Pru
part of M&G plc

Prudential Assurance Company

ESG Investment Policy

March 2025

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1 Introduction

1.1 Scope

1.1.1 This Policy document sets out the Prudential Assurance Company (PAC) Environmental, Social and Governance (ESG) Investment Policy relating to all aspects of the M&G plc asset owner business (PAC) and all wholly owned subsidiaries including Prudential Pensions Limited (PPL) & Prudential International Assurance (PIA) and other smaller entities, herein referred to as PAC.

1.1.2 The Policy is owned by the Chief Investment Officers (CIOs), PAC.

1.1.3 Assets managed by PruCap, held at the M&G plc level or own / third party funds managed by M&G Investments Limited (MAGIM) are not in scope and are covered by separate but closely aligned policies. The degree of alignment between the policies is monitored on a regular basis. The assets in scope are the assets held and controlled by the life company which is the asset owner.

1.1.4 For the purposes of this Policy, “Funds” means, but is not limited to, with profit fund, non-profit fund, unit-linked fund, non-participating fund or annuity fund.

1.1.5 The Policy only applies to Funds where PAC has investment control, i.e. PAC is able to determine the fund’s investment characteristics, and impose its desired ESG restrictions. In general, PAC does not expect to be able to have investment control over collective vehicles where its monies are commingled with that of third parties, in order to ensure all parties are treated fairly.

1.1.6 The Policy is subject to and does not supersede the Asset Owner Investment Policy, M&G plc’s Code of Conduct, the M&G plc ESG Risk Policy, the M&G plc Reputational Risk Policy, and all relevant regulation.

1.2 Context

1.2.1 M&G plc’s stated purpose is to give everyone real confidence to put their money to work. We deliver our purpose through addressing our savers’ requirement for good financial returns while regarding the wider long term needs of society through considering the material impacts of ESG factors to the economy, society and the environment as a whole.

1.2.2 As the asset owner business of M&G plc, the objectives of PAC activities must be consistent with supporting policyholder outcomes and, where appropriate, delivering the group’s purpose, priorities and commitments.

1.2.3 M&G plc prohibits, across the entire group, any activity or investment that is against the law in any of the countries in which it operates. We comply with all relevant regulation in the jurisdictions in which we operate.

1.2.4 M&G plc is politically neutral. M&G does not donate to political parties and has no direct affiliation with any political party in any country.

1.2.5 M&G plc is committed to working with our suppliers and stakeholders to help fight slavery, human trafficking, child labour and any other abuse of human rights. M&G believes in supporting human rights and acting responsibly and with integrity across all business functions. Its policies are guided by the Universal Declaration of Human Rights, the International Labour Organisation’s core labour standards and the UN Guiding Principles on Business and Human Rights.

1.2.6 Building on the existing climate and Diversity & Inclusion commitments, M&G plc developed a Group-wide sustainability framework including four pillars: 'Financing the transition', 'Developing our approach to nature', 'Promoting financial confidence' and 'Building communities', underpinned by responsible business practices. For further information on the sustainability framework please see our 2024 ARA.

1.2.7 Certain ESG issues can have material implications for the risk / return profile of individual investments or whole sectors, with ramifications for financial investment returns, as well as wider stakeholders' wellbeing as a consequence of their social or environmental impact. Furthermore, the materiality of ESG issues to different stakeholder groups can also vary over time. As a result, the inappropriate treatment of these ESG issues for investment purposes can be a source of controversy.

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

1.2.9 This Policy is also intended to support the asset owner's delivery and commitments to the various ESG targets including the asset owner's and plc's net zero carbon emissions targets individually and in aggregate.

2 Policy Requirements

2.1 Governance

2.1.1 Responsibility for ESG across all the Group's activities lies with the M&G plc Executive Committee (ExCom).

2.1.2 The first version of the Policy was approved by the PAC Board, and is reviewed on an annual basis and periodically as required. Any changes proposed as a result of the review will require approval at the PAC Executive Investment Committee (EIC)[1]. The PAC EIC may escalate any changes the Chair (CEO, PAC) deems material to the PAC Board for final approval. The chair of the PAC EIC has in turn delegated authorities to the CIOs who head the Treasury and Investment Office (T&IO), including responsibility for implementing the PAC ESG Investment Policy. Appropriate governance is followed with respect to subsidiary entities.

2.1.3 The T&IO will also work in a cross-functional fashion across the various business areas of M&G plc, to ensure that our ESG frameworks and thinking are kept up to date, and are always relevant to all aspects of investment strategy.

2.1.4 As asset owners we aim to act in the best interest of our customers in line with our fiduciary duties, and therefore believe high standards of governance should be maintained, as we expect better run companies to be more likely to produce sustainable returns.

2.1.5 We endeavour to conduct effective stewardship across all our activities in line with the principles of the Financial Reporting Council (FRC) UK Stewardship Code 2020, including engagement and voting. The details of our approach are outlined in our Annual PAC Stewardship Report and our PAC Shareholder Engagement Policy.

2.2 ESG Investment Principles

2.2.1 This section sets out the ESG investment principles which we use to inform and guide every investment practice. These principles are consistent with M&G plc's purpose and core values of Care and Integrity, as well as the business principles of Impact, Inclusion and Innovation.

2.2.2 For avoidance of doubt, these principles support, and do not supersede, our overall objective to optimise long-term investment returns for our customers for an appropriate level of risk.

Principles

2.2.3 Our ESG investment principles are set out below:

A. 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. Therefore 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.

B. We take a long-term approach, keeping in mind customer time horizons, consideration of multi-generational outcomes and the urgency of individual ESG issues and delivery of the firm's ESG priorities and commitments.

C. Where there are no specific targets, our default objective is to create the best customer outcome in line with our fiduciary duty, taking into consideration societal and environmental outcomes.

D. We believe in active ownership aligned with both active and passive management where possible. Therefore, we expect the

1 The Executive Investment Committee is constituted by the CEO of M&G Life and provides oversight and governance over the strategy, and significant decisions over the investment portfolio of Prudential Assurance Company and Prudential Pensions Limited.

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 more sustainable business models and outcomes, and strengthen sustainability related disclosures. We also expect our investment managers to report on the progress and results of their engagement activities and voting records, and to escalate where appropriate, to enable further assessment and decision on divestment and exclusion.

E. As an investor we are politically neutral, we do not engage in political contributions, nor do we have a direct affiliation with any political party in any country. We are committed to working with our stakeholders, including our investment managers and investee companies, to help fight slavery, human trafficking, child labour and any other abuse of human rights. Therefore, we take into consideration politics where they impact human rights, the rule of law, fairness and equality, and where local and/or geo-political risk impacts the risk return profile of an investment. In addition, the nature of the investments must be legal in the countries in which we operate.

F. We believe in fostering innovation via our investment and seeding process in order to contribute investment solutions that support efforts to address global issues.

2.2.4 These ESG investment principles allow us to approach any ESG issue in a manner that enables us to derive an appropriate investment strategy. They apply to all books of business that are in scope, and across all our investment strategies.

2.2.5 However, certain categories of ESG issues may require specific targets in order to ensure that we are producing the best customer outcomes. The current issues with specific targets are climate change, and diversity and inclusion. These are set out in Sections 2.3 and 2.4.

2.2.6 Certain other ESG issues may require specific frameworks to ensure that we have considered pertinent information, interpreted our ESG principles consistently for similar ESG issues, and correctly emphasised customer outcomes.

2.2.7 We explicitly take into account various ESG factors when determining the risk and return assumptions that enable us to set our strategic asset allocations, mandate constructions and portfolio benchmarks. These ESG factors may change from time to time.

2.2.8 We identify material ESG issues, risk and opportunities, and incorporate them into our general risk management process.

2.2.9 The ESG targets for climate change are also taken into account, and where appropriate are integrated into the processes for setting strategic asset allocations, mandate constructions and portfolio benchmarks.

2.2.10 We expect, where possible, all investment managers to carry out active engagement and responsible stewardship on our behalf, using our financial ownership across both active and passive mandates to influence corporate behaviour.

2.2.11 We seek to provide customers with suitable investment products to meet their ethical and sustainability preferences as well as long-term interests and financial needs.

2.2.12 We may also develop more stringent ESG targets for certain ESG-themed products. For example, such products could make greater use of company and sector exclusions, or have investment strategies targeted at creating specific ESG outcomes. In these cases, these products will still comply with the ESG principles set out here as a minimum.

2.2.13 We recognise that ESG issues are complex, and specific instances may require judgement and flexibility in order to achieve a good outcome. We may extend exemptions to certain companies against specific ESG restrictions.

2.2.14 We endeavour to abide by all our sustainability commitments.

2.3 Climate change

2.3.1 We believe that climate change is one of the most pressing issues facing the world today. As global emissions have continued to rise, keeping temperatures within safe levels diminish the risks to our environment and society, as well as our investment portfolio, look likely to be material across a range of plausible climate scenarios.

2.3.2 Our PAC ESG Investment Policy seeks to address adverse impacts of climate change on our customers' financial security and wellbeing. We do this by identifying the specific risks of climate change to our investment portfolio, as well as the opportunities that may arise. An orderly transition to a low carbon economy may be the most optimal pathway for our investments as well as the global economy in terms of reduced risks in the long-term. However, we recognise that the pace of the transition is uncertain and is unlikely to occur uniformly across the world. For this reason, we aim to use our voice and influence as an investor to encourage the transition across key sectors and regions. We may also consider investment in solutions that reduce, remove, or mitigate the impact of climate change in line with product guidelines and customer preferences.

2.3.3 In recognition that the pace and scale of the transition is uncertain, to better understand and manage risks from a range of scenarios, we use climate scenario analysis. This allows us to model and evaluate possible impacts of both transition and physical climate risks on the future value of our investments.

Our climate change targets

2.3.4 As the asset owner, we want to play a role in supporting the transition to a lower carbon economy, to avoid the worst impacts of climate change. As part of this, we committed to achieving net zero greenhouse gas emissions across our investments by 2050 in aggregate, in line with the commitments we made as part of the Net-Zero Asset Owner Alliance (NZAOA). This is also in line with the commitments made by M&G plc.

2.3.5 PAC supports the goals of the Paris Agreement and became a member of the NZAOA in September 2021. Our commitment via the NZAOA aims to help us support the transition and deliver emissions reductions in the real economy. As part of this, we published our interim targets in September 2022. We committed to halving our carbon emissions intensity (defined as GHG emissions per million invested), across public equity and public corporate debt by 2030, and reducing emissions intensity by 36% within real estate portfolios (GHG emissions per m2) where we have direct investment control (see here).

2.3.6 We have also established targets for increasing the proportion of our public corporate equity and debt investments that are covered by decarbonisation targets and transition plans, aiming to increase the proportion of emissions associated with our portfolio that are transitioning over time. To deliver on this target, we set complementary targets for corporate engagement and a strategy to encourage top emitters to transition (see here). We rely on our investment managers to engage with investee companies to influence their behaviour and reduce their emissions, as well as identifying opportunities to allocate our capital towards technological solutions that mitigate climate risk. Where appropriate, we are able to tilt our portfolios away from investee companies that are not on sufficiently ambitious emissions reduction pathways by instructing our asset managers to act on our behalf.

2.3.7 We believe that the exclusion of any company from our portfolio on the basis of their carbon emissions is an action of last resort. Exclusions on this basis can be considered if we believe that engagement will not change their behaviour and we have assessed the implications of such exclusions on investment returns, in line with customer expectations.

2.3.8 The nexus between climate, nature and biodiversity and social equity is complex to assess and measure but one we strive to better understand, including consideration of the Just Transition within our investment process. We recognise the need for a holistic approach to an interconnected problem and aim to enhance our approach.

2.4 Diversity and inclusion

2.4.1 We believe that over the long term diverse and inclusive organisations are more likely to perform better financially, are better at managing risks, and are more representative of society. Diversity is therefore something we support and encourage as part of our investment strategy.

2.4.2 We believe diversity encompasses many axes, and whilst it is important not to reduce the concept to a number of gender and ethnicity representation targets, this can be a crucial first step to improving diversity. Diverse organisations should strive to include the greatest possible number of different viewpoints for consideration in the day-to-day running of their business.

2.4.3 M&G plc is committed to achieving year-on-year improvement in the representation of gender and ethnicity / nationality in senior leadership with goals of 40% women and 20% ethnicity / nationality by 2025.

2.4.4 These goals define M&G plc's commitments to the requirements set out in the FTSE Women in Leadership Review (previously Hampton Alexander Review), HM Treasury's Women in Finance Charter and the Race at Work Charter, and will be underpinned by a range of initiatives that fundamentally shift the way we recruit, retain and progress M&G plc employees through their careers.

Our Diversity & Inclusion targets

2.4.5 We believe the best way of improving diversity and inclusion in our investee companies is through our investment managers. If our investment managers are themselves diverse organisations, they are more likely to be able to propagate diversity in the companies they invest in on our behalf.

2.4.6 We believe that we should therefore strive to work with investment managers that have a commitment to improving and maintaining an appropriate level of diversity in their management, employee population and business models.

2.4.7 As part of the selection and onboarding process for our investment managers, we will evaluate each manager based on a set of diversity and inclusion criteria, which will inform the selection decision. As part of this process, we will also aim to evaluate each investment manager's Diversity Policy and assess their alignment against our diversity and inclusion targets.

2.4.8 Whilst diversity and inclusion is much more multidimensional than just gender balance, we believe that aiming to have at least 40% gender diversity at board and executive management levels is a starting point to achieve more diverse representation. By meeting this criteria, an investment manager is signalling a commitment to improving diversity in its business. Where a manager is currently not meeting this criteria, we will aim to influence this change. Where appropriate, we will also encourage our investment managers to exceed this criteria.

2.4.9 As part of our initial and ongoing due diligence, we will also consider how an investment manager challenges its investee companies to improve and maintain diversity in their business models.

2.5 Other ESG Issues

2.5.1 To ensure the appropriate review of broader ESG issues and risks within our investment portfolios, we have implemented a quarterly ESG screening process. The ESG specific areas covered include but are not limited to Coal, Unconventional Oil & Gas, biodiversity related data points, Controversial Weapons, Modern Slavery, UNGC Violators and Animal Welfare.

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

2.5.3 As a diversified global asset owner we recognise the reliance and impact many of our investments have on biodiversity, and nature as a whole. We therefore look to integrate these considerations into our investment processes and stewardship activities where appropriate. In some cases, we also consider investment in solutions to this issue in line with product guidelines and customer preferences.

ESG Exclusions

2.5.4 Where an investment, either by the nature of its business or by the nature of the investee company's activities or behaviours, breaches our core values, we will assess the investment under our exclusion process. Where we believe engagement and voting has been or will be ineffective in influencing positive change, we may exclude the company from our portfolios.

2.5.5 The asset owner has set thresholds and screening criteria for coal related investments, in adherence with the M&G plc Thermal Coal Position. Companies that fail the coal screen and have no credible plans to alter their business behaviours to adhere to these criteria will be excluded from our asset book.

2.5.6 Tobacco investment can negatively impact society as a whole. Therefore, where appropriate, we seek to exclude or restrict companies involved in the production of tobacco, or companies with an ownership in these companies,

2.5.7 Controversial weapons have an indiscriminate and disproportional humanitarian impact on civilian populations. For this reason, we exclude companies involved in anti-personnel mines, chemical weapons, cluster munitions, biological weapons, depleted uranium munitions, non-detectable fragments, blinding laser weapons, incendiary white phosphorus munitions and nuclear weapons outside of the Non-Proliferation Treaty.

2.5.8 In 2021, as part of M&G plc, PAC became a signatory of the UN Global Compact, which commits us to the ten principles of good practice in human rights, labour, the environment, and anti-corruption, which we report on annually. The M&G Global Norms Committee was established in 2022 and is responsible for determining whether issuers allegedly in breach of one or more UNGC principles should be placed on a monitoring/engagement list or exclusion list if engagement is deemed ineffective.

2.5.9 We may extend exemptions to these exclusions if appropriate. These exclusions apply to funds where PAC has investment control. Implementation may vary dependant on asset class and instrument type.