Prudential Assurance Company

Stewardship Report 2024

April 2025

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Foreword

Welcome by the Life CEO of M&G

Welcome to this Prudential Assurance Company Limited (PAC) Stewardship Report (the Report) for the year ended 31 December 2024. My role as CEO of the Life business includes PAC, referred to as the asset owner in this Report, which is the part of M&G plc that decides on what's included in PAC investment funds.

It remains important to me that we have a level of transparency on how we manage our clients' (institutions and policyholders) and shareholders' money, including the impacts the changing financial landscape has on their money. Through this Report, we provide an overview of the sustainability and stewardship activities that PAC has delivered during 2024 and what this means for our policyholders and clients.

In the context of this Report, stewardship means we take a responsible approach when we invest our clients' money, from asset allocation through to oversight of those investing the funds. Within the Report, we also describe how we continue to enhance our stewardship practices in line with the Financial Reporting Council's UK Stewardship Code 2020 (the Code). This is an important Code as it looks to drive better stewardship outcomes across financial services, including safeguarding the interests of clients. We are one of over 270 financial institutions who are signatories of the Code.

As the asset owner business of M&G plc, PAC includes, for example, our With-Profits Fund, of which £54.8 billion is our market-leading PruFund fund range. I'm proud of our ability to provide smoothed returns for customers, combined with investment decisions that can help people secure a life of possibilities that continue to make a real difference, benefiting policyholders and wider society.

During 2024, PAC continued to build on our monitoring of engagement activity across our investments, conducted by our appointed asset managers who lead the conversation with the companies we invest in. Our stated purpose is consistent across the group – to give everyone real confidence to put their money to work. As PAC, we act in the best interest of our policyholders and clients.

PAC considers the material impacts of environmental, social, governance factors to the economy, the environment, and to society. We believe a crucial part of this is maintaining high standards of effective stewardship activity.

We hope you will find this Report of interest, and that it gives you some useful insights into our stewardship activities, our progress made in 2024 against our sustainability aspirations, and how we continue to put our customers and clients at the heart of everything we do.

As you would imagine our policies don't change frequently, so to make the 2024 Report as concise as possible, we have provided cross references to the 2023 Report where you can find details of our policies and processes.

We intend to continue to improve our reporting capabilities in response to feedback from the Financial Reporting Council, and from you. So, we'd really welcome your feedback on this Report, and you can contact us at StewardshipFeedback@MandG.com

Best wishes,

Clive Bolton,
Chief Executive Officer, M&G Life on behalf of
Prudential Assurance Company Limited

Summary

The Stewardship Report 2024 from Prudential Assurance Company (PAC), part of M&G plc, provides a comprehensive overview of our stewardship and sustainability activities carried out during 2024. It aligns with the Financial Reporting Council's UK Stewardship Code 2020 and includes key stewardship activities, references to relevant policies within the report, and useful links for further information.

Key priorities for 2024

- **Continued management of environmental, social and governance (ESG)-related issues,** for example further work on Climate Risk
- **Enhanced ESG Integration and Stewardship,** we continued enhancing and reviewing potential future approaches, for our sustainability-related monitoring, oversight, and engagement with our appointed managers
- **Enhanced oversight and monitoring,** by strengthening internal oversight and review of investment portfolios against PAC's Treasury & Investment Office ESG Product Framework to manage potential greenwashing risks

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Key achievements for 2024

- **Stewardship:** Communicated PAC's annual ESG priorities to appointed investment managers
- **Modern Slavery:** Conducted a refresh of PAC's Modern Slavery Engagement List
- **Policy Reviews:** Reviewed PAC's ESG and stewardship-related policies and standards, ensuring they remain fit for purpose
- **Sustainability Framework:** Input into the development of M&G plc's new sustainability framework
- **Consumer Duty:** Achieved delivery of Consumer Duty, including the establishment and roll-out of M&G's Blueprint
- **New PruFund Planet Sustainability Report developed:** Informing clients about our stewardship and investment activities and assessing alignment with fund objectives
- **Due Diligence:** Further improvements of our internal oversight
- **Portfolio monitoring:** Reviewed portfolios against the Treasury & Investment Office ESG Product Framework aiming to ensure they align with PAC's expectations
- **ESG Oversight Reporting:** Produced Quarterly ESG Oversight Reports on manager engagement and voting activities
- **Climate Initiatives:** M&G plc joined the Institutional Investor Group on Climate (IIGCC)

Please see the Report for full details of the above and more examples, including links to key policies and case studies

Top 5 takeaways

1. We align PAC's investment beliefs with those of M&G plc's, and our internal asset manager, M&G Investments
2. We consider ESG factors in our investment decision-making processes where appropriate, due to their potential to materially impact investment performance and our clients' outcomes
3. M&G plc and PAC employs third-party service providers to inform their investment activities and try to positively influence corporate behaviour
4. PAC is continually looking to enhance and refine its processes, templates, and tools to manage potential greenwashing risks more effectively
5. Our application of the FCA's Consumer Duty Regulation, gives us a greater focus on providing good outcomes for customers

The Report highlights our ongoing efforts to enhance stewardship and sustainability practices, describes how we have effectively fulfilled our stewardship responsibilities, in line with the FRC UK Stewardship Code 2020 and addressed key ESG issues.

Introduction

UK Stewardship Code 2020

The UK Stewardship Code 2020 (the Code) sets high stewardship standards for those investing money on behalf of UK savers, pensioners and those that support them. The Code emphasises the importance of active engagement and encourages investors to consider environmental, social and governance (ESG) factors and sustainable business practices. It offers a set of 'apply and explain' principles for asset managers and asset owners. Stewardship is the responsible management, allocation and oversight of capital to generate long-term value for clients and beneficiaries, leading to a more sustainable economy, environment and society. The Code has four main sections: Purpose and Governance, Investment Approach, Engagement and Exercising Rights & Responsibilities, which are spread across 12 voluntary principles. The Code recognises that asset owners and asset managers play an important role in protecting market integrity and in working to minimise systemic risks as well as being stewards of the investments in their portfolios.

About M&G plc

M&G plc is a leading international savings and investments business, managing money for more than 4.5 million+ retail clients and more than 900+ institutional clients operating across 39 offices and 6 continents. As of 31 December 2024, we had £345.9 billion of assets under management and administration. With a heritage dating back more than 170 years, M&G plc has a long history of innovation in savings and investments, combining asset management and insurance expertise to offer a wide range of solutions. Our purpose is to give everyone real confidence to put their money to work. We are an internationally recognised active asset manager and an established life business, with a well capitalised With-Profits Fund. We use strong investment capabilities to help our customers and clients invest for the long-term.

The relationship between the asset owner and the internal asset manager

M&G plc owns a group of financial brands and companies (the Group). Two of the segments are discussed in this report: the M&G Life segment of the Group includes the asset owner – Prudential Assurance Company (PAC) whilst the other distinct segment of the Group is the asset manager – M&G Investments (internal asset manager).

The asset owner's main responsibilities include the sale of savings and investment products and has a direct relationship with the policyholder. The asset owner also leads on designing, sourcing and distributing financial products to a number of different types of clients, including retail clients, institutional investors such as pension schemes, and investment platforms. These products include With-Profits policies, annuities, and unit-linked funds. The investment strategies for these products vary since each strategy has been tailored to the needs of each product. They may include multiple asset classes and regions/geographies spread across a number of investment mandates or investment vehicles.

The asset owner is also responsible for appointing skilled asset managers in order to manage diversified investment portfolios, which suit the client's needs, for an appropriate fee. The asset owner may appoint the internal asset manager and/or external asset managers*.

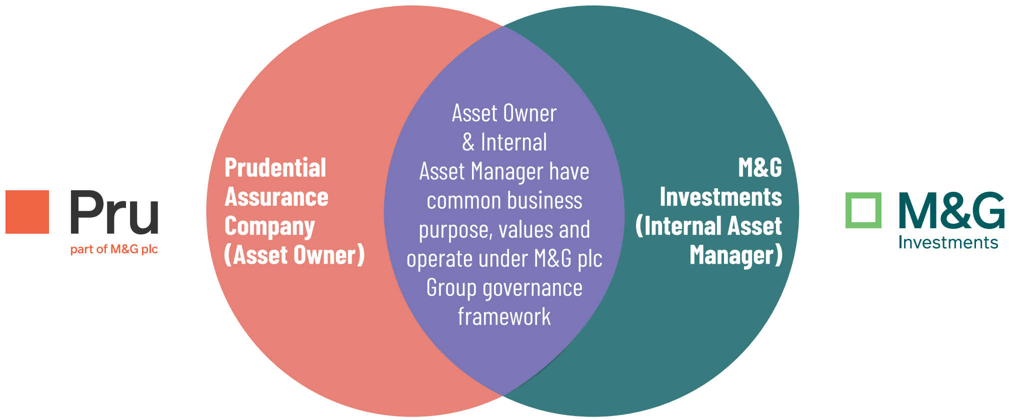
We aim to appoint asset managers that have expertise in generating sustainable risk-adjusted returns, net of fees, over the long-term, for a particular asset class or investment strategy.

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

The relationship between the internal asset manager and the asset owner is carefully managed to ensure that clients receive the best possible outcome and conflicts of interest are effectively managed. The asset owner endeavors to treat the internal asset manager as it would an external manager.

We believe that there are benefits in using an internal asset manager, such as having a common purpose and an alignment in values and priorities. They are required to meet specific criteria prior to being appointed (in line with the appointment criteria of all asset managers). This includes having to meet the minimum threshold of being considered a top quartile investment proposition within their investment universe.

The asset owner also broadly corresponds to the former Prudential UK Life business (and continues to trade under the Pru name), while the asset manager corresponds to M&G Investments. The asset owner and the internal asset manager function independently, but both parties have a common business purpose, values and commitments, and operate under a Group governance framework, all defined at the level of M&G plc. As both asset owner and internal asset manager, we (M&G plc) report our stewardship activities in line with the UK Stewardship Code 2020.



*For further details regarding our external managers, please refer to Principle 2, page 34.

In line with the UK Stewardship Code 2020, the asset owner has committed to update its Stewardship Report every year. The 2024 PAC Stewardship Report outlines how we adhere to the 12 principles, within the Code, highlighting ESG and stewardship activities and their related outcomes. We have presented this through appropriate evidence such as case studies and our policies.

As of July 2024, the FRC announced significant revisions to the UK Stewardship Code 2020 application process and set out five priority areas to focus on in the review of the Code: purpose, principles, proxy advisors, process, and positioning. The FRC also announced interim changes designed to reduce reporting burden on existing signatories and are effective from 31st October 2024. These changes provide measures and clarifications, which do not diminish the need for high-quality disclosures but rather enable more proportionate reporting. In summary, the changes are:

- **Removing the requirements for existing signatories to update disclosures against "Context" reporting expectations,** except where there are material changes to previous disclosures
- **Removing the requirements for existing asset owners and asset managers to disclose against "Activity" and "Outcome" reporting expectations** for Principles 1,2,5 and 6, except where there are material updates. This will allow signatories to prioritise updating reporting on the activities and outcomes of their approach as relevant to Principles 3,4, and 7 to 12
- **Allow cross referencing to specific disclosures made in existing signatories' most recent Stewardship Report where there have been no material changes.** This applies to the "Context" reporting expectations and "Activity" and "Outcome" reporting expectations for Principles 1,2, 5 and 6

We have reflected these interim changes in the 2024 PAC Stewardship Report.

We thoroughly reviewed the 2024 PAC Stewardship Report using our governance review process as outlined in **Principle 5, as found on page 58**. Note: The Report is intended for use by a wider audience including investors, policyholders, regulators and our clients. This PAC Stewardship Report and a comprehensive overview of our With-Profits Fund can be found on our **PAC Responsible Investing website**. Financially advised clients can also contact their advisers with any questions they might have on how the Stewardship Report relates to their policy and how stewardship and ESG are considered and/or integrated within their policy.

The UK Stewardship Code 2020 Principles

Purpose and Governance

1. Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
2. Signatories' governance, resources and incentives support stewardship.
3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.
4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
5. Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Investment approach

6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8. Signatories monitor and hold to account managers and/or service providers.

Engagement

9. Signatories engage with issuers to maintain or enhance the value of assets.
10. Signatories, where necessary, participate in collaborative engagement to influence issuers.
11. Signatories, where necessary, escalate stewardship activities to influence issuers.

Exercising rights and responsibilities

12. Signatories actively exercise their rights and responsibilities.

Source: Financial Reporting Council

Disclosure by Principle

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

The Report is laid out Principle by Principle and case studies are used to support how the asset owner has complied with each Principle.

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

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

Case studies included in the Report are all inherent to/provide a view of the activities that have been undertaken in 2024, or the progress made across existing activities in 2024, unless otherwise stated.

Where there are references to 'we' or 'our', it is in reference to the asset owner business or M&G plc, dependent on the section and/or the applicability of the context to both entities.

Throughout the Report, we refer to 'customers' using the broader term 'clients' that describes most audiences, except where a specific context means the term customer is required.


Case study: Asset owner engagement on a water utility company default

Objective

Approach

Outcome


Case study: Board diversity and effectiveness

Objective

Approach

Outcome

Principle 1: investment beliefs, strategy and culture

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

M&G plc

Purpose

M&G plc's (M&G) purpose is to give everyone real confidence to put their money to work. We are an internationally recognised active asset manager and an established life business, with a well-capitalised With-Profits Fund. We use our strong investment capabilities to help our customers and clients invest for the long-term, including solutions that support the transition to a more sustainable economy.

Culture and Values

Our values guide what we do, the decisions we make and the way we respond to opportunities and challenges. By bringing our values to life through our behaviours, we are delivering progress on our strategy, and achieving our purpose. Our culture is the values, behaviours, beliefs and attitudes that the organisation shares, defining how people collaborate and work together, and what is expected from everyone day-to-day. Above all we:

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

Act with integrity – empowering colleagues to do the right thing, to honour their commitments to others and act with conviction. The business is built on trust, and it does not take that lightly

ESG, sustainability and stewardship priorities

In 2024, we undertook a review of our sustainability strategy to ensure we are focused on areas that are important to M&G and where we can have the most impact, resulting in the development of a new sustainability framework. We have grouped our activities under two themes – **'Resilient planet'** and **'Resilient societies'** – which include the work we do on climate, communities and people, with the addition of nature given its growing importance for our customers and clients and broader society.

Our approach to sustainability is aligned with our purpose – to give everyone real confidence to put their money to work – and supports our broader Group strategy, delivering profitable growth where we can capture new opportunities to meet evolving client needs.

The resilient planet theme is supported by two pillars – **'Financing the climate transition'** and **'Developing our approach to nature'**. Our work on financing the climate transition seeks to address the risks presented by climate change alongside capturing new opportunities to meet client needs. In 2025, we will use an updated Group Climate Action Framework and focus on the alignment of our portfolios with the transition to a low-carbon economy, including engagement where more progress is required. We also recognise the importance of addressing nature loss through the investments we own and manage, as well as measuring and reducing our operational impact. We are working to better understand our investment exposure to nature-related impacts, dependencies, risks and opportunities, and will share more detail on our approach in due course.

The resilient societies theme also comprises two pillars – **'Promoting financial confidence'** and **'Building communities'**, both of which build on the work we already do as part of our investment and corporate activities. Improved financial confidence supports people to access finance and make better decisions – something we believe we can influence by helping close the investment and advice gap, as well as investing in financial inclusion initiatives. Building communities includes targeted social infrastructure investments such as affordable housing and our community investment programme. We recognise we are in the early stages of tackling these issues, but believe we have an important role to play.

During 2025, we will start to track and measure progress against our new sustainability framework using an initial set of performance indicators. As we monitor these indicators, we will develop a set of internal and external targets for each of the pillars.

Business model

Our business model is to gather assets and invest for the long-term to deliver attractive financial outcomes for our customers and clients, as well as superior returns for our shareholders. We leverage our capital strength and investment expertise, allowing us to develop innovative savings and investment propositions that meet customer and client needs through our Asset Management and Life businesses.

We are an internationally recognised active asset manager with market-leading expertise in private assets, public fixed income, and multi-asset solutions, alongside our expanding range of sustainability-driven thematic equity products.

We are an established Life business with a strongly capitalised With-Profits Fund. With a heritage of over 170 years and a strong brand, through our advice business and distribution network, we're well-positioned to understand and meet the needs of customers and advisors. We have a long-standing track record of successfully managing a scaled balance sheet to provide security to our customers. Our strong investment capabilities underpin all that we do.

Strategy

Our purpose is to give everyone real confidence to put their money to work and the three pillars of our strategy are centred on ensuring we meet this clear purpose.

The strength of our business model is helping us to deliver our strategy. By combining our deep understanding of customer and client needs, compelling products and services, investment capabilities and expertise, and our growing international footprint, we are continuing to transform M&G. As we transform, we are targeting good operational and financial performance, and attractive financial outcomes for our customers and clients, as well as superior returns for our shareholders.

We take a long-term approach to growth and value creation. This incorporates how we address environmental and social challenges through the investments we manage on behalf of our clients, as well as how we run our business operations. Over 2024, we have reviewed our sustainability strategy, drawing on the strengths of our business model and broad investment capabilities. The updated approach focuses on areas that are material to us and where we can make a positive contribution.

Our strategic pillars

Maintain our financial strength	Simplify our business	Deliver profitable growth
Ensuring our clients can depend on us, while rewarding shareholders.	Becoming more nimble and efficient in how we work to best serve our customers.	Building on our strengths to better anticipate and address our clients' needs.

See the 2024 M&G plc's Annual Reports and Accounts for more information.

Asset owner

Our investment beliefs

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

Long-term approach	Offers availability of broader investment set, looks through short-term volatility and has the flexibility to cater for the investment time horizon and liquidity requirements of specific funds
Diversification	Combining different assets in a portfolio to improve an investors' risk-adjusted return, limit impact of volatility and increases the probability of an investor achieving their investment
Active management	Our belief in active management is dependent on the characteristics of each asset class and our manager selection skills
Importance of value and asset valuation	Valuation of an asset remains an important consideration in determining the risks and returns which we can achieve by investing in that asset
Illiquidity premium	Some less liquid asset classes may attract an additional premium, and provide beneficial risk-return characteristics for a multi-asset portfolio
Harvesting a credit risk premium	The concept of a credit risk premium intuitively explains that investors are rewarded for bearing the risk that the issuer of debt may at some point default on its obligations
Evolving asset mix and new asset classes	As part of our Strategic Asset Allocation, we review and update our asset allocations on a regular basis and our response to structural changes in the market
Importance of ESG factors and risks	We take ESG factors into consideration in investment decisions and their potential to materially impact our clients and investment outcomes. In our role as an asset owner, we believe that businesses and behaviours that reflect ESG best practices, and which are aligned with our values of care and integrity, are better positioned to deliver sustainable outcomes over time horizons that meet present and prospective client needs

Figure 1: Asset owner investment beliefs

These beliefs are the foundation of our investment strategy, and ultimately, we aim to take a long-term, multi-generational approach to investing on behalf of our clients. We take ESG factors into consideration in investment decisions and their potential to materially impact our clients and investment outcomes. **For more information on the asset owners investment beliefs, please refer here or page 12-13 in the 2023 PAC Stewardship Report, under the heading, "Our investment beliefs".**

We demonstrate our ESG investment beliefs through our PAC ESG Investment Policy. This policy includes description of our ESG exclusions and how they are applied. This includes setting thresholds and screening criteria for specific exposures which includes Thermal Coal, Tobacco, Controversial Weapons and United Nations Global Compact (UNGC) violators. **Please refer to the PAC ESG Investment Policy here for further detail.**

Meeting our clients' needs

M&G offers a range of client solutions with varying risk tolerances and asset allocations and their own time horizon to meet clients' needs. The asset owner ensures that there is sufficient management of risk and other factors in place to support the achievement of clients desired investment outcomes.

The mandate design takes into consideration an array of factors to facilitate the investment outcomes to achieve the most appropriate outcome for customers. These requirements may be defined along several dimensions, for example meeting of guarantees, time horizon, lapse rates and maximum levels of risk. These are with reference to the needs of those clients whom the asset owner has written the business for.

We also measure our success in meeting client needs in a number of different ways. For our With-Profits clients, we meet their needs if we construct portfolios that give financial returns that meet their expectations, at a reasonable level of risk.

The needs of our annuity clients and our unit-linked clients are met if they receive the outcomes defined for them when they bought the product. More specifically, the annuity clients' outcomes are met if they receive the income that had been promised to them upon purchase, whilst the needs of the unit-linked clients are met if the investment objectives that had been set are adhered to. Those are overseen by the PAC Executive Investment Committee (PAC EIC). The interests of our With-Profits and our corporate pensions clients are represented on an ongoing basis by two independent sub-committees, the With-Profits Committee (WPC) and the Independent Governance Committee (IGC).

M&G Treasury & Investment Office is responsible for the strategic allocation of funds, fund manager selection and oversight for the asset owner. As reported in 2021, there continues to be a focus on how the asset owner's investment strategies can be made more sustainable, and in particular how material climate risks can be identified and managed. Following our climate commitments in 2021, we have implemented our climate strategy for listed equity, corporate debt and real estate and continue to monitor and evolve our strategy in line with industry guidance.

Additionally, we will look to expand our climate strategy to cover additional asset classes such as infrastructure, private credit, and private equity. We will continue to ensure that our strategy is designed and implemented with customer needs and expectations in mind. **Please refer to Principle 6 on page 61 for further information on how we meet our clients' needs and aim to serve in the best interests of our clients and beneficiaries.**

Our fund offerings – PruFund and PruFund Risk Managed product ranges

Our PruFund and PruFund Risk Managed product ranges offer a large variety of products at varying levels of risk and provide options according to client's appetite for investment risk and ethical and sustainability preferences. For example, clients may select our PruFund Planet range. Launched in July 2021 to serve different client needs, the fund range enables clients to have access to a bespoke range. It has the flexibility to apply a broad range of investment strategies such as Risk focused, Opportunity focused and Solution focused approaches whilst looking to pursue ESG opportunities such as; Climate Action, Environmental solutions, Circular Economy, Social Inclusion, Better Health and Saving Lives and Better work & Education that address pressing social or environmental issues. **Refer to page 64 in Principle 6 for a case study provided on the PruFund Planet Sustainability Report that was published in 2024.**

Alternatively, our PruFund Risk Managed range has pre-defined investment risk levels, that also incorporates ESG factors across a range of multi-asset funds. We set our Strategic Asset Allocation (SAA) for our PruFund range with respect to the required risk levels and our clients' preferred time horizon. The latter is generally medium to long-term, as our clients purchase PruFund as a savings vehicle for retirement. Furthermore, our PruFund investment strategy is multi-asset, investing globally across equities, fixed income, property and alternative assets. This diversifies our investment strategy and allows us to calibrate the level of investment risk appropriately. The SAA process includes a forward-looking approach to climate risks via the internal climate scenario modelling. Our PruFund range has a long-term track record of delivering consistent returns to policyholders.

Since its inception, PruFund Growth has delivered stable returns for clients defined by PAC. It has done this by taking a sensible and balanced, medium to long-term view to investing, whilst continuing to embed and enhance stewardship through our policies and approaches. This includes PAC's position on thermal coal, which is line with the M&G plc Thermal Coal Position and has thresholds and screening criteria for coal related investments. PruFund Growth has mandates that invest in solutions that we believe will provide tangible benefits to the economy, environment and society (for example, with the development of M&G Catalyst*).

***Please Refer to page 69 for more information on the M&G Catalyst team**

PruFund's 20th Anniversary an assessment to serving client's interests

The PruFund range which celebrated its 20th Anniversary in 2024, serves as a testament to our commitment to serving the diverse needs of our clients. Over 450,000 savers and investors across the UK have entrusted their investments to the PruFund Range, benefitting from our smoothing mechanism and multi-asset approach. This feature has provided a smoother investment journey, making the PruFund Range a popular entry point for novice investors. As we mark this significant milestone, we can affirm our focus to delivering investment solutions that cater to investors and helping customers grow their money while mitigating the unpredictability of investment markets.

Enabling effective stewardship

As disclosed in 2023, we continue to integrate ESG within our Investment Due Diligence Process:

The Request for Proposal (RfP) includes a number of ESG-related questions, specifically those relating to the investment process and how these considerations influence the investment process.

A separate ESG RfP is sent to all managers and completed along the same timeframes as the RfP. This document more closely aligns the focus of ESG considerations with the priorities of the asset owner, (such as Climate Change and Diversity & Inclusion), as well as PAC's wider ESG Investment Policy.

Once completed by managers, the ESG & Regulatory team are responsible for assessing and scoring the asset managers based on their responses. The review will help to identify whether there are any specific areas of concern or issues that should be flagged for more detailed due diligence or assessment, and will ensure attestation and alignment to our priorities and overarching ESG strategy, targets and commitments.

From 2023, the quarterly oversight meetings have increasingly involved members of the ESG & Regulatory team and since 2021, have included a standing ESG agenda item. By participating in these quarterly meetings, they have enhanced our understanding of how managers are managing ESG within their investment processes and have provided the ESG & Regulatory team with an opportunity to highlight more immediate concerns.

Moreover, we have continued to assess the alignment of fund manager policies and approaches with the PAC Shareholder Engagement Policy throughout 2024. We have also continued the review of responses to the ESG-related questions to the questionnaire that supports our Shareholder Rights Directive II (SRDII).

See Principle 8 and 9 for further detail and updates on how we ensure that we have enabled effective stewardship.

Outcome

Over 2024, we have worked on an updated Group-level sustainability framework, bringing together existing initiatives across our business and building on our current commitments, covering activities across our own operations, supply chain and investment portfolios. Our approach to sustainability is aligned with our purpose – to give everyone real confidence to put their money to work – and supports our broader Group strategy, delivering profitable growth where we can capture new opportunities to meet evolving client needs. During 2025, we will start to track and measure progress against our new sustainability framework using an initial set of performance indicators. As we monitor these indicators, we will develop a set of internal and external targets for each of the pillars. We also continue to remain committed to our existing sustainability priorities of Climate Change and Diversity & Inclusion to further enhance our stewardship practices.

As an asset owner, our investment beliefs, supported by the PAC ESG Investment Policy and its underlying principles, continue to facilitate our direction towards ensuring that we continue to meet customers' needs and enable effective stewardship.

Principle 2: governance, resources and incentives

Signatories' governance, resources and incentives support stewardship

M&G plc

Governance structure

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

The M&G plc Board is specifically responsible for a range of matters, which include:

- approving the Group's strategic aims and objectives
- setting our purpose, standards, and culture
- approving the annual Group financial budgets
- approval of effective risk management and internal control processes
- taking strategic decisions
- the approval of specific matters

The matters that require M&G plc Board approval are contained in a Schedule of Matters Reserved for the Board. In discharging its responsibilities, the M&G plc Board is supported by management and ensures a clear division of responsibilities between the Chair, the Group Chief Executive Officer, the Senior Independent Director and the Non-Executive Directors.

The M&G plc Board delegates specific responsibilities to Board Committees, which operate within clearly defined terms of reference approved by the M&G plc Board. In compliance with the Code, the M&G plc Board has established an Audit Committee, a Nomination and Governance Committee and a Remuneration Committee. We have also established a separate Risk Committee. The Terms of Reference for each Board Committee are reviewed and approved annually by the M&G plc Board and are available to view on our website.

Sustainability governance

Our Chief Financial Officer (CFO) acts as executive sponsor for sustainability across the Group. Our Chief Sustainability Officer (CSO) supports the CFO by leading on sustainability strategy, policy, commitments and governance. The CSO also chairs the Executive Sustainability Committee, where updates on the strategy and other related topics are presented, as well as receiving updates on sustainability activity from the business units.

During the year, the CSO has led efforts to strengthen our Group-wide sustainability governance, including:

- Establishing thematic working groups to implement and oversee aspects of the Group sustainability strategy, manage associated risks, and enhance oversight of business unit activities
- Updating our Sustainability Communications Framework, which covers oversight and governance requirements for sustainability-related communications across the Group
- Commencing work on reviewing our sustainability governance model to support effective delivery against our strategy

Consideration of sustainability within our investment activity is managed at the executive management level in our Asset Management and Life segments. This comprises oversight of investment strategy, adherence to responsible investment policies, progress against sustainability-related investment objectives, and climate strategy. Regulated entity boards and committees have accountability and oversight of sustainability for the investments and products within their remit (including the With-Profits Committee).

The diagram below presents a summary of the Group governance structure as it relates to sustainability. All terms of reference for our Board-level governance committees are available on our website.

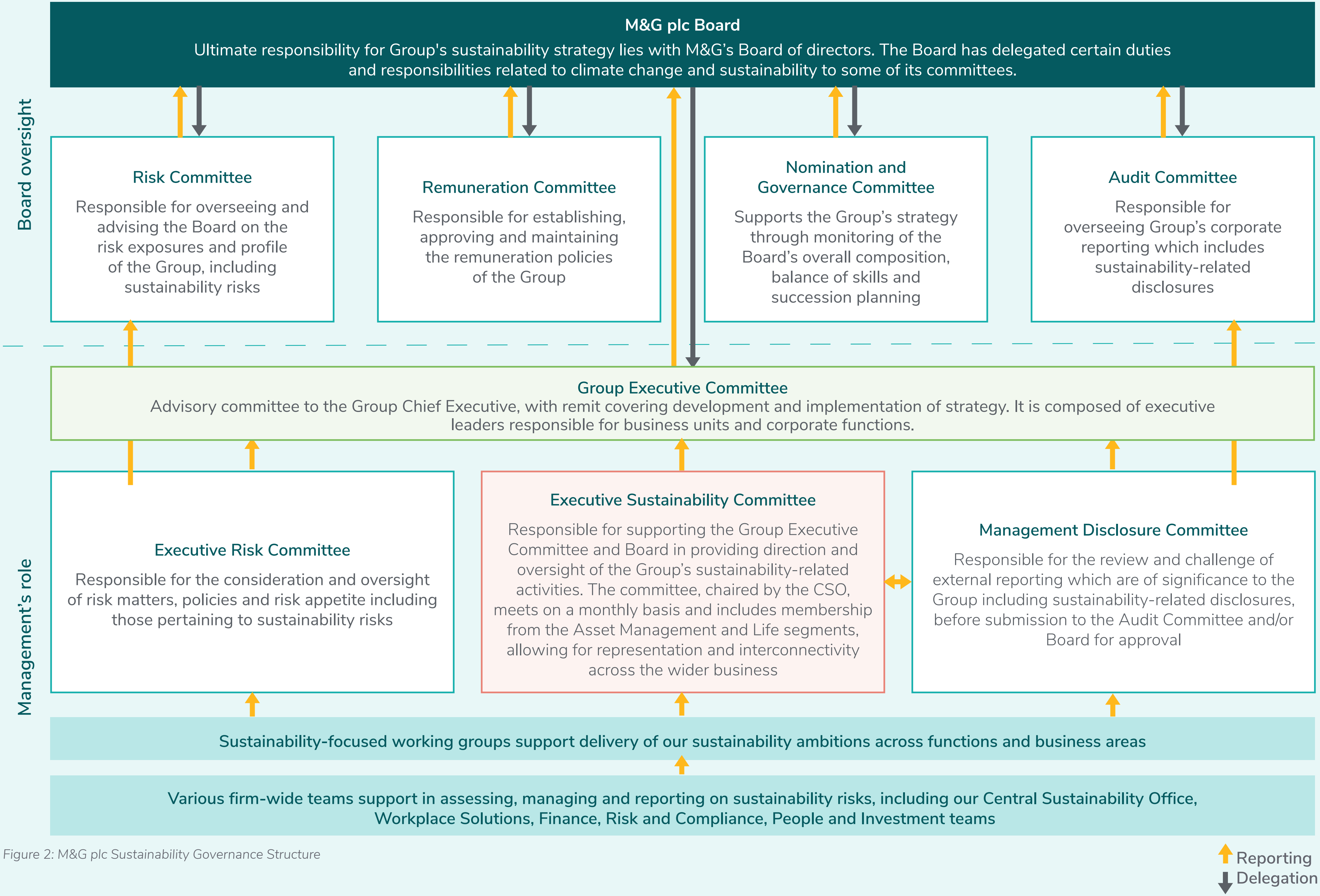


Figure 2: M&G plc Sustainability Governance Structure

Training and resources

ESG risks have been included in formal, all-staff training modules. Other ESG topics are delivered in multiple parts throughout the year (see case study below) for specific roles across the firm. In addition, the company sponsors professional qualifications for employees, wherever needed such as the CFA accreditation and the CFA Institute's Certificate in ESG Investing.

M&G's Sustainability Hub provides a centralised resource for all colleagues on our intranet for sustainability information, including direct links M&G's sustainability-related reports, such as the Sustainability section in our Annual Report and Accounts, our TCFD and Gender Pay Gap reports. The site also includes education resources, such as a link to the United Nations Global Compact (UNGC) Academy, which all staff are able to access through M&G plc's UNGC membership.

In line with the objective of streamlining sustainability training, employees now have access to internal sustainability-related resources to gain a greater understanding and embed awareness of M&G's community objectives which are aligned with Group Governance and reporting requirements. **For more information on M&G's approach to community investment, please see our Community Investment Policy here.**

Anti-Greenwashing mandatory training

In 2024, M&G continued mandatory training on anti-greenwashing. The training was designed to promote transparency, ensure compliance with regulatory standards, and uphold our commitment to accurately represent sustainability features in our products. It was provided in three modules covering:

- Governance and risk framework, demonstrating how the management of anti-greenwashing risks integrates into M&G's broader risk management framework
- Communications and disclosures, outlining the types of communications, disclosures and statements from which greenwashing risks could arise, including guiding principles and regulatory expectations around communications
- Product design and investment processes, detailing the regulatory landscape surrounding product classification and labelling, highlighting its importance to M&G

Third-party service and research providers

In addition to the data that we receive from investment managers, third-party research providers such as MSCI and ISS are also used as a resource for ESG and stewardship data. Third-party data vendors provide the relevant data used to identify securities and companies that require specialist ESG and Stewardship review. Third-party ESG service providers are also used for the integration of ESG, and reputational risk monitoring of actual and potential portfolio and fund companies by PAC.

A list of some of our key service providers (non-exhaustive) is displayed opposite. Regular meetings are held with the providers to review any identified issues or required with issues or required improvements.

See Principle 8 on page 78 for more information on how M&G manages and monitors third-party service and research providers.

MSCI	MSCI is a provider of regulatory sustainability data. ESG ratings, climate analysis and data tools for M&G across all of its geographies and asset classes.
ISS	ISS ESG provides M&G solutions across a range of sustainable and responsible investment issues with specific reference to controversies and public voting.
Bloomberg	Bloomberg's sustainability datasets are used across regulatory, ESG rating, climate and within data tools. The product includes as-reported data and derived ratios as well as sector and country-specific data points. M&G specifically deploys Carbon Emission data, Sustainable Debt, Biodiversity, Sustainable Finance Disclosure Regulation (SFDR) and EU Taxonomy data sets.
LSEG	LSEG is a provider of Green Bond status to identify the type of use of proceeds classification that can be attributed to a themed bond.
Sustainalytics	Sustainalytics provides M&G solutions and services including ESG and ESG risk ratings, controversies coverage, and screening.
CDP	M&G uses company climate, water, deforestation and plastics sustainability data from CDP and participates in corporate disclosures run by CDP as a market initiative to support greater transparency.
German Watch	German Watch is a data provider that produces the Climate Change Performance Indicator Index. This Index tracks countries' efforts to combat climate change. As an independent monitoring tool, it aims to enhance transparency in international climate politics and enables comparison of climate protection efforts and progress made by individual countries.
Net Purpose	Net Purpose provides research and specific evidenced SDG data to inform consideration of real-world outcomes for specific fund ranges.

Incentives

At M&G, compensation decisions are based on a holistic appraisal process with appropriate objectives set according to the role. Our Executive Directors' reward structure is linked to core performance management scorecards, which include sustainability-related metrics.

Our executive Long-Term Incentive Plan (LTIP) arrangements (the M&G Performance Share Plan) for 2024-2026 has an overall weighting to sustainability-related targets set at 25%, evenly divided between our operational emissions reductions, our gender diversity target, and ethnicity diversity target. This allocation has been set to 15% for the LTIP covering the 2025-2027 target period, reflecting the gender and ethnicity targets only. While the emissions-based measure will remain a part of the long-term executive remuneration plans until 2026, it has not been included for 2025-2027 period on the basis that good progress has been made on operational emissions, and that investment-related measures for future awards will be carefully considered during 2025, following the update to our sustainability strategy.

Objectives and remuneration structures are reviewed annually by the Remuneration Committee, including any sustainability-related targets. In 2024, investment professionals of the internal asset manager had an ESG-related objective which requires each person to take ESG considerations into account within their day-to-day work. Achieving this objective forms part of the annual performance assessment, and success here is crucial to both a good performance rating and remuneration.

Over 2024, certain investment professionals working within the asset owner who deal with sustainability issues and strategy had an objective to ensure ESG is integrated into investment decision making.

Asset owner

Governance structure

In addition to the overarching structure at the Plc level, the asset owner has our own governance structure which enables sustainability-related matters to be integrated into our business activities.

The PAC Board is responsible for interpreting and applying the Group strategy and ensuring it is appropriate for the PAC's business and customers. The PAC Board delegates specific duties, including sustainability-related matters to sub-committees. **For more information on the asset owner's governance structure please refer to page 24 in the 2023 PAC Stewardship Report, under the heading, "Governance structure".**

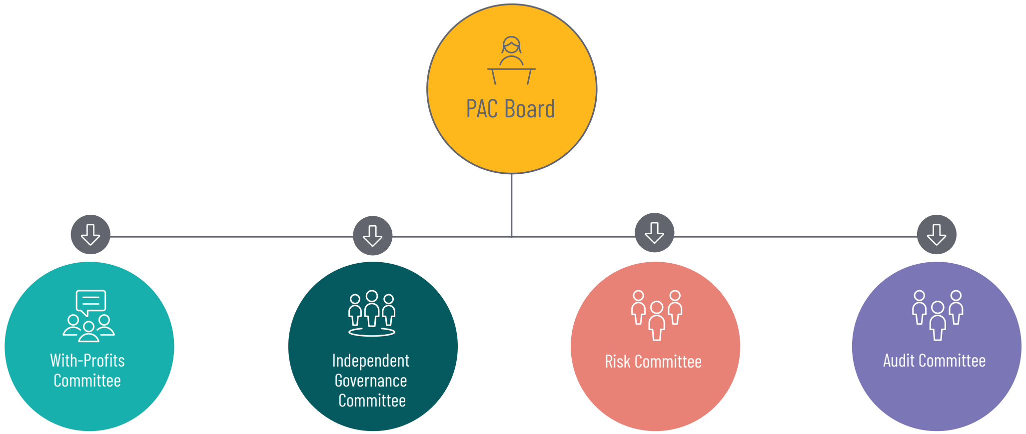


Figure 3: High-level asset owner governance structure

Participation in Working Groups

AO ESG Working Group

In 2020, we set up the Asset Owner (AO) ESG Working Group, chaired by a member of the ESG & Regulatory team. The purpose of the AO ESG Working Group is to have a dedicated forum to support M&G and the asset owner to meet their sustainability and ESG-related goals and commitments, by facilitating information sharing and collaboration on key ESG-related matters and activities pertinent to asset owner business. It may also include the review of the wide suite of ESG-related initiatives including ongoing stewardship activities in accordance with the PAC ESG Investment Policy. The attendees of the AO ESG Working Group include representatives across the Treasury & Investment Office function, and Risk and Compliance function. It also includes representatives from M&G plc Central Sustainability Office function to enable active exchange on the business' sustainability initiatives and their link to the delivery of the Group's ESG commitments and wider sustainability strategy. This collaboration allows the asset owner stakeholders to stay abreast of the development of M&G plc's sustainability framework. Any key risks, issues and decisions raised at the working group are escalated through the appropriate governance channels, including oversight and approval at the PAC EIC where required.

Sustainability Strategy Working Groups

As part of the development of our Group-level sustainability framework, four working groups were established in alignment with the framework's components – 'Financing the climate transition', 'Developing our approach to nature', 'Promoting financial confidence' and 'Building communities'. The working groups seek to confirm and implement action as well as define indicators to measure progress on the framework's themes. The asset owner is a major stakeholder within these working groups, responsible for providing support and input.

Resources

Within the Treasury & Investment Office, a number of teams collaborate together with the aim to ensure clients receive good financial outcomes. The business area comprises of approximately 64 people who relate to PAC, with additional support, oversight and advice provided by Risk & Compliance functions. A schematic showing the role, organisation and component teams of the Treasury & Investment Office is illustrated in Figure 4 on page 24.

Management by the Treasury & Investment Office

- Portfolios are managed in accordance with Group Standards and Legal/Regulatory requirements
- Risk and Compliance teams provide oversight and guidance

Risk & Compliance Oversight

Liability Driven Portfolio Management

- Efficient portfolio implementation to ensure annuity funds and overlay hedging programmes are managed in line with objectives and guidelines
- Recommendation of new approaches for portfolio optimisation

ESG & Regulatory

- Set and embed ESG principles into our investment decisions, portfolio and risk management processes
- Drive and implement asset owner ESG strategies, including portfolio decarbonisation efforts

Client Portfolio Management

- Explains the ‘who’, ‘why’, ‘what’ and ‘how’ for our funds to achieve business objectives for growth and retention
- Supporting both internal (e.g. sales teams) and external (e.g. Financial Advisers) stakeholders

Manager Oversight

- Rigorous oversight of all underlying managers to ensure outcomes are aligned with our needs
- Leverage the skillsets of underlying managers for the benefit of portfolios
- Selection of high quality investment managers

Long Term Investment Strategy

- Recommending the SAA for the funds managed by Treasury & Investment Office
- In depth Capital Markets and Economic research to form medium and long-term views
- Capital Markets Modelling and scenario analysis, feeding into the wider business

Multi-Asset Portfolio Management

- Efficient portfolio implementation to ensure funds are managed in line with asset mix and hedging objectives and guidelines
- Client reporting to inform clients on portfolio positioning

Figure 4: Treasury & Investment Office organisation structure and component teams

Management by the Treasury & Investment Office continued

Annuities & Derivatives Portfolio Management team has had its name updated to Liability Driven Portfolio Management in 2024. Whilst every Treasury & Investment Office team has a responsibility for embedding stewardship and ESG considerations in their work, the ESG & Regulatory and Manager Oversight teams have primary responsibility of managing key ESG and stewardship processes. Whilst the Long Term Investment Strategy team has the responsibility for integrating ESG considerations into their SAA.

The ESG & Regulatory team is responsible for devising ESG Investment strategy and ESG/Stewardship policies and standards at the asset owner level, and drives these into portfolio allocations, benchmarks and positions, as appropriate, alongside the establishment of ESG due diligence processes (see Processes section on page 33). The team comprises of ten full time investment professionals (an increase of two new members since 2023) and receives ongoing support by other resources in the form of secondees and/or graduates. The ESG & Regulatory team also works collaboratively with the M&G plc Central Sustainability Office, and the internal asset manager's Stewardship & Sustainability team, to ensure a consistent and aligned approach across the related ESG and stewardship principles, policies and reports (where appropriate and/or required), and to the wider M&G sustainability strategy and commitments. To further enable this, one member of the ESG & Regulatory team holds dual roles within the asset owner and internal asset manager teams whilst conflicts of interest are carefully managed **(see Principle 3 on page 39)**.

The Manager Oversight team is responsible for the selection and ongoing oversight of all investment managers that they award mandates to, based on the best interest of our policyholders. As part of this process, the Manager Oversight team also conducts initial and ongoing due diligence of the investment managers' stewardship teams to determine their competence in being able to conduct successful engagement. This includes a review of the investment managers' ESG investment capabilities, their management of risks, and whether ESG is properly embedded within their processes (with support from the ESG & Regulatory team). The Manager Oversight team comprises of nine full-time investment professionals.

Treasury & Investment Office ESG & Regulatory Team

Jin Wee Tan (Head of ESG & Regulatory)

Years at M&G: 11 Years of Professional Experience: 23

Jin Wee has led the ESG & Regulatory team for 5 years. Jin Wee has worked at the nexus of life insurance and asset management for many years, and has previously held roles in investment, asset allocation, operations and projects. Jin Wee holds a first class degree in Economics from the London School of Economics, and is a CFA Charterholder.

Laura O'Shea*

Years at M&G: 10 Years of Professional Experience: 18

Laura joined M&G in 2015 as an investment analyst in the Manager Oversight Team and has been in the ESG & Regulatory team since 2022 holding a dual role where she supports Stewardship at M&G Investments. Prior to joining, Laura worked as a manager research analyst at BlackRock. Laura holds a Masters in Economics from the University of Warwick and a first class honours BSc in Business Economics and Finance from Loughborough University. Laura is a CFA Charterholder and was awarded the CFA Institute Certificate in ESG Investing and has successfully completed the Sustainable Finance Short Course from the University of Cambridge Institute for Sustainability Leadership.

Agata Wolk-Lewanowicz

Years at M&G: 3 Years of Professional Experience: 17

Agata joined M&G in 2022, and she currently works in the ESG & Regulatory team. Agata's previous professional experience involves managing a variety of cross sectoral, environmental challenges. Agata joined M&G from Carbon Disclosure Project (CDP). Agata has a Master's degree in Business Administration and Management.

* Laura O'Shea holds dual roles in the ESG & Regulatory team and the internal asset manager's Stewardship & Sustainability team.

Treasury & Investment Office ESG & Regulatory Team

Henrietta Irving**

Years at M&G: 4 Years of Professional Experience: 14

Henrietta joined M&G in January 2021 and has worked in sustainability since 2024, with a current focus on stewardship and ESG integration.

Prior joining M&G, she acquired extensive experience in Fixed Income Investment Management and Investment Operations across various global asset management and asset owner businesses. Henrietta holds a Master's degree in International Finance, a Bachelor's degree in Economics, and has been awarded the CFA Institute Certificate in ESG Investing as well as an Investment Management Certificate.

Michelle Chen

Years at M&G: 7 Years of Professional Experience: 11

Michelle joined M&G in 2018 and started in the ESG & Regulatory team since 2024. Michelle has worked in several ESG focused roles internally including in the second line Risk & Compliance and in the first line Stewardship & Sustainability and impact research. Prior to M&G, Michelle worked as credit analyst at banks and asset management. Michelle holds a MSc in Investment Finance and Banking, BA in Economics and was awarded the CFA Institute Certificate in ESG Investing.

David James

Years at M&G: 0.8 Years of Professional Experience: 7

David joined M&G in 2024 with a focus on Climate and Nature in the ESG & Regulatory team. Prior to this, David has worked at Aon as a member of their Global Climate Innovation and Strategy team, and at Coutts, where he was a member of their Responsible Investment Team. David holds a BA in Business and Management from Oxford Brookes University. He has also obtained the Investment Advice Diploma from the Chartered Institute for Securities and Investment.

** Henrietta Irving was maternity cover for Camille Le Pors in the ESG & Regulatory team in 2024.

Danielle Boyd

Years at M&G: 0.7 Years of Professional Experience: 9

Danielle joined M&G in 2024, where she leads on the development and implementation of the climate strategy for the PAC business. Prior to joining M&G in 2024, Danielle was Head of Climate Strategy Implementation at the Institutional Investors Group on Climate Change where she supported the development of the Net Zero Investment Framework and lead a programme of work to help asset managers and asset owners to set and deliver on their climate commitments.

Guy Rolfe***

Years at M&G: 10 Years of Professional Experience: 10

Guy joined M&G in 2014 and started as the lead on ESG Integration & Stewardship in 2024. In 2019 he began his focus on ESG, formulating ESG investment strategy, methodology and analysis on behalf of both asset owner and the internal asset manager. Guy had previously held roles in portfolio management and risk. He holds a first class BA degree in Economics and Politics from the University of Exeter. Guy is a CFA Charterholder and was awarded the CFA Institute Certificate in ESG Investing.

Camille Le Pors

Years at M&G: 3 Years of Professional Experience: 9

Camille joined the M&G in April 2022, where she leads on Social Issues. Prior to this, Camille worked in the non-profit sector, where she led the Corporate Human Rights Benchmark. Camille has a BA in International Politics from King's College London and a Master's degree in International Affairs from the Geneva Graduate Institute.

*** Guy Rolfe previously held dual roles in the ESG & Regulatory team and the internal asset manager's Stewardship & Sustainability team, however as of June 2024 was promoted to lead ESG Integration and Stewardship in the ESG & Regulatory team.

Treasury & Investment Office ESG & Regulatory Team

Sarah Biria

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

Sarah joined M&G in 2021 as part of the Apprenticeship Programme, and has been in the ESG & Regulatory team since 2023. Sarah has experience working across the 3 pillars of ESG, now with a focus on Social Issues. Sarah holds a BSc (Hons) degree in Chemistry from the University of Kent and has obtained the Investment Management Certificate (IMC) and was awarded the CFA Institute Certificate in ESG Investing.

Freddie Jenkins

Years at M&G: 3.5 Years of Professional Experience: 3.5

Freddie joined M&G in 2021 as an ESG analyst in the ESG & Regulatory team. Freddie has experience working across the 3 pillars of ESG, and now focuses on Climate and Nature. Prior to joining M&G on a permanent basis, Freddie worked as a data analyst for a graduate consultancy. Freddie holds a BSc in Biological Sciences from the University of Exeter.

Ha Linh Pham

Years at M&G: 2.5 Years of Professional Experience: 2.5

Ha Linh joined M&G in 2022 as part of the Apprenticeship Programme, and has been in the ESG & Regulatory team since September 2022. Ha Linh has experience working across the 3 pillars of ESG, now with a focus on Stewardship and ESG Integration. Ha Linh has obtained a Distinction in her Level 4 certification in Business Analysis.

Ben Hamilton (Head of Manager Oversight)

Years at M&G: 9 Years of Professional Experience: 9

Ben joined the Treasury & Investment Office in May 2016 from M&G's Graduate Scheme, having rotated within the team as part of the scheme since September 2015. Ben focused on manager research and multi-manager portfolio construction across both public and private markets before stepping up to lead the team in 2024. Ben studied History at Durham University and is a CFA Charterholder.

Ian Pledger

Years at M&G: 26 Years of Professional Experience: 26

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

Nick Ridgway

Years at M&G: 8 Years of Professional Experience: 23

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

Adam Porter

Years at M&G: 2.5 Years of Professional Experience: 16

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

Amerita Vassaramo

Years at M&G: 5 Years of Professional Experience: 9

Amerita joined M&G in 2020 as a Property Research Analyst within the M&G Real Estate before transitioning to the Manager Oversight Team in 2023. Prior to joining M&G, Amerita worked at Avison Young (formerly GVA), a real estate adviser as a researcher and NHS Property Services. Amerita has a first class BSc (Hons) in Economics from Loughborough University and holds and Investment Management Certificate (IMC).

Sam Payne

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

Sam joined Manager Oversight in 2018 from M&G's Graduate Scheme, having joined M&G in 2017. Sam has a degree an Economics, Politics and Spanish from Exeter University, during which he completed a Year in Industry at M&G. Sam has obtained the IMC qualification.

Treasury & Investment Office Manager Oversight Team

Olivia Trevor

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

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

Rob McIlroy

Years at M&G: 2.5 Years of Professional Experience: 6

Rob joined M&G and the Manager Oversight team in 2022. Prior to that, Rob worked at Investec as an associate Investment Manager. Rob has an Economics degree from Royal Holloway and is a CFA Level 1 candidate.

Kate Russell

Years at M&G: 5 Years of Professional Experience: 5

Kate joined Manager Oversight in 2021 from M&G's Graduate Scheme, having joined M&G in 2019. Kate has a degree in Natural Sciences from Durham University and is a CFA Charterholder.

Processes

ESG investment strategy

The ESG & Regulatory team is accountable for developing the overall ESG investment strategy for the asset owner. This encompasses establishing ESG investment principles, conducting investment research, and providing thought leadership. **For more information, please refer here or page 35 in the 2023 PAC Stewardship Report, under the heading, "ESG investment strategy".**

Manager selection

The Manager Oversight team holds the responsibility of appointing and overseeing underlying asset managers. This initial due diligence process takes into account various factors, including but not limited to: investment philosophy, key risks, key employees, investment process and execution, stewardship process, investment performance, risk management, reputation, integration of ESG issues, and the infrastructure supporting the investment teams.

Additionally, the team reviews the asset managers' engagement and voting policies (with support from the ESG & Regulatory team) to ensure alignment with our own approach and policies. All monitoring of our asset managers' engagement activity with investee companies adheres to our PAC Shareholder Engagement Policy and the PAC Voting Standard (the Standard).

As part of this process, the team assesses the ESG investment practices and integration of ESG into the investment process of each asset manager to try to ensure alignment with the asset owner's practices. The Manager Oversight team reviews the asset managers' strategies in accordance with the Treasury & Investment Office ESG Product Framework. The Manager Oversight team also provides guidance to delegated asset managers on sustainability issues and identified risks during the investment research and analysis process.

To ensure a comprehensive review and selection of asset managers, taking into account their ESG priorities and alignment with the PAC ESG Investment Policy, an additional ESG-specific Request for Proposal Due Diligence Questionnaire was introduced in 2022. This questionnaire is completed as part of the selection process, providing valuable insights for their evaluation. For more information, please refer to the case study on page 37 titled "Embedding our ESG & Stewardship due diligence process".

2024 appointed external asset managers

In 2024, the external asset managers that the asset owner appointed for the With-Profits Fund are:

Artisan Partners	Manulife Investment Management
BlackRock Investment Management	Matthews Asia Investment Management
Columbia Threadneedle	MFS Investment Management
Coronation	Morgan Stanley
EARNEST Partners	Ninety-One
Franklin Templeton	Pictet Asset Management
Goldman Sachs Asset Management	Robeco Sustainable Asset Management
Granahan Investment Management	Value Partners
Invesco Canada Investment Management	Wellington Management
Lazard Asset Management	William Blair
Lombard Odier Investment Management	

Mandate design

The Manager Oversight team formulates mandates that align with the objectives of the fund and the skill sets of the managers. The team considers various factors, including risk and return considerations, liquidity, implementation, regulatory factors and ESG considerations, among others.

Additionally, the Manager Oversight team conducts regular reviews of the investment guidelines with the underlying asset managers. This ensures that the mandates remain up-to-date and in line with the desired investment parameters.

They possess the capability to collaborate with asset managers to develop strategies that align with the requirements and objectives of the asset owner. This close working relationship allows for the design of tailored investment approaches that cater to the specific needs of the asset owner. In the case of segregated mandates, the Treasury & Investment Office has the flexibility to incorporate the PAC ESG Investment Policy, in addition to the customised investment guidelines. This allows for the inclusion of specific provisions and by doing so, the mandates are designed to fully reflect the asset owner's priorities and considerations.

Ongoing manager investment due diligence

The Manager Oversight team conducts ongoing due diligence reviews of existing asset managers to assess their continuing ability to provide expected investment and sustainability outcomes.

Ongoing due diligence comprises of:

- Regular face-to-face meetings or conference calls
- Face-to-face meetings and site visits (when appropriate)

ESG is a standing item on the formal agenda of quarterly oversight meetings, ensuring consistent focus and attention. This is further supported by the review of the ESG Due Diligence Monitoring Questionnaire which managers submit on a regular basis, as highlighted in the "Embedding our ESG & Stewardship due diligence process" section on page 37. The engagement activities undertaken by asset managers are reviewed quarterly as part of the regular review cycle and annually as part of the Shareholder Rights Directive II (SRDII) process.

On an annual basis, the Manager Oversight and ESG & Regulatory teams also carry out a thorough assessment of the individual portfolios and holdings against the portfolio's intentions and the Treasury & Investment Office ESG Product Framework.

This analysis allows us to take a proactive approach in assessing the delivered ESG outcomes of underlying funds and their individual holdings and helps to ensure that each fund manager is held accountable to the intentionality and scope of their suggested outcomes. Under Principle 8, case study, 'ESG Top-Down and Bottom-Up Analysis' provides greater insight of our findings of the exercise conducted during 2024.

In the event that the Manager Oversight team identifies significant concerns regarding the ongoing suitability of an existing asset manager, appropriate mitigating actions are recommended.

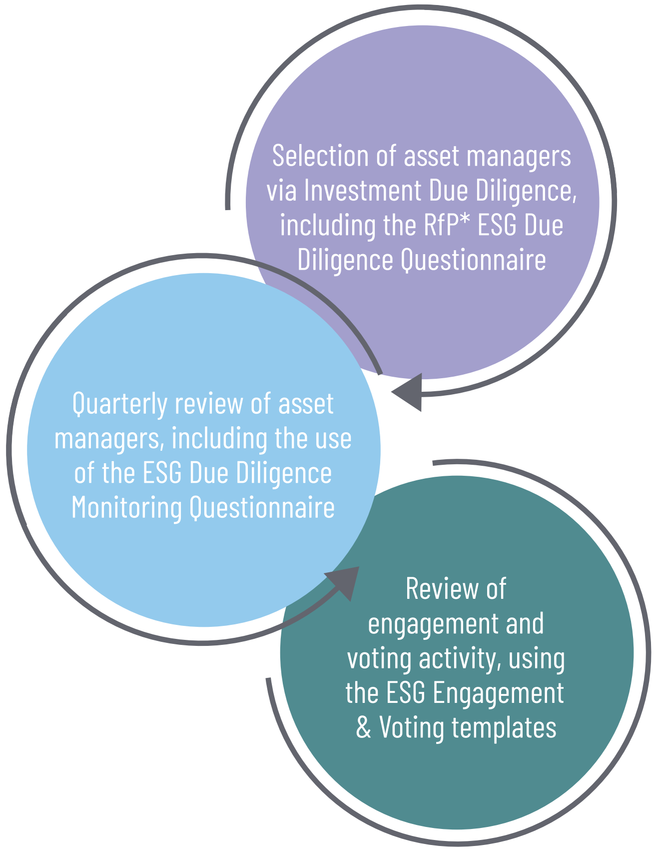
These may include amending investment guidelines to introduce additional constraints on the mandate, increasing allocation to passive or complementary managers to achieve diversification benefits, or as a last resort, divestment and relocation of assets. Such proposed changes are presented through the relevant governance channels for consideration and decision-making.

Investment performance monitoring

The Manager Oversight team conducts continuous monitoring of asset managers' performance against established benchmarks. In the event that the team identifies significant concerns regarding an asset manager's ability to generate future investment returns or effectively manage sustainability risks and opportunities, they will undertake a thorough investigation.

For more information, please refer here or page 37 of the PAC Stewardship report 2023, under the heading, "Investment performance monitoring".

PAC's ESG Selection & Monitoring Process



*RfP: Request for Proposal

Embedding our ESG & Stewardship due diligence process

Over the course of 2024, the ESG & Regulatory team in collaboration with the Manager Oversight team continued the rigorous stewardship due diligence process that was developed in 2022.

Request for Proposal (RfP) ESG Due Diligence Questionnaire – we have a responsibility to ensure the effective consideration of our ESG priorities and issues in the selection process for our asset managers. In order to do this, we have created a dedicated ESG-specific RfP Due Diligence Questionnaire which now informs the selection process for asset managers managed by the Manager Oversight team. In doing so, we score managers on their ESG credentials based on their responses and internal research during the selection process to enable an appropriate review of managers' alignment against our values and our ESG priorities outlined in our PAC ESG Investment Policy.

ESG Due Diligence Monitoring Questionnaire – to ensure the effective monitoring of our appointed asset managers with respect to key ESG areas and priorities, we have developed an ESG Due Diligence Monitoring Questionnaire, to be completed and submitted by our appointed managers on a regular basis to disclose any material changes in their ESG activities, and to inform necessary escalation actions. The responses we receive from managers inform our monitoring of managers, and have allowed us to raise any ESG concerns with them during the manager meeting cycle (where at least one representative from the ESG & Regulatory team attends).

Quarterly ESG Screening Process – to ensure the appropriate review of broader ESG issues and risks within our investment portfolios we have implemented a quarterly ESG screening process. This is characterised by reviewing our holdings, where look-through is available to us, and monitoring their exposures and performance against ESG-specific areas.

Annual Letter of ESG Priorities – since 2022, we have issued an annual letter of ESG priorities to our asset managers, which communicates our areas of ESG focus for the upcoming year, and outlines the support we will require from the asset managers in achieving our ESG ambitions and goals.

Engagement Template – our Engagement Template to collate quantitative and qualitative data with respect to the engagements conducted by our appointed asset managers (both internal and external) across the year. We also collect and analyse voting templates from applicable managers. Over the course of 2024, we have used this data to build our Manager Information, and monitor how engagement is being conducted on our behalf. We monitor: how much engagement is being conducted, which themes/topics the engagements fall into, where the engagements are taking place, and how successful the engagements are **(for engagement case studies, see Principle 9: Engagement)**. This, paired with the ESG Due Diligence Monitoring Questionnaire, can allow us to highlight any ESG concerns at Quarterly meetings. We review the template on an annual basis to ensure we are receiving all relevant information from our asset managers.

ESG Oversight Report – to ensure effective monitoring of managers, the ESG & Regulatory team compile key takeaways from the Engagement Template and ESG Due Diligence Monitoring Questionnaire since 2022. In 2024, the ESG & Regulatory team began to evaluate the Voting template as key data point in the ESG Oversight report. This report enables both the Manager Oversight team and ESG & Regulatory team to identify managers stewardship activities and highlight any concerns with managers and the manager meeting cycles. As we continue to embed these processes, our focus will now be on enhancing these processes based on responses we receive from our appointed and prospective managers, and feedback (both internal and external). **More information can be found in Principle 7**.

Outcome

The Treasury & Investment Office's collective expertise, experience, and diversity of our teams, ensure comprehensive subject matter knowledge across sustainability, ESG risk management, and stewardship activities. Furthermore, the additional expertise in the ESG & Regulatory team demonstrates our commitment to implement effective ESG integration.

The responsibilities of the ESG & Regulatory team have been refined to focus on four thematic areas including: Environmental and Nature, Social Issues, Integration & Stewardship and ESG Regulation. PAC's ESG strategy is supported by various activities embedded across the organisation, including ongoing training programs, organisational incentives, use of reputable third-party service providers to ensure effective delivery and management.

We believe that our governance structure effectively incorporates stewardship and sustainability.

For more details on our governance and assurance processes, please refer to Principle 5.

Principle 3: conflicts of interest

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

M&G plc

It is a fundamental requirement for a financial services firm to identify and manage conflicts of interest. This is central to the duty of care we owe to our clients. M&G will use all reasonable endeavours to identify conflicts of interest and then take steps to either avoid, or manage, them effectively and to treat clients fairly. At M&G, a conflict of interest is defined as “a situation, decision, or arrangement where competing obligations or motivations may damage the interests of a client”. M&G acknowledges the importance of having appropriate controls and systems in place to effectively identify and manage potential and actual conflicts of interest.

Management of conflicts of interest

M&G takes reasonable steps to prevent conflicts of interest arising, to protect the interests of all M&G plc’s customers, clients, and end investors. The business manages this risk effectively by providing all staff and colleagues with sufficient training to ensure awareness and an understanding of how conflicts could arise and to enable staff to identify, report and adequately manage such conflicts.

The Policy Governance Framework (PGF) is a core component to the overall system of risk management and internal control. In addition, the expectations for managing conflicts of interest are denoted within the M&G plc Code of Conduct.

The Group-wide M&G plc Conflicts of Interest Policy is applied to all aspects of the M&G business and is implemented by all areas across the business at a Group and material subsidiary level, such as internal asset manager and the asset owner. The policy also sets out the Group-wide approach and requirements of how conflicts should be escalated, recorded, and managed and to ensure compliance with regulatory requirements. Under the Conflicts of Interest Policy, if any employee has the knowledge of a potential or actual breach of the policy, the employee must report the breach.

An array of resources is made available to all employees to familiarise themselves with their personal responsibility for managing risks and internal controls.

A network of Conflict Representatives is established from every business function to provide a first point of contact for any employee who wishes to report and escalate an identified conflict of interest. In support of this, the Conflicts of Interest intranet site allows employees to find details of the Conflicts Representative where a range of material and useful information is also available.

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

Asset owner

Governance and policies

The M&G plc Conflicts of Interest Policy is applied to all M&G business, including the asset owner. The asset owner is responsible for identifying conflicts of interest and ensuring that they are clearly reported and articulated, whilst also ensuring that the detail on the underlying conflict is well-documented.

The Conflicts of Interest Register is crucial to enable ongoing monitoring and resolution. We recognise the importance of effectively managing conflict, so we have ensured that explicit references are included in a variety of key stewardship policies or documents, including:

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

Types of conflicts of interest

For more information, please refer here or page 42 in the 2023 PAC Stewardship Report, under the heading, "Types of conflicts of interest".

Asset owner vs internal asset manager

For more information on the difference between the asset owner and internal asset manager and how this potential conflict of interest is managed, **please refer here or page 43 in the 2023 PAC Stewardship Report under the heading, "Asset owner vs internal asset manager".**

Outcome

The M&G plc Conflicts of Interest Policy was reviewed as part of the annual policy refresh in 2024. No material updates were made to the document which continues to enable the effective identification and management of conflicts of interest in the pursuit of putting the best interests of clients and beneficiaries first.

The previously reported transition of policy ownership to the first line of defence was further embedded in 2024. This transition aligns with the three lines of defence model and supports the first line responsibility to establish and maintain an effective control framework around conflicts.

We aim to continue to ensure that the M&G plc Conflicts of Interest Policy remains clear and straightforward so that it can be applied to all areas across the Group, including our asset owner business.

An example of how M&G and the asset owner have addressed a potential conflict can be seen in the following case study.

Case study: European Real Estate Value Add Selection

Objective

In recent years, PAC has been evolving its real estate strategy in collaboration with its internal asset manager. The primary changes include further expansion into international markets and a focused expansion into alternative investments. Additionally, in an effort to optimise risk-adjusted returns over the long-term, the strategy has been enhanced to incorporate value-add real estate. The selection of the European Value Add Manager aligns with two aspects of this strategic shift: international expansion and increased exposure to value-add opportunities.

Approach

The implementation of this strategic shift has been two-fold. International expansion has been realised through an adjustment in the Strategic Asset Allocation established by the Treasury & Investment Office. The expansion into alternatives and the incorporation of value-add real estate have been achieved through revised investment guidelines, also set by the Treasury & Investment Office and managed via a PAC With-Profit Investment Management Agreement. As part of implementing its strategy, the internal asset manager conducted a selection process for European value-add propositions, opting to invest in specialised capabilities rather than organically sourcing value-add opportunities on an individual asset-by-asset basis.

Outcome

Following the internal manager's selection of the company, the recommendation was submitted to two PAC governance committees for further approval. Both committees reviewed the selection process and the internal manager's assessment of the company as a preferred proposition compared to the broader market for increasing value-add exposure. The company's capabilities performed well across all metrics.

Separately, but relatedly, the internal manager, which has pursued an acquisition of a value-add team as part of its strategic initiative to enhance its investment capabilities in the value-add sector, completed a corporate transaction to acquire a majority stake in a European investment manager. To manage potential conflict of interest, the team responsible for this transaction was distinct from the internal manager team that conducted the selection process. The investment was further approved by PAC governance to ensure conflict management.

Case study: Africa Fixed Income Manager Selection

Objective

As part of the annual refresh of the Strategic Asset Allocation, the Treasury & Investment Office aimed to further enhance and diversify our African Fixed Income exposure. At that time, the allocation was solely managed by our internal manager and primarily focused on South African Government Bonds with the objective of increasing the pan-African component of our African Fixed Income exposure. To achieve this, the Treasury & Investment Office considered either expanding the existing exposure managed by the internal manager to include more pan-African assets or selecting a separate capability.

Approach

To ensure that all manager selection decisions align with the best interests of policyholders, the Manager Oversight team within the Treasury & Investment Office adhered to its established manager selection framework. This framework emphasises the selection of high-quality managers, whether internal or external, who are considered to be in the top quartile of their peer group. Consequently, the Manager Oversight team conducted face-to-face due diligence with both the existing internal managers and a shortlist of high-quality external Africa Fixed Income managers. The objective was to identify the most suitable manager to oversee a pan-African Fixed Income allocation.

Outcome

Following the conclusion of the selection process, the Manager Oversight team recognised that the existing M&G Southern Africa team remained a high-quality capability, in particular when it came to South African Fixed Income. However, it was also determined that a separate complementary allocation to an external manager, a pan-African Fixed Income specialist, would provide the optimum outcome for policyholders. This recommendation was presented to the PAC Executive Investment Committee, and received approval. Consequently, an investment was made into the external manager's African Fixed Income Opportunities Fund, in addition to the existing M&G exposure.

Principle 4: market-wide and systemic risks

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

M&G plc

We believe that effective risk management capabilities are both a requirement and a differentiator in the marketplace. To promote well-functioning markets and recognising the potential that all emerging risks including sustainability-related risks can undermine our ability to deliver and create value for our clients and our other stakeholders. M&G plc have embedded robust frameworks and processes across the business to effectively identify and respond to market-wide and systemic risks, in line with the business' fiduciary requirements. These continue to be reviewed and will evolve accounting for the fast-changing and evolving nature of systemic risks.

Risk governance

The M&G plc Board maintains ultimate responsibility for managing risks across M&G plc, overseeing effective group risk management and internal control processes that we use to identify and respond to relevant market-wide and systemic risks. Our Executive Management are entrusted to provide further leadership and direction to colleagues in respect of risk management/risk controls. There are also several Risk & Compliance teams established which play a crucial role in assisting the M&G plc Board in its oversight of risk. The M&G plc Board delegates specific responsibilities to Board Committees it has established:

M&G plc Risk Committee	Advises the Board on risk strategy and reviews M&G plc's Risk Management Framework and its overall effectiveness. The Risk Committee also take into account the current and prospective macroeconomic and financial environment and draw on financial stability assessment such as those published by relevant industry and regulatory authorities, including the Bank of England, the Prudential Regulation Authority (the "PRA"), the Financial Conduct Authority (the "FCA") and other authoritative sources. Ensures that risk management is properly considered in Board decisions and will also assess risks related to sustainability matters.
M&G plc Audit Committee	Assists the Board in meeting its responsibilities for the integrity of financial reporting, including the effectiveness of our Risk Management Framework and internal control systems.
M&G plc Remuneration Committee	Ensures that compensation structures place appropriate weight on all colleagues adopting our behaviours and risk culture to align with our long-term success.

M&G plc's risk governance which supports the Board, Risk and Audit Committee is based on the principles of the Three Lines of Defence model (see Principle 5 on page 54 for further detail).

Risk culture	Risk Management Framework
The M&G plc Board is responsible for instilling an appropriate risk culture and setting the tone from the top through establishing our purpose, behaviours, and values. Working together with management, the M&G plc Board oversees and promotes risk management by emphasising and embedding the importance of balancing risk with profitability and growth in decision-making. It also oversees key internal control processes and ensures compliance with regulatory requirements. This risk culture is centred around an enterprise-wide programme of "I Am Managing Risk", which requires colleagues to take personal responsibility and accountability for identifying, assessing, managing and reporting risk. In 2024, we launched our 'Colleague Behaviours for risk and compliance' which are guidelines designed to improve how we interact and work together. They articulate what good behaviour looks like from both the first and second lines of defence, with the aim of achieving better outcomes and a more collaborative environment across the teams. Our colleagues are expected to work together to do the right thing for our clients, wider stakeholders, and our business. All colleagues have risk management accountabilities as part of their core organisational objectives.	As part of our business, we take on risk on behalf of our customers, clients, and shareholders. We selectively take risks if they are adequately rewarded, and can be appropriately quantified and managed. In this way, we safeguard our ability to meet client commitments, comply with regulations and protect our reputation. Our Risk Management Framework is designed to manage risk within agreed appetite levels, which are set by the Board, aligned to delivering our strategy and creating long-term value for customers, clients, and shareholders. Our comprehensive approach to risk management includes identifying, measuring, managing, monitoring and reporting current and emerging risks – the Risk Management Cycle – and is supported by our risk culture and strong risk governance. **For more information, please refer here or page 46 in the 2023 PAC Stewardship Report under the heading, "Risk Management Framework".**

ESG Risk Management

The ESG Risk Policy sets out the key requirements for the management of ESG Risk on an ongoing basis, supporting the delivery of M&G plc's strategic plans and objectives. In particular, the requirements of the policy relate to the identification, measurement, management, monitoring, and reporting of ESG risks.

Our ESG risk governance is based on a Three Lines of Defence model, consistent with the wider Group risk management approach. The first line is responsible for the identification and management of risk on a day-to-day basis. The second line Risk and Compliance functions provide risk advice, oversight, and challenge. The third line provides independent assurance over the design and effectiveness of internal controls, including those over sustainability-related policies and processes. **For more information, please refer here or page 56 in the 2023 PAC Stewardship Report under the heading, "Internal and external assurance".**

Asset owner

Market-wide and systemic risks

As an asset owner, we equally adhere to the risk management frameworks and processes, and three lines of defence model established at the Group level **(see Principle 5 on page 54)**. Our role as a significant investor across various products (including With-Profits Fund and Annuities) further emphasises our responsibility to consider and meet the needs of all our clients and policyholders in order to safeguard them against any material risks. Every employee within the company is therefore tasked with identifying, assessing, managing, and reporting risks within their area of responsibility.

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

Continuing to embed the management of Climate Risk

In 2024, we established a cross-business working group to update our climate strategy for M&G plc, the asset owner and asset manager. A key evolution is that we now have more granular data and tools to assess the exposure of underlying issuers to transition risks. Using the 'Transition Assessment Framework' developed by the asset manager, we can take a view on whether individual corporate issuers across our public markets portfolios have adequate climate targets, transition plans, and governance mechanisms in place to transition. The assessment allows us to identify the issuers in our portfolio with material transition risk exposure and orient our corporate engagement strategy around these issuers. We can also aggregate the issuer view up to fund or portfolio level to better understand the risks and opportunities we may be exposed to across our investments and utilise this information in the scenario modelling carried out by the Long Term Investment Strategy (LTIS) team within the asset owner.

Scenario modelling is a key tool in the management of climate risk. The LTIS team model the financial risks posed by climate change with a focus in scenario modelling on physical and transition risk. The team uses bespoke top-down modelling to apply impacts of different climate scenarios at the economy and portfolio-level, combining output from climate Integrated Assessment Models with portfolio-specific climate data and estimates of physical risk exposures through our capital markets building block framework.

In 2023, the team updated their climate scenario sets, revising their approach for modelling private asset exposures and considered impacts to the portfolio if physical impacts prove to be at the tail end of modelled distributions in scenarios where little is done by policymakers to limit climate change. In 2024, a short-term scenario was added to the scenario set, combining an acute physical impact with a subsequent policy shift to a faster transition. For 2025, a working group has been established to further enhance research efforts and data inputs that feed into the scenario modelling.

The climate scenario modelling undertaken by LTIS is also utilised more widely across PAC and M&G plc, supporting forward-looking processes including Business Planning and our Own Risk and Solvency Assessment (ORSA). These processes consider a range of climate scenarios to assess the resilience of both the PAC and wider M&G plc balance sheets and business models to climate risk. Overall, our business is expected to remain resilient under the range of climate scenarios considered.

In general, the LTIS team use several levers to monitor and manage climate risk, these are:

- Setting appropriate climate-aware capital market assumptions via a Risk Categorisation Framework
- Adjusting our benchmarks where applicable to factor in exposures on ESG metrics, including climate risk
- Creating climate scenarios to gauge portfolio exposures to different climate outcomes

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

Upon the relevant principles, we state that:

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

Integration of market-wide and systemic risks

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

Market and systemic risks are integrated into the Strategic Asset Allocation (SAA) process through the following main channels:

Economic and capital markets research: Our process starts with an understanding of the structural and cyclical forces influencing the global economy, informing our forward-looking expectations for economic growth, inflation, and the fiscal & monetary policy environment. We also consider developments in the capital markets and their impacts on asset class valuations. The output of this work is documented in our monthly research publications

Capital market assumptions and building block framework: Interactions between the real economy and financial markets are translated into a set of capital market assumptions using a building block approach, supplemented by volatility and correlation assumptions

Capital markets modelling (including scenarios modelling): Risks to our body assumptions are considered via tracking of emerging risks as outlined in our monthly research publications, scenario analysis and a set of stress assumptions

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

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

Country risk categorisation: Within our capital market assumptions, we calibrate the required risk premia across countries and regions based on factors such as empirical volatility, market depth and economic development. We also include ESG factors in the framework, which helps to ensure we consider these factors when apportioning the risk budget within the allocation

Benchmark considerations: There is material dispersion of ESG characteristics of companies within any index constituent and stock selections are delegated to the individual fund managers. In certain cases, we may also consider the geographical split within the benchmark and tailor to allow for ESG factors. For example, in the case of carbon exposures, a significant amount of benchmark exposure is contributed by a small number of constituents, offering opportunities to reduce exposures with limited impact on tracking error

Furthermore, the Long Term Investment Strategy team considers ESG risks at a geographic level when setting asset allocations, with regional ESG risks translated into asset class Risk and Return impacts that can result in an over or under allocation within fund and performance benchmarks.

Case study: Scenario analysis on the 2024 US Elections

Objective

The United States is the world's largest economy, accounting for roughly two-thirds of global equities and over one-third of the world's total government debt. The US dollar is also dominant across reserve, trade, and transaction, accounting for 58% of global foreign exchange and 88% of foreign transactions. These reasons make the United States one of the key economies, and the 2024 US Presidential election an important event to consider. Since government policies can shape and influence market factors, we've been monitoring and analysing the policy differences between the two leading parties in the run-up to election day. We have taken an approach of scenario analysis for this task.

Approach

A number of key events unfolded leading up to the 2024 US Election, from the current president Biden dropping out of the race to Harris choosing her running mate only three months prior to the election date. During this timeline, the polls exhibited a tight race, leading us to anticipate a number of potential outcomes from the election.

While both Democrat and Republican policies sought increased spending, policies associated with Trump considered to be fiscally expansionary. Rising government debt levels are already a cause of concern for the global economy, including the US. Therefore, government policies that look to increase borrowing while cutting taxes would have implications for interest rates and borrowing costs. During our analysis, we noted a positive correlation between rates and the odds of a Trump win, as expected. We considered this under a market and systematic risk as recent history has shown clear examples of market-wide reactions to any unfunded fiscal budget (the UK in 2022).

Our approach was to focus on three possible outcomes of the election scenario and identify their economic and market impact. This included: (a) Trump sweep by winning control of both House and Senate, (b) Trump win with divided congress, and (c) Harris win with a divided congress. While Trump campaigned to reduce inflation, some of his policies on immigration and trade were considered to be inflationary. This includes his policy to significantly drive down immigration, increase deportation, reduce taxes, and apply tariffs. As such, we noted a slight increase in term premium and short-term boost to equities under a Trump sweep. We also noted that some of these impacts were starting to show in market pricing.

Outcome

The outcome from this exercise included understanding how the potential US government policies would impact key macroeconomic variables, and ultimately capital markets. This has helped us to identify potential portfolio exposure to key market risks. We have shared our analysis widely within the business to help answer client questions and provide support to the Finance department. With the realisation of a Trump Sweep, some of our expectations have already started to materialize. We continue to follow this subject as policies get implemented by the newly elected government.

Work with other stakeholders to improve the functioning of financial markets

We recognise the critical importance of economy-wide transformation to support the transition to a low carbon economy. The right policy and regulatory signals are required to enable key sectors and regions of the economy to transition. M&G can play its part by engaging policymakers and regulators on key topics such as sustainability disclosures, sectoral roadmaps, and enabling environments for investment in low carbon solutions. We also recognise the importance of collaborating with peers and industry associations to develop best practice tools and methodologies and support practical implementation across the financial services industry.

Public policy advocacy

M&G continues to engage constructively and responsibly with UK and international policymakers on a wide range of public policy topics. As a politically neutral organisation, we engage with policymakers both individually and through a variety of membership bodies in the markets where the Group operates.

By sharing our expertise and insights with policymakers, M&G contributes to the design of public policy, legislative and regulatory frameworks, which support our ability to better serve our customers, clients, and shareholders.

Throughout 2024, our climate advocacy involved contributing to the Transition Finance Market Review Call for Evidence which is an independent market-led review commissioned by the HM Treasury in the UK and the Department for Energy Security and Net Zero and hosted by the City of London Corporation. M&G has also worked collaboratively with policymakers on ongoing work to develop a comprehensive green industrial strategy that supports the decarbonisation of the UK economy.

In addition, M&G has responded to the FCA's consultation on extending the Sustainability Disclosure Requirements (SDR) regime to Portfolio Management. M&G has worked collaboratively with UK policymakers on a number of salient public policy issues related to the climate transition. We continue to call on policymakers to create comprehensive policy framework that provide long-term clarity for investors and market participants.

Such a framework would contain, among others:

- ambitious, and mandatory, high quality disclosure requirements from both public and private companies, creating long-term clarity for investors' decision-making
- proper incentivisation of climate solutions (ensuring critical technologies reach competitive commercialisation at pace)
- support for credible transition activities
- meaningful prudential regulation reform and
- broader policy action to capture nature and biodiversity loss

We also recognise that closing the climate financing gap requires direct deployment of capital towards solutions. As such, we have worked with UK policymakers on ways to increase institutional investors' allocation to private assets. M&G was a co-founding signatory of the Mansion House Compact, which is a voluntary industry-led initiative aiming to secure better financial outcomes for Defined Contribution (DC) savers by increasing pension investment into unlisted equities.

Industry collaboration

Through collaboration, membership of and engagement with various industry initiatives, we believe that we can gain a better understanding of the wider industry events and issues that we are facing. M&G plc and its business units engages with, participates in, and in some instances chairs, a number of different trade bodies and third-party associations:

Trade bodies & Third-party Associations	
Glasgow Financial Alliance for Net Zero (GFANZ)	The Glasgow Financial Alliance for Net Zero (GFANZ) brings together financial institutions and other financial services sector participants who have individually decided to support the objectives of mobilising capital and addressing the barriers companies face to scaling decarbonisation. M&G, via the asset manager, remains an active member of GFANZ.
Chief Risk Officer (CRO) Forum	The CRO Forum is a high-level discussion group formed and attended by Chief Risk Officers of major European listed, and some non-listed, insurance companies. M&G plc is part of the CRO Forum, contributing to ongoing policy discussions.
Association of British Insurers (ABI)	The ABI is the leading trade association for insurers and providers of long-term savings in the United Kingdom. M&G has a seat on the ABI Board, participates in relevant committees, and actively contributes to the ABI's public policy thinking.
International Regulatory Strategy Group (IRSG)	The IRSG is a body comprising of leading UK-based figures from the financial and related professional services industry. It is one of the leading cross-sectoral groups in Europe for the industry to discuss and act upon regulatory developments.
The Investing and Saving Alliance (TISA)	TISA's ambition is to improve the financial wellbeing of UK consumers by bringing the financial services savings industry together to promote collective engagement, to deliver solutions and to champion innovation for the benefit of people, our industry, and the nation. M&G sits on their various committees and feeds into their policy thinking.
The Investment Association (IA)	The IA is a trade body that represents asset managers and asset management companies in the UK. M&G Investments has a seat on the IA Board and participates in a large number of committees and actively contributes to the IA's public policy thinking.
TheCityUK	TheCityUK is an industry advocacy group that champions UK-based financial and related professional services industry. M&G are part of the Leadership Council of TheCityUK and actively participate in relevant committees and meetings with policymakers.

Update on the Climate Financial Risk Forum

The Climate Financial Risk Forum (CFRF) is an industry-led forum with an aim to build the financial sector's capacity to address climate-related financial risk as well as the development and sharing of best practices. This year, our climate Subject Matter Experts (SMEs) at M&G have been actively contributing to both the Short-term Climate Scenario workstream and Nature workstream of the Financial Resilience Working Group as part our involvement with the CFRF. For the Short-term Climate Scenario Working Group, we have been active participants of the related working group discussions, as well as contributing with content and review, specifically with regards to but not limited to:

- Producing industry guidance on short-term climate scenarios and embedding in operational procedures
- Research and analysis to identify areas for research and progress
- We will continue to participate in the discussions with CFRF and other industry-led forums where possible

For the Nature workstream in 2024, we have led the efforts of the working group, help develop content and provided editorial review to the final product that resulted in:

- Producing the first of its kind industry handbook on nature-related risk for the financial industry
- Technical guidance on nature-related metrics.
- Presentation of case studies from practitioners across banking, insurance and asset management

Outcome

Sustainability and ESG have been identified as a principal risk to our business. We have ensured that through enhancing our scenario testing capabilities, climate exposures are quantitatively assessed as climate change is a key area of oversight for the Risk and Compliance teams.

Scenario modelling and analysis has greatly helped us to anticipate potential impacts including the wide-ranging financial impacts that are likely to emerge from physical and transition risk associated with climate change.

As mentioned, to support the evolvement of our climate scenario sets, the Treasury & Investment Office have set up a working group to further enhance research efforts by leveraging ESG specialists and the Long Term Investment Strategy team. Furthermore, our active participation in collaborative forums has helped to facilitate the exchange of critical insights and best practices, therefore reinforcing our strategic decision-making processes.

Working with other stakeholders has played a key role in our understanding of industry-wide challenges and we continue to engage in ongoing dialogue with regulatory and industry bodies.

Asset Owner Human Rights Working Group

The asset owner set up a Human Rights Working Group in July 2023, with participants from across the M&G group (asset owner, asset manager and Plc). The Human Rights Working Group ran until July 2024 and had the following objectives:

- Allowing open discussion between different areas of M&G, with a view to enhancing the business' approach to human rights, with a focus on investments
- Identifying, articulating, and implementing concrete actions to enable this at the AO, AM and Plc levels in a coherent and coordinated way
- Discussing challenges that are (likely to be) faced by different business entities when enhancing our approach to human rights, with a view to identifying solutions collectively; and
- Ensuring that relevant stakeholders are kept informed about developments related to enhancing M&G's approach to human rights, and consulted where relevant

The Human Rights Working Group evolved into the temporary Human Rights and Modern Slavery Strategy Working Group in July 2024, which is now part of the M&G Plc Building Communities Working Group.

Principle 5: review, assurance and assessment

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

M&G plc

Our Group Governance Framework (GGF) sets out the general principles by which we conduct our business and ourselves. It defines our approach to governance, demonstrates our approach to internal controls and help us meet regulatory requirements. The Policy Governance Framework is a core component of the Group Governance Framework, and supports the overall system of risk management and internal control for the M&G plc Group. The Policy Governance Framework sets out the roles and responsibilities across the organisation in relation to Group Governance Framework policy development, maintenance, implementation and compliance.

The establishment of a strong governance structure across the business is also key to ensure the effective review and challenge of processes and policies. The Executive Sustainability Committee for instance, has the responsibility to track the progress and delivery of the Group-wide sustainability public commitments and targets.

Internal and external assurance

Internal Assurance

In alignment with the M&G plc Risk Management Framework (see Principle 4 on page 43), M&G's management of risks is underpinned by the 'Three Lines of Defence' model to risk governance, supporting the Board, and its underlying committees. This model clearly illustrates how responsibilities to managing risks (including in the process of assurance) are separated:

1. **First line of defence (1LOD)**
The first line of defence business areas are responsible for identifying and managing risks and are overseen by the second line of defence Risk and Compliance functions

2. **Second line of defence (2LOD)**
The second line is structurally independent of the first line. 2LOD functions facilitate and monitor the implementation of effective risk management practices by the first line. This includes providing proactive and reactive advice and challenge to the first line

3. **Third line of defence (3LOD)**
The third line, Internal Audit, is empowered by the Audit Committee to provide independent assurance on the design and operating effectiveness of the internal controls, including 1LOD and 2LOD functions

For more information, please refer here or page 56 in the 2023 PAC Stewardship Report, under the heading, "Internal Assurance".

Three lines of defence model

1 Business and support functions

Risk identification and management

- Identify, own, manage and report risks
- Own specific risk and compliance policies
- Execute Business Plan and strategy
- Establish and maintain controls
- Instil conduct requirements and individual monitoring
- Stress and scenario modelling
- Operate within systems and controls
- Ongoing self-assessment of control environment effectiveness

2 Risk and compliance

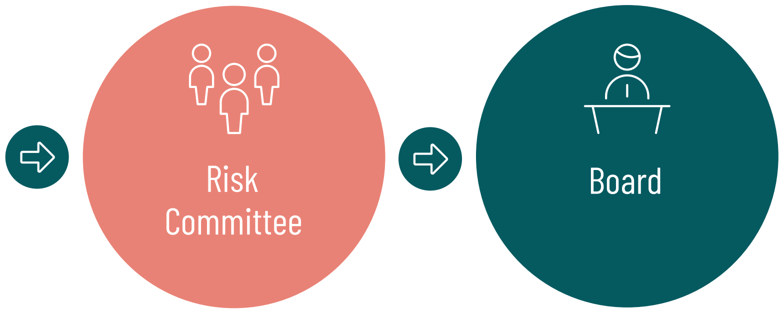
Oversight, advice and challenge

- Own risk and compliance framework
- Stress and scenario setting, responsible for oversight
- Give proactive and reactive advice and guidance
- Monitor risk and compliance and assurance activities
- Report on risk and compliance
- Strategy and approach for regulatory engagement

3 Internal Audit

Independent assurance

- Independent assurance of first and second lines of defence
- Independent thematic reviews
- Risk and controls assessment



External assurance

For the 2024 M&G plc Annual Report and Accounts, PwC have continued to provide limited assurance on total community investments spend, selected operational greenhouse gas (GHG) emissions, and selected financed GHG emissions metrics. For the results of this assurance, see PwC's independent limited assurance report and our Basis of Reporting available on our website. More information can be found **here**.

Asset owner

As an asset owner, we ensure the appropriate review of our stewardship activities and reports. We do this by complying with and embedding the same frameworks (including the GGF) and 'three lines of defence' model set at the Group level. As illustrated in Principle 2, the asset owner also has its own independent governance structure to ensure appropriate oversight and approval of the asset owner's specific activities. Central to this is the PAC Executive Investment Committee (EIC) chaired by the M&G Life CEO. The PAC EIC reviews and considers specific matters, including policy changes and approves key asset owner reports such as the PAC Stewardship Report (see page 58). Oversight is also integrated further when we report periodically to a number of asset owner company Boards, including to our With-Profits Committee and Independent Governance Committee. Where appropriate, specific processes and policies will undergo review by the M&G plc governance structure.

Review and assurance of our business policies

Our ESG and stewardship-related policies and standards are reviewed at least annually or when necessary, and are subject to the established asset owner (and where applicable Group-wide) governance review process. As part of our governance review process, once created, our policies or key documents are reviewed and approved by the PAC Board or other relevant sub-committees such as the PAC EIC. Following approval, the policies are then subject to an annual review process. Any material changes made to policies and processes must receive approval from the PAC EIC or delegated approver or forum. The PAC EIC may escalate these changes further to the PAC Board where deemed appropriate.

For certain significant ESG public disclosures, approval may be required from the M&G plc ESG Disclosure Panel, Executive Sustainability Committee (ESC) and the M&G plc Management Disclosure Committee (MDC). The ESC is also responsible for ensuring that the M&G plc MDC is kept informed.

Having a dedicated governance review process for disclosures helps to guarantee an additional level of scrutiny and review of our policies and reports when targeted or available to external stakeholders, and ensures that the reports are accurate, fair and not misleading.

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

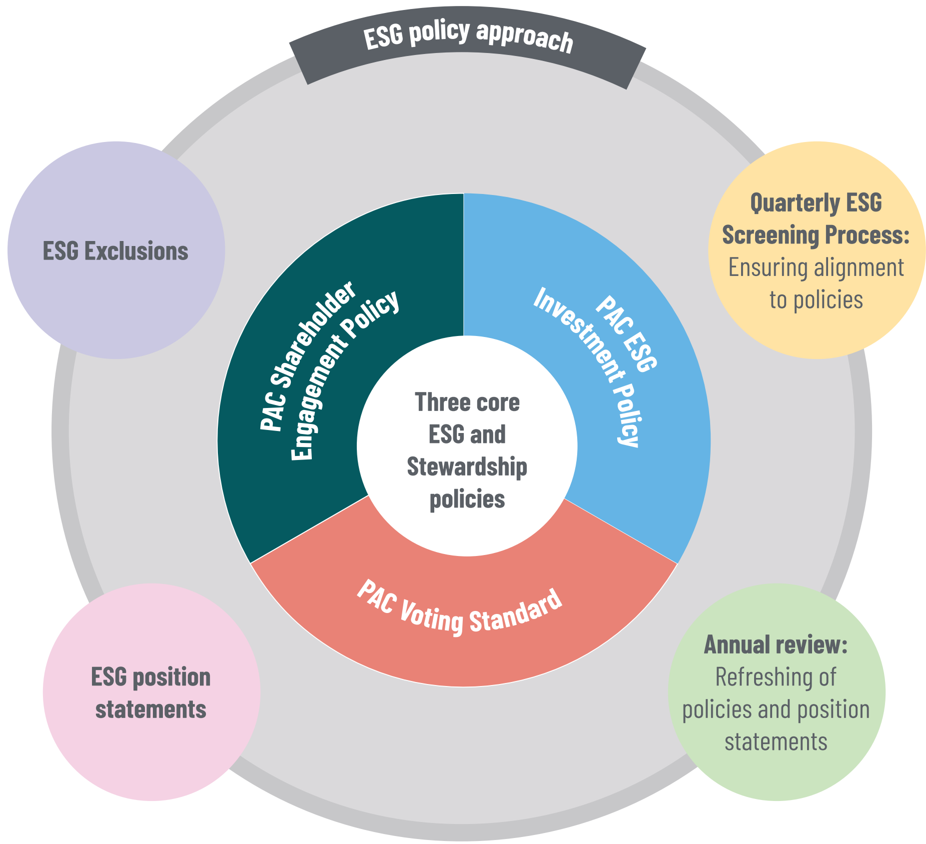


Figure 5: Summary of the asset owners strategic ESG policies and procedures

PAC Stewardship Report review process

The PAC Stewardship Report (the Report) approval process allows for thorough review and due diligence conducted by key stakeholders and internal forums. We adopt a proactive approach to stewardship assurance: initially, the PAC Stewardship Report is reviewed at the team level by the ESG & Regulatory team. After the team perform a roundtable review of the document, the Report is submitted for further review to various stakeholders, including the Manager Oversight team, the M&G plc Central Sustainability Office, and Risk & Compliance. The Report then undergoes governance through several key committees as shown in Figure 6 before ultimately receiving approval from the PAC Board.

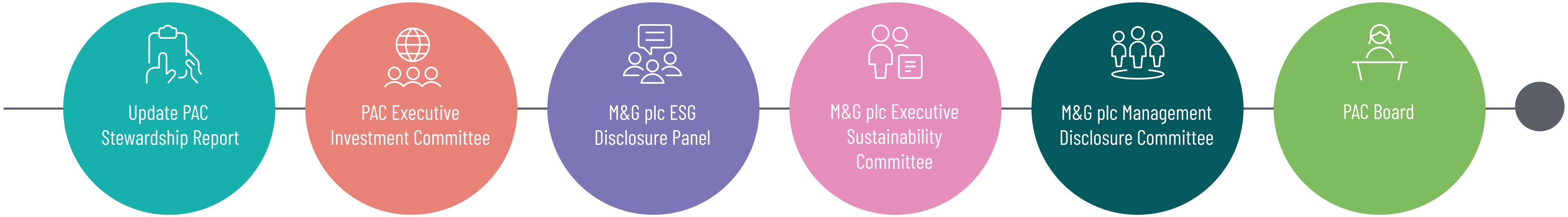


Figure 6: High-level overview of the review and governance process undertaken for the 2024 PAC Stewardship Report

Case study: Internal Audit Review of ESG Integration in the Due Diligence and Reporting Process for the PAC PruFund Planet Funds

PAC (referred to as the asset owner) has developed the PruFund Planet Range of funds which are overseen by PAC's Treasury & Investment Office. These funds allow access to specialist sustainable and impact strategies, which contribute to PruFund Planet's environmental and social objectives.

Objective

The objective of this review was to provide independent assurance on the design and operational effectiveness of ESG integration in the investment due diligence and annual reporting process for the PruFund Planet range of funds.

Approach

The audit was performed in 2024, through review of relevant documentation and management information: performing walk-throughs of relevant processes, conducting sample testing of key and/or mitigating controls within the processes in place around ESG integration in the investment due diligence and the annual reporting process.

Outcome

A report detailing any issues identified was reported to relevant Senior Management, Executive Management and the M&G plc Board Audit Committee with issues added to the internal audit system for tracking to completion, therefore allowing for enhancements to be implemented.

Outcome

The implementation of the 'three lines of defence' model enables an appropriate and ongoing level of control, risk management and oversight, whilst ensuring the effective independent review of internal processes and controls. As different business functions have their own responsibility in reviewing, managing, and providing oversight on reports and processes, this ensures that there is a holistic coverage of risks and controls across all areas of the business. The establishment of independent governance structures and review processes at both the asset owner and Group-level enable effective oversight, review and approval of key decisions, documents and processes, in line with the management of conflicts of interest, whilst ensuring alignment and input from stakeholders across the different entities (where appropriate). The development of working groups, forums and committees dedicated to disclosures, overlayed by input by the Marketing Compliance and External Communications teams, allow for further independent review of any material that is targeted for external publication and wider consumption, a key additional level of oversight that is fundamental when communicating work to our clients and wider stakeholders.

We believe that our internal assurance process provides an effective level of independent check and challenge, and we continue to seek input from the wide range of internal stakeholders to improve our processes. We continue to assess ways in which to improve our assurance processes, reviewing insights from industry and regulatory bodies such as the FRC, to ensure that we continue to submit a reflective and accurate account of our stewardship and ESG activities through the year. We appreciate that our stakeholders, including Board directors, are requesting for more reporting on complex stewardship matters to evidence the outcomes of such activities.

To this effect, we endeavour to meet these requests, as well as our stakeholders' evolving needs through implementation of effective stewardship and assurance processes.

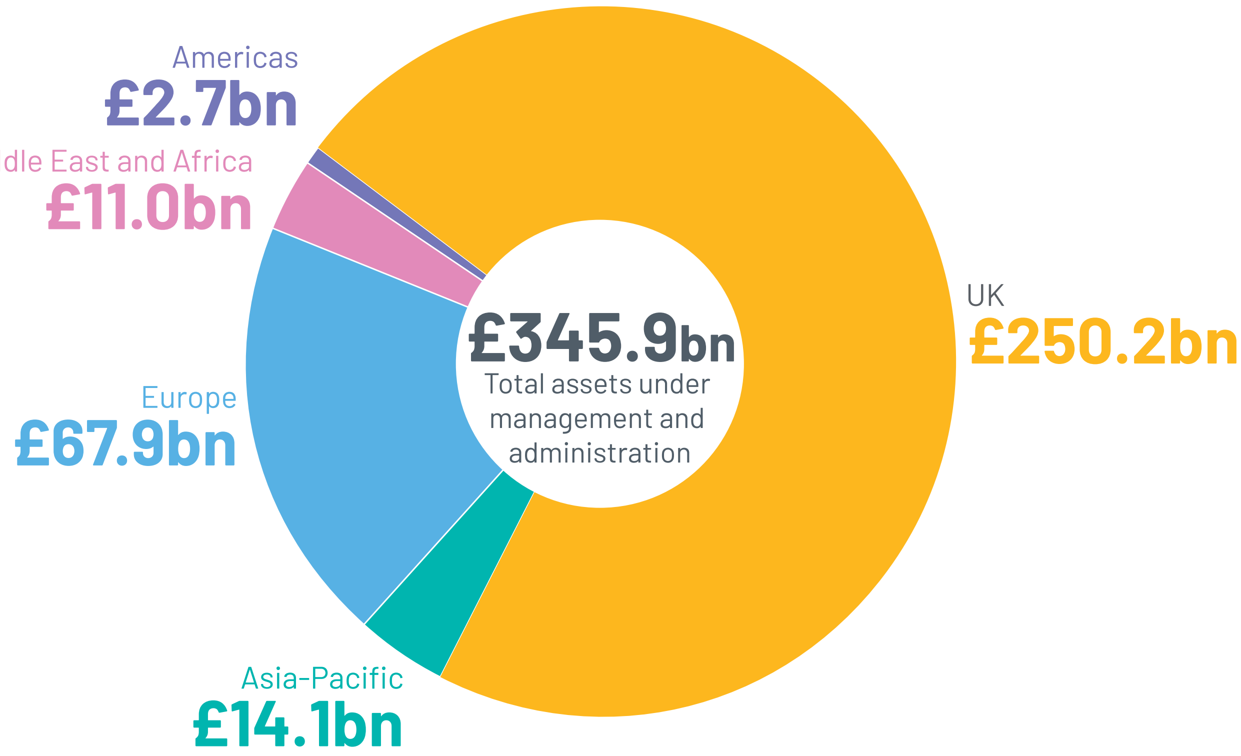
Principle 6: clients and beneficiaries

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

M&G plc
Financial Overview

As at 31 December 2024, the assets under management and administration for M&G as both asset owner and manager increased to £345.9 billion (2023: £343.5 billion). Assets under management and administration (AUMA) by geography are illustrated in the graphic opposite, based on the country of the underlying client.

For the year ended 31 December 2024 (£bn)



Note: the geographic distribution for PAC may vary from the information provided above for M&G plc

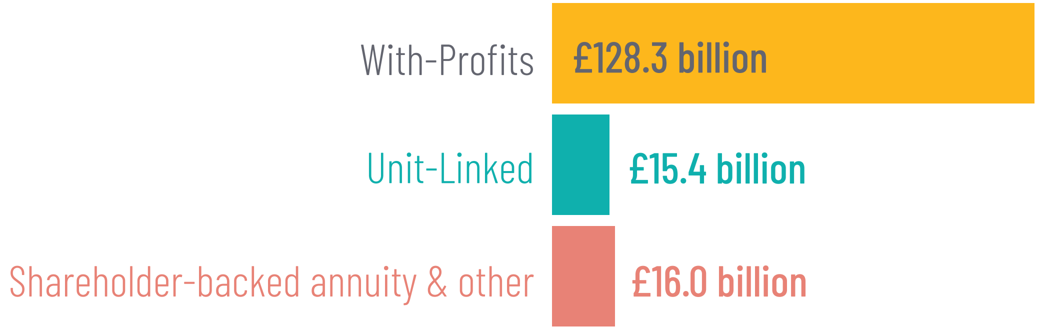
Assets under management and administration split by geographies (totals in the graphic may not sum as a result of rounding; included in total AUMA of £345.9 billion (2023: £343.5 billion) is £18.0 billion (2023: £14.1 billion) of assets under advice).

Source: M&G plc Annual Report and Accounts 2024.

Asset owner
Financial Overview

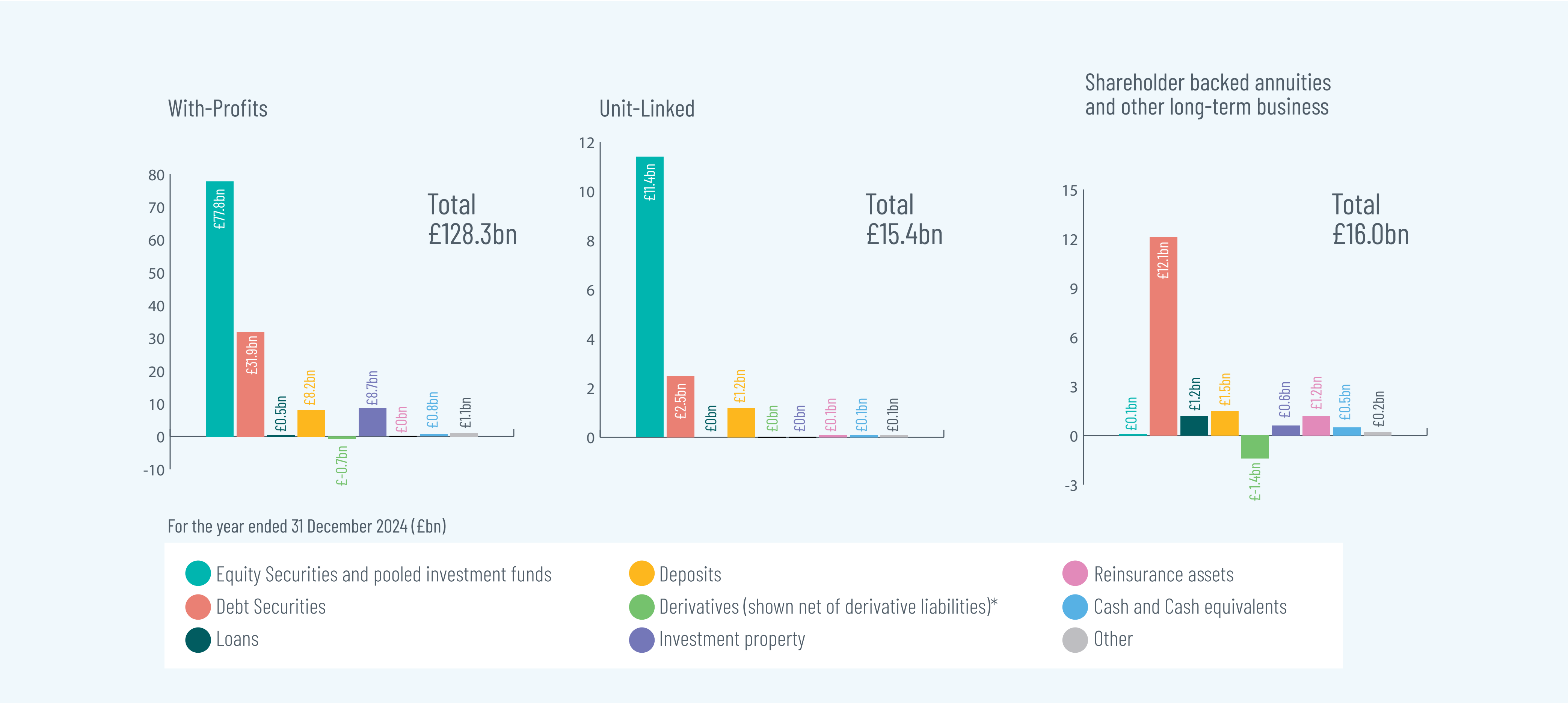
The asset owner's funds under management break down is:

PruFund's (the investment solution offered to clients of both Wealth and Other M&G Life) assets under management and administration equated to £64 billion. The asset owner's total number of in-force policies as at February 2025 was 4,532,936 (this excludes heritage PIA and Rothesay annuities). The average age of clients with an active policy across the listed systems is 67. The asset owner's funds under management broken down by asset class is shown in the graphic on the next page.



Source: M&G plc Annual Report and Accounts 2024. Please note numbers are on a group basis.

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



Source: M&G plc Annual Report and Accounts 2024
*Due to market conditions, derivative values may be negative

Meeting client needs

As an asset owner, we predominantly distribute our products through UK financial advisers. We place a strong emphasis on engaging with UK financial advisers, policyholders and third parties to continuously enhance our understanding of client needs, expectations and perspectives.

Our primary tools employed to gather valuable insights are surveys, forums and research groups. These methods allow us to gather feedback and evolve our offerings in order to better serve our clients.

Open-ended responses are also encouraged within surveys and via forums in inviting more detailed insight. In addition, we run an extensive programme of both technical and investment seminars (mostly online) for advisers. Attendance at these events often accumulate in the thousands.

Feedback on the content is also deemed crucial for the business to ensure that we deliver the right information and cover the most relevant topics in future events. This allows us to gain insights from both professionals and members of the public, enabling us to develop a comprehensive understanding of their requirements. Whilst adviser insights allow us to tap into the expectations and views of the clients, further enriching our understanding of their needs.

PruFund Planet Sustainability Report

PruFund Planet is a range of five funds, each applying an Environmental, Social and Governance (ESG) investing approach and each with their own risk profile, with similar cost and volatility to existing PruFund ranges. The range is globally diversified across equities, fixed income, property, and alternatives and predominately invest in underlying funds that are not present in existing PruFund ranges.

In 2024, PAC released the PruFund Planet Sustainability Report (the Report), in line with Sustainability Disclosure Requirements (SDR) following the Financial Conduct Authority's (FCA) implementation of Task Force on Climate-related Financial Disclosures (TCFD) reporting requirements for both asset managers, asset owners and their products. The Report demonstrates and discloses how the underlying funds in PruFund Planet have met their individual sustainability and stewardship goals which is clearly communicated to clients in order to inform them on how stewardship and investment activities are driving outcomes to meet their needs. The Report clearly sets out the PruFund Planet asset allocation which breaks down both regional and sector allocation in a clear and concise manner, assisted with illustrations of each fund.

Overall, the PruFund Planet Sustainability Report provides transparency in evaluating the alignment of these funds to their sustainability objectives in a way in which the customer can consume with ease. The Report is available to view **here**.

Client communications on stewardship and investment activities

We continually aim to communicate regularly with our clients, and at different intervals depending on the product type. Our communications will show clients their investment performance and what they are invested in. In terms of accessing information, we understand that our clients have unique preferences and differing requirements. Recognising this, we aim to tailor our approach to our clients accordingly and where possible.

The PruFund range

In 2024, the monthly reports created for PruFund Growth and PruFund Cautious back in 2022, have continued to help provide advisers with insight into the positioning and performance of the fund ranges, as well as continuing to improve the transparency we are able to provide to clients. A quarterly Risk Managed PruFund Report and 'Where PruFund invests in the UK' document were introduced, while adviser webinars and Unit Price Adjustment commentary continued to provide additional support in our commitment to supporting advisers with their service commitments to clients and ensuring the right message was being delivered. The PruFund range of funds follow a successful time proven approach and 20+ year track record of delivering returns for clients with lower levels of volatility through their established smoothing mechanism. The range has over 450,000 clients invested.

Our website is just one avenue through which our clients may access the information they need. This provides an expansive range of information tailored to our different audiences, including, but not limited to, professional, private, and institutional investors to ensure the right level of support and information is provided. Through our dedicated sustainability section on our main website, applicable policies and reports can be accessed. We also have adviser focused resources including articles, videos, and webinars to help advisers support and inform our clients across both investment and sustainability related topics.

Consumer Duty: Delivering service that really works

The Consumer Duty is a new principle that was introduced in 2022 by the Financial Conduct Authority (FCA). It requires financial services firms in the United Kingdom to focus on delivering good outcomes for their retail customers. The regulations set out the standard of care that financial services organisations should give to their consumers.

In Q3 2024, M&G announced that we had successfully completed our board reporting responsibilities on Consumer Duty, which detailed and documented what we are doing across M&G to ensure that we have the best interests of our customers at heart. The main achievements that the report highlighted include:

- Establishing and rolling out our new M&G Blueprint, which focuses us all on creating real confidence among our customers that we are putting their money to work and on delivering service that really works for them
- Refreshing and rolling out training on Consumer Duty and serving vulnerable customers
- Supporting our customers to make informed decisions by completing a comprehensive review of 2,000 customer communications; this review included testing them with real customers to ensure that they are able to understand them
- Reviewing over 1,200 customer journey touchpoints, to ensure that customers find it easy to deal with us. In two thirds of these cases, we're on track. In the remaining third, we've identified areas of improvement and are actively working on these items

Overall, the adoption of Consumer Duty as a new principle has highlighted the focus that M&G has on consumer care as well as how we are creating a culture that prioritises their interests, reaching significant milestones that we hope to build upon going forward.

Investment time horizons

Throughout our investment and stewardship activities, we prioritise incorporating the needs of our clients whilst considering the appropriate investment time horizon. We firmly believe in adopting a long-term approach to investing, as we believe it leads to optimal financial outcomes for our clients and enables us to effectively address sustainability issues. **For more information, please refer here or page 69 in the 2023 PAC Stewardship Report under the heading, "Investment time horizons".**

With-Profits Fund Stewardship Report for UK clients

For PAC, a key part of stewardship is ensuring our customers and advisers understand how we are managing their money responsibly. This aligns with M&G's purpose to 'Give everyone real confidence to put their money to work'.

In 2024, we undertook a programme of marketing activity focusing on increasing the opportunities for our investors to engage with PAC's stewardship approach. This included:

- Development of new webpages providing information on stewardship and money management
- Creation of videos explaining either what is meant by stewardship or how we are supporting advisers on this topic
- An adviser toolkit which provides simple graphics for use in conversations or reports for their clients
- And finally, we focused on two key reports which provide extended information on how we manage our customers money, namely PAC's With-Profits Fund and PruFund Planet range of funds. These also moved to being updated on a 6 monthly basis rather than annually

This activity was based on a series of research sessions undertaken in the end of 2023 and start of 2024. The focus of these sessions was to understand, from both a customer and adviser's perspective, the level of information they wanted on our investment approach and how they wanted this presented.

The key learnings were:

- Information needed to be provided in simple, easy to understand ways
- The use of graphics to explain more technical elements
- Explanations of terms such as stewardship to avoid confusion
- Separating information out into different documents so customers a) could just read the information relevant to them and b) not feel overwhelmed by the amount of information
- The need to communicate updates more regularly

These learnings were also used for the PAC Stewardship Report. While this is naturally more technical in its content, we utilised graphics to summarise sections and where applicable removed technical terms or provided explanations.

In 2025, we're carrying out further research to ensure the changes made have improved customers' and advisers' understanding and engagement with the subject. A new report will also be developed for customers invested in either our PruFund Euro or Dollar funds. We'll also be providing social media updates and email communications for both customers and advisers and updating our webpages to include case studies.

Outcome

Overall, this year we remained transparent about our efforts. We have also continued to seek feedback and views from our clients through surveys and forums to ensure our investment proposition continue to evolve in line with client requirements and needs.

We will continue to assess the evolving requirements of our clients and aim to address the themes identified as important to them and their well-being.

To add, we seek to maintain a careful equilibrium between financial performance and non-financial considerations such as ESG factors as we take into consideration of the implications for both society and the environment whilst taking into account the requirements of our clients.

Case study: Meeting client needs through new investment propositions

Objective

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

Approach

M&G Catalyst is a global international private assets team of close to 40, based in London, New York, Singapore, and Mumbai, and are responsible for providing the long-term flexible capital to tackle environmental and social challenges. Key areas of focus include Climate, Health, and Inequality. Since the launch of M&G Catalyst in 2021, the team's strategy has been applying long-term institutional investment to support transformational innovation with impact and to support private businesses and the potential of their innovations. M&G Catalyst look to engage with their investees to manage ESG risks and drive impact which can be measured and reported on investee companies and platform partners. The Catalyst investment strategy is backed by PAC's With-Profits Fund.

Outcome

Over £982 million was deployed between 1st October 2023 and 30th September 2024 with a further £997 million committed. M&G Catalyst has so far invested in 71 companies.

Case study: External Manager incorporating our ESG requirements into their own prospectus

Objective

When considering an investment in any strategy, the Treasury & Investment Office conducts thorough due diligence to ensure that our ESG requirements are met, both in terms of investment approach and specific policies of the strategy itself. Typically, we achieve this by creating bespoke strategies with our managers, allowing us to control the wording of the prospectus to include our key ESG policy requirements. However, in some cases, creating a bespoke strategy is not possible. In such cases, we engage with our managers to ensure that our ESG requirements are still satisfied. An example of this occurred last year with an external manager we were considering for investment.

Approach

In the case of this external manager, establishing a bespoke vehicle was not considered the most practical method of allocation. Therefore, the Treasury & Investment Office engaged with the manager to ensure our ESG requirements were still met. This engagement involved a thorough examination of the manager's ESG approach and the exploration of various potential options to integrate our ESG requirements, either through legal agreements or adjustments to the underlying fund language.

Outcome

After extensive collaboration with the external manager to thoroughly understand their ESG approach and align it with our own ESG needs, the external manager agreed to incorporate our ESG policy wording into their own fund prospectus. This adjustment ensured that their ESG approach for the fund was now formally aligned with ours. This outcome was facilitated by the strong relationship between the Manager Oversight team and the external manager, as well as the pre-existing ESG alignment between the two firms. The additional wording also served to formally communicate the external manager's existing ESG approach. This positive outcome evidences the importance of ESG within our Investment Due Diligence process and highlights the significance of strong relationships between the Treasury & Investment Office and our managers in meeting our ESG requirements.

Principle 7: stewardship and investment integration

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

Asset owner

Ensuring integration

As described in Principle 2, the Treasury & Investment Office are a team of in-house investment experts within PAC who are responsible for setting the Strategic Asset Allocation for all of our Multi-Asset and annuities funds, asset manager selection and oversight. The function ensures that the investment strategies are appropriately managed by a suitable asset manager that is capable of managing all risks, including ESG risks and opportunities.

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

Through investment mandates awarded by the Treasury & Investment Office, our expectations of ESG integration are clearly communicated. These disclose the time horizon, target return and desired risk levels for each asset manager.

Key ESG and stewardship requirements and restrictions are also specified and embedded within the investment mandates for which we have control, especially where a product may have an explicit ESG focus or strategy.

Over 2024, we had three top-down thematics:

Climate

In line with **the Paris Agreement, M&G plc** as a firm are **aiming to achieve carbon Net Zero investment portfolios by 2050 across aggregate investments.** We are actively formulating an emissions-reduction investment strategy for our asset book.

Diversity & Inclusion

In line with our PAC ESG Investment Policy, we hold **a strong belief that diverse and inclusive companies deliver financially, and are better at managing risks.** As part of our manager selection and monitoring process, we remain committed to evaluating each asset manager's diversity policies and practices. This includes how a manager challenges its investee companies to improve and maintain diversity in their business models.

Modern Slavery

The **M&G plc Modern Slavery Statement** outlines our commitment to ensure that slavery, human trafficking, child labour and any other form of human rights abuse has no place in our organisation or supply chain. **As an asset owner, we expect our underlying managers to be appropriately managing modern slavery risks** as we recognise the increasing risk that modern slavery may be encountered with our investee companies.

Defining expectations

Asset Owner Annual Letter of ESG Priorities

As long-term investors, we, in our role as asset owner believe that businesses and behaviours that reflect ESG best practices, are better positioned to deliver sustainable success over time horizons that meet customer needs.

Annually, expectations are clearly communicated through the Annual Letter of ESG Priorities. This letter outlines our key areas of focus on ESG for the coming year, including net zero and modern slavery, and is distributed to all appointed asset managers, along with the PAC Engagement and Voting template.

Stewardship and investment integration process

The Treasury & Investment Office Manager Oversight team are responsible for identifying top quartile asset managers that could generate financial returns for the asset owner. This is achieved through rigorous investment due diligence as part of the selection and appointment process, as well as ongoing due diligence on managers who are employed in running mandates for the wider multi-asset class client funds.

PAC Stewardship Framework

The PAC Stewardship Framework (the Framework) outlines an overview of the ESG stewardship processes and approaches inherent to the ESG due diligence to be conducted on investment managers (in collaboration with the Manager Oversight team).

The Framework plays a crucial role in guiding the asset manager selection, onboarding, and monitoring process by establishing the stewardship activities that are integral to our role as an asset owner, in a standardised and systematic manner. The Framework is managed by the ESG & Regulatory team, and includes, but is not limited to, the followings areas:

- the manager selection process, with a specific focus on the ESG considerations
- the monitoring process, including the ESG Due Diligence Monitoring Questionnaire, Engagement and Voting templates, and
- the reporting expectations, with references to the Financial Reporting Council's UK Stewardship Code

Stewardship and investment integration process continued

The team monitors their performance and adherence to objectives over time. This includes the consideration and evaluation of the managers' ESG-related skillsets. This involves the assessment and challenge of managers on their ESG ambitions throughout the manager selection and monitoring processes across new and existing mandates. Investment Due Diligence on selected managers ensures that they not only meet a high threshold from an investment perspective but also in terms of these ESG requirements.

Reports of asset managers' performance are regularly submitted to the PAC EIC, and the PAC Board. As such, material breaches of mandate requirements and updated due diligence views are amongst the matters that are covered at the Boards. As the Manager Oversight team appoint new investment capabilities, these are aligned to suit the needs of the asset owner by actively working with the asset managers.

All asset managers are required to have appropriate ESG and stewardship policies which are assessed for alignment with the PAC ESG Investment Policy and ESG priorities (including climate change and D&I).

The ESG & Regulatory team will assess a manager's alignment, and any clear misalignments are reviewed accordingly. This helps to inform the selection process and further actions if required against the asset managers.

The Treasury & Investment Office endeavour to select asset managers that:

The investment due diligence process is an iterative process, whereby regular follow-ups and reviews are conducted to ensure that policies continue to align to our requirements. In the selection phase, Investment Due Diligence meetings feature ESG-led questions, which form an important part of the decision-making process. This includes discussions on ESG at the firm-level, a dedicated ESG resource within investment teams and integration throughout their investment process. In recent selections, there have been cases where managers have been removed from consideration due to insufficient rigour when integrating ESG into their investment process. The assessment of any material breaches of mandate requirement is identified as part of the ongoing monitoring of manager performance against expectations and periodic due diligence.

Having clear expectations on ESG and stewardship factors alongside financial performance factors allow the Manager Oversight team to identify where asset managers fall short of these expectations. If this is the case, we will consider withdrawing the mandate if engagement is deemed ineffective in influencing change.

As part of our ongoing due diligence responsibilities, we have an ESG section as part of our standing agenda for quarterly oversight meetings with managers, which enables conversations on how ESG integration has fed into investment decisions **(see Principle 2 page 18).**

Relationships with asset managers are further managed through quarterly reporting, where managers are also required to submit quarterly performance reports. All equity asset managers are required to share voting records, including case studies of when they have voted against management. In addition, asset managers need to provide examples of engagement, where they have worked with an investee company to influence its activity/behaviour and have created an improved ESG outcome as well as their responses to the ESG Due Diligence Monitoring Questionnaire. Appointed asset managers will also need to demonstrate action in areas that they have been asked to engage on by the asset owner. These datapoints enable the Manager Oversight and ESG & Regulatory teams to assess the degree of effectiveness of the asset manager's stewardship and ESG risk practices and alignment with our expectations of sufficient stewardship activities on an ongoing basis. **Refer to Principle 8 for more information on monitoring of asset managers on page 78.**

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

ESG Oversight Reporting

We regularly assess how our appointed managers take into consideration our key ESG priorities and manage our assets by producing an ESG Oversight Report on a quarterly basis. This pack aims to provide an overview of the analysis on the engagement and voting activity performed by our asset managers and updates on their ESG activity and material changes in approach. The aim of the analysis is to also compare the effectiveness of each of the managers on their engagement and voting activity and engagement methods. To help inform the analysis and reporting, the ESG & Regulatory team review each of the manager's engagement template, voting template and ESG Due Diligence Monitoring Questionnaire that they are required to submit **(see Principle 8, page 78)**.

We recognise that the assessment of our managers activities may not be directly comparable due to the distinct nature of the strategies they employ and the specific asset classes and sub-asset classes they manage. In these cases, each manager is evaluated based on their specific mandate, time series trend and context in which they operate.

Overall, the information gathered from the ESG Oversight Reports help to further inform the monitoring of asset managers and flag any updates or areas of concern to be raised with the manager.

Key observations:

- Most managers are able to monitor and provide updates on changes made to how they identify ESG risks and opportunities which is an expectation we have on managers
- Where there is notable increase in managers number of engagements initiated and ESG topics, this tends to indicate their commitment to active ownership and information-gathering
- Most managers across the equity and fixed income strategies engage on governance-themed engagements

Outcome

We continue to recognise that ESG integration enhances our investment decisions and risk management processes by ensuring the appropriate consideration of ESG-related risks. The information and data gathered during ongoing due diligence, along with the various templates and the monitoring questionnaire submitted by our appointed asset managers, plays a pivotal role in informing our monitoring process and improving the effectiveness of our quarterly oversight meetings. As detailed previously, our thematic areas including climate, D&I and modern slavery continue to be considered by our managers within their processes and activities where possible. By analysing the data submitted by managers, we can better identify trends and areas requiring improvement, ensuring that our investments continue to meet our desired outcomes. The development of the ESG Oversight Report further supports the monitoring of managers, and we continue to seek opportunities to embed ESG more deeply into our investment decision-making process.

Case study: Modern Slavery engagement

As an asset owner, we expect our underlying asset managers to appropriately manage modern slavery risks. The case study below demonstrates how our internal asset manager sought to manage and monitor modern slavery risk in their investments.

Objective

As part of a wider discussion, to ensure that a Dutch health, nutrition, and fragrance & flavourings specialist company had adequate policies and procedures in place to address child labour in its supply chain. This followed a BBC investigation into child labour use in the Egyptian jasmine trade, which highlighted the company as a customer of one of the suppliers in question. The story was aired earlier this year, with the investigation taking place in 2023.

Approach

In Q3 2024, the internal asset manager met with the company's chief executive and a member of its investor relations team.

Outcome

Through the internal asset managers discussion they ascertained that the company has a strong commitment to ethical sourcing and has implemented various policies and procedures to address issues such as child labour in its supply chain.

In 2022, the company initiated a comprehensive audit of its supply chain in Egypt, focusing on suppliers involved in the production of natural ingredients. During this audit, the company uncovered evidence of child labour practices at one of its suppliers. The audit team discovered that children under the age of 18 were working in dangerous conditions, often in violation of local labour laws. The company gave the supplier three months to initiate corrective action, but was not satisfied that this had been effectively undertaken, and subsequently terminated the relationship.

The company then implemented additional corrective measures, requiring its remaining suppliers in Egypt to undergo a thorough assessment of their child labour practices. It provided guidance and support to ensure that these suppliers adhered to international labour standards and implemented effective measures. It also strengthened its existing ethical sourcing policies to enhance the company's ability to identify and address child labour issues in its supply chain. These measures included increased supplier monitoring, verification of labour practices, and the development of a robust complaint mechanism.

All of this took place a year before the focus of the BBC investigation, and was a good demonstration of the company's commitment to ethical sourcing and its ability to identify and address risks within its supply chain.

Principle 8: monitoring of service providers & asset managers

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

M&G plc

Third-party service and research providers

M&G ensures that third-party service and research providers are engaged in order to support ESG integration. As outlined in Principle 2, at M&G, and within the asset owner, we use third-party service providers including Bloomberg and MSCI to help inform the investment teams' activities and to help us carry out ESG and stewardship activities **(see Principle 2 for our non-exhaustive list of service providers, page 21).** M&G has regular communication with our service providers to ensure that they deliver appropriate services, in line with our expectations.

Monitoring of third-party service and research providers

The Market Data team within M&G Investments is responsible for monitoring the ongoing relationship with the service and research providers and for reviewing the overall quality of service provided. Research providers are monitored and scrutinised for accuracy and regular meetings are held to suggest new areas of improvement.

Any issues raised by the business will be followed up by the Market Data team until an appropriate resolution has been achieved. M&G have divided providers into Strategic and non-Strategic partners.

Those that are strategic and of high value are monitored with regular service reviews on a monthly and / or quarterly basis due to the nature of the data and the demand to monitor the services. Those that are not considered strategic, the Market Data team continues to oversee them and are the point of escalation for the business should any questions or issues with the service or data arise. The Strategic partners include MSCI, ISS, Morningstar, Refinitiv and Bloomberg.

Monitoring process

As mentioned on the left, the Market Data team holds monthly/quarterly meetings with the strategic partners, to provide constructive feedback and provide an opportunity to determine whether any improvements are necessary as well as information on new products and services that may be of interest to the business. The team also hosts meetings with non-strategic data providers to discuss feedback and next steps, if any amendments are required to the existing contracts. **For more information on the monitoring process of third-party service and research providers, please refer here or page 78 in the 2023 PAC Stewardship Report, under the heading, "Monitoring process".**

Case study: Providing feedback on a free trial

Objective

M&G were invited last year to a free trial of a data provider's Biodiversity data product whilst it was in its infancy. In doing so, M&G provided feedback along with other asset managers who took part in the trial.

Approach

The aim was for M&G to help the data provider develop a product that is fit for purpose by active asset managers and thereby, would provide M&G early access to the data for free. This is an example of a partnership M&G and the data provider have developed.

Outcome

M&G are now in process to formally purchase the data as we come to the end of our free trial. The data will be utilised for nature and biodiversity related research and reporting. It will be deemed fit for purpose as a result of the feedback shared.

Case study: Data utilisation from a data provider

Objective

In early 2024, it became apparent to the M&G plc Market Data team that data provided by a data provider was not being used by the business to the extent previously anticipated.

The Market Data team sought to fully assess the utilisation and effectiveness of the data provided by a data provider across our business.

Approach

Analysis identified that although we had subscribed to several data feeds from the data provider, none of which were integrated into our Investment Data Platform (our internal data hub which distributes data to the business) due to lack of demand. Further analysis work identified that only 50% of those in M&G who had access to the data providers' web-based research platform were logging in and using the research. Consequently, we collaborated with the data provider to restructure our contract. This involved negotiating to retain access for those that needed it but removing access where it was not being utilised.

We did this whilst maintaining a good relationship with the data provider and acknowledging that access was critical for those that needed it.

Outcome

The outcome was a new, fit for purpose contract with the data provider, as well as significant cost savings for M&G.

Asset owner

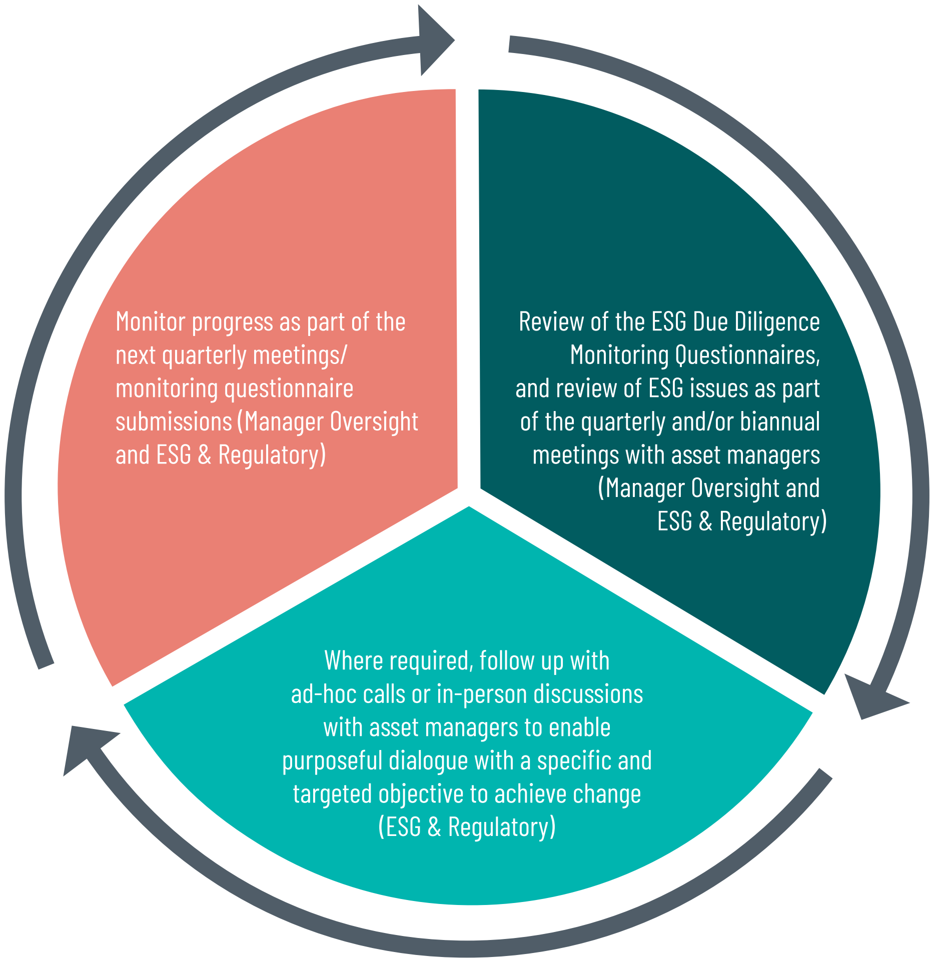
Monitoring of asset managers

Monitoring, maintaining oversight and ensuring asset managers are in alignment with our purpose and values is a fundamental aspect to our stewardship ambitions. The Manager Oversight team conducts thorough Investment Due Diligence (IDD) as part of the selection and monitoring process of internal and external asset managers. IDD considers a number of relevant factors such as investment philosophy, key risks, stewardship process and more. Although an established process for monitoring asset managers is used, certain asset classes may require additional work, and our views will continue to evolve as we learn more about each asset manager whilst the market environment changes.

The Manager Oversight team ensures that quantitative and qualitative factors are assessed to ensure the ongoing suitability of managers. **For more information, please refer here or page 81 in the 2023 PAC Stewardship Report, under the heading, "Monitoring of asset managers".**

Request for Proposal (RfP) ESG Due Diligence Questionnaire

The team also uses an RfP ESG Questionnaire, which consists of ESG investment focused questions. The questionnaire covers a plethora of ESG areas such as climate change, social issues, and stewardship in order to see how well asset managers are aligned with our ESG values, purpose and commitments. The RfP ESG Questionnaire consists of five key sections with each section aiming to address specific ESG issues, which is then assessed with a scoring system. Lastly, we allocate a weighted score with varying weightings for different ESG priorities as outlined within the PAC ESG Investment Policy.



Case study: Findings from ESG Due Diligence Monitoring Questionnaire responses

Objective

To assess the updates provided by asset managers on engagement activities related to modern slavery and membership of ESG or stewardship related organisations within their ESG Due Diligence Monitoring Questionnaire submission.

Approach

As part of ongoing oversight, the ESG & Regulatory team continuously review assets manager's ESG Due Diligence Monitoring Questionnaire responses to assess any changes.

Outcome

One manager provided several updates on seven separate engagement activities concerning modern slavery within their Q2 2024 submission. These responses were deemed fairly comprehensive and outlined specific actions taken, the outcomes achieved and whether the manager had any conviction in the suitability of the investment. This also highlights that through the ESG Due Diligence Monitoring Questionnaire, the ESG & Regulatory team have been able to monitor our asset managers actions and engagement activities as it has enabled such information to be captured. Overall, this has allowed us to enhance our oversight on modern slavery in line with our ESG commitments.

Quarterly Oversight Meetings

The Manager Oversight team also conducts quarterly meetings with most of the appointed asset managers that we invest in to discuss performance, attribution, market outlook and ESG considerations to gain a more comprehensive view. However, if we have a small holding or have no concerns with the underlying investment, some managers may be seen on a less frequent basis. As mentioned, asset managers are expected to submit the completed ESG Due Diligence Monitoring Questionnaire, ahead of the meeting, which are then reviewed by the ESG & Regulatory team. Any changes made to the asset managers ESG activities or priorities are flagged and will help inform the Manager Oversight teams monitoring approach.

In 2024, the ESG & Regulatory team adopted a more formalised approach to the quarterly oversight meetings with asset managers. This involved following a specific structure whereby notes are taken on specific ESG questions raised, other ESG outcomes and whether follow-up actions are required.

Using digital platforms to improve monitoring of asset managers

The Manager Oversight team worked with the Investment Analytics team to develop an internal due diligence and oversight tool on our digital platform. As part of this, the tool provides analysts with the capability to create and add meeting notes collected from the quarterly oversight meetings into a centralised platform. This centralisation ensures that all relevant information collected is systematically recorded and easily retrievable, creating a more streamlined process and enhanced efficiency to collecting notes. By leveraging the tool, quarterly updates to each asset manager can be documented and easily accessible.

Case study: ESG Top-Down and Bottom-Up Analysis

Objective

In 2024, a review was conducted on the Treasury & Investment Office ESG Product Framework classification we had assigned to our underlying funds. The aim is to hold asset managers to account on the intentionality and scope of their fund's sustainability outcomes (if applicable) and manage any potential greenwashing risk. This framework was established in 2023 and is reviewed annually, in collaboration of the Manager Oversight and ESG & Regulatory teams. This exercise includes a review of the ESG Top-Down and ESG Bottom-Up analysis of funds used across the Multi-Asset portfolios, Model Portfolio Services (MPS) and Annuity funds.

- **ESG Top-Down Analysis** – the assessment of each of the underlying funds to understand its investment objectives from an ESG perspective and to verify each fund's investment objective. The categorisation for each fund was determined against the Treasury & Investment Office ESG Product Framework.
- **ESG Bottom-Up Analysis** – the assessment of each individual portfolio against the investment objectives to ensure that each fund manager is held accountable to the intentionality and scope of their suggested outcomes.

Approach

In H2 2024, the Manager Oversight and ESG & Regulatory teams conducted the ESG Bottom-Up Analysis on all strategies that are recommended for use in Treasury & Investment Office portfolios.

Outcome

The teams' findings suggested that a large majority of the funds incorporate ESG considerations in line with our top-down ratings and therefore no action was required. However, we identified cases where we have recommended a change in categorisation or are taking forward follow-ups with the managers. Eight of these were investments in previous vintages of private asset funds, where investments were made at a time before this ESG Product Framework and analysis was in place. Therefore, we want to better understand the ESG characteristics of these existing strategies. The remaining two strategies were cases where we questioned the suitability of a particular issuer for investment in the Solution Focused strategies. The engagement is deemed as ongoing as the Manager Oversight team escalates these holdings with the manager.

Shareholder Rights Directive (SRDII)

The SRDII establishes specific requirements in order to strengthen shareholder engagement and increase transparency. According to the PAC Shareholder Engagement Policy, it is the asset owner's responsibility to work closely with our asset manager to ensure that there is sufficient engagement with investee companies. The Manager Oversight team are tasked with the duty of reviewing our funds and ensuring that managers are in alignment with the PAC Shareholder Engagement policy and the PAC ESG Investment Policy. **For more information on the SRDII process, please refer here or page 82-83 in the 2023 PAC Stewardship Report, under the heading, "Shareholder Rights Directive".**

The 2024 SRDII review is the fifth annual review through which PAC With-Profits plus PAC, PPL and PIA Unit-Linked funds were reviewed. This process included all equity managers of segregated and pooled accounts, where policies, voting record, engagement and incentivisation are scrutinised.

The review was carried out by the Manager Oversight team, through questionnaires that cover both company and fund specific disclosure required under the SRDII.

Case study: Key findings from the 2024 Shareholder Rights Directive II (SRDII)

The 2024 SRDII review included 136 funds with direct equity holdings that are managed by 32 different fund managers. In general, the review confirmed that responses were aligned with expectations for most in-scope managers. Two managers that were highlighted in the previous SRDII review in 2023 are now both rated "Neutral".

Each manager is awarded scores across several areas as well as given an overall score. The 32 managers were awarded a "Positive" or "Neutral" rating overall, demonstrating that they all met or exceeded the base line requirements. Most individual scores were also "Positive" or "Neutral" with a few areas that were rated negatively but no further action was deemed necessary due to understandable reasons for the approaches taken or other offsetting positive approaches.

- There was a variance in the level of detail provided regarding the ESG and Shareholder Engagement Policies of the in-scope firms, including the frequency of updates which we consider to be an important metric for our assessment. Firms who provided more detail and regularly update their policies were rated more highly than firms with limited detail and infrequent updates. No managers were rated "Negative" for this criterion
- Consistent with last year's review, voting engagement tended to be very high, with almost no managers falling below the threshold of 90% participation of eligible votes
- On Climate Voting Policy, an addition to the process from the last year, almost all managers were rated "Neutral" or "Positive", with no manager rated "Negative". This meant that most managers were broadly well aligned to the Group's priority on climate change
- To improve the process going forwards, a feedback form will be sent to asset managers who did not respond to the questionnaire or to those rated "Negative" for not being aligned to PAC's stewardship policies/SRDII Guidelines

Outcome

When our expectations of service and data providers and asset managers have not been met, we have taken decisive steps to address these shortcomings. We have consistently escalated issues with our service and data providers by conducting service reviews to ensure our providers understand the necessity for immediate corrective measures and address the feedback provided. The monitoring of asset managers has been supported through quarterly oversight meetings and ESG Due Diligence Monitoring Questionnaires. Additionally, the use of our internal due diligence and oversight tool presents a strategic approach in our ability to monitor our asset managers. Through diligent review of Engagement Templates and ESG Due Diligence Monitoring Questionnaires, we have been able to promptly identify and flag concerns with our asset managers at quarterly oversight meetings. This approach ensures that asset managers are held accountable.

Case study: Monitoring of Modern Slavery Engagements

Objective

As part of quarterly oversight meetings, the ESG & Regulatory team asks our appointed asset managers that hold any names identified in the Modern Slavery List to provide details on the status of these engagements. Since 2023, it has been an expectation for appointed asset managers to engage on our behalf with companies that we believe to be at high risk of exposure to modern slavery. In Q3, some managers reported limited progress on these engagements. Our goal is to hold our asset managers accountable and to seek detailed information regarding their engagements on modern slavery.

Approach

To address the gaps identified in the quarterly oversight meeting with one of these managers, the ESG & Regulatory team scheduled a follow-up meeting with the manager in question to seek any potential updates on the companies identified to be deemed at high risk of exposure to modern slavery.

Outcome

During this follow-up, the manager clarified that their modern slavery engagement efforts are typically prioritised according to financial exposure, which means that smaller holdings may not be prioritised. They indicated that they would follow-up with a particular issuer given their greater exposure, and mentioned an ongoing engagement related to modern slavery concerns with an issuer not currently on our high-risk list. Whilst an exact outcome has yet to be achieved and the manager engagement activities will continue to be monitored, this meeting also allowed us to discuss the manager's approach to human rights more broadly, as well as other stewardship activities.

Case study: Observations on managers engagement reporting

Objective

In Q3 2024, the ESG & Regulatory team performed a review of all the Engagement Templates submitted by asset managers to assess the quality and timeliness of their reporting submissions. As part of this review, the ESG & Regulatory team applied a Red, Amber, Green (RAG) rating approach to evaluate each submission and response. During the analysis, the team identified that six managers did not fully report or complete their Engagement Templates.

Approach

Recognising the importance of comprehensive and timely reporting, the team highlighted the significant gaps in the quality of reporting submissions with the Manager Oversight team for further action. The team took proactive steps to schedule meetings with the respective managers to address the issues and inquire about the reasons behind the gaps in reporting.

Outcome

Following these meetings, a manager had acknowledged the deficiencies in their reporting and expressed their intention to improve the scope and definitions used in their Engagement Template responses. Whilst, with another manager, we highlighted the importance of timeliness and delivery in their submission, and now we have observed them submitting their Engagement Templates on time. This outcome highlights our approach in being able to effectively monitor our asset managers and efforts to enhance transparency within our monitoring templates.

Engagement

Principle 9: engagement

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

Asset owner

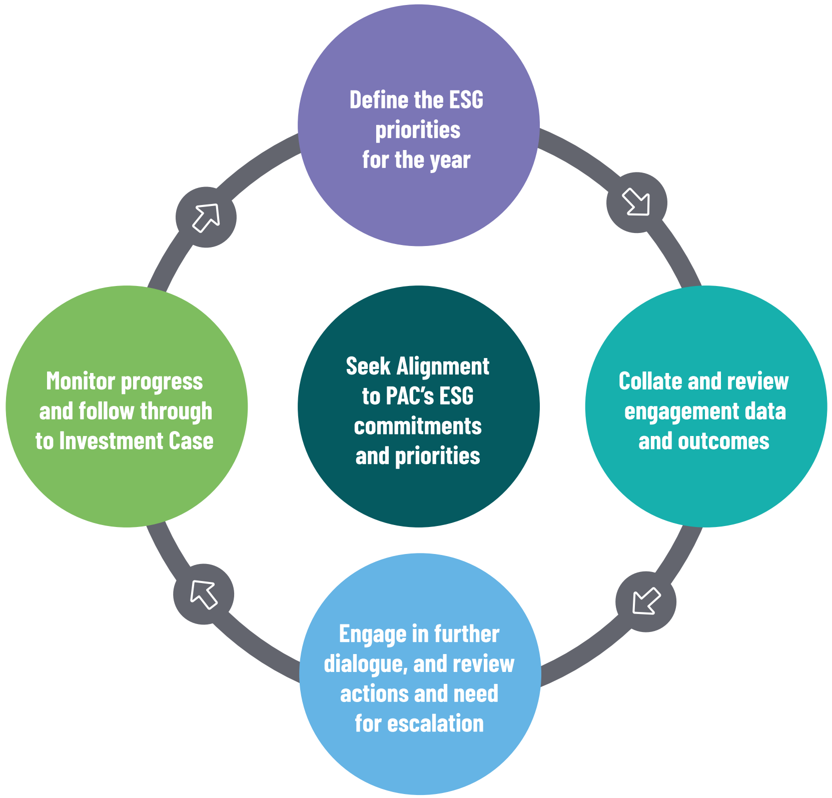
Engagement policy

Engagement is a crucial part of enhancing our long-term value of investment for our clients. In order to effectively fulfil our fiduciary and stewardship duties, we believe it is our responsibility, to work closely with asset managers that engage with investee companies, including ESG-related issues. We believe in active ownership aligned with both active and passive management. Therefore, we expect the investment managers that we appoint to carry out active engagement (both collaborative and bilateral) and responsible stewardship with investee companies on our behalf, using our financial ownership across both active and passive mandates to influence their behaviour in order to achieve sustainable business models and outcomes, and strengthen sustainability related disclosures. In addition, we also expect our appointed managers to report on progress and results of their engagement activities and voting records, and to escalate where appropriate to enable further assessment and decision on divestment and exclusion.

Active strategies

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

PAC's ESG Engagement Approach



The diagram displays our engagement lifecycle. Whilst we do not engage directly with investee companies, we rely on our asset managers to directly engage on our behalf. The asset owner maintains accountability for the framework for engagement with investee companies, and in turn commits to engage with its asset managers to deliver on its desired outcomes.

Engagement expectations

Our appointed managers are expected to establish a clear engagement objective for the engagement of activity and consider in advance, any internal escalation which may be required if initial engagement efforts are unsuccessful. A clear engagement escalation process should be followed, including defining the objective and the outcome of the escalation. Asset managers are expected to communicate with shareholders and any other relevant stakeholders of investee companies to effectively manage any conflicts of interests or issues arising from their engagement. M&G offers further information and support for any significant conflicts of interest cases. In 2022, we created the Engagement Template (see case study on page 37 titled "Embedding our ESG & Stewardship due diligence process").

The Engagement Template collates both quantitative, such as the number of engagements deemed successful, and qualitative data, such as examples of individual engagements, across the year. The Engagement Template requires regular updates from appointed managers on their engagement activities, in line with the expectations detailed above.

Throughout 2024, it has also been highlighted within the responses that some asset managers have exited from initiatives such as Climate Action 100+ (CA100+) or the Net Zero Asset Managers Initiative (NZAMI). By closely monitoring these updates, the Manger Oversight team have been able to raise pertinent questions with the asset managers and address any concerns promptly.

We expect asset managers to actively participate in shareholder voting, on our behalf (in line with the Voting Standard) in keeping with their respective policies and regularly report the results of their voting to us. This is to ensure that asset managers are acting in line with our expectations, outlined in our Voting Policy guidelines, across the range of shareholder issues. We expect asset managers to make voting decisions in the best interests of our clients (both theirs and ours).

During the voting process, asset managers should consider and assess the impact on the value of the investment and the long-term interests of our clients. This voting approach should focus on supporting real world positive outcomes, as systemic risks, such as climate change and inequitable social structures, threaten the long-term performance of the investment portfolios as well as the world in which our clients live. Asset managers should have a detailed voting policy or standard in place and declare any Proxy Voting Service providers used.

Passive strategies

We also use passive investment strategies, where the asset manager is required to match the portfolio against a specific benchmark index. Here, we would expect the appointed managers' Engagement and Voting policy to continue to apply and vote responsibly, and we would expect the asset managers to vote responsibly on our behalf.

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

Portfolio monitoring

The Manager Oversight and the ESG & Regulatory team review the funds on an ongoing basis to ensure the underlying managers are aligned with the PAC ESG Investment Policy, as demonstrated under Principle 7 and 8. The appointed asset managers take ownership of their engagement and implement the most effective route of engagement. Although we do possess the capacity to steer asset managers within the parameters of our voting and engagement policies if deemed necessary, for passive mandates, where we do not have control, we engage with the asset managers by communicating our desired engagement and voting activities.

As highlighted within Principles 2 and 8, policies, voting record, engagement and incentivisation are all reviewed on an annual basis in line with Shareholder Rights Directive II (SRDII). Additional engagement is undertaken on a quarterly basis, where asset managers are reviewed on performance, positioning, outlook, and any ESG-related developments at both a fund and investment level.

The Engagement Template allows for the analysis of the asset managers' engagement efforts to ensure that they align with our expectations and to enable suitable oversight and prompt further engagement when necessary.

Engagement theme: Environmental

Source: External Manager
Environmentally focused engagement with a Brazilian financial institution primarily operating in the banking sector.

Objective

The external manager met with the firm to discuss the recent flooding in Rio Grande do Sul and emphasized the need for the bank to conduct more climate stress testing of its portfolio, given its significant exposure to agriculture.

Approach

In Q2 2024, the external manager met with the risk team to discuss physical climate risk stress testing and will conduct a follow-up engagement in due course.

Outcome & next steps

The external manager recommended that the company increase climate stress testing of their agriculture portfolio, considering both significant climate events and temperature rises in various regions as well as the potential financial impacts.

The company acknowledged this suggestion and indicated that their upcoming sustainability report would include some stress testing related to La Niña and El Niño events.

They also agreed that a meeting with their risk team would be beneficial to receive feedback on how to conduct additional climate stress testing. The engagement resulted in greater disclosure on stress testing and a strengthened commitment to managing climate risk, with the aim of mitigating future environmental risks associated with the company.

Engagement theme: Social

Engagement in action
Source: External Asset Manager
The external manager engaged with a Korean-based company primarily involved in the manufacturing and distribution of automobiles.

Objective

The external manager identified the company for engagement due to the concerns regarding human rights and labour rights. The company faced allegations of using migrant child labour in its Alabama subsidiary, which supplied auto parts for its vehicles. The purpose of the engagement was to discuss the company's remediation efforts concerning human rights risks.

Approach

In Q2 2024, the external manager engaged with the Investor Relations Team of a Korean consumer discretionary company.

Outcome & next steps

The company has divested its plant in Alabama and conducted investigations on other tier-1 suppliers in North America. Additionally, the company has implemented several measures to address alleged child labour concerns, such as terminating contracts with high-risk suppliers and enhancing its internal control system to prevent the use of fake identification documents.

In its Human Rights Risk Management process, the company now reports a 100% assessment ratio for suppliers and has implemented improvement measures with all suppliers where risks were identified.

The company has also worked to improve supplier grievance handling programs and has enhanced reporting on its own grievance system. However, grievance system data is still not disclosed, and the external manager has encouraged the company to improve this aspect of reporting.

The external manager was able to successfully close the engagement objective as the controversy was resolved with full remediation.

Engagement theme: Governance

Engagement in action
Source: External Manager
Governance-focused engagement with a company based in South Korea which manufactures construction equipment.

Objective

The external manager's engagement with the company aimed to address reports of material changes to the group's restructuring, which would result in significant dilution of the minority shareholders' holdings.

Approach

In Q3 2024, the external manager met with the company to discuss a potential restructuring and its potential impact on minority shareholders.

Outcome & next steps

The management of the company responded by reiterating that the swap ratio accurately reflects the company's value, adhering to market prices and regulatory requirements. Despite the external manager's disappointment, they asserted that potential synergies from the merger would benefit shareholders in the long-term and align with corporate governance reforms.

They have committed to considering shareholder feedback and maintaining transparent communication as they move forward with the proposed transaction. Ultimately, the transaction did not proceed. As a result of the engagement, the outcome was partially successful because the transaction's failure resulted in the protection of minority shareholders. While the issue of dilution appears to be mitigated, concerns surrounding corporate governance persists. Ultimately, the asset manager exited the position, as upsides to the price target were no longer attractive after increasing the risk discount applied for corporate governance after the company attempted a corporate action that they deemed unfavourable to shareholders of the company.

Engagement theme: Environmental

Engagement in action
Source: Internal Asset Manager

Objective

Following the internal manager's engagement on lobbying with a German chemical company in March 2024, the internal manager met again with the company in September, following its Capital Markets Day (CMD), to get an update on any new targets and reiterate the request for a Scope 3 target and a new lobbying report.

Approach

In Q4 2024, the internal manager, as co-lead of the CA100+ working group, met with the head of investor relations and head of sustainability.

Outcome & next steps

The company disclosed new information, including average transformation-related spending of €600 million per annum until 2028, a Sustainable-Future Solutions target of more than 50% of sales by 2030, and a goal to double Loop Solution sales to €10 billion by 2030. Despite the absence of a downstream Scope 3 target, the company has been contributing to the SBTiconsultation process, where the company is actively involved in the SBTi chemical advisory group, advocating for a simplified version of the Scope 3 guidelines.

The company has raised concerns about the complexity of the guidelines, the reduced budget for chemical industry emissions, and the exclusion of product circularity as an alternative to Scope 3.12 targets. Regarding lobbying, the company typically updates its report biennially.

Following extensive feedback on the 2023 version from the CA100+ co-leads, the company may release an updated report in Q2 2025 to be better synchronised with the CA100+ benchmark process. The internal manager will continue to engage with the company through CA100+ to advocate for the establishment of a downstream Scope 3 target and improved lobbying disclosures.

Engagement theme: Social

Engagement in action
Source: Internal Asset Manager

Objective

To convey the internal managers expectations to the global automobile manufacturer, on board gender diversity and to discuss how the company aims to meet these expectations. In addition, to discuss diversity and inclusion initiatives and ambitions at the enterprise level.

Approach

In Q3 2024, the internal manager held a call with company representatives from the investor relations department, including the head of investor relations.

Outcome & next steps

The Dutch-incorporated global automobile manufacturer did not meet the internal manager's expectations of board level gender diversity (currently 27%). However, there is a plan to refresh the Board at the conclusion of the current four-year board mandates, which will take place in 2025. Following the refreshment, the Board is expected to have 40% female representation.

The company has targets in place at the senior level to have at least 30% female representation at the end of 2025, which they are on track to achieve. The rationale is retention and promotion, and the driver to achieve the target is to cast a wider net; however, industry-specific challenges are an obstacle. The company has recently started to conduct employee surveys and was not at liberty to discuss trends yet. It was pointed out that it is a new company (formed following the merger between an Italian automobile manufacturer and French automobile brand).

The company demonstrated a clear intention to reach our internal managers expectations on board diversity in the coming years and have set appropriate targets at senior level.

The internal manager will monitor the situation and reassess if further engagement is necessary. In 2024 after appointing another female director, the company now meets our expectations on board diversity.

Engagement theme: Governance

Engagement in action
Source: Internal Asset Manager

Objective

As part of a wider discussion with a UK-listed clinical-stage biotherapeutics company, which included meeting its new chair, for the company to consider the use of special dividends as a way of returning excess capital to shareholders, as a means to help unlock the intrinsic value of the company.

Approach

In Q3 2024, the internal manager, met with the company's chief executive, its chair, its co-founder and president and its chief portfolio officer.

Outcome & next steps

In Q2 2024, the company had put out a tender offer for up to $100 million worth of its stock as a means of returning cash to shareholders, with the expectation that this would help support the share price. However, after the tender's completion (which had been oversubscribed) its shares declined, and remained subdued at the time of the internal managers meeting.

The internal manager believes that better visibility of shareholders being rewarded for the company's success – i.e. through the payment of a special dividend when cash has been harvested – would be supportive of the company's share price. The company took the internal managers suggestion under consideration, although nothing was fully agreed. The Internal manager will continue to monitor.

Outcome

To fulfill our fiduciary duties, we maintain ongoing engagement with our appointed managers to ensure we meet our clients' needs and enhance the value of their assets. To achieve our oversight objectives, we utilise a combination of tools, including the Engagement Template and the Voting Template, to identify potential areas of concern to escalate to our appointed asset managers regarding their engagement and voting activities.

Since 2023, the ESG & Regulatory team has worked on improving the data quality received from our appointed managers. As noted in Principle 8, the ESG & Regulatory team sought to enhance the quality of data by conducting an observation exercise on managers' reporting on case studies, aiming to improve the quality of their reporting submissions, and thereby strengthening the process.

Our internal ESG Oversight Dashboard has been further developed as a centralised tool that compiles all quarterly responses from appointed managers for systematic review. The team continues to collaborate with appointed asset managers to establish standardised assessments, ensuring effective monitoring of their engagement efforts.

As a result of having access to higher quality engagement data can significantly enhance our decision-making process for investments and escalating them, if required, for example to our Global Norms Committee.

Engagement

Principle 10: collaborative engagement

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

Asset owner

As outlined in Principles 8 and 9, the asset owner sets expectations for our asset managers to engage on our behalf. We expect managers to use the most effective form of engagement, which may mean doing so collectively where appropriate. Under Principle 9, you can find an example of where this has been done on our behalf on **page 95** and below.

Working with NZAOA towards our climate change priority

In 2024, we continued to work alongside 89 institutional investors, with $9.5 trillion AuM, towards the joint goal of aligning portfolios with a 1.5°C scenario in accordance with the Paris Agreement.

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

The NZAOA Target Setting Protocol provides guidance for asset owners to set climate targets, covering portfolio and sector-specific GHG emissions, corporate engagement and climate solutions.

In 2024, we continued to report our progress against our targets to the NZAOA through the annual disclosures process. Additionally, we have made progress against our engagement target and been engaging with our top emitters identified within our portfolios ('The Top 40'), conducted through the internal asset manager.

To support our membership of the NZAOA, several members of the ESG & Regulatory team have joined NZAOA working groups in order to further engage with the alliance and have contributed to the development of guidance or participated in industry engagement sessions during 2024. Working groups that we have participated in include:

- Monitoring, Reporting and Verification (MRV) track
- Policy Track
- Climate Solutions Investment Target Setting Protocol & Reporting
- Corporate Engagement track
- Climate Solutions Investment Platform track
- Carbon Removal Investments track

We will continue to attend working groups and work collaboratively with fellow members of the NZAOA.

Case study: NA100 collaborative engagement

Source: Internal manager

Objective:

As part of an introductory collective engagement with NA100, the internal manager requested that a Finnish forestry company, commit to no nature loss and to conserve and restore ecosystems at the operational level and throughout value chains by 2030, to assess and publicly disclose nature-related dependencies, impacts, risks, and opportunities and to set time-bound, context-specific, science-based targets informed by risk assessments on nature.

Action:

As part of the NA100 working group, the internal manager met with the company in Q1 2024 to make their expectations known.

Case study: NA100 collaborative engagement continued

Outcome:

Currently, the company is unwilling to publicly commit to no net loss due to a lack of appropriate data from their supply chain. However, they are actively working on obtaining the necessary data. As the company has a complex supply chain with 20,000 suppliers across 80 different countries, it is prioritising understanding the issue from a supply chain perspective but currently does not have specific data on each supplier and its value chain. Biodiversity is always location specific, so specific data is needed from all tiers.

The company is in the process of restoring ecosystems, and has committed to restore 3,000HA of land and have 100 additional ongoing projects. Regarding hydropower, the company has a target to open 500km of stream water, this is being monitored yearly with 186km achieved already.

In terms of certification, the company's own managed forests are both Forest Stewardship Council (FSC) and Programme for the Endorsement of Forest Certification (PEFC) certified in Finland and Uruguay. In USA, Sustainable Forestry Initiative (SFI) is used. However, for its suppliers, the company requires only one certification, which the suppliers can choose. The company noted that PEFC is stronger on social and FSC is stricter in environmental standards. While the company's own land represents only a small percentage of their supply, the company has had global FSC chain of custody certification since 2009, which allows them to state the amount of certified fibre and guarantee the absence of High Conservation Value (HCV) areas in their global wood and fibre sourcing. The company is going beyond old growth forests and focusing on preserving deadwood (which can take 35 years to decay), which serves as one of the company's biodiversity indicators and is reported on annually. It's important to note that there is no universally agreed-upon definition of old growth forests, and the company defines it based on FSC criteria, which means there are no old growth forests in their supply chain according to their definition.

The company has been testing TNFD reporting and is already using this framework, the company was an early adopter in March 2024. The company has identified the use of wood and forestry as its largest dependency and risk. All of the company's forests are mapped and integrated into its geo system. The company have 20,000 species in forests in Finland in the Boreal zone. Peatlands cover 6-7% of company's land area, and does not engage in clear-cutting practices in these areas.

Regarding targets, the company has set net positive indicators and has been using its own framework for 20 years. The company is also working with the SBTN and is part of the coalition and pilot. In addition, is actively working to develop KPIs and is open to discussions on metrics such as the share of FSC managed forests or e-DNA in measuring biodiversity.

This introductory call provided an overview, and further engagement with the company is planned in the coming months to delve deeper into the NA100 indicators and address additional questions. Overall, the group was pleased with the company's approach to biodiversity at this stage.

The asset owner does not engage directly with companies instead it relies on the engagement efforts of its appointed asset managers, the asset owner is still responsible for effective stewardship and may provide guidance where necessary or appropriate. The table below reflects some of the initiatives we engage with, including some of those supported or led by M&G plc or the internal asset manager, which have a direct influence on the asset owner. **For more information on the Asset owner's collaborative engagement approach please refer here or page 94 in the 2023 PAC Stewardship report, under the heading, "Asset owner".**

Collective Engagement/Initiative	Summary	Involvement
UN-convened Net-Zero Asset Owner Alliance (NZAOA)	The asset owner joined the UN-convened NZAOA in 2021, the global institutional investor group is committed to transitioning their investment portfolios to help limit global warming to 1.5°C in line with the Paris Agreement.	**Member**
UN-backed Principles for Responsible Investing (PRI)	The asset owner is a member of PRI to provide transparency on how we are delivering on our climate commitments. We have become a signatory of the PRI, the UN-backed organisation promoting the integration of environmental, social and governance factors in asset ownership decisions.	**Member**
Institutional Investor Group on Climate Change (IIGCC)	In 2024 M&G plc joined the IIGCC, an organisation that works closely with the investment community to provide guidance, frameworks, tools, and support to progress towards a net zero and climate resilient future. Their work includes supporting corporate engagement, guidance on integration of climate risk and opportunities into investment decisions, and engaging with policymakers on sustainable finance and climate policy regulation.	**Member**
United Nations Global Compact (UNGC)	M&G plc became a signatory of the UNGC in March 2021. The UNGC is a non-binding United Nations pact to encourage businesses and firms worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. M&G plc annually submits a Communication of Progress (CoP), explaining how M&G as a corporate entity (plc), long-term savings and annuities business (asset owner) and an asset manager is seeking to play its part as a UNGC signatory.	**Signatory**
Powering Past Coal Alliance (PPCA)	The PPCA is a coalition of national and sub-national governments, businesses and organisations working to advance the transition from unabated coal power generation to clean energy. M&G plc is a member of the PPCA since March 2021, the same time as committing to phase out thermal coal from its portfolios by 2030 in the OECD and EU, and 2040 in developing countries. Both the internal asset manager, and PAC have implemented thermal coal investment policies, respectively. M&G plc has also provided feedback to the updated PPCA Finance Principles, which were published at the end of 2024.	**Member**
Carbon Disclosure Project (CDP)	CDP is a global non-profit that leads an independent environmental disclosure system for companies, capital markets, cities, states, and regions to manage their environmental impacts. In 2024, M&G plc responded to the CDP annual questionnaire for the sixth time.	**Signatory**

Outcome

We are a member of several other associations and initiatives designed to enhance collaborative efforts, as outlined under Principle 4. Our participation enables us to actively engage, support and learn from these industry bodies in order to progress our sustainability and stewardship ambitions. In 2024, M&G plc joined the IIGCC as a group, replacing the previous internal asset manager's membership. The IIGCC provides investment guidance and expertise on net zero frameworks working with the investment community.

Principle 11: escalation

Signatories, where necessary, escalate stewardship activities to influence issuers

Asset owner

We believe active ownership that drives and furthers positive corporate behaviour is imperative to achieving favourable investment performance in the long-term for our clients.

We rely on our appointed asset managers to carry out engagement and voting with investee companies on our behalf. Consequently, we purposefully appoint asset managers who will seek to positively influence corporate behaviour.

Engagement with investee companies would usually take the form of active ownership practices (either bilaterally or collaboratively) and shareholder voting.

Through continuous dialogue with our asset managers, we ensure that our standards and expectations of stewardship activities are well-aligned and implemented accordingly.

Escalation of stewardship activities

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

Our PAC Voting Standard details the use of shareholder voting to achieve an ESG target as part of an escalation strategy where other engagement is not achieving the required outcome in the set timeframe. For example, if various other forms of engagement have not been successful over a prolonged period, the asset manager may vote against a company's management at a general meeting to help drive the required change. **Please see Principle 12 for engagement examples related to voting.**

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

As outlined in the PAC ESG Investment Policy, we expect our managers to provide reports on the progress and outcomes of their engagement activities and voting records, and to escalate issues where appropriate.

If one of our appointed asset managers is not carrying out responsible stewardship in line with our expectations, then we would employ our own escalation measures to reach a desired outcome. **See Principle 8, where we have highlighted an example of how we have escalated stewardship with our appointed asset managers over reporting standards.**

Escalation of ESG issues

Over 2024, we continued our focus on climate change and diversity & inclusion targets. We have implemented a suite of policies, approaches, and exclusion criteria to address these priorities, as well as other ESG issues that we deem to be material. Ensuring alignment with our policies and processes can involve the use of escalation measures.

Our thermal coal position outlines the criteria by which we screen our investments for exposure to coal-related activities. While we have set explicit criteria for screening, we recognise that active ownership is key, and we will engage with companies who fail our screening and have set, or are planning to set, credible transition plans to phase-out their thermal-coal activities.

Whilst engagement activity is underway, we can grant a temporary exemption to remain invested and will re-assess on an annual basis to determine if they are transitioning their activities in line with their commitments.

Divestment is seen as an appropriate escalation only when we foresee that further engagement practices will fail to yield the desired results or they have not transitioned in line with stated transition plans.

With respect to our commitments to the UN Global Compact (UNGC), the asset owner, in conjunction with the internal asset manager have created a centralised list of companies that are deemed to be in violation of UNGC. This was aimed at reducing monitoring overhead and operational risk and to facilitate communication with external managers.

The list is monitored on an ongoing basis by the Global Norms Committee, who review the list of companies and discuss any proposed changes, escalations, or resolutions. An escalation decision by the Global Norms Committee could result in divestment.

Refer to the case study on 'Monitoring of Modern Slavery Engagements' in Principle 8, page 87 for details on the expectations we set for asset managers.

Case study: Controversial Weapons Exclusion

Objective

In 2024, we assessed one of our Indian Equity companies which was raised due to concerns around potential involvement in breaching our controversial weapons exclusions, with third-party data providers giving conflicting opinions.

Approach

To determine whether the company should be captured by our controversial weapons exclusions, the Treasury & Investment Office engaged with our India Equity portfolio managers to review their rationale.

Outcome

Treasury & Investment Office reviewed the case and escalated it to PAC EIC with the recommendation to exclude the company, where it was agreed exclusion was warranted. As a result of this decision, the holdings were subsequently divested from.

Case study: Asset owner engagement on a water utility company default

Objective

In early April 2024, a UK water utility holding company notified its creditors that it had defaulted on its debt after missing an interest payment. Given that many of our Multi-Asset funds have significant allocations to UK Fixed Income, we aimed to assess the impact of this default on our underlying funds and to understand any engagement our managers were undertaking to comprehend the implications of this development.

Approach

Initially, the Treasury & Investment Office identified several portfolios, managed by both internal and external managers, which included a small portion of both companies' bonds within our Multi-Asset and Annuities portfolios. Subsequently, we engaged with these managers to gain a deeper understanding of their exposure, assess how the news affected their views on both the parent company, holding company and the broader water sector, and determine whether they planned to take any significant actions in response to the news.

Outcome

In summary, our managers had minimal exposure to the holding company bonds, instead holding a small amount of the operating company bonds, which were less affected by the holding company default and were in a better financial position for the foreseeable future, thereby limiting any immediate negative impact. Subsequently, our managers anticipated that the holding company default might eventually affect the operating company as well, noting the significant engagement of industry-wide investors with the operating company regarding future funding concerns and the regulator's focus on the business throughout 2024. When more speculative recovery-focused investors began opportunistically buying operating company bonds, driving the price up, our managers capitalised on this movement to exit the majority of their positions in the bonds.

Case study: Divestment example

Source: Internal Manager

Objective

As part of the ongoing M&G Coal Engagements, to ask an integrated natural resources provider to provide a public coal phase out plan to exit coal by 2030 in OECD countries and 2040 in non-OECD countries by the end of November 2024.

Action

In Q1 2024, the internal manager wrote a letter to the company to make their expectations known.

Escalation

The company did not respond to the internal manager's initial letter in early March 2024, nor did it respond to a follow up communication in October 2024. As a result, the November 2024 deadline passed with no public coal phase out plan announced and in combination with no response from the company, the decision was made to divest the company.

Outcome

We as an asset owner have set an engagement approach, as well as exclusion criteria on a variety of ESG issues, which inform our approach to escalation. This is supported by our PAC Voting Standard which further sets our escalation expectations to appointed asset managers. Our commitment to this are evidenced in the case studies shown previously as well as in Principle 12 in page 110. Additionally, as part of our commitment to engage with our top emissions contributors, we are planning our engagement strategy, and with that, potential escalation measures to support progress towards our net zero targets. Potential escalation actions for engagement targets may include time-bound engagement to set credible Paris aligned net zero targets, specific voting actions and/or portfolio allocation actions.

In 2024, we undertook escalation measures where necessary to address instances where our expectations had not been met. These decisive actions underscore our approach to our exclusions as detailed in our PAC ESG Investment Policy. Adhering to our approach reflects the influence of our efforts on investment decision-making. We have continued to abide by the principles of the UNGC, which commits us to the ten principles of good practice in human rights, labour, the environment, and anti-corruption. As an asset owner, we have the ability to provide direction to our appointed asset managers as means of escalation where a priority issue has been identified.

We recognise the importance of continuously improving our engagement approach with our asset managers to enable effective stewardship. This coincides with our ongoing monitoring of asset managers to assess where they may not be conducting effective stewardship in line with our expectations. **See Principle 8, Monitoring of asset managers for examples of this).**

Principle 12: exercising rights and responsibilities

Signatories actively exercise their rights and responsibilities

Asset owner

Engagement expectations

As an asset owner, we do not directly engage with investee companies. Instead, we entrust our appointed asset managers to engage with them on our behalf, ensuring that they align with our own ESG and stewardship expectations. As noted in Principle 11, our favoured approach to engaging with investee companies is active ownership practices, such as shareholder voting, utilising exclusions only as an action of last resort. We believe that active ownership in order to influence positive corporate behaviour is essential to generating long-term investment performance for our clients. **For more information, please refer here or page 104 in the 2023 PAC Stewardship report, under the heading, "Engagement expectations".**

Reporting expectations

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

1. Asset managers should report their shareholder voting records in a comprehensive and timely manner, in line with our specific request for voting information, including a link to their website if appropriate
2. In relation to votes highlighted as significant by an investment manager in the voting record, a clear explanation of the criteria for a vote to be considered should be provided
3. Voting records should always provide a clear explanation of votes against a company's management resulting from the dissatisfaction of management action in relation to an ESG issue or risk
4. Asset managers should provide specific explanations of key sustainability-related votes, particularly where these pertain to the asset owner's current ESG priorities. As part of our annual SRDII review, highlighted in Principle 8, we request company specific disclosures covering policies, voting record, engagement and incentivisation

This process includes the collation and evaluation of voting decisions including those against company boards; where there were votes against shareholder resolutions; and where a vote was withheld. We review voting records to ensure voting is being carried out in accordance with asset manager policies, mandate design and strategy. These allow us to review engagement on a manager-by-manager basis. Additionally, non-voting engagement for managers of all asset classes is reviewed to determine engagement coverage and if this is in line with our expectations (as detailed in Principle 9).

Proxy voting service providers

The appointment and use of a proxy voting service provider is accepted. However, where managers have chosen to use these services, this should be clearly set out in the asset manager's Voting Policy. We also expect managers to conduct appropriate oversight to ensure that voting occurs in a manner that achieves the best long-term value for our customers and aligns with the investment manager's position on sustainability, which in turn should support the asset owner's ESG priorities and targets. **For more information on our approach to Proxy Voting Service Providers please refer here or page 105 in the 2023 PAC Stewardship Report, under the heading, "Proxy voting service providers" and the PAC Voting Standard.**

Stock lending

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

Client alignment

Across segregated or pooled mandates, we trust our managers to vote on our behalf in line with our clients' best interests. We may request that our asset managers vote in a particular way to improve a particular aspect of corporate behaviour and further our ESG priorities and targets. **For more information, please refer to page 105 in the 2023 PAC Stewardship Report, under the heading, "Client alignment".**

Fixed income

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

Listed equity assets

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

Outcome

To meet our fiduciary obligations, we exercise our rights and responsibilities by making investment decisions that aim to deliver the best outcomes for customers over the long-term horizon.

As outlined in the PAC Voting Standard, the asset owner delegates voting activities to our appointed asset managers where they should aim to vote on all relevant shareholder resolutions at general meetings across our actively managed and passive holdings in the best interest of customers.

This approach ensures that we exert the appropriate influence as asset owners, which helps us manage ESG risks effectively and act as responsible stewards for our clients' assets.

We demonstrate that we exercise our rights and responsibilities by conducting effective due diligence on our appointed asset managers. For example, we monitor the voting activity of our asset managers to review whether the outcomes remain aligned to our principles and to the **PAC Voting Standard**. The case study in Principle 8, 'Key findings from the 2024 Shareholder Rights Directive II (SRDII)' demonstrates evidence of our review of manager voting activity in accordance with SRDII, how we monitor our asset managers' governance practices, and our managers shareholder voting activity on our behalf. Below are examples of voting activity carried out by our appointed managers.

Case study: Voting approach aligned with Internal Asset Manager

Source: Internal Asset Manager

Objective

The internal manager's Climate Voting policy sets out expectations for the disclosure of credible transition plans for high-emitting companies, such as those on the manager's Hot 100 list*. The company is on the internal manager's Hot 100 list.

Approach

While it is recognised that the company is a leader in its peer group and a key player in the energy transition, the internal manager's assessment of the company's 2024 climate transition plan concluded that the company is not aligned with the 1.5 degrees target, which was a requirement of the manager's climate voting policy, at the time of the vote.

Outcome

According to climate experts such as the IIGCC, CA100+ and the Transition Pathway Initiative (TPI), the new 15-20% by 2030 reduction target in net carbon intensity (previously 20%) that the company is now targeting is not enough to be considered as 1.5 degree aligned. Also, the internal manager did not feel that the company had provided sufficient evidence that it will meet this target. In addition, the manager noted that the company has not met their engagement request on setting an absolute scope 3 target for gas (although the internal manager notes that they have set an absolute scope 3 target for oil) and view the retirement of their 2035 target as a negative step. As a result, the internal manager voted against the company's climate transition plan to signal to management that, while they are supportive of the progress made to date, more needs to be done to ensure alignment with 1.5 degrees.

The Hot 100 is a list of high emitting investees companies.

Case study: Board diversity and effectiveness

Source: External Asset Manager

Objective

An American technology company's board composition reported limited racial and ethnic diversity, with female directors constituting only 16% of the board – falling below our external manager's expectations regarding inclusivity and best governance practices. Furthermore, diverse leadership is increasingly correlated with stronger long-term financial performance and enhanced risk management.

The company, headquartered in a region that has been slower to embrace progressive diversity initiatives, has shown limited responsiveness to investor concerns regarding board composition.

Given the company's history of maintaining a homogenous leadership structure, the objective was to push for a more inclusive nomination process, clear diversity targets, and greater transparency around board composition.

Approach

In Q3 2024, the external manager withheld their vote against two directors up for re-election. The manager meets regularly with the management teams of their holdings, in part to communicate where they stand on corporate governance matters, including the benefits of a board that comprises individuals with diverse backgrounds and experience.

They communicated that they consider ISS (Institutional Shareholder Services) recommendations a critical input in proxy voting decisions and maintain a very high bar in terms of the reasons for which they would vote with management and in opposition of ISS.

One message is that, while companies are free to diminish through their actions and choices the importance of aligning with ISS standards, the manager may consider such behaviour a risk to owning the stock and that they factor this into their investment thesis.

Outcome

Although the resolution passed, the external manager views the lack of immediate progress on diversity as a material governance concern and intends to escalate engagement efforts.

Moving forward, they plan to engage directly with the company in advance of future board nominations to advocate for the adoption of formal board diversity targets, enhanced disclosure on diversity metrics, and a structured nomination process that prioritizes diverse candidates. Additionally, they will continue to monitor future nominations, using their proxy vote strategically to support progress.

If the company fails to demonstrate meaningful improvements in board diversity over the next proxy cycles, the manager will evaluate further stewardship actions, including potential votes against nominating committee members.

Case study: Internal manager exercising rights to enhance IMP scale

Source: Internal Asset Manager

Objective

The internal managers aim was to upgrade their recent investment within an Indian B2B e-commerce platform on the Impact Management Project (IMP) Scale. The IMP scale is a tool used to categorise outcomes within a company, with the categories being as follows: Does or May Cause Harm, 'A' Acts to Avoid Harm, 'B' Benefits Stakeholders, or 'C' Contributes to Solutions.

The company was initially A rating on the IMP scale, with the manager seeking to upgrade the company to a B rating, increasing the overall positive impact of the investment.

This would not only increase business performance but have a positive impact on key stakeholders.

Approach

Working with the company, the internal manager exercised their right to appoint an Impact measurement specialist to aid in driving and providing evidence in regards to the investments positive impact that would upgrade the company from 'A' to 'B' on the IMP scale, in turn having a positive impact on the company and stakeholders.

Outcome

Following the appointment of the Impact measurement specialist, they interviewed 750 retailers and 50 vendors. This interview was to establish the magnitude of impact that the company has on the market that is it serving, reviewing the positive impact that it is having.

The report concluded that the company is providing a valuable service to an underserved market, highlighting they are having a positive impact on overall business performance.

The results from the survey and the supporting data allowed the internal manager to upgrade the investment to a "B" on the IMP scale as a direct result of the internal manager exercising its right and responsibility as an investor to drive positive change.

Conclusion

Refreshing the group sustainability approach

We have consistently pursued our purpose of giving everyone real confidence to put their money to work. We have continued to implement this purpose, and we hope the report has effectively detailed how we have achieved it. With the development of the group-wide sustainability framework, the asset owner has worked collaboratively with the M&G plc Central Sustainability Office to align with our long-term ambitions, which will guide our priorities in 2025. For a detailed description of the new sustainability framework, please **refer to the 2024 M&G plc Annual Reports and Accounts**. Throughout 2024, PAC continues to be focused on meeting and serving clients' needs by delivering improvements in client service in order to reduce business complexity. We have accomplished this by actively addressing client outcomes and enhancing our communications on stewardship and investment activities. This includes producing the PruFund Planet Sustainability Report, maintaining the monthly report for PruFund, and updating the With-Profits Stewardship Report.

Practising effective stewardship

Throughout 2024, we have continued to employ our stewardship processes, to ensure that we have conducted thorough and consistent monitoring of the asset managers, recognising this as a critical aspect. In addition, we analysed our appointed managers' voting template responses to assess their alignment with our voting expectations. The established PAC Stewardship Framework has enabled us to ensure that the asset managers possess the necessary resources, processes, and expertise to meet the ESG requirements specified by the asset owner. Furthermore, we aim to improve our ESG and stewardship integration across other areas of the business.

As outlined in Principle 1, our strategic focus ensures that we effectively consider stewardship and sustainability within our governance structure by refining decision making processes and improving governance. We have improved our ESG and stewardship processes by embedding enhancements identified in 2023, and we continue to develop and improve these processes on an annual basis.

Oversight of managers

Throughout 2024, we have continued our processes and made improvements where necessary for our ongoing oversight of our asset managers and their engagement activities. ESG oversight reporting has been improved and is now a regular item for the PAC EIC, which enhances oversight and decision-making. We monitor our managers through our ESG Due Diligence Monitoring Questionnaire, Engagement Template, and Voting Template. This process ensures that they are adhering to and aligned with PAC's policies. It also informs our discussions with asset managers during quarterly oversight meetings, where we have the opportunity to escalate any ESG-related concerns that may arise.

The ESG & Regulatory team continue to utilise the Quarterly ESG Screening process throughout 2024, which adds an extra layer of due diligence by allowing us to screen our portfolios for exposure to various ESG risks.

The value of our oversight processes has been demonstrated throughout the year, where we were able to drive progress towards engagement on the topic of human rights, and diversity & inclusion. As the reporting of voting and engagement activity improves over the course of 2025, we expect to be able to exert greater influence as an 'active' asset owner, and continue to deliver long-term value on behalf of our clients.

Glossary

Assets under management and administration (AUMA)

Represents the total market value of all financial assets managed, administered, or advises on behalf of clients.

Climate Action 100+ (CA100+)

CA100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

Environmental, Social, Governance (ESG)

ESG stands for Environmental, Social and Governance. ESG is a framework that helps stakeholders understand how an organization is managing risks and opportunities related to environmental, social and governance criteria.

FRC Stewardship Code

The UK Stewardship Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. It comprises a set of twelve 'apply and explain' principles for asset managers and asset owners, and a separate set of six principles for service providers.

Group

The Company and its subsidiaries.

International Financial on Climate Change (IIGCC)

Works with business, policy makers and fellow investors to help define the investment practices, policies and corporate behaviours required to address climate change.

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.

Own Risk and Solvency Assessment (ORSA)

The ORSA is the Groups' ongoing processes for identifying, assessing, controlling, monitoring, and reporting the risks to which the business is exposed, and of assessing the own funds necessary to ensure that the Group's solvency needs are met at all times.

Paris Agreement

Is an agreement with the United Nations Framework Convention on climate change, dealing with greenhouse gas emission mitigation, adaptation, and finance, agreed in 2015.

Principles for Responsible Investment (PRI)

PRI is a United Nations-supported international network of financial institutions. It works together to understand the investment implications of ESG factors and support its network of investor signatories in incorporating these factors into their investment and ownership decisions.

PruFund

Our PruFund proposition provides our retail customers with access to smoothed savings contracts with a wide choice of investment profiles.

Science Based Targets initiative (SBTi)

The SBTi defines and promotes best practice in science-based target setting. Targets are considered 'science-based' if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming well-below 2°C above pre-industrial levels and pursing efforts to limit warming to 1.5°C. Science-based targets show organisations how much and how quickly they need to reduce their greenhouse gas (GHG) emissions to prevent the worst effects of climate change.

Glossary continued

Shareholder rights directive

EU law implemented in June 2019 into the local laws of each member country. It sets the standards for treatment of shareholders by European countries Social issues that affect business more directly such as violations of human and labour rights, issues regarding occupational health and safety of employees and product recalls due to product safety.

Stewardship

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

Task Force on Climate-Related Financial Disclosures (TCFD)

Created by the Financial Stability Board (FSB) to develop consistent climate-related financial risk disclosures. The FCA require all premium listed companies to disclose, on a comply or explain basis, against the recommendations of the TCFD. The TCFD has now been disbanded with the IFRS Foundation (ISSB) taking over the monitoring of companies' climate-related disclosures from the FSB.

With-Profits Fund

The Prudential Assurance Company Limited's Fund where policyholders are entitled to a share of the profits of the fund. Normally, policymakers receive their share of the profits through bonuses. It is also known as a participating fund as policyholders have a participating interest in the With-Profits Fund and any declared bonuses.

Acronyms and abbreviations

1LOD	First Line of Defence
2LOD	Second Line of Defence
3LOD	Third Line of Defence
ABI	The Association of British Insurers
AO	Asset Owner
CA100+	Climate Action 100+
CDP	Carbon Disclosure Project
CFO	Chief Financial Officer
CFRF	Climate Financial Risk Forum
CMD	Capital Markets Day
CRO	Chief Risk Officer
D&I	Diversity & Inclusion
ESG	Environmental, Social, Governance
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
GFANZ	Glasgow Financial Alliance for Net Zero
GGF	Group Governance Framework
GHG	Greenhouse gas
IA	The Investment Association
IDD	Investment Due Diligence
IGC	Independent Governance Committee
IIGCC	Institutional Investor Group on Climate Change
IMP	Impact Management Project
Internal asset manager	M&G Investments
IRSG	The International Regulatory Strategy Group
LTIP	Long-Term Incentive Plan
MDC	Management Disclosure Committee
MPS	Model Portfolio Services
MRV	Monitoring, Reporting and Verification
NA100	Nature Action 100
NZAMi	Net-Zero Asset Managers Initiative
NZAOA	Net-Zero Asset Owner Alliance
OECD	Organisation for Economic Co-operation and Development
ORSA	Own Risk and Solvency Assessment
PAC	Prudential Assurance Company
PAC EIC	PAC Executive Investment Committee
PGF	Policy Governance Framework
PIA	Prudential International Assurance
PRA	Prudential Regulation Authority
PRI	Principles for Responsible Investment
RAG	Red, Amber, Green

Acronyms and abbreviations continued

RfP	Request for Proposal
RMF	Risk Management Framework
SAA	Strategic Asset Allocation
SBTi	Science Based Target Initiative
SDR	Sustainability Disclosure Requirements
SRDII	Shareholder Rights Directive II
TCFD	Task Force for Climate-Relate Financial Disclosures
the Board	The M&G plc Board
the Report	The PAC Stewardship Report
the Standard	The PAC Voting Standard
the Template	The Engagement Template
TISA	The Investing and Saving Alliance
ToR	Terms of Reference
UNGC	United Nations Global Compact
WPC	With-Profits Committee

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