Climate-related disclosures continued

Investments – implementation strategy

Climate transition alignment

Top-down analysis helps monitor and manage exposures and portfolio decarbonisation, but to address climate-related risks and opportunities properly, each issuer and asset needs to be assessed on an individual basis. And, importantly, the ability to influence real-world change is different between public and private markets.

Our evolving frameworks and tools allow us to build a clearer picture of issuers' climate profiles, including the identification of critical 'transition enablers' who are helping the world mitigate and adapt. They also support our stewardship efforts, by highlighting areas of misalignment and therefore priorities for engagement.

Net zero investment actions

We believe supporting an orderly transition to net zero will reduce risk at the system level and for the issuers and assets we invest in on behalf of our clients. It will also present opportunities that we are well positioned to access as an active manager across public and private markets. We have committed to support the goal of net zero GHG emissions by 2050, in line with global efforts to limit warming to 1.5°C, by working with our clients.

Our approach to aligning investments with climate goals is built upon three key actions, through which we can support decarbonisation and real-world transformation.

- Growing our allocations to companies and assets critical to the transition that are already aligned, to help them prosper and displace higher emitting activities. We aim to do this by providing our investment teams with high-quality research on companies and assets core to the transition and developing products that support the net zero transition.
- Aligning issuers and assets with a net zero pathway through active ownership to reduce emissions in the real economy. We aim to do this by engaging with issuers and assets directly to set net zero targets and plans but also by engaging with policymakers and industry bodies to create the conditions for success.
- Reallocating away from risky high GHG emitting issuers or assets that aren't able or willing to transition. Our first priority will be to grow our investments in solutions providers and to engage. If our engagement is unsuccessful and companies have significant exposures to climate risks, as a last resort we can reallocate the capital to lower emissions assets or solutions providers.

Coal policy implementation

Our approach to thermal coal provides a foundation for dealing with other high-carbon investments. Coal is a priority because of its global emissions impact and the risk of stranded assets as the transition gathers pace.

Our asset owner has developed a thermal coal approach, aligned with the Group thermal coal position, which covers public assets. Since 2021, this has resulted in coal-related exclusions across our shareholder annuity and with-profits businesses.

Our position, as set out in March 2021, is that thermal coal needs to be phased out by 2030 in OECD and EU countries, and by 2040 in the rest of the world – a forward-looking approach to enable positive real-world change in line with the Paris Agreement.

The asset manager Thermal Coal Investment Policy, which came into effect in April 2022, applies to all listed equities and public fixed income investments actively managed on behalf of M&G Investment's clients (excluding those managed by M&G Investments Southern Africa), unless a client has requested to opt out. At the end of 2023, the policy covered 32% of our asset manager's AUMA.

Over 2023, we have focused on implementing the OECD/EU list of exceptions and exclusions. This has resulted in further divestments where we have deemed issuers unwilling or unable to align with our phase-out timeline. We have also been identifying and assessing non-OECD/EU issuers in line with the timeframes of the policy.

More details on in-scope assets and policy thresholds can be found in the Thermal Coal Investment Policy on our website. Our Wealth advice business is not covered by these policies.

Asset Manager

Our asset manager Net Zero Investment Framework has evolved over 2023, in line with guidance from the Institutional Investors Group on Climate Change (IIGCC), to better track and manage two key pillars of our investment transition approach: decarbonising the assets we manage and increasing investments in climate solutions. Our new net zero investment framework provides a clearer differentiation of issuers' net zero commitments and maturity, helping our engagement efforts, and giving us a more accurate view of the transition alignment of the portfolios we manage. Issuers will be placed in one of six categories, which include 'net zero aligned', 'net zero aligning' and 'not aligned'.

Our asset manager has also introduced a separate and complementary climate solutions investment framework, aligned with existing and emerging taxonomies. The framework will provide consistency in measurement and allow us to better categorise and monitor issuers' exposure to the structural growth themes of climate mitigation and adaptation.

Together these frameworks will provide a more holistic and decision-useful transition 'dashboard' for our investment teams. We are applying these frameworks to public equities and debt in the first instance, with private credit also covered by the net zero investment framework, with plans to extend them to asset classes such as sovereign bonds and other unlisted assets.

The net zero investment framework has already played a part in investment strategy development, notably our newly launched Sustainable Alpha Opportunities Fund. This diversified fixed income strategy will allocate to 'net zero aligned' or 'aligning' assets, including companies with net zero targets, and expects this allocation to increase over time.