows the % of the asset manager's FCE engaged with collectively, either directly as a co-lead or working group member, or indirectly as a member of the CA100+ initiative.	As per above, collective action can be a more powerful influence on corporate climate ambition and plans, as the investors acting in concert can represent a large part of the capital base of a company.

Scenario analysis

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

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

Scenario analysis approach

High-level methodology

We leverage climate models that have sufficient coverage across key funds and largest investees, whilst covering our most significant asset classes: equities, corporate and sovereign debt, real estate and infrastructure. Recognising the different strengths and weaknesses of different climate models, M&G has licensed a new scenario model in 2022 (Aladdin Climate) to complement the existing suite of scenario modelling outputs, and we have expanded model capability to cover new asset classes such as sovereign bonds and infrastructure. We are using two modelling partners, Aladdin and Marsh, to provide portfolio, sector, and asset level output data, including future GHG emissions, emissions intensity, physical climate damages, energy flows, energy demand, and technological capabilities.

In total, the equity and debt models covered between c.£124 billion to c.£172 billion of AUMA, excluding cash, across physical and transition climate-adjusted valuation metrics, and temperature alignment. The assets modelled cover all sectors and geographies to which we have significant exposure.

These data points have then been aggregated to calculate a climate-adjusted valuation metric and temperature alignment metric for the portfolio. With these results we seek to improve our systematic approach to identifying and evaluating climate-related risks, at a investee, sector, and portfolio level.

Hence we licensed two different climate models to undertake scenario analysis at the asset/entity level: Aladdin Climate for financial assets (the 'equities and bonds model' covering public listed equities, corporate and sovereign public debt); and Marsh for assessing our private asset real estate and infrastructure exposure to physical climate risk. Physical climate risk of the private portfolio is modelled by Marsh using XDI modelling which quantifies the cost of extreme weather and climate change impacts to physical assets, taking into account asset specific information as to how different types of assets for that specific location will perform in different physical conditions.

Both models leverage extensive expertise from providers experienced in climate scenario modelling that were selected following extensive proof-of-concept exercises. Despite this procured expertise, climate change scenario models have limitations in assessing future climate changes due to factors such as uncertainty in emissions projections, limited understanding of climate processes and limitations in computing power and resolutions.

Additionally, models often have difficulties capturing localised and sectoral variability as well as acute physical events.

Per graph below, both models base their assumptions on economic and climatic stylised scenarios:

– An orderly scenario, which is aligned with Representative Concentration Pathway (RCP) 2.6 and predicts a temperature rise in the order of 1.6°C temperature by the end of the century, compliant with the Paris Agreement. Such a scenario is primarily limited in that the world remains well off target in restricting temperature rise to below 2 degrees, yet the industry often refers to this as a 'best case' scenario and provides a valuable comparison with the rest of the scenarios.

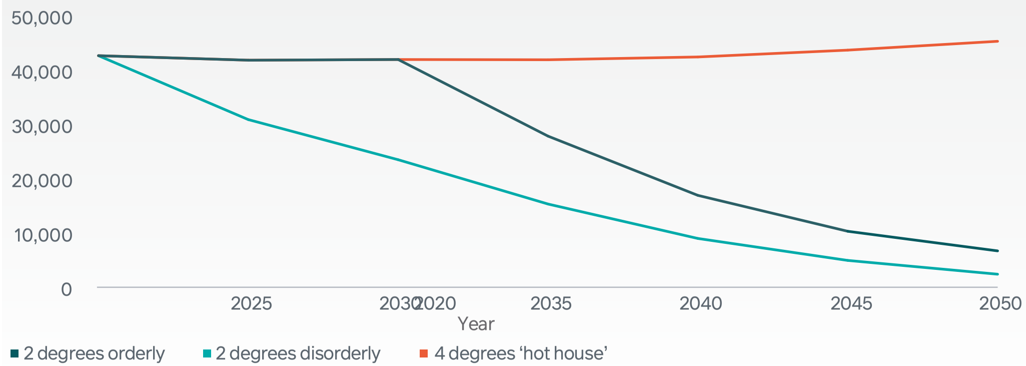
– A disorderly scenario, which is aligned with RCP 2.6 and predicts a temperature rise lower than 2°C by the end of century, however climate action to achieve this result is not taken until 2030, thus delaying any transition shocks. This scenario is limited in that it assumes coordinated policy action at a global level by 2030. This scenario is useful to explore abrupt transition risk, hence it is only applicable to the equities and bonds model.

– A 'hot house' scenario, which is aligned with RCP 8.5 and predicts an average temperature change in the order of 4.3°C by the end of the century, assuming no global response to climate change beyond what has already been committed to. There are concerns about the credibility of this scenario, however it is widely used in industry to represent a 'worst case' scenario and provides a valuable comparison to the RCP2.6 scenario as an unlikely high-risk future.

For the real estate and infrastructure asset modelling, output is limited to RCP 2.6 and 8.5 only, as produced by the IPCC. These broadly align to the orderly 2°C scenario and a 4°C scenario. The output of this model is limited to the identification of risk level and reinstatement value at risk, partly due to the fact that the model assesses only direct climate risk.

Scenario global emission trajectories

Million tons of CO_2e/year



Source: Network for Greening the Financial System (NGFS)

Scenario analysis

Asset selection

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

Little data is currently available for our private and alternative assets in order to perform scenario analysis, so we will evolve our capabilities as asset class models are enhanced and data collection improves.

Key outputs and model assumptions

As with any model, a wide range of assumptions underpin the calculated results. We recognise that the climate models are based on stylised scenarios, comprising of assumptions about future interplay between physical climate, policy, regulation and consumer behaviour at a global scale. Hence, the scenarios are not predictive in nature but rather help explore the envelope of potential outcomes. Their analysis is a useful tool for interrogating and understanding how different scenarios could feasibly impact our funds whilst identifying key factors which could impact specific assets or groups of assets.

Another key assumption is that sustainability data that underpins scenario modelling is reported by companies at a lag relative to other financial data. We have used the most up-to-date data available in all cases. However, for a subset of analysis GHG emissions used in the scenario analysis represents data from prior years. Where available, scenario modelling is based on the most up-to-date financial and emissions data.

Key transition risk assumptions

As countries around the world increase energy demand and transition to greener energy sources, a further key assumption is the energy requirements and mix in each region under each of the three scenarios. Projections of policies here include both energy reduction and change in the energy mix and show the high-level requirement of a complete phase-out of coal in the transition assumptions as well as significant reductions in gas, replaced primarily by renewables such as wind, solar and hydro energy. These impacts – notably emissions trajectories, energy demand and supply mix, carbon prices and electrification assumptions – drive major model results.

Key physical risk assumptions

For the equities and bonds model, macro level assumptions on how physical risks will impact GDP pathways are applied across all sectors, essentially allowing for implicit estimation of second-order impacts (e.g. supply chain impact). On the contrary, for the real estate and infrastructure model, physical risk data from Marsh using XDI calculate direct impacts at location-level, meaning that outputs of the model represent the projected impact due to direct physical climate change on each asset, but they do not take into account second order financial impacts (e.g. business interruption).

Key limitations

Limitations of scenario analysis

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

As with any model, a wide range of assumptions which may or may not be true in practice underpin the calculated results. Predicting climate change and its impacts on individual securities is an inherently complex exercise that needs to encapsulate not only the future climate, but also how companies will react to regulatory and customer pressures, changes to global supply and demand, and how companies will endeavour to protect their businesses in transition.

Data limitations of scenario analysis

There are three aspects of data limitations impacting our scenario analysis, reflecting the current market-wide challenges of climate modelling. The first aspect is the input data since for most assets modelled, we have used company-specific data sourced from third parties such as Aladdin, Evora or Bloomberg. Many publicly listed companies are measuring and reporting their emissions which are a required datapoint for the calculation of climate-related metrics. However, amongst smaller and privately owned companies, this data is not commonly reported. For instance there is limited reliable information regarding the physical location of key assets for both public or private companies as data points commonly reference a company headquarters rather than individual assets within the company, which introduces uncertainty in the physical climate risk assessment. We recognise that undertaking scenario analysis in the absence of complete input data is not ideal, yet the alternative of delaying scenario analysis is a non-option.

The second aspect of data limitation pertains to lack of high-quality, comprehensive and reliable data upon which the model assumptions are founded on. Examples are the lack of high-resolution physical hazard data at 5mx5m grid level or the gaps in data relating to supply chain reliance which prohibit models from building explicit intra-company dependences. Models are developed using proxies where data gaps are present to ensure that the minimum coverage is achieved. The last aspect of data limitations relates to the lack of historic data points to calibrate and validate the model outputs. The lack of historical data on the relationship between climate risks and financial outcomes, makes it difficult to interpret modelled outcomes far in the scenario horizon with confidence.

Despite those limitations, scenario analysis still provides us with useful information that can inform asset class and portfolio-level decision-making.

Limitations of the public assets climate change model

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

The Aladdin model in particular only takes into account Scope 1 and Scope 2 GHG Emissions. There are some sectors and companies that are known to be significant climate contributors owing to high Scope 3 emissions, but this is not captured in the analysis as a result.

Scenario analysis

Measurement and reporting of Scope 3 emissions is expected to improve over the next few years and is expected to be incorporated into the analysis in future.

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

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

Limitations of the private assets climate change model

The real estate and infrastructure model uses climate peril data to model the direct impact of physical climate impacts globally. In some geographies there is limited data, and the model uses a range of underlying source data at various resolutions to provide the necessary coverage for the projected perils. Similar to the equities and debt securities climate change model, the outputs provided by the real estate and infrastructure modelling assumes a number of key factors remain constant, in particular the current level of regional physical defence actions is assumed to remain unchanged. Although national defences may be upgraded in the future this is not considered within the physical climate risk projections.

Importantly, the scenario analysis for private lines only assesses direct physical risk, which is only one aspect of the climate change impacts for those assets. As such, it is important to interpret the results accordingly and consider necessary allowances for the second-order impact of physical risk (e.g. business interruption) as well as the impacts from transition modelling (e.g. asset valuation change due to GDP deterioration).

Other limitations affecting the private assets modelled is relating to the availability of data that we hold internally. For instance, while for real estate modelling we hold detailed location information internally, the infrastructure assets are often across both real estate and infrastructure portfolios, there are assumptions required to be made regarding reinstatement (or equivalent replacement) values which impacts the accuracy of the results. As such, for the real estate and infrastructure model, we rely more on relative risk scoring than the absolute financial impact when informing strategic decision-making.

The real estate model uses reinstatement valuations as the basis of calculating reinstatement value at risk. For tenant insured properties we do not have access to this data, and in these cases an assumption was made that reinstatement value is 50% of the asset value. This was benchmarked against data for which we hold reinstatement values.

Results

Equities and bonds results overview

The climate modelling results help us quantify the relative financial impacts of climate change across different emissions projections, and compare our exposure to climate risks and opportunities over time.

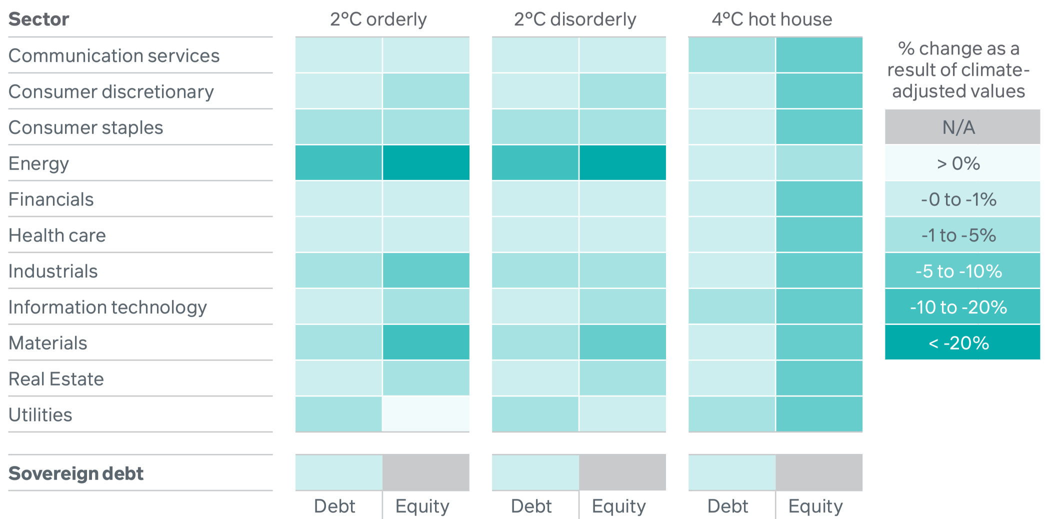
Our bottom-up approach provides estimates of the financial impact on all issuers modelled, as well as the impact on asset valuations. From an asset value perspective, there are a few key findings from our scenario modelling:

- Overall, the results indicate that the negative impacts on asset values will be larger under a hot house scenario, driven by the increasing physical risk and second-order macroeconomic impacts towards the end of the scenario horizon.
- Compared with 2021, the relative climate adjusted valuation impact has marginally reduced across most asset classes, while it has increased slightly in terms of temperature alignment.

This is largely a result of publicly listed issuers improving their climate resilience on one hand, counterbalanced by the inclusion of our more carbon-intensive M&G Southern Africa portfolio.

- Looking at the sectoral breakdown of public listed equities and public corporate debt, it is clear that the orderly and disorderly scenario impacts are most pronounced in the energy and materials sectors (where significant change is required to decarbonise and align with the transition). By contrast, under the hot house scenario – physical impacts only – asset valuations are impacted fairly evenly across all sectors, with carbon-intensive industries facing less pressure to change their business models.

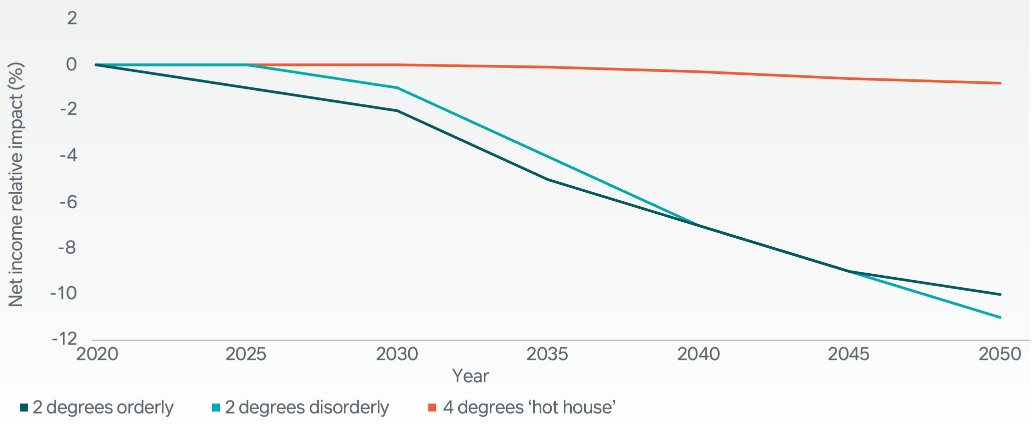
Climate adjusted value impact by sector (current to 2050)*



* The 2°C orderly and disorderly scenarios presented in this heatmap reflect transition risk impacts only with a coverage of 70%, and the 4°C hot house scenario reflects physical risk impacts only having a coverage of 86%. Further details on methodology and limitations can be found on pages 45-47.

Scenario analysis

Relative impact on net income across scenarios



Source: Aladdin Climate

Issuer financial impact

The graph illustrates the relative net income impact on our public listed equities and public corporate debt investments across the three scenarios assessed. They are expressed as a relative shock against a counterfactual scenario, and allow us to compare the physical and transition outputs of the scenario model (which currently are estimated separately). Issuers are impacted most severely in the 2°C scenarios, with the timing of the impact immediate in an orderly transition and delayed in a disorderly transition. In a 4°C (physical risk only) scenario, the financial impact on relative net income is more muted due to underlying model assumptions.

Climate metrics, particularly those based on forward-looking information, should be interpreted with caution, as they are inherently more uncertain than those based on historical data. The uncertainty related to scenario modelling outputs is significant as these are derived from complex models that involve making many assumptions and methodological choices.

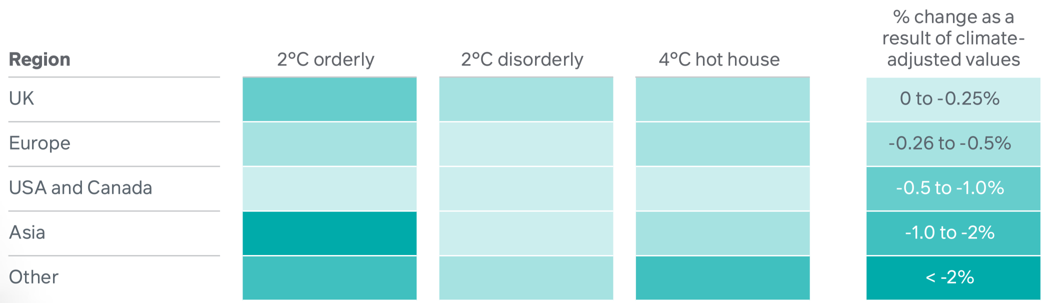
As an example, the physical risk model outputs could change materially should tipping points be incorporated. Physical tipping points represent potentially irreversible changes to the climate system that could accelerate the pace and impacts of acute and chronic physical climate events. These effects are practically challenging to include in model parameterisations, meaning physical risk impacts could be understated.

Sovereign bond valuations

Our scenario modelling assessed 90 sovereign debt exposures across all three scenarios totalling c.£24 billion.

The shocks to the value of these bonds follow a similar pattern to those observed on corporate debt exposures. However, European debt was typically more exposed to shocks, sovereign debt in regions including Africa, the Middle East, South America and the Caribbean (grouped together on the below charts as 'other') showed a significantly higher fall due to climate risk. These are geographies most vulnerable to climate change in terms of latitude, extreme heat and changing rainfall patterns, and are also least economically able to adapt to growing acute and chronic physical impacts.

Climate-adjusted value impact on sovereign bonds by region (Current to 2050)



Scenario analysis

Implied temperature rise

Temperature alignment – in the context of climate modelling – is the process by which a portfolio's aggregate carbon emission projections are compared against climate scenario projections and an implied temperature rise is attributed to that portfolio. The assessment is based on the underlying assets' current carbon emissions and transition plans, when compared against the overall sectoral trajectories that are dictated by the IPCC's emissions pathways. As part of our scenario modelling, we have calculated which projected scenario is mostly aligned to our portfolio's climate impact characteristics at a set point in time (year 2030).

Using the temperature alignment outputs from the climate scenario model, for each individual investee, we have estimated the portfolio-wide implied temperature rise. This is a fairly intuitive way to place a single number on a company's alignment to projected climate scenarios, and their contribution to global warming.

Despite its usefulness in communicating a single climate metric, temperature alignment projections come with limitations:

- There is no common definition of how temperature alignment calculations should be undertaken, which makes comparisons across different model outputs problematic.
- The methodology we have used, allocates a carbon budget to each company, and compares that company's progress to date and expected progress against that budget. The calculation is therefore primarily sensitive to the assumptions regarding sector and geography GHG emissions.
- It does not account for dynamic relationships between emissions and temperature change (i.e. inside out vs. outside in considerations), and it is based on emissions intensity (emissions per unit of revenue for each investee).
- Temperature assignment is based on projections of future GHG emissions which are subject to significant uncertainties. For instance, those projections consider only few of the non-linear shifts in the climate system or policy which are typically not taken into consideration (e.g. regulatory change).
- The portfolio temperature alignment is calculated as the weighted average of individual company's temperature alignments.

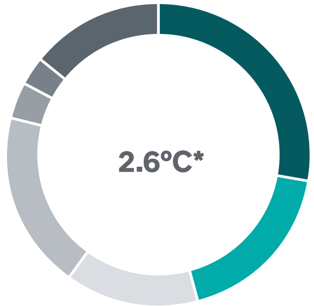
To mitigate for some of the inherent limitations of temperature alignment outputs, we interpret the metrics in conjunction with other information.

For instance, the temperature analysis shows that M&G's investees are aligned to a broad range of temperatures. Whilst almost 28% of modelled AUMA is projected to achieve alignment to a 1.5°C world by 2030 (representing an undershoot vs. that company's carbon budget), a material proportion is projected to be aligned beyond 4°C (representing carbon emissions significantly in excess of those required to limit global warming).

The chart to the right shows the proportion of investees through their market value aligned to each temperature range, indicating that more than 54% of our portfolio exceeds the 2°C alignment given the underlying assets transition pathways.

Temperature alignment of investees

%



< 1.5	28%
1.5-2	18%
2-2.5	14%
2.5-3	19%
3-3.5	4%
3.5-4	3%
4 <	14%

* The weighted average warming potential across investees modelled is 2.6°C (2021: 2.5°C).

Scenario analysis

Real estate equity and infrastructure equity results

For our directly owned real estate equity portfolio, the physical climate risk has remained similar to last year's levels, identifying only a relatively small proportion of assets that are at high risk from future climatic conditions. Under each scenario assets were rated low, medium or high risk (high risk being at least 1% damage ratio by 2100). The key conclusions from our real estate analysis are that (a) under an orderly scenario (RCP 2.6) between 5.4% and 8.2% of assets will be rated high risk by 2050 and 2100, respectively; and (b) under a hot house scenario (RCP 8.5) these percentages increase to 6.0% and 10.8%.

When investigating the assets closer, it becomes apparent that for the large majority, the physical climate risk exposure is driven by their current exposure to hydrometeorological hazards (e.g. proximity to coast). For those assets, while future change to climatic conditions will exacerbate the financial impacts, their exposure to current atmospheric perils can potentially be mitigated, e.g. through insurance or localised flood defences.

For the first time we have included the Infrastructure equity portfolio's critical assets in the physical climate risk assessment. The results suggest that for the assets modelled, only a relatively small proportion is at high risk from future climatic conditions. Under each scenario assets were rated low, medium or high risk (high risk being at least 1% damage ratio by 2100). The key conclusions of our Infracapital assessment is that: (a) under an orderly scenario (RCP 2.6) between 8.2% and 10.6% of assets will be rated high risk by 2050 and 2100 respectively; and (b) under a hot house scenario (RCP 8.5) these percentages increase to 8.2% and 10.9%.

Total real estate assets modelled

846

Assets modelled represent 8.6% of Group AUMA

Global average asset exposure to climate hazards

Size of circle is proportionate to the share of asset defined as at high risk of damage resulting from climate hazards at each point in time.

	2020	2050	2100
Orderly scenario (RCP 2.6) % portfolio high risk	5.2%	5.4%	8.2%
Hot house scenario (RCP 8.5) % portfolio high risk	5.2%	6.0%	10.8%

Total Infracapital assets modelled

512

Assets modelled represent 1% of Group AUMA

Global average asset exposure to climate hazards

Size of circle is proportionate to the share of asset defined as at high risk of damage resulting from climate hazards at each point in time.

	2020	2050	2100
Orderly scenario (RCP 2.6) % of modelled portfolio high risk	7.0%	8.2%	10.6%
Hot house scenario (RCP 8.5) % of modelled portfolio high risk	7.2%	8.2%	10.9%

Scenario analysis

Asset owner results

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

Here we present our asset owner results. These have been modelled based on the book of assets managed and/or administered by our internal asset manager, which includes our annuity portfolios, our with-profits portfolios, and certain unit-linked funds.

The model results suggest that the asset owner portfolio is more exposed to climate risk than the overarching asset manager portfolio. This is not surprising since the larger the portfolio, the more diversified it tends to be.

Another factor to this difference is that the asset owner portfolio has a higher exposure to public equity (52%) than the overarching asset manager portfolio (42%), which has more exposure to public corporate debt.

Given that the impact to valuation from climate change for public equity is more pronounced than public corporate debt, this explains why the asset owner portfolio presents with higher climate change impact.

Public assets

The chart below indicates a couple of key findings from an asset value perspective:

- Overall, the results indicate that the negative impacts on asset values will be larger under a hot house scenario, driven by the increasing physical risk and second-order macroeconomic impacts towards the end of the scenario horizon.
- Looking at the sectoral breakdown of public listed equities and public corporate debt, it is clear that the orderly and disorderly scenario impacts are most pronounced in the energy and material sectors (where significant change is required to decarbonise and align with the transition). By contrast, under the hot house scenario – physical impact only – asset valuations are impacted fairly evenly across all sectors.

Implied temperature rise

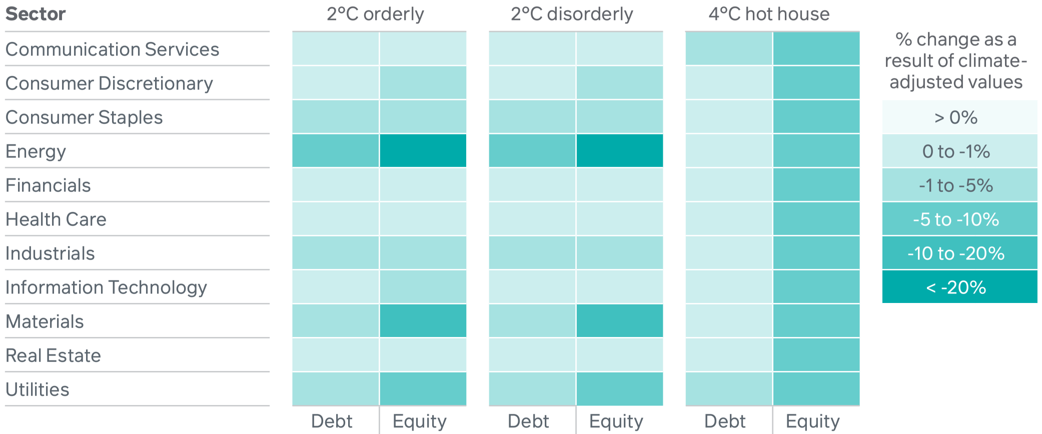
As part of our modelling, we have calculated the implied temperature rise (ITR) for each individual investee company where data is available (covering 71% of public equities and corporate debt as at 31 December 2022).

Our ITR analysis showing the temperature alignment of investees shows that they are aligned to a broad range of temperature outcomes. While 29% of the modelled AUMA is projected to achieve alignment with a 1.5°C world by 2030, a significant proportion is projected to exceed 4°C.

The chart to the right shows our relative ITR exposure based on portfolio weighti range of temperature levels. Current calculations indicate that more than ! assets exceed 2°C, given the underly company's transition pathways. The average warming potential across m investees is 2.7°C.

In summary, this analysis enables us to identify companies that are leaders and laggards in carbon emissions via a simple metric, which aids comparison and provides an input into investment research and decision-making. It can be considered a guide to identifying sector leaders during portfolio construction, and inform engagement with laggards to encourage greater transition ambition.

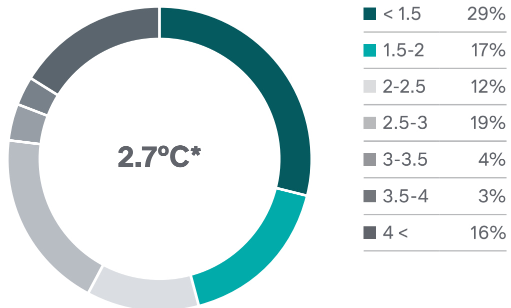
Climate-adjusted value impact by sector (current to 2050)*



* The 2°C orderly and disorderly scenarios presented in this heatmap reflect transition risk impacts only with a coverage of 70%, and the 4°C hot house scenario reflects physical risk impacts only having a coverage of 83%.

Temperature alignment of investees

%



< 1.5	29%
1.5-2	17%
2-2.5	12%
2.5-3	19%
3-3.5	4%
3.5-4	3%
4 <	16%

* The weighted average warming potential across investees modelled is 2.7°C (2021: 2.6°C).

Scenario analysis

Future enhancements

The value in scenario analysis is not just about the results that are produced (which represent a plausible future view of the world but nevertheless can never be truly predictive). By engaging with common themes across scenarios we can develop our understanding of key drivers of climate risk and identify climate threats and opportunities, which will support our overarching assessment of risk, and help fund managers as part of their decision-making process.

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

- Embed the scenario analysis tools and results within the investment decision-making process.
- Improve our understanding of the key assumptions and limitations of the modelling results and better communicate that to our clients.
- Improve data coverage across the asset portfolios, including data on private securities where available. We are developing data approximations for private assets and will use this to develop our scenario analysis further.
- Continue to expand asset class coverage, subject to definition of an acceptable methodology and availability of sufficient data and models. We are a diversified investor with a material portion of our asset portfolios invested in alternative assets. These asset classes are not currently included in our scenario analysis modelling.
- Longer term to develop bespoke scenarios that represent our view of the world, which will further support the embedding of scenario modelling into our decision-making processes. Ultimately, the objective of this scenario analysis is to inform M&G of how exposed our investments are to climate change risk, to protect and grow our clients' assets.

We also participate in regulatory stress testing, for example the Bank of England's Climate Biennial Exploratory Scenario Exercise, which we contribute to periodically.

Conclusions

Despite the limitations inherent in scenario modelling, we recognise its value as a tool to improve understanding of exposure to climate risk.

Our modelling partners are industry leaders in climate scenario modelling and we have used their services for other disclosures.

Modelling climate risk on a consistent basis provides a snapshot of counterparty-level risk to climate impacts and allows us to evaluate resilience to a range of shocks representing plausible future states of the world.

In doing so, climate scenario modelling supports our understanding of climate risk across the business and ultimately helps inform our approach to climate-related investment decision-making in the future.

Doing business responsibly

Working with local communities

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

Why this matters

At M&G social responsibility is firmly embedded in our operations around the world, as an integral part of how we do business.

Our social purpose is to help build inclusive and resilient communities through urban regeneration, economic empowerment and community building. We aim to use our community investment to help break down barriers that prevent people from living the life they want, and to provide a framework for community engagement and support at both a strategic and local level.

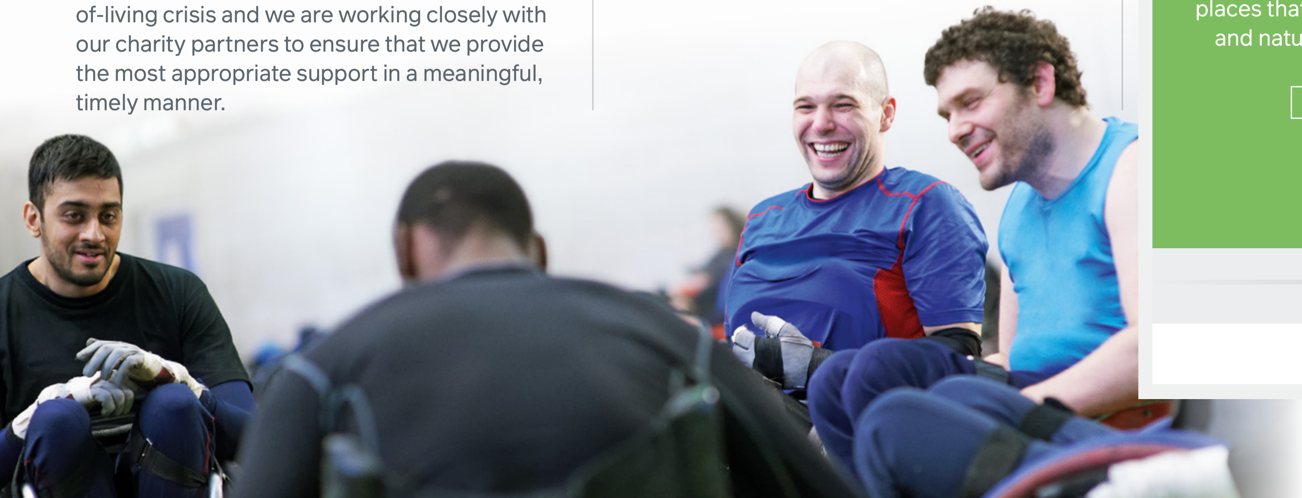
Our support is increasingly important given the challenges caused by the ongoing cost-of-living crisis and we are working closely with our charity partners to ensure that we provide the most appropriate support in a meaningful, timely manner.

Our approach

Through our strategic pillars; Urban regeneration, Economic empowerment and Community building; we aim to provide the essential needs for communities to thrive, equip people with the tools they need to be financially secure and provide opportunities to prepare for the future.

We have developed long-term programmes with our charity partners to deliver under each pillar of our social purpose. The six charities featured on pages 55-56 are M&G's flagship charity partners.

Our operating model for Corporate Responsibility (CR) guides and supports each office and market to manage charitable activities, within the framework of a consistent, business-wide approach. Our CR Governance Committee oversees community investment activity as well as agreeing strategy and spend. It includes representation from senior management. Our CR strategy and performance is reviewed by M&G's Executive Committee bi-annually.



Our purpose

To help people manage and grow their savings and investments, responsibly

Breaking barriers, building futures

Helping to build inclusive and resilient communities

Urban regeneration

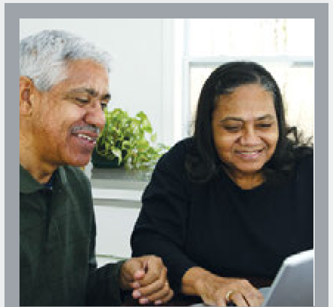
Nurturing spaces and places that help people and nature to thrive

UR

Economic empowerment

Giving people skills and opportunities to become financially secure

EE



Community building

Building and strengthening relationships within and between communities

CB

Disaster and emergency response

Working with local communities

How we are supporting our communities

Habitat for Humanity

UR

In partnership with Habitat for Humanity GB, we are delivering the Empty Spaces to Homes programme in the UK and Europe. Our aim is to repurpose commercial and office spaces to reduce homelessness and develop a model that can be widely disseminated and adopted across Europe.

Over three years, M&G's funding has enabled Habitat for Humanity GB to undertake research to understand the scope of the issue and renovate eight empty spaces into homes for vulnerable groups in England and Poland. Construction is now underway on more properties, and the model is being explored for adoption in new locations across Europe.

To address the social housing crisis, the charity has created two sister coalitions in England and Poland, which have developed a toolkit for repurposing empty spaces. Together, we hope to mainstream this model into the work of other NGOs, public and private sector organisations.

8

empty spaces repurposed into homes for vulnerable groups

The Tree Council

UR

The Young Tree Champions programme gives young people the opportunity to connect with each other, trees and nature, and develop the skills and knowledge to help tackle the climate and ecological crises. The programme supports schools in urban areas with high levels of deprivation (30% free school meals) and nature-poor grounds.

Since September 2020, 415 schools have taken part in the programme, involving over 124,000 students and teachers. Bespoke, curriculum-linked resources and activities are hosted on an interactive website available to all schools across the UK. More than 12,000 trees have been planted in the school grounds often with the support of M&G volunteers.

90% of young people increased their knowledge about the value and role that trees play in tackling the climate and ecological crisis and 89% gained key skills in problem solving and written communication as a result of the programme.

more than

12,000

trees planted

The Talent Foundry

EE

Skills for Life is a series of interactive, employability workshops delivered in person, through an online digital platform, and a CV review service by M&G colleagues. These opportunities support students from disadvantaged backgrounds in understanding how best to promote themselves when they are applying for jobs, university, or apprenticeships.

In 2022, we reached 3,866 students from over 80 schools through face-to-face programmes and the CV reviews, and more than 500 hours of volunteer time was donated by colleagues. Through the mentoring programme, 91% of students agreed they now know what a potential employer is looking for in an application.

The Bridge to M&G pre-apprenticeship programme provides bespoke training and coaching support for school leavers pursuing vocational careers. In 2022, students from 11 schools and colleges completed the programme, with three students securing apprenticeships with M&G.

91%

of participating students have a better understanding of employers' requirements

Working with local communities

Junior Achievement Europe

EE

The 10X Challenge is an enterprise programme and digital platform that helps young people develop entrepreneurial and financial capability skills, particularly investment and longer-term saving, and empowers teachers to be confident about teaching financial capability. It is run as a four-week programme where young people use a £/€10 pledge to get their business ideas off the ground.

As a result of M&G's funding, the programme now engages students in schools across France, Germany, Ireland, Italy, Poland, Spain and the UK.

Over three years, 1,305 schools have taken part in the challenge, engaging 73,670 young people. 76% of participants improved their understanding of key financial concepts such as revenue, profit, savings and investment, and 88% of educators increased their confidence in delivering financial and enterprise education.

76%
of participants improved their understanding of key financial concepts

SOS Children's Villages

EE

The international Empowering Families programme helps young people and their families in Europe and India to realise their full potential by accessing entrepreneurship and leadership skills, enabling struggling families to support their children's health and educational attainment.

We support young people through digital mentorships with M&G colleagues, distance learning activities, and apprenticeships – helping them to take the next steps in their employability journey.

Since launch, M&G's funding has directly benefitted 120,328 children, young people and parents with family strengthening, including 3,395 young people on their employability journey in France, Germany, India, Italy, Poland, and Spain.

75% of beneficiaries said their lives had improved as a result of the programme. All 3,395 young people felt empowered to become independent and find work through employment training and access to vocational and entrepreneurship support.

3,395
young people felt empowered to become independent and find work

Age UK

CB

Age UK and M&G's strategic partnership is based on a shared goal to help vulnerable older people prepare for the biggest challenges of later life, giving them the best chance of staying resilient through the toughest times.

The Building Resilience programme provides holistic support to vulnerable older people facing complex challenges. This includes in-depth information and advice, support and referrals to appropriate services through Age UK's National Advice Line.

Over three years, M&G's funding has enabled Age UK to help 5,160 older people, equipping them with tools, skills and opportunities needed to build resilience, and respond to 30,629 enquiries to Age UK's National Advice Line.

As a result of the programme, 82% of beneficiaries felt more able to plan their future and 93.3% felt they now understand more about the issues they wanted help with.

over
30,000
vulnerable older people reached in the UK over three years

Working with local communities

Disaster and emergency response

In times of crisis or emergency, we feel it is our responsibility to make a meaningful contribution in the most appropriate and prompt way.

In 2022, we responded to the following crises:

Helping our communities through the cost-of-living crisis

We seed funded the Communities in Crisis Appeal in partnership with UK Community Foundations.

This was a co-ordinated and swift response to raising national funding and distribution to grassroots organisations working on the frontline in some of the UK's most deprived communities.

Funds have been channelled towards responding to immediate needs directly caused by the crisis, ensuring organisations can help the most vulnerable. This has included contributions to energy costs at collective warm spaces, core support for services that provide food, security and debt advice, and housing and mental health service support.

Supporting refugees in crisis

In response to the Ukraine crisis, M&G made emergency corporate donations to support the relief efforts of our established long-term charity partners – SOS Children's Villages, Habitat for Humanity, and through the British Red Cross.

Our strategic, two-pronged approach helped enable immediate humanitarian aid at the start of the crisis and we continue to provide longer-term, affordable housing support to those displaced by the conflict.

M&G in the Community Fund

The M&G in the Community Fund is an annual grant programme that supports local charities and projects with small donations. The committee includes over 40 colleagues across M&G locations and since its launch in September 2019, has awarded 260 charitable grants globally.

Community investment

We calculate our community investment spend using the Business for Societal Impact standard (B4SI). This includes cash donations to registered charitable organisations, as well as a cash equivalent for in-kind contributions.

Our total community investment spend in 2022 was £4.3 million, of which £3.3 million was cash. The balance of in-kind donations included 1,345 colleagues who dedicated 8,964 hours of fundraising and volunteering in their communities. Furthermore, £165,626 was donated across the business by our employees through our payroll giving scheme.

Pages 55-56 elaborate on some of our charity partnerships where community investment has been deployed.

£4.3m [A]
total community investment spend

[A] PwC has provided independent limited assurance over the total community investment spend in 2022 (as indicated by [A]) in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information', issued by the International Auditing and Assurance Standards Board. The assurance statement can be found on our website

Our responsible business policies and practices

Here we detail the values, policies and standards which help us manage our business responsibly and support our sustainability journey.

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

Care

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

Integrity

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

Clients are at the core of everything we do

Treating clients fairly

We serve a wide range of clients, including individual savers and investors, institutional clients and professional investors. We seek to promote and advertise without exaggeration, or false and misleading information, and ensure that products and services offered to clients are appropriate to their requests and needs.

We aim to treat everyone, including our vulnerable clients, with care and integrity, and make it easy for them to get help and support designed with their needs in mind.

Communicating and interacting with clients

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

In the development of our communications we follow the regulatory guidelines of the markets we operate in, and ensure our communications are clear, fair and not misleading. This includes ensuring we never hide important information as 'small print' and presenting information in a balanced way to show both the benefits and the risks. We put clients at the heart of how we do business in order to deliver better client outcomes.

Understanding our clients better

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

Our in-house Client Insights team leads on all our research and provides client feedback directly to internal stakeholders in all areas of the business.

We use the MyView panel (more details on page 23) to gather client and adviser feedback as well as run ad-hoc bespoke research projects.

This year we are running face-to-face customer research with Retirement Account Clients to understand their needs and expectations around the support they receive from us to help them be prepared to make decisions on when and how to start drawing down from their pension and the process of taking money unadvised. The findings are designed to deliver quick wins on what we can do to improve the process straight away as well as being more groundbreaking, informing our strategy for client experience going forward.

Supporting vulnerable clients

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

We continue to mature our approach to supporting vulnerable clients across the organisation. We have created a set of M&G Vulnerable Customer Principles to support and empower our staff to consider vulnerable clients at all stages of the business, ensuring they are receiving equal outcomes to that of non-vulnerable clients, and helping us to identify opportunities for improvement.

For example, we conducted research with the support of an external organisation to help us better understand what the scale and nature of vulnerability looks like across M&G – the organisation delivered estimates of the FCA's four vulnerability drivers (poor health, low capability, low resilience, negative life event). The output of this research has then been used to inform our decision-making about future vulnerable client initiatives.

Our responsible business policies and practices

UK retail intermediary sales

Under the Pru brand, we sell retail products and services in the UK through financial advisers who are approved persons and who maintain relationships with the end customer.

Professional standards and training

Our sales account managers are required to attain RQF level 4 Diploma in Financial Planning and to maintain it through annual continuing professional development. They are also required to complete our own accreditation process to ensure they have appropriate knowledge and competence to sell our products. Our Sales Support Staff are required to pass the CII Financial Services Regulations and Ethics exam.

Sales bonus scheme

The scheme uses a Quality Balanced Scorecard to assess conduct and behavioural requirements. In 2022, 50% of the total sales bonus package was supported by 'non-financial' elements in the Scorecard.

This ensures even more focus on good adviser and end-client outcomes as well as stringent measurements on expected colleague conduct and behaviours in line with our Code of Conduct.

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

UK financial advice

M&G Wealth provides financial advice to end clients in the UK through a combination of restricted and independent advice channels.

Professional standards and training

All advisers are professionally qualified to provide advice and undergo regular competence assessments and professional development training in order to deliver good outcomes for our clients. Advisers are subject to ongoing training and risk-based quality assessments of suitability and evidential files.

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

Colleagues

Employment security and types of employment

Working in partnership with an external trade union plays an important part in ensuring that we continue to be a fair and inclusive employer, committed to ensuring that we have a strong colleague voice within our decision-making.

We have a voluntary recognition agreement in the UK with the trade union Unite which details the ways in which both parties work in partnership to achieve these aims. Our agreement with Unite commits us to always doing everything that we can to mitigate redundancy and follow Advisory, Conciliation and Arbitration Service (ACAS) best practice with regards to the processes that we follow.

In terms of employment, we offer permanent employment, fixed-term contracts, apprenticeship, graduate scheme and contingent opportunities though Resource Solutions.

With regard to employment options, we have an ACAS aligned flexible working policy and we consider flexible hours, part-time working, job shares, compressed working patterns and also consider requests for term-time working arrangements (e.g. increased flexibility during school holidays).

Collective bargaining agreements and freedom of association

M&G has an internal Colleague Forum which represents all of our people based in the UK. Outside the UK, M&G also has internal colleague fora that meet any local requirements of us as an employer in those jurisdictions.

Our voluntary recognition agreement with Unite includes collective bargaining over pay and a commitment to transparently consult on any proposed changes across M&G plc that have the potential to impact our people.

Whistleblowing Programme

Our company values and behaviours require all our employees to conduct themselves with the highest professional and ethical standards. We promote and value a culture of care, integrity, openness, honesty and accountability.

M&G's Whistleblowing programme, known as 'Speak Out', allows anyone to confidentially report concerns or suspicions of misconduct and wrongdoing through a variety of confidential channels. This includes a secure, externally hosted, communications channel that enables employees to report concerns confidentially (and anonymously if preferred, where permissible by local law).

The 'Speak Out' programme also provides assurance that any form of retaliation is strictly prohibited. Our Whistleblowing Policy states that anyone raising concerns will not be subject to any form of retaliation.

Code of Conduct

M&G's Code of Conduct outlines our guide to the standards of behaviour that we expect all of our colleagues, across the world, to follow. Our Code is designed to ensure that we conduct ourselves ethically – with care and integrity, and in accordance with our policies and procedures as well as the laws and regulations that apply to us, globally. All employees undergo mandatory refresher training on conduct as part of the yearly learning calendar.

Our responsible business policies and practices

Compliance

Compliance oversight

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

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

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

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

Compliance Advisory teams provide advice and guidance to colleagues in the first line of defence, and provide ongoing oversight via participation in key business forums and committees. Compliance Monitoring teams undertake risk-based oversight and assurance of the regulated entities in the M&G plc Group and of regulated activities delegated to third parties, through deep dives and routine monitoring based on a risk-based compliance monitoring plan.

Business-specific plans are reviewed and approved annually by the Audit Committees of M&G plc and the Group's Material Subsidiaries – M&G Group Limited (MGG) and The Prudential Assurance Company Limited (PAC) – with local plans reviewed and approved by boards and/or committees of the regulated entities outside the UK.

Financial crime

M&G has a no-tolerance approach to financial crime and are committed to playing our part in creating a safe and secure global financial system. This is done through being diligent of where we invest funds as well as the prevention, detection and resolution of the threat of criminals using M&G's products and services. M&G is obliged to make reports to law enforcement agencies wherever it operates to help combat financial crime.

M&G has a dedicated Group Financial Crime Compliance (GFCC) team, led by the Director of Financial Crime Compliance and Central functions. This team is comprised of anti-financial crime experience and expertise to oversee and support regional financial crime leaders and teams with establishment and maintenance of systems and controls across the range of locations in which we operate. The regional teams ensure robust measures are maintained to prevent and detect financial crime, including: money laundering; terrorist financing; sanctions; fraud; bribery and corruption; and the facilitation of tax evasion.

M&G's Group Financial Crime Policy and Standards are produced by the GFCC team. All employees are bound by the Policy/Standards requirements. All employees are also required to complete the mandatory FCC training annually. Certain employees, such as senior management or colleagues in higher risk roles also benefit from enhanced FCC training.

M&G applies Customer Due Diligence (CDD) as well as screening in respect of all business relationships it enters. Enhanced due diligence is applied to relationships involving Politically Exposed Persons (PEPs) and other high-risk clients. Such relationships are approved by senior management and reviewed periodically. The above is done in accordance with M&G's anti-financial crime policy and standard requirements which are underpinned by legislative and regulatory obligations as well as guidance issued by the UK's Joint Money Laundering Steering Group (JMLSG) or equivalent. Where appropriate, M&G conducts investment due diligence to ensure the funds invested are not to be used to further financial crime.

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

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

Our responsible business policies and practices

Human rights and modern slavery

Human rights

At M&G, our business is built on two core values: care and integrity. These values extend beyond our company into the communities and societies within which we operate.

We also recognise that as an asset owner and asset manager our collective operations may have indirect effects on our communities. We strive to implement and reinforce business practices and expectations of our suppliers and partners that respect human rights and have a responsibility that the underlying investments we choose also align with our commitment to support and respect human rights.

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

Modern slavery

We recognise our responsibility to comply with all relevant legislation included within the Modern Slavery Act 2015. Our Modern Slavery Transparency Act Statement, confirms how we comply with all relevant legislation and the steps we have taken to assess and mitigate against the risk of Modern Slavery and Human Rights violations within our business and supply chains, as well as how we have managed and will continue to proactively monitor those risks.

Our M&G Supply Chain Modern Slavery Business Standard, reviewed and approved annually, supports the management of Modern Slavery risk and how we approach third-party supplier relationships.

Every year, we assess our approach and ensure we meet the minimum standards stipulated by the UK Home Office, as well as ensuring we are compliant in our license to operate in line with the Modern Slavery Act 2015 (MSA). We regularly review how we embed non-financial risks within our third-party supplier lifecycle to ensure continuous improvement and alignment to regulatory policy and best practice, including Modern Slavery related supply chain risks.

During 2023, we are focussing on embedding Modern Slavery risk management as part of our continuous improvement activities (through reviews of supplier onboarding, risk assessment and due diligence processes and controls, as well as our group-wide third-party oversight governance). We are also working towards embedding the new Supply Chain Modern Slavery Business Standard and enhanced processes into our business, allowing us to actively assess our position to these risks and how we mitigate them within our business and supply chain, supporting our commitment to work with our suppliers and stakeholders to help end slavery, human trafficking, child labour or any other abuse of human rights.

Political donations and public policy engagement

It is our policy as a firm not to donate to, or otherwise back, political parties or candidates. We do, however, participate actively in discussions on public policy.

As a large investor and financial services company, M&G is impacted by and engages on a wide range of public policy and regulatory issues.

By sharing our expertise with policymakers, we believe we contribute to the design of more effective and responsive public policy which is, by extension, to the benefit of our clients and the wider public.

M&G's political and public policy engagement is governed by our internal Political Engagement Standard, aiming to ensure transparency and consistency of objectives and messages across the organisation.

The Standard explicitly mandates alignment of our public policy advocacy with M&G's sustainability commitments.

M&G is a signatory of the EU Transparency Register and discloses on an annual basis the expenditure dedicated to advocacy activity and engagements with the European institutions.

Our public policy advocacy is guided by three thematic challenges

Helping people and society to save for the future

Populations in most of the markets we operate in are ageing and the consequences of this need to be managed. This manifests itself most obviously in the need to address the 'savings gap', with citizens taking on more of the responsibility for their own well-being throughout life, but particularly in later life.

Although taxpayers and employers will continue to make an important contribution, what they can offer may no longer be sufficient to address the needs and expectations of many citizens. Long-term savings and investment products need to be made available to, and their take-up encouraged by, all age cohorts. Public policy is critical to both the supply of and the demand for such products.

Investing responsibly for a sustainable future

With just over £340 billion of assets across 26 markets, M&G recognises its responsibility to make a positive impact. The most significant contribution we can make to the transformation of the UK and global economy is through our investment decisions.

We say more about our approach to public policy on page 24.

Championing international openness and collaboration

Minimising barriers to cross-border activity benefits our clients by enabling access to a larger investment universe, managed by the right people to deliver the best outcomes. For example, in the recent review of the Alternative Investment Fund Managers Directive by the European authorities, we advocate in favour of delegation of portfolio management as the accepted international norm for asset management: it brings clients choice from a wide range of EU investment funds, expertise from asset class specialised portfolio managers across the globe, and cost efficiency from economies of scale.

International collaboration is also particularly needed when addressing the climate crisis at scale and at pace: interoperability of taxonomy classifications, consistency of definitions and disclosure frameworks are vital.

Our responsible business policies and practices

Security

Customer data privacy

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

Since 2018, the EU General Data Protection Regulation (GDPR) has set a high standard for the way that businesses must use, manage and process personal information. At M&G, we take our privacy responsibilities very seriously, reflecting our values of care and integrity. Our overriding focus is on having robust processes and procedures in place to ensure that clients' personal data remain secure. Our Chief Data Protection Officer and a team of Privacy specialists work with the business to ensure that privacy risks are identified early and are pragmatically managed at both a strategic and operational level. Privacy risk is appropriately controlled and managed with practical, pragmatic and proportionate measures to mitigate its impact. One way we do this is by conducting Data Privacy Impact Assessments (DPIAs) for activities that involve the processing of personal data. DPIAs in turn demonstrate our wider approach to support ways of working which are privacy compliant by default.

Our clients are kept informed about how we use their information at the point of data collection, and throughout our relationship with them, including through product- and service-specific Privacy Notices.

We have also developed operational processes to fulfil data subject rights specified in GDPR and have a dedicated team responsible for servicing all Data Subject Access Requests. We have a process to manage our relationship with the UK's Information Commissioner's Office and equivalent supervisory authorities outside the UK. This helps us engage with regulators, manage any complaints or enquiries and maintain appropriate registrations.

Our privacy policy

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

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

Training on data protection

Privacy compliance starts with the embedding of a culture of data protection across M&G. This is supported by senior management sponsorship and mandatory Data, Privacy and Security – all employees are required to refresh their training annually as part of the mandatory learning calendar. The module covers aspects such as digital footprint and phishing, reporting channels and responsibilities when using tools/devices and sharing and retaining data.

Looking ahead

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

Cyber security

Cyber security is a growing threat to businesses and their clients, and strong information security controls are of vital importance to M&G. We have an established and detailed Information Security Framework including policies, standards and controls, aligned to recognised International Standards including the ISF SoGP (Information Security Forum Standard of Good Practice). The policy element of the framework is reviewed annually and any changes approved. We have adopted a three lines of defence model to assure the controls relating to these key risks. The technology control environment is managed by the Chief Information Technology Officer (CITO) area with oversight and review by the Chief Risk Officer (CRO) area and Internal Audit.

We ensure we have secure and resilient networks in place with a range of technical security controls including Intrusion Detection/Prevention systems, Anti-virus solutions, High Availability Firewalls, web content filtering and secure remote access methodology.

Clear change controls are in place, all changes are appropriately tested and authorised prior to implementation.

We have an established Security Incident Process that outlines a structured methodology to be followed when handling data incidents which includes processes for establishing the risk, isolation and containment, and recovery and notification. The Cyber Security Incident Response team provides 24 hours a day, seven days a week, 365 days a year response to cyber security threats such as phishing, malware, exploit attempts and DDoS. Security Operations Centre (SOC) monitoring is in place. We have appropriate levels of Cyber Insurance in place to provide coverage and support in the event of an incident.

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

Our responsible business policies and practices

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

A security education and training programme has been established as part of the induction process, and security training is provided regularly thereafter to promote information security awareness and embed a positive security culture.

All staff are required to complete an annual computer based training package and adhere to the Information Security Code of Practice (ISCOP). Ongoing phishing awareness training is conducted on all users several times a year.

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

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

Supply chain

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

Further details on our progress so far can be found on pages 26-27.

Tax

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

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

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

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

4. Transparency and engagement with stakeholders
We provide transparent disclosure of our tax affairs to better inform our stakeholders of how tax works in our business and our tax governance practices.

We respect the tax authorities with which we interact. Where possible and following prevailing practice, we seek to build constructive relationships with tax authorities, discussing and resolving matters in real time.

We place great importance on having an effective relationship with those who supervise us and our markets. Our clients' interests are best served when we work constructively with our regulators.

Therefore, positive and transparent engagement with tax authorities, which leads to the timely and accurate payment of taxes, helps the societies in which we operate, provide valuable public services and build infrastructure for the benefit of the wider community and the economy.

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

Our full tax strategy is available on our website.

Our alignments and memberships

We pride ourselves on being dynamic and engaged members of industry associations, working groups and committees, actively participating in remuneration, corporate governance and sustainability committees.

As a corporate, we align ourselves with widely-recognised associations across our industry and the wider economy. As an investor, we collaborate with peers and wider stakeholders as part of our membership of representative bodies.

In 2022, we became the first large UK asset manager to sign the UK Government's Investing in Women Code on behalf of our £5 billion Catalyst mandate which invests in innovative early stage businesses working to tackle some of the world's biggest environmental and social challenges.

We continue to co-chair the Natural Capital Committee for the International Corporate Governance Network (ICGN), and provided review and input to the Natural Capital Viewpoint published in January 2023.

Our progress to date on diversity and inclusion is recognised through our external accreditations. For example, M&G plc attained the LGBT Great's Financial Services Gold Standard, for the second year in a row, in recognition of our progress towards being an inclusive organisation. We were one of nine companies to achieve the Gold Standard in 2023.

M&G plc

UN Global Compact

We're proud to have signed up to the Race at Work Charter

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Signatory of: PRI Principles for Responsible Investment

Asset Manager

Signatory of: INVESTING IN WOMEN CODE*

*M&G Investments on behalf of the Catalyst Credit Fund and Catalyst Capital Fund

Asset Owner

Supplementary information

Supplementary information on metrics

Metric	Data	Calculation	Rationale	Limitations
Financed Carbon Emissions (Scope 1 & 2 (+3)) (tCO_2e) **Carbon Footprint (Scope 1 & 2 (+3))/AUM** (tCO_2e /£m invested)	MSCI Carbon Emissions Scope 1 & 2 (+3), MSCI Enterprise Value including Cash (EVIC), Market Value from relevant AO/AM security dataset.	FCE is the Scope 1 & 2 (+3) emissions x (market value/EVIC), i.e. the total emissions of a company multiplied by the percentage of the company that security represents. This represents the carbon emissions contained in the MSCI dataset. It omits the emissions that are unknown due to coverage limitations. Carbon Footprint normalises FCE using the relevant holdings, including only the value of investments that we have an FCE for. Carbon Footprint shows economic intensity by normalising FCE to portfolio value.	This is the Partnership for Carbon Accounting in Finance (PCAF) approach.	The emissions metrics are caveated by their coverage from third-party providers. Coverage is the percentage of portfolio market value for which we have both emissions (reported or estimated) and EVIC data for the equity and fixed income AUMA. Emissions are for the most recent year available. Around 93% of Scope 1 and 2 emissions data across both AM and AO portfolios are based on companies' reported emissions with the remainder estimated by our third-party data providers. 100% of Scope 3 emissions are estimated. These metrics can change due to factors unrelated to decarbonisation, such as AUMA and financial market movements.
Weighted Average Carbon Intensity (Scope 1 & 2) (tCO_2e /£m sales)	MSCI Carbon Emissions Scope 1 & 2, MSCI Sales data, Market Value from relevant AO/AM security dataset.	Carbon intensity of a single company is carbon emissions (Scope 1 & 2)/Sales Revenue. This is then weighted by market within the entire book of assets to arrive at an AM/AO WACI, i.e. AM WACI=Sum of (Company WACI x Security weighting)	This is the PCAF approach.	The emissions metrics are caveated by their coverage from third-party data providers. Coverage is the percentage of market value for which we have both emissions and sales data for (and therefore can calculate FCE). Emissions are for the most recent year available from third party providers.
Fossil Fuel Exposure (£) **(excluding revenue from fossil fuel-based power generation)**	MSCI's fields for Oil and Gas revenue (any revenue from the whole value chain), revenue from thermal coal mining and Market Value from relevant AO/AM security dataset; in absolute terms and divided by AUM of relevant dataset. MSCI's fields for company derived revenue linked to Oil and Gas and Thermal Coal based power generation and Market Value from relevant AO/AM security dataset, in absolute terms and divided by AUMA of relevant dataset.	Sum of (Fossil Fuel Fields excl. Generation] x [Security Market Value)	MSCI provides the largest coverage of emissions of data providers – the four fields used to derive the two fossil fuel exposure metrics give the widest view of exposure to fossil fuels. Recently the EU has added Gas to the EU Taxonomy which creates some future overlap potential and uncertainty as to how this metric aligns with the FTSE Green revenue dataset into the future.	This data is caveated by an unspecified MSCI coverage – it is unknown which companies in our universe are not covered by MSCI. Exposures are for the most recent year available from MSCI.
Fossil Fuel Exposure (%) **(excluding revenue from fossil fuel-based power generation)**		Sum of ([Fossil Fuel Fields excl. Generation] x [Security Market Value])/AUMA		
Fossil Fuel Exposure (£) **(revenue from fossil fuel-based power generation)**		Sum of ([Fossil Fuel Fields incl. Generation] x [Security Market Value])		
Fossil Fuel Exposure (%) **(revenue from fossil fuel-based power generation)**		Sum of ([Fossil Fuel Fields incl. Generation] x [Security Market Value])/AUMA		

Supplementary information on metrics

Metric	Data	Calculation	Rationale	Limitations
SBTi ‘Committed’ (%)	SBTi’s list of companies who have committed to set targets, Market Value from relevant AO/AM security dataset, in absolute terms and divided by AUMA of relevant dataset.	[Total Market Value of SBTi ‘Committed’ securities]/AUMA	SBTi is a recognised body which independently verifies science-based targets for many industries.	This data is a complete list of all SBTi members as of December 2022. A parent’s target cascades down to its subsidiaries, but the subsidiary’s target does not roll up. Having an SBTi-approved target or committing to set an SBT does not necessarily mean that companies adopt credible coal phase-out plans, therefore these indicators are distinct from our work on the coal policy.
SBTi ‘Targets Set’ (%)	SBTi’s list of companies who have Targets Set, Market Value from relevant AO/AM security dataset, in absolute terms and divided by AUMA of relevant dataset.	[Total Market Value of SBTi ‘Targets Set’ securities]/AUMA		
Green Exposure (£)	MSCI’s EU Taxonomy Aligned Green Revenue %, Refinitiv’s Green Bond Dataset, Market Value from relevant AO/AM security dataset.	Sum of ((RefinitiveGreenBond%) + (MSCI_EU_Taxonomy%)) x (Market Value)	The total market value of the green bond is assumed to be ‘green’ if it fits our definition of green bonds that are CBI aligned and CBI certified (data provided by Refinitiv). Recently the EU has added Gas to the EU taxonomy which creates some future overlap potential and uncertainty as to how this metric aligns with the fossil fuel SFDR.	Dataset from Refinitiv is valid as of December 2022.
Green Exposure (%)		Sum of ((RefinitiveGreenBond%) + (MSCI_EU_Taxonomy%)) x (Market Value)/AUMA		
Climate engagements (M&G) % **of asset manager FCE**	Internal M&G definition of engagements conducted within Climate and Net Zero pillars, aligned with the PRI. M&G climate engagements also include CA100+ engagements, hence there is an overlap between the two engagement metrics.	The % of FCE that the companies we have directly engaged with are responsible for.	This is aligned to the PRI.	The measure includes both successful and unsuccessful climate engagements from 2021 and 2022.
Engagements (CA100+) % **of asset manager FCE**	The list of companies under CA100+ that M&G has indirectly or directly engaged with, and the FCE contribution of those companies.	The % of FCE contribution of CA100+ engaged companies.	As a member of CA100+ and a lead on certain engagements, these are the companies that M&G and the initiative are collectively influencing towards decarbonisation.	The CA100+ list is updated annually, with this list correct as of December 2022.

Supplementary information on metrics

Metric	Data	Calculation	Rationale	Limitations
Real Estate GHG Emissions (000s tCO_2e) **Scope 1 & 2**	Energy data collected at the asset level from third-party property managers, based on a mixture of meter reads, automatic meter data and utility invoices. Estimation was applied to address data gaps using industry defined methodology.	Scope 1 + Scope 2 Emissions	M&G Real Estate funds employ the use of a specialist ESG consultant to support in data collection, analysis and reporting through the use of a bespoke software platform. Data is collected on a quarterly basis and is subject to both internal and external review annually. GHG data has been prepared in accordance with the GHG protocol, as well as real estate environmental reporting guidelines, including: GRESB Real Estate Assessment, INREV Sustainability Reporting Guidelines and UK Better Buildings Partnership Net Zero Carbon Pathway framework.	Data sources which are reliant on manual data entry (meter reads) may include anomalies. The ESG consultant conducts periodic reviews to address these issues.
Real Estate GHG Emissions (000s tCO_2e) **Scope 1 & 2 (+3)**	As above, in addition Scope 3 emissions data included the using of tenant provided energy data. Where data could not be obtained, estimation was made using industry benchmark data (GRESB and other data sources). For purchased goods and services and capital goods, financial data was used as a proxy and converted using industry standard emission conversion factors.	Scope 1 + Scope 2 + Scope 3 Emissions		Tenant energy data is not easily accessible for all funds as it is controlled by the tenant. M&G Real Estate Funds are investing in tenant engagement programmes and smart metering technology to improve data capture for tenant controlled assets. For embodied carbon, industry methods for measuring this impact area are continually evolving and are not widely adopted by all development partners. We are seeking to introduce actual measurement of embodied carbon in all new projects through application of our Sustainable Development & Refurbishment Framework.
Sov Production	Climate Watch, World Bank	Sum of (Production Emissions (Scope 1) x (Value of investment/PPP-adjusted GDP))	This is the PCAF approach to calculate sovereign debt emissions.	The scope of these metrics is limited to sovereigns and supranational entities due to the limited data availability, as well as lack of standards for these sub-sovereign and municipal entities. This data, like corporate emissions, are also subject to the problem of double counting, and should be accepted as such when emissions go beyond 'Scope 1'. Notably the 'Scopes' outlined here and in PCAF guidance for Sovereign and Supranational emissions are analogous but not exact matches to those referred to in guidance for corporates and therefore cannot be directly compared one to one. PCAF furthermore acknowledged the limitations within its current attribution factor, PPP-adjusted GDP but notes that this is currently the metric which they recommend and as such is the one M&G have utilised in our analysis.
Sov Consumption	Climate Watch, OECD, World Bank	Sum of (Consumption Emissions (Scope 1+2+3) x (Value of investment/PPP-adjusted GDP))	This is the PCAF approach to calculate sovereign debt emissions.	
WASPI	Climate Watch, World Bank	Weighted average of ((Production Emissions (Scope 1) x (Value of investment/PPP-adjusted GDP))/PPP-adjusted GDP)	This is the PCAF approach to calculate sovereign debt emissions, utilising the same approach as aggregating to WACI for corporates.	
WASCI	Climate Watch, OECD, World Bank	Weighted average of ((Consumption Emissions (Scope 1+2+3) x (Value of investment/PPP-adjusted GDP))/Population)	This is the PCAF approach to calculate sovereign debt emissions, utilising the same approach as aggregating to WACI for corporates.	
Infracapital FCE Scope 1 & 2 (+3)	Third Party Consultant Emissions Data	FCE is the Scope 1+2(+3) emissions x (Ownership of the project), i.e. the total emissions of a project multiplied by the percentage of the project that investment represents. This represents the carbon emissions contained in the third-party consultant's analysis. It omits the emissions that are unknown due to coverage limitations. Carbon Footprint normalises FCE using the relevant AO/AM dataset, including only the value of investments that we have an FCE for.	This is equivalent to the PCAF approach for project finance.	The emissions metrics are caveated by their coverage from third-party providers, coverage is the percentage of market value that we have both emissions and ownership data for (and therefore can calculate FCE). Emissions are for the most recent year available from third-party providers.
Infracapital Footprint	Third Party Consultant Emissions Data		This is equivalent to the PCAF approach for project finance.	

Glossary

Key terms and words	Category	Definition
Carbon emissions	Key words and terms	Carbon emissions are the total measurement of an individual's or entity's greenhouse gas emissions, converted into a single CO_2 equivalent number. This can be split into Scope 1, Scope 2 and Scope 3 emissions which represent: direct emissions from owned or controlled sources; indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed; and all other indirect emissions that occur in a company's value chain. When these emissions are referring to those from our investments, as opposed to our operational ones, they are referred to as Financed Carbon Emissions.
Carbon net zero	Key words and terms	A state where any remaining greenhouse gas emissions are offset by emissions removal of an equivalent amount, so that there is zero additional pollution emitted into the atmosphere.
Carbon pricing	Key words and terms	Carbon pricing is an instrument used to capture the external costs of emitting greenhouse gas into the atmosphere. Implementing a price on carbon provides an economic signal to those contributing to global emissions and encourages a change in behaviour to avoid increasing costs.
CDP	Key words and terms	CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. A CDP score provides a snapshot of a company's disclosure and environmental performance.
Climate Action 100+	Engagement bodies	CA100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.
Climate change	Key words and terms	Climate change is the overarching term used to describe the long-term shift in global climates associated with an increase in average global temperatures. These changes can include increased rainfall, increased desertification, more extreme temperature variations or higher frequency extreme weather events.
Climate transition plan	Key words and terms	A climate transition plan sets out how an organisation will transition its business to the low carbon economy, aligning its operations, assets, and business model to pathways consistent with the Paris Agreement. The plans should include actions and targets to meet net zero commitments.
Climate-adjusted value	Other	Climate-adjusted value is equivalent to value at risk (VaR). It is calculated on a bottom-up basis, by assessing the impact of different climate scenarios on a company's financial position. The goal is to better understand investment exposure to transition and physical risks.
COP	Other	United Nations (UN) climate summits are held every year, for governments to agree steps to limit global temperature rises – they are referred to as COPs, which stands for 'Conference of the Parties'. The parties are the attending countries that signed up to the original UN climate agreement in 1992.
CO_2e	Key words and terms	Stands for carbon dioxide (CO_2) equivalent. There are a number of greenhouse gases which warm the earth at different intensity levels such as water vapour, carbon dioxide (CO_2), methane (CH4), nitrous oxide (N_2O), hydrochlorofluorocarbons (HCFCs), ozone (O_3), hydrofluorocarbons (HFCs),and perfluorocarbons (PFCs). Rather than providing metrics for each gas they are converted into CO_2e for reporting.
Divestment	Key words and terms	Selling or disposing of shares or other assets in certain investments. This is commonly associated with divestment from companies involved in the extraction of fossil fuels. Active ownership investors often view divestment as a last resort.
Engagement	Key words and terms	Engagement refers to interactions between an investor and current or potential investee company (as well as policy makers, industry bodies and asset managers) with a targeted objective relating to ESG or other matters. Engagements are undertaken to influence (or identify the need to influence) practices and/or improve disclosure.
ESG	Key words and terms	ESG stands for Environmental, Social, and Governance. ESG is a framework that helps stakeholders understand how an organisation is managing risks and opportunities related to environmental, social, and governance criteria.
EU Taxonomy	Key words and terms	The EU Taxonomy is a classification system, establishing a list of environmentally sustainable economic activities.
Exclusions	Key words and terms	Exclusion means avoiding or screening out certain businesses, sectors or other issuers on the basis of values/ethics, controversies or risk-based criteria.

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Key terms and words	Category	Definition
Green bond	Key words and terms	A green bond is a method of debt raising which is used to fund new or existing projects which provide environmental or climate benefits. These can include renewable energy or green infrastructure projects.
Impact investing	Key words and terms	Impact investing means investing with two specific goals: to generate both a financial return and a measurable positive impact on society or the environment.
Institutional Investors Group on Climate Change (IIGCC)	Engagement bodies	The Institutional Investors Group on Climate Change (IIGCC) is the European membership body for investor collaboration on climate change. IIGCC's mission is to support and enable the investment community in driving significant and real progress by 2030 towards a net zero and resilient future.
Intergovernmental Panel on Climate Change (IPCC)	Engagement bodies	The Intergovernmental Panel on Climate Change (IPCC) was created to provide policymakers with regular scientific assessments on climate change, its implications and potential future risks, as well as to put forward adaptation and mitigation options.
International Sustainability Standards Board (ISSB)	Measurement standards	The IFRS Foundation announced the formation of the ISSB in November 2021 at COP26; the intention is for the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.
Just transition	Key words and terms	A transition of the global economy and society to sustainable consumption and production and net zero carbon emissions by 2050, in a way in which costs and benefits are shared fairly between generations, communities and regions.
Materiality	Key words and terms	The level to which ESG factors positively or negatively influence a company's business model, value or reputation. Materiality can also be considered to be the impacts that a company's products or services have on society and the environment.
Modern slavery	Key words and terms	The exploitation of vulnerable people who are trapped, dehumanised or have restrictions placed on their freedom through coercion, or mental or physical threat. This can take many forms including human trafficking, forced labour, sexual exploitation or forced marriage.
MSCI	Other	MSCI is an acronym for Morgan Stanley Capital International. It is an investment research firm that provides stock indexes, portfolio risk and performance analytics, and governance tools to institutional investors and hedge funds.
Network for Greening the Financial System (NGFS)	Other	The NGFS is a group of central banks and supervisors committed to sharing best practices, contributing to the development of climate- and environment-related risk management in the financial sector and mobilising mainstream finance to support the position toward a sustainable economy.
Net Zero Asset Managers initiative (NZAMi)	Engagement bodies	The Net Zero Asset Managers (NZAMi) is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C.
Net Zero Asset Owner Alliance (NZAOA)	Engagement bodies	The UN-convened Net Zero Asset Owner Alliance (NZAOA) is a member-led initiative of institutional investors committed to transitioning their investment portfolios to net-zero GHG emissions by 2050 – consistent with a maximum temperature rise of 1.5°C.
OECD	Engagement bodies	The Organisation for Economic Co-operation and Development is an international organisation that works to build better policies, establish evidence based international standards and to provide knowledge and advice.
Own Risk and Solvency Assessment (ORSA)	Key words and terms	The ORSA is a self-assessment of an organisation's risk management and capital adequacy. It provides insights into an organisation's risk appetite, risk exposures, and solvency position. The ORSA is mandatory for insurers under Solvency II regulation and is considered best practice for other financial services organisations.
Paris Agreement	Key words and terms	The Paris Agreement resulted from the Paris Climate Conference (COP 21) in December 2015 and brought together all COP member nations in an agreement to undertake ambitious efforts to tackle climate change and limit the rise of global temperatures (from pre-industrial levels) to below 2°C, and ideally below 1.5°C.

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Key terms and words	Category	Definition
Paris Alignment	Key words and terms	Paris alignment refers to the alignment of business activities and/or investment portfolios with the temperature goals of the Paris Agreement. This is commonly understood as following decarbonisation pathways that are consistent with a 1.5°C rise in the global average temperature.
Partnership for Carbon Accounting Financials (PCAF)	Measurement standards	PCAF is a global partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose the GHG emissions associated with their loans and investments.
Planet+	Key words and terms	Planet+ is our range of funds with a sustainability focus. There are three types of funds within Planet+: ESG enhanced, Sustainable and Impact.
Powering Past Coal Alliance (PPCA)	Engagement bodies	The Powering Past Coal Alliance (PPCA) is a coalition of national and subnational governments, businesses and organisations working to advance the transition from unabated coal power generation to clean energy.
Principles for Responsible Investment (PRI)	Key words and terms	The United Nations-backed Principles for Responsible Investment initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors, and support signatories to incorporate these issues into their investment decision-making and ownership practices. In implementing the Principles, it is hoped that signatories will contribute to the development of a more sustainable global financial system.
Science Based Targets initiative (SBTi)	Engagement bodies	The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). It drives ambitious climate action in the private sector by enabling organizations to set science-based emissions reduction targets.
Scope 1 emissions	Key words and terms	Emissions from: fuel combustion; company vehicles; fugitive emissions.
Scope 2 emissions	Key words and terms	Emissions from: purchased electricity, heat and steam.
Scope 3 emissions	Key words and terms	Emissions from: purchased goods and services; business travel; employee commuting; waste disposal; use of sold products; transportation and distribution (up and downstream); investments; leased assets; and franchises.
Screening	Key words and terms	Screening is an approach taken to filter investment opportunities based on specific pre-defined criteria. These can be negative screens which remove companies based on an involvement in an undesirable activity or sector, or positive screens which filter companies specifically due to their involvement in beneficial activities.
SICAV	Key words and terms	A SICAV (Société d'investissement à Capital Variable) is an open-ended investment fund offered by European financial companies, similar to the UK's unit trust. SICAVs are effectively share companies aimed at collectively investing the assets collected through the public offering of shares, whose value amounts to the net worth of capital account divided by their number.
Sustainable Disclosure Requirements (SDR)	Measurement standards	The UK Financial Conduct Authority (FCA) recently published its consultation paper, CP22/20, on the use of Sustainability Disclosure Requirements (SDR) and investment labelling. The consultation paper proposes rules to help investors (particularly retail investors) navigate the investment product landscape and identify sustainable investment products, require additional sustainability disclosure, reduce greenwashing, and generally make the United Kingdom a trusted centre for sustainable investment.
Sustainable Finance Disclosure Regulation (SFDR)	Measurement standards	The Sustainable Finance Disclosure Regulation (SFDR) is an EU regulation introduced to improve transparency in the market for sustainable investment products, to prevent greenwashing and to increase transparency around sustainability claims made by financial market participants.
Stewardship	Key words and terms	Stewardship is defined by the Financial Reporting Council as 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	Key words and terms	Sustainability is defined as the ability for an organisation to maintain a balance of resources and relationships, with the objective of meeting the needs of current generations without compromising the ability of future generations to meet their own needs.
Sustainability Accounting Standards Board (SASB)	Measurement standards	The Sustainability Accounting Standards Board (SASB) Standards guide the disclosure of financially material sustainability information by companies to their investors. Available for 77 industries, the Standards identify the subset of environmental, social, and governance (ESG) issues most relevant to financial performance in each industry.

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Key terms and words	Category	Definition
Sustainable development	Key words and terms	The concept of meeting present needs without compromising future generations. It encompasses social welfare, protection of the environment, efficient use of natural resources, and economic well-being.
Task Force on Climate-Related Financial Disclosures (TCFD)	Measurement standards	The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information. The FCA requires all premium listed companies to disclose, on a comply or explain basis, against the recommendations of the TCFD.
Taskforce on Nature-related Financial Disclosures (TNFD)	Measurement standards	The Task Force on Nature-related Financial Disclosures is a global market-led initiative. Its mission is to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks, with the ultimate aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.
UN Global Compact (UNGC)	Other	A United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies and to report on their implementation.
UN SDGs (United Nations Sustainable Development Goals)	Other	The Sustainable Development Goals are a collection of 17 global goals designed to be a 'blueprint to achieve a better and more sustainable future for all'. The SDGs, set in 2015 by the United Nations General Assembly and intended to be achieved by the year 2030, are part of UN Resolution 70/1.

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