M&G Investments

Stewardship Report 2022

Active Stewardship and Sustainable Investment

Contents

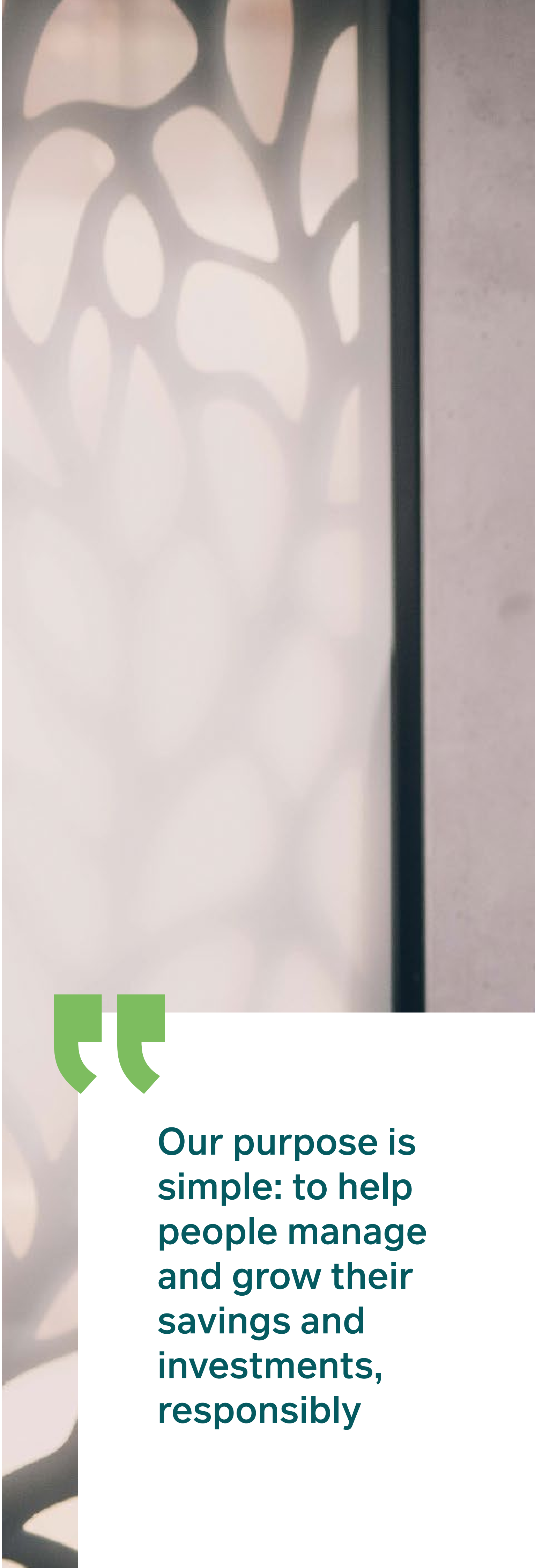
Foreword

Since joining M&G Investments in early 2023, I have been getting to know the business, and meeting colleagues, clients and investors to understand their perspectives. By engaging with our stakeholders, I can understand where our capabilities are strongest and how we can grow in line with our values. The war in Ukraine and the inflationary environment have highlighted global vulnerability to supply shocks and the impact of these on social, economic and political resilience. In difficult times like these, clients value our expertise and support to navigate financial uncertainty.

Over recent years we have seen a seismic shift in investing as institutions and individuals become more sustainability focused. We recognise the scale of change required to transition the global economy to mitigate the effects of climate change, and we believe that we can make a real impact from a societal and economic perspective. This brings both significant responsibility and opportunity to us as conviction-led, responsible investors and stewards of the long-term savings of millions of people.

Although we are still at the relative start of our journey, we are focused on making progress towards our sustainability commitments on climate and diversity & inclusion. We continue to identify investment opportunities in climate solutions and those that support a just transition. We are embedding our Net Zero Investment Framework across our investment teams, and engaging with the companies in which we invest on both financial and non-financial issues, to fully understand the risks and opportunities they are facing, and to encourage positive change. Here a major focus is on climate change, particularly in light of M&G plc's commitment to reach net zero across its assets under management and administration by 2050.

Meanwhile, we are committing to achieving greater representation of gender and ethnicity in our senior leadership at the plc level, with goals of achieving 40% female representation and 20% representation from Black, Asian and minority ethnic backgrounds by 2025. At the same time, across our investment portfolios, we have minimum diversity expectations for the boards of our investee companies, reflected in both our engagement activities and voting record when those expectations are not being satisfied.



"Our purpose is simple: to help people manage and grow their savings and investments, responsibly

We also continue to expand our sustainable investing expertise with the launch of new thematic funds, the acquisition of responsAbility and deploying the £5 billion With-Profits Fund Catalyst mandate to invest in innovative businesses working to create a more sustainable world.

M&G plc's retail and savings business has been serving individual savers since 1848, while the investment management business launched the UK's first unit trust for private investors in 1931. Now as M&G plc, we continue to help millions of people to manage and grow their savings. We also work with financial partners around the world to help their clients build and manage their investments. We serve more than 800 institutional clients, such as pension funds and insurance companies.

Meeting the expectations of this diverse client base means sticking to our principles; taking a responsible, active and long-term approach, which considers all the relevant financial and non-financial elements of our investments. Along the same lines, we encourage responsible practices in our investee companies through active engagement with company management, while using our votes to protect the interests of our clients as shareholders.

This report provides an overview of the stewardship activities M&G Investments has carried out over the past year, and demonstrates how we use our position as long-term, active, responsible investors to promote good practices at our investee companies.

Joseph Pinto
Chief Executive Officer, M&G Investments

Preface: M&G Investments and the UK Stewardship Code 2020

The UK Stewardship Code 2020 sets high stewardship standards for both asset owners and asset managers. The code comprises a set of 'apply and explain' principles, and allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy. Here we describe M&G Investments' approach, as an asset manager.

The 2020 code reflects the fact that the investment market has changed considerably since the publication of the first UK Stewardship code in 2010, with significant growth in assets other than listed equity, including fixed income, real estate and infrastructure. These investments have different terms, investment periods, rights and responsibilities, and signatories to the 2020 code need to consider how to exercise stewardship effectively, and report accordingly, across asset classes. Of note, environmental, particularly climate change, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship.

We were among the first tranche of signatories to the new code in 2021, having reported in line with the code in both 2020 and 2021. In both these years we have demonstrated that our stewardship activities are in line with the code. We've done this in two ways:

1. Through this annual stewardship report, which highlights key activities from the previous year across equities, fixed income, property and infrastructure.
2. Through a static document, reviewed annually, that provides an overview of our stewardship approach, and specifically outlines how we adhere to the code. This can be found in the appendix of this report.

2020 principles for asset owners and asset managers	
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, 2019.

Introduction

Welcome to M&G Investments' Annual Stewardship Report for the year ended 31 December 2022.

Our main areas of focus this year have been on climate – particularly in light of the implementation of our Thermal Coal Investment Policy – diversity & inclusion, and developing our thinking on biodiversity and modern slavery.

In terms of climate, this is one of our top-down engagement programmes for investee companies, in both developed and developing markets. Under our commitment to the Net Zero Asset Managers Initiative (NZAMI), we have undertaken to assess or engage with companies representing 70% of our financed carbon emissions, to help ensure those companies are Paris aligned. In 2022 we updated our methodology for generating our 'Hot 100' list – a targeted engagement list, based on highest emissions and largest M&G Investments-wide exposure – using Scope 1 and 2 financed carbon emissions. This allowed us to be in line with how our parent company M&G plc reports, and resulted in 43 new names joining the list in August. As at the end of December 2022, we have assessed or started the engagement process with 56 companies, and planning is underway for those remaining. Examples of our engagements are set out in this report.

For each company we devise a specific engagement strategy with a clear objective, key performance indicators to determine progress to delivery, and a timetable for engagement. The first phase of engagement has included asking companies to commit to reaching net-zero in line with the Paris Agreement, and to provide credible targets and metrics for how they will do so. The next phase will be to examine transition plans in more detail, understanding the steps, milestones and capital expenditure plans to decarbonise.

We have also continued to engage actively through the Institutional Investors Group on Climate Change (IIGCC) and collective engagement initiative Climate Action 100+ (CA100+).

We are a member of the IIGCC Corporate Programme Advisory Group, as well as a number of working groups on the CA100+ focus list. During 2022, we were co-leads on oil & gas company TotalEnergies, diversified miner Rio Tinto and chemicals company BASF, representing the 700 plus members of CA100+. (In 2023 we have subsequently become co-lead on the cement producer Holcim Group).

As mentioned in previous reports, M&G plc has set a target[1] of achieving a near term carbon emissions reduction of 46% across its operations (Scope 1, 2 and Scope 3 travel) by 2030, and across its assets under management and administration by 2050, with a 50% reduction by 2030. For us as the company's asset manager, this is being achieved in a number of ways, including by engaging with our largest emitters (the aforementioned Hot 100) and introducing our coal policy.

Our forward-looking coal policy was implemented in April 2022 and, broadly, requires investee companies involved in thermal coal in EU and OECD countries to phase out of coal by 2030, with those in non-EU and OECD countries required to phase out by 2040. To read the full policy please visit: **https://www.mandg.com/~/media/Files/M/MandG-Plc/documents/mandg-investments-policies/mginvesments-thermal-coal-investment-policy.pdf**

While companies with no plans to phase out coal were the subject of divestment, there were a number of companies, as identified by our Coal Appeals Committee, in OECD countries where phase-out plans were unclear or non-existent, or they did not appear to meet our expectation in terms of timing by 2030.

[1] Previously we had described our operational target as 'Net Zero 2030'. While our ambition has not changed, we have updated the articulation of the commitment to be in line with the latest industry guidance.

As a result, a number of time-limited divestment exceptions were provided and we undertook to engage with those companies in line with their timetables. This resulted in nine new engagements in 2022, with a number to come in 2023. This is in addition to the 18 coal engagements that took place in 2021, in anticipation of the coal policy going live in April 2022.

Of the nine coal engagements undertaken in 2022, three were successful, resulting in those companies now being compliant with the coal policy and eligible for investment. Two of the engagements (at the time of writing) were unsuccessful, resulting in the companies being added to the coal exclusions list for divestment.

Please see examples of coal-related engagements carried out in 2022 later in this report.

Elsewhere, biodiversity is a topic that is clearly gaining momentum for investors. Having joined the Taskforce on Nature-related Financial Disclosures (TNFD) Forum in 2021, we were hoping to be able to report more progress than we actually made in 2022. We were largely held back by a lack of relevant data and limited resources, but despite this we managed a handful of engagements on this critical topic during the year. In 2023 we are aiming to extend our climate engagements to include biodiversity where it is relevant.

Of note, it has been announced that the IIGCC will be the secretariat for the new Nature Action 100 list of priority companies, which will emulate CA100+, and we hope to be active participants once that process gets up and running.

Meanwhile, we continue to co-chair the Natural Capital Committee for the International Corporate Governance Network (ICGN), the main initial responsibility of which was to publish a viewpoint article on how investors should start thinking about biodiversity. We expect to see many more developments in this area over the coming years.

Moving on from environmental matters, near the beginning of the year we published our expectations on diversity at board level for our investee companies, and wrote to over 1,200 of them explaining those expectations. Later in the year we also compiled a list of some 200 laggard companies which did not meet our requirements, and we will be focusing our diversity engagement efforts on these into 2023. In light of those minimum expectations, we voted against directors at 24 UK companies and 254 international companies that were failing to meet them. You can read more on our approach to diversity in both the engagement and voting sections of this report.

In this report we detail some of the actions and initiatives that we have been involved in over the past year, offer case studies of our voting and engagement activities and provide examples of our numerous interactions with external parties.

I hope that it provides insight into our activities as an active, responsible investor.

Rupert Krefting

Rupert Krefting
Head of Corporate Finance and Stewardship

Stewardship overview

We believe that the long-term success of companies is supported by effective investor stewardship and high standards of corporate governance. We believe that if a company is run well, and sustainably, it is more likely to be successful in the long run.

As an active fund manager, we meet with investee companies to add value to the investment process, to increase our understanding, or provide feedback to a company. We also undertake ESG engagement, which is focussed on achieving positive real world outcomes. We focus on the underlying substance of our engagement, delivery of our engagement objectives and the relevance for our investments when assessing the quality and effectiveness of these activities.

We engage as both equity holders and fixed income investors to protect our clients' interests before and during the course of an instrument's life. For ESG engagements, our aim is to influence company behaviour or disclosure. As investors in private or illiquid asset classes, or where there is an intention to hold the asset to maturity, we undertake extensive due diligence and engagement prior to, and throughout, investment.

Active and informed voting is an integral part of our responsibility as stewards of our clients' assets. In using our votes, we seek to add value and protect the interests of our clients as shareholders. Our starting point as an active, long-term fund manager is to support the long-term value creation of our investee companies, and there will be occasions when we need to vote against management-proposed resolutions or support shareholder resolutions which are not recommended by the board, if we believe this is in the best interest of our clients and the company. In these cases, where it is practical, we seek to engage prior to voting.

As signatories to the UK Stewardship Code 2020 we see growing legislative and client expectations as stewards of client assets, beyond listed equities. This includes increased reporting and disclosure requirements, particularly concerning the quantity and quality of company engagements and significant votes.

We operate a centralised Engagement Tool to evidence and record ESG engagements. The validation of engagements rests with our Stewardship & Sustainability (S&S) team, who assess each engagement within the proprietary engagement tool before approving them. Voting results, meanwhile, are published on our website on a quarterly basis.

As mentioned in the introduction to this report, climate change is a central focus of our top-down engagement programme for investee companies, both bilaterally and through collective engagement programmes such as Climate Action 100+. We outline some of these engagements in the following pages of this report.

Importantly, engagement work on topics such as climate has increasingly expanded across asset classes, away from a sole equity focus. All of our investment teams have access to a range of external ESG data providers, as well as a suite of internally-developed proprietary tools, which helps ensure that the teams have sufficient ESG data and research that can be used by both portfolio managers and analysts when engaging with companies on the issues that are material to them.

The S&S team supports our investment team on a range of issues that can affect our investments over the long term, acting as a dedicated central ESG resource for the whole of M&G Investments. For an overview of the team, please see page 65 of this report.

Our approach across asset classes continued to develop in 2022, as we continue to make use of our broad cross-asset capabilities, often as a holder of both a company's equity and debt, to increase the significance of our engagement activities. Across asset classes, the end goal of all of our stewardship activities is to best serve our clients by achieving positive outcomes, and helping ensure our investee companies are effectively dealing with all of the material risks affecting them, both financial and non-financial.

This could require continued engagement to bring about positive change or, where this does not prove possible, voting against board members or ultimately divesting from a company. We outline below how our stewardship responsibilities are discharged across asset classes.

Stewardship across equities and fixed income

Across all of our asset classes, we believe that ESG factors can have a material impact on long-term investment outcomes. Our goal is to achieve the best possible risk-adjusted returns for our clients, taking into account all factors that influence investment performance. Consequently, ESG issues are systematically integrated into investment decisions. We apply this approach to ESG analysis across our equity, fixed income and property strategies. We also consider investments under the lens of 'double materiality'; that is, how ESG issues affect a company, but also a company's effect on people and planet, both positive and negative.

Equities

As mentioned above, we believe that the long-term success of companies is supported by effective investor stewardship and high standards of corporate governance. We think that if a company is run well, and sustainably, it is more likely to be successful in the long run. We therefore look at how companies address both the risks and opportunities that ESG issues represent when we analyse them, and address these risks and opportunities in our engagement work.

Our Stewardship & Sustainability (S&S) team are advocates of responsible share ownership and oversee our stewardship of the companies in which we invest. Regular meetings with our investment teams and company directors allow us to identify whether a company's strategy is aligned with our interests as long-term shareholders. Our active interactions with companies help us to understand the issues affecting them and, through both bilateral and collective ESG engagement, to encourage positive change.

Company directors are the cornerstone of governance, and it is important to recognise that shareholders appoint boards of directors to allocate capital and manage assets on their behalf, and to preserve and enhance shareholder value. Therefore, we actively engage with the boards of our investee companies on a number of issues, and believe that full accountability to shareholders is best achieved by the annual re-election of all directors.

We seek to add value for our clients by pursuing an active investment policy through portfolio management decisions, by maintaining a continuing dialogue with company management and by voting on resolutions at investee company general meetings. This enables us to monitor company development over time and assess progress against objectives. As a general policy, our starting point as an active fund manager is to support the long-term success of our investee companies, and when companies consistently fail to achieve our reasonable expectations, we will actively promote changes, either individually or, where more appropriate, as part of a collaboration with other investors through vehicles such as the Investor Forum or Climate Action 100+.

Over the course of 2022, we undertook a number of such engagements, many of which focused on the environmental and social factors affecting our investee companies, alongside more traditional governance issues. Please see the ESG engagement section of this report for further details.

Fixed income

Within fixed income, we are continually innovating our approach to ESG risks and opportunities. In 2022 we continued to see acceleration of ESG integration within fixed income, including widening the scope of quarterly ESG reviews of our portfolios, expanded coverage of our proprietary ESG scorecards, and the ongoing development of analytical tools to provide an enhanced ESG overview within credit analysis. We have long understood the value of considering both financial and non-financial elements within our analysis, and believe it is a contributing factor to our performance across fixed income strategies; providing portfolio managers with a more complete picture of the creditworthiness of issuers.

Given the limited upside and potential significant downside of fixed income investments, the focus of our ESG analysis is on understanding downside risks. Since ESG risks often develop over the longer term, and given our long-term investment approach, we believe it is essential to integrate ESG issues into our investment process. Our integrated approach to ESG is applied across all forms of fixed income including corporate bonds, government bonds, securitised debt, real estate debt, infrastructure debt, leveraged finance, direct lending and private placements, although flexibility in the implementation of ESG integration is often required to allow for differences across markets, sectors and instrument types.

Engagement with issuers is usually undertaken by our credit analyst teams, with support when needed from the S&S team, since our analysts have a clear and detailed understanding of the ESG issues affecting the credit quality of the issuers that they cover. Although bond holders normally have less influence than equity holders when engaging with companies, we consider it still important to engage with fixed income issuers regarding material ESG issues to encourage improved ESG practices. The additional insight often gained through ESG engagement also better informs our credit views and investment decisions. We prefer to engage on ESG issues directly with an issuer's senior management, and our significant scale in fixed income markets provides us with the necessary access to an issuer's senior management in order to do so. In our private debt business, we are often one of the primary sources of finance for the borrower, which can give us significant access and influence to engage.

Please note, not all of M&G Investment's fixed income offerings are suitable for retail clients. Please visit our direct client website for further details.

ESG engagement

In 2022, our Equities team attended 1,478 company meetings, of which 527 were with the management of UK companies (including 377 meetings with companies in the FTSE350) and 940 international companies. There were also 11 IPO-specific meetings.

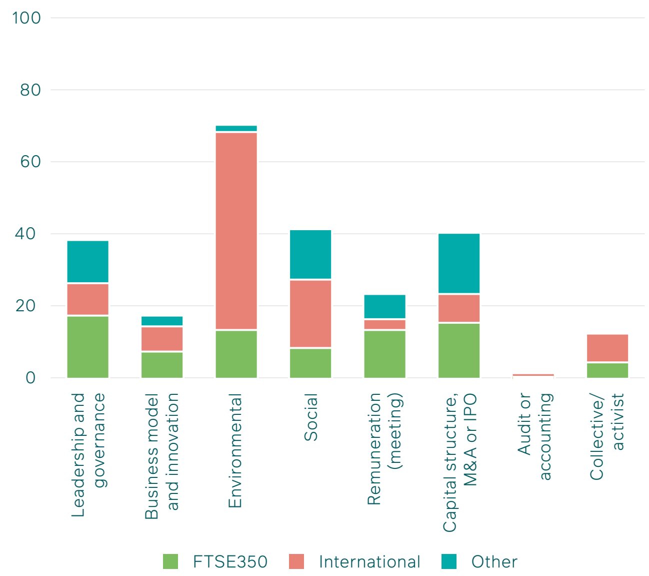
1,478 company meetings attended	**377** FTSE350 meetings	**970** international meetings

For our fixed income team, we have been developing a new system, in conjunction with an external provider, to better allow us to track meetings with issuers, including ESG interactions. We will highlight the outputs of that system within our regular stewardship reporting in 2023.

The Stewardship & Sustainability team participated in 236 of the above meetings, including 75 with FTSE350 companies and 106 with international companies, with meeting topics highlighted in the table below.

236 company meetings attended	**75** FTSE350 meetings	**106** international meetings

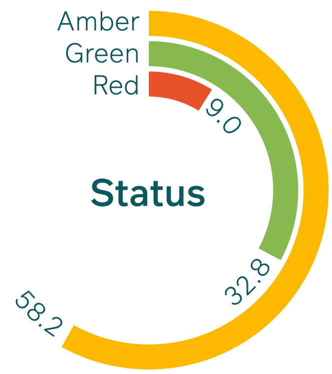
Stewardship & Sustainability meetings by issue covered



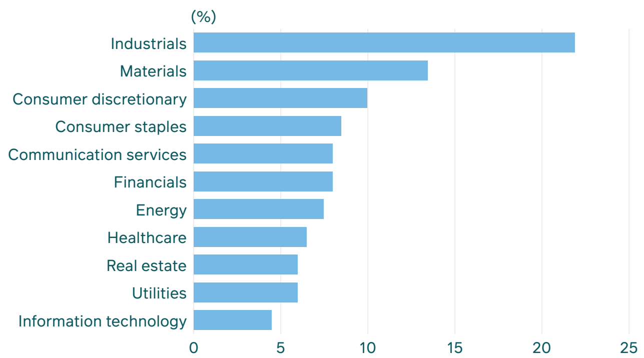
Near the end of 2021, we developed a system to more effectively track ESG engagements. By this we mean an interaction with a company which seeks a change in company behaviour or improved disclosures, rather than to increase understanding. Over the course of the year, we recorded 197 ESG engagements with 134 companies, broken down in the tables below. Please note, the number of engagements was likely to have been higher as the system is not currently automated, and these figures do not systematically include collective or private engagements. The full list of recorded engagements can be found in Appendix 1 at the end of this report.

Recorded ESG engagements by broad pillar (%)

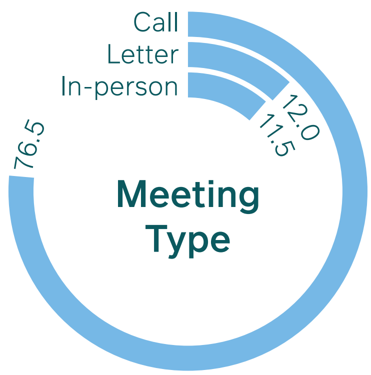
Recorded ESG engagements by outcome (%)



Recorded ESG engagements by sector (%)



Recorded ESG engagements by meeting type (%)



Recorded ESG engagements by geography

Source: M&G

Engagement framework

Our engagement approach has been developed to provide a systematic process around engagements in which we have a specific objective and seek particular outcomes. Prior to commencing an engagement, that objective is clearly set out, with actions and outcomes recorded through the life of the engagement. Examples of some of these engagements over the year are outlined below, including a selection from both equities and fixed income.

We use a 'traffic light' system within our reporting to highlight if an engagement's objective has been achieved, or not, or if the engagement is ongoing.

- The objective has been achieved
- The engagement is ongoing
- The objective has not been achieved

Thematic engagement

While we engage with companies on a 'bottom-up' basis, that is, reactive, company-specific engagements, we also undertake 'top-down' thematic engagements on a number of issues.

Over the course of 2022, we engaged on an array of specific, systemically important environmental and social themes. These included the continuation of our top-down climate engagement programme (explained below) which began in 2020, engagement relating to our coal policy, which became effective in April 2022, and engagement related to board diversity at our investee companies. We also continued our activities with Climate Action 100+, also highlighted below.

Top-down climate engagement

Climate remains a key focus of our engagement priorities, and as such we have continued to run a top-down climate engagement programme for investee companies in both developed and developing markets, focusing on strategy, disclosure, goals and targets to achieve decarbonisation.

By way of background, M&G plc has set a Net Zero 2050 target for its total book of assets under management and administration, with M&G Investments targeting 50% emissions reduction from our investments by 2030. This is largely being achieved by engaging with our highest emitters (the 'Hot 100') and implementing our Thermal Coal Investment Policy.

Hot 100

As highlighted in our 2021 Stewardship Report, back in 2020 we mapped our holdings to determine a targeted climate engagement list, based on the top 100 highest emitters and largest M&G Investments-wide exposure in listed equities and fixed income – the M&G Investments Hot 100 list. The process for arriving at the targeted engagement list evolved over the course of 2022, following our decision to join the Net Zero Asset Manager's Initiative (NZAMI). NZAMI requires asset managers to assess investee companies for Paris alignment, and where not aligned, to engage with those companies, for at least 70% of financed carbon emissions. We, therefore, updated our methodology and re-cut the targeted engagements list in August of 2022, using financed carbon emissions as the key measure.

This resulted in 43 new names joining our Hot 100 list. For each company we assess for Paris alignment and, where not aligned, devise a specific engagement strategy with clear objectives and key performance indicators to determine progress. Overall, our expectation has been for companies to commit to reaching net-zero in line with the Paris Agreement, and to provide credible targets and metrics for how they will do so. The next phase of the programme will be to examine transition plans in more detail, understanding the steps, milestones and capital expenditure plans to decarbonise.

As mentioned previously, our approach includes engaging both bilaterally and collectively as part of Climate Action 100+ (CA100+).

By the end of 2022, we had either assessed or engaged with 54 of the Hot 100 companies identified in August 2022, as our top 100 exposures by financed carbon emissions. This represents 70% of the combined financed carbon emissions for the Hot 100 companies (financed carbon emissions data as at August 2022).

As a reminder of the emission 'Scopes' mentioned in the following commentary:

Scope 1	Emissions from: fuel combustion; company vehicles; fugitive emissions
Scope 2	Emissions from: purchased electricity, heat and steam
Scope 3	Emissions from: purchased goods and services; business travel; employee commuting; waste disposal; use of sold products; transportation and distribution (up and downstream); investments; leased assets; and franchises

The objective has been achieved
The engagement is ongoing
The objective has not been achieved

The following are examples of bilateral engagements with Hot 100 companies.

Baosteel – climate disclosure

Objective: To request that Chinese steel producer Baosteel participate in international disclosure frameworks, namely CDP and TCFD, and disclose carbon reduction targets.

Action: We met with the company's investor relations team to make our expectations known.

Outcome: Baosteel explained that it had published its latest climate action report just prior to our meeting, which was in line with the TCFD guidelines. This was a Chinese language version, with the English version to follow.

The company mentioned that its latest corporate social responsibility report was aligned with GRI reporting standards, and that it would work to improve its CDP score. The company also pointed out that it had been rated by EcoVadis.

Regarding carbon reduction targets, Baosteel previously published short, medium and long-term targets, striving to achieve peak carbon in 2023, a 30% reduction by 2025, a further 30% reduction by 2035 and carbon neutrality by 2050. We will continue to monitor the company's decarbonisation efforts, and follow up in due course.

Samsung Electronics – net zero

Objective: To ask Korean hardware producer Samsung Electronics (SE) for better disclosure on environmental metrics. In addition, we asked the company to announce its net zero target for 2050 or sooner, with shorter-term targets to 2030, with both to be validated by the Science Based Target initiative (SBTi) with a clear decarbonisation strategy.

Action: We met with the company's corporate sustainability team and investor relations to make our expectations known.

Outcome: SE performs well versus peers on environmental metrics (strong efforts in reducing water use; significant revenues from cleantech product lines; clear recycling targets, addressing electronic waste; discloses to CDP and reports in line with TCFD guidelines).

However, SE has not published details of its absolute carbon reduction/net zero targets, despite the Korean government (in 2020) committing to net zero emissions by 2050. We have been disappointed to see SE so late to the table, as we would expect the company to be a leader, rather than reactionary.

SE explained that it was finalising its environmental investment strategy and was aligning it with international standards, as well as with the new incoming government. However, the company said that at this point it would be challenging to commit to SBTi approval. After reviewing the company's environmental investment strategy we will continue to engage.

Dongyue – targets and disclosure

Objective: To ask Hong Kong-listed chemical engineering business Dongyue to set GHG reduction targets, provide more detail of how it plans to mitigate GHG emissions in its operations, and to show a commitment to improving disclosure by reporting to industry recognised reporting frameworks.

Action: We met with the company to make our expectations known.

Outcome: Dongyue complies with existing ESG reporting requirements of the Hong Kong Stock Exchange, however, it has not yet set a net zero target, and it does not yet report to CDP or in line with TCFD. The company explained that there was little pressure from domestic investors to exceed the minimum ESG reporting requirements set by the Exchange. In saying that, Dongyue informed us that it was indeed considering setting targets following increasing pressure from foreign investors, including M&G Investments.

The company said that many investors viewed its business as a solutions provider (with us being no exception), which is perhaps why there has been little pressure from the investor base for company-level climate targets and disclosures to date. Management is very cognisant of the company's image, and confirmed that if better GHG disclosures would improve investor perception, then it would be supportive. We encouraged Dongyue to set GHG reduction targets and to provide a detailed decarbonisation strategy. We also asked the company to enhance its climate-related disclosures by submitting to the aforementioned industry recognised reporting frameworks. Dongyue took our comments on board, noting that it was keen to work with us to improve its climate disclosures. We will provide the company with guidance on next steps in due course.

Collective climate engagement

Through the course of 2022, we continued to contribute to Climate Action 100+ (CA100+) collective engagement groups, participating in seven CA100+ working groups and acting as co-leads on four companies.

By way of background, CA100+ is an investor-led initiative that exists to help ensure that the world's largest corporate greenhouse gas emitters take necessary action on climate change. It is made up, at the time of writing, of 700 global investors who are responsible for more than US$68 trillion in assets under management across 33 markets.

At the time of writing, within CA100+, we were co-leads on miner Rio Tinto, chemicals company BASF and energy company TotalEnergies, and more recently cement maker Holcim Group. We are active working group members, including on energy company Petrobras, chemicals companies LyondellBasell and Air Liquide, pipeline operator Kinder Morgan, miner Anglo American, steel maker ArcelorMittal, and Heidelberg Cement. In addition, we sit on the Corporate Programme Advisory Group, which helps set future CA100+ priorities, and the Escalation Working Group (to advise on contentious issues arising during the voting season). We are also members of the Net Zero Stewardship Working Group.

700
global investors

$68
trillion in assets

33
markets

Chemicals

We met with German chemicals producer BASF on a number of occasions throughout 2022 to urge the company to add Scope 3 to its existing Scope 1 and 2 carbon emissions reduction targets, and to commit to decarbonising its feedstock by 2050. The company is now part of the SBTi expert group, working on a sector-specific methodology for the chemicals industry, and hopes to be in a position to get good enough data to set a Scope 3 target by the end of 2023. No promise was made on decarbonising feedstock. The company explained that the majority of its products would always be carbon-based. However, in future, carbon from CCU (carbon capture and utilisation), recycling or bio-based feedstocks, such as biomethane, would increasingly replace fossil-based feedstocks.

Building on our activities from 2021 with Dutch chemical company LyondellBasell, we requested that the company consider Scope 3 reporting, set short and medium-term CO_2 reduction targets, and publish a public commitment to align lobbying with climate goals. In terms of Scope 3 emissions, the company is engaging with 70% of its suppliers on sustainability issues, and has created an overall sustainability programme to do so (although this is currently in its infancy). We fed back that we would like to see more progress on demonstrating the pathway beyond 2030 in future reporting, and the company subsequently disclosed a scope 3 reduction target of 30% by 2030 at the end of 2022. On lobbying, the company was working on an updated position piece. We will continue to monitor the progress that the company is making regarding its decarbonisation strategy, and will remain actively engaged.

Oil and Gas

The first quarter of 2022 was an extremely active period of engagement with oil and gas companies. This resulted from a combination of Russia's invasion of Ukraine in February, increased engagement with investment teams and an increasing commitment to CA100+ initiatives.

The S&S team and the investment team met with the chief executive and management of British energy company BP a number of times to discuss its decision to withdraw from Russia. We were one of the earliest investors to meet management and we indicated our support for their decision, and the governance and speed relating to the decision itself – we assisted management by making this position public. We also worked with BP, both as a member of the CA100+ working group and as an investor, giving feedback on its 'Say on Climate' resolution. We also participated in a working group with BP management and CA100+ to give the company feedback on its overall climate strategy, and received presentations from a number of senior managers on its climate direction by business unit. Overall, we believe active engagement with BP has been a genuine and collaborative stewardship success story that has had a decisive influence on the strategic direction of the company.

We were a co-filer in a shareholder resolution urging US energy company ExxonMobil to give greater disclosure over its investment and climate abatement strategies. It is fair to say our willingness to co-file reflected how far apart we are from the management view, and we hope management becomes more alert to the dangers of climate change for their business; but progress is very slow.

We took part in the CA100+ engagement with state-owned Brazilian multinational Petrobras to encourage it to join the Oil and Gas Methane Partnership and to set methane emissions intensity reduction targets. The company confirmed that it had concluded its internal assessments and was then taking the decision to join the Partnership through its governance process (outside of the reporting period, we were pleased to see the company announce that it had joined the Oil & gas Methane Partnership in Jan 2023).

Industrials

We met with miner Rio Tinto on a number of occasions to catch up on the progress of Scope 1, 2 and 3 emission reductions, including discussion on next steps in the Scope 3 target setting process beyond engagement with steel customers. Other topics of discussion throughout the year included Paris-aligned accounting, climate governance, including remuneration links to targets, and advocacy, among others. We will continue the dialogue in 2023.

- The objective has been achieved
- The engagement is ongoing
- The objective has not been achieved

Coal engagement

In the first quarter of 2021, M&G plc published a position paper on coal, available on the corporate website, while the M&G Investments Thermal Coal policy came into effect in April 2022, please visit: **https://www.mandg.com/dam/investments/common/gb/en/documents/funds-literature/fund-specific-files/2022/implementing-mandg-thermal-coal-investment-policy.pdf**

We aim to use our influence as a global investor to drive positive change, to help decarbonise the energy system and increase energy and resource efficiency. We commit to phasing out our exposure to unabated coal by 2030 in OECD and the EU and by 2040 across the rest of the world. By adopting a forward-looking approach as an active investor, we can support companies as they transition their businesses towards net zero and phase out coal from the energy system, in line with the Intergovernmental Panel on Climate Change (IPCC).

We analysed our holdings to understand which coal-related positions would fall foul of the coal policy's thresholds, or alternatively were exempt from the policy. In the second quarter of the year we identified a number of companies for engagement, where the phase-out plans for thermal coal either needed a timeline (by 2030 for EU and OECD countries and 2040 Rest of World) or the wording needed to be clarified. This resulted in a small number of companies being divested where the engagement objective was not met within the engagement timelines. As examples of coal-specific engagements:

2030
OECD and EU phase out

2040
Rest of the World phase out

UGI Corporation

Objective: To ask North American energy transportation and storage company UGI, before the end of September 2022, to publicly disclose that it had no coal exposure.

Action: We wrote to the company to make our request known.

Outcome: In response to our request, we were pleased to see in August that the company had published a statement on its public corporate website stating that 'as of October 1, 2020, UGI Corporation does not own any thermal coal facilities or assets'.

First Energy

Objective: To ask North American electric utility company First Energy to publicly disclose its intention to divest of coal power and coal mining by 2030.

Action: We met with management and the company's investor relations to make our expectations known.

Outcome: First Energy confirmed that the coal mining asset was a legacy holding and that it was a passive minority shareholder.

The company confirmed that it was actively marketing the asset and pushing for a sale, but that it was reluctant to publicly announce the intention to sell ahead of securing a buyer. This was because of its fiduciary responsibility to shareholders to achieve a competitive price for the asset. As such, full disclosure of timing of future asset sales was seen as contrary to achieving the best outcome for shareholders. First Energy had been approached by a buyer who wanted to exchange equity, but the company was holding out for a cash buyer, as it no longer wanted the exposure.

While we were sympathetic to the company's position, our Thermal Coal policy is explicit in saying that there needs to be a credible public plan to phase out coal production by 2030. First Energy stated that it would look to provide more clarity of its intentions in its literature, to the extent that it was able.

The decision around next steps will be determined by M&G Investment's Coal Appeals Committee when it next meets, outside of the reporting period.

AES

Objective: To request that US-listed AES, a world leader in renewables development, which also owns and operates a legacy fleet of coal-based generation assets, phase out coal by 2030.

Action: We have had constructive multi-year engagement with various AES representatives, dating back to 2017.

Outcome: One of our investment strategies – with ESG-related exclusions in place – has followed AES since 2017, but could not invest at the time due to the company's significant exposure to coal generation assets. Over the following years, AES made significant progress to phase out coal, and we observed this progress very clearly by way of the large number of coal divestments and closures announced by the company. In 2020, we revisited AES's coal exposure and determined that it no longer exceeded our limits (at the time). Following a call with the company's chief executive in June 2020, we became more confident in AES's transition goals.

From June to July 2020, we worked with internal oversight bodies to review the coal exposure and the transition progress of AES, and, ultimately, we were able to ascertain that the company was a suitable investment due to its progress and strong sustainability credentials.

After becoming shareholders of AES, we hosted another follow-up call with the chief financial officer in September 2020, and used this occasion to encourage the company to accelerate its phase out of coal-fired generation. In summary, we re-emphasised our view that making rapid progress on coal phase-out was very important. Our view was acknowledged, and the company confirmed that a coal phase-out was the right strategy going forward. The CFO also confirmed AES would continue to find ways to accelerate coal phase-out, while at the same time allocating capital to renewable and utility assets. Its target at the time was to bring coal generation to below 30% by end 2020, and below 10% by end 2030.

Nonetheless, continued engagement and oversight of AES's execution and ambitions was critical. Following the publication of our Thermal Coal Policy, we followed up with the company in September 2021 to reiterate the importance of a clear and public phaseout policy. The company confirmed its intention to have no involvement in coal-based power generation after 2030.

In January and February 2022, the investment team and M&G Investments' Coal Committee began a re-assessment of AES's ambitions, to ensure investment in the company was still appropriate under our Thermal Coal Policy, which was due to come into effect in April. The Committee granted AES an exception until April 2023, in light of continued constructive engagement and clear progress towards phase-out.

Only weeks later, in February 2022, following negotiation with regulatory bodies on energy security, AES announced a new and more ambitious target to exit all coal involvement by 2025, backed by significant and credible investments in clean energy and innovative technologies. This public announcement meant AES no longer violated the Thermal Coal Policy, and we think was a clear demonstration of the power of long-term, active ownership.

- The objective has been achieved
- The engagement is ongoing
- The objective has not been achieved

Biodiversity engagement

As mentioned in the introduction to this report, biodiversity is a topic that is clearly gaining momentum for investors. Having joined the Taskforce on Nature-related Financial Disclosures (TNFD) Forum in 2021, we were hoping to be able to report more progress than we actually made in 2022. We were largely held back by a lack of relevant data and limited resources, but despite this we managed a handful of engagements on this critical topic during the year. In 2023 we are aiming to extend our climate engagements to include biodiversity where it is relevant.

Of note, it has been announced that the IIGCC will be the secretariat for the new Nature Action 100 list of priority companies, which will emulate CA100+, and we hope to be active participants once that process gets up and running.

Meanwhile, as mentioned earlier in this report, we continue to co-chair the Natural Capital Committee for the International Corporate Governance Network (ICGN), the main initial responsibility of which was to publish a viewpoint article on how investors should start thinking about biodiversity. We expect to see many more developments in this area over the coming years. The following are examples where we have started to engage on biodiversity-related topics.

Nestlé

Objective: To encourage global food and beverage company Nestlé's plastic packaging initiatives, and to ensure it was adequately taking account of both deforestation and forced/child labour in its supply chain.

Action: We met with the company's global lead, social impact and a member of the investor relations team.

Outcome: Overall, we were very impressed with the company's efforts. In plastic packaging, it is really investing in, and looking for, solutions to plastic waste eg paying a premium to recyclers to drive the industry and establishing a plastics R&D centre. The company will miss its 100% reusable or recyclable plastic by 2025 target, but this pertains to most of the industry due to lack of recycling capacity.

In terms of biodiversity, the company has monitoring systems in place and is driving a regenerative agriculture initiative, to help meet its goal of 100% deforest-free supply chains by 2025. It acknowledges that this is not an easy feat, but appears to be doing the right things and moving in the right direction. We liked how Nestlé also linked its biodiversity targets with social considerations – small-holder farms often cannot be monitored for deforestation, or it happens outside of their control. Nestlé doesn't remove them from the supplier list, as it is aware of the social impacts this would have, and therefore works with them to help avoid future instances.

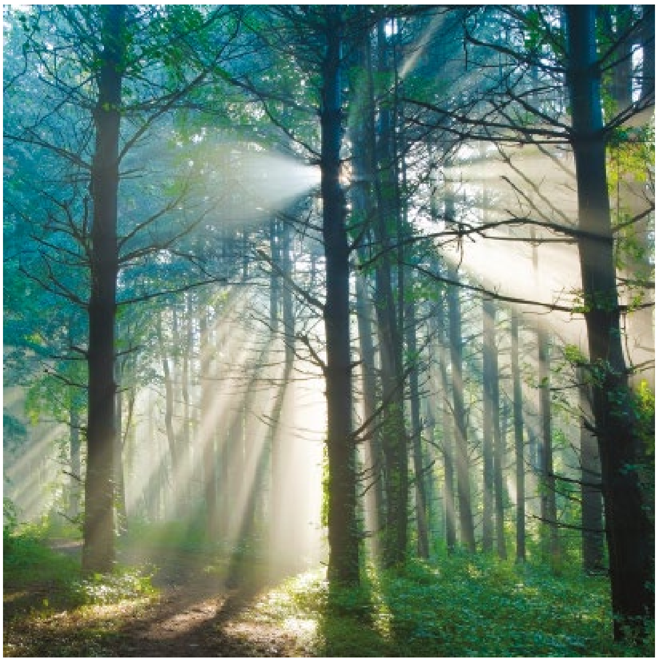
Further, it is very engaged on the issues of child labour, recognising that this is a common factor in long supply chains, but is monitoring and actively on the ground, working with communities to address the key issues. This is house-by-house engagement, with good remediation work in place where instances are discovered. We will follow up with the company in 2023 to carry on the discussion to include nutrition and climate.

Freeport-McMoRan

Objective: To ask US-listed international miner Freeport-McMoRan (FM) to increase disclosure on the processes in place to protect biodiversity in the Grasberg mine in Papua New Guinea, and to ensure that the steps it was taking to remediate environmental and social impact were adequate.

Action: We met with the company's head of ESG relations & capital financings to make our expectations known.

Outcome: FM is now only a minority shareholder in PT-Freeport Indonesia (PT-FI), the company that owns the Grasberg mine, with the Indonesian government now the majority shareholder. FM emphasised that it was increasing its focus on biodiversity, and it noted that it had been considering this for a long time and had a team dedicated to it. While it recognised that biodiversity disclosure standards were still at a nascent stage, it was looking to disclose in a way that was meaningful, through frameworks such as TNFD.



Regarding the tailings treatment for the mines, tailings are tested at the mill to ensure that it is benign. From there it is deposited and rainfall washes the tailings down to the lowlands, with a number of testing points along the estuary. Freeport spends approximately US$100 million a year managing this system. In the areas where tailings are deposited, mangroves cannot grow, which has an impact on biodiversity. However, the company was confident that at the end of mine life the mangroves would regrow fairly quickly – something we need to investigate further. It also conducts an environmental audit every three years, which was in the process of being completed, with a summary being made publicly available.

In terms of deforestation, FM recognises that there has been an impact from the tailing system, although the data show that this will be repaired at the end of life. The company does not have any deforestation targets or commitments, but rather follows its environmental policy. There is a dedicated board committee, which has oversight of climate issues, with metrics linked to annual compensation.

Relating to future remediation plans, PT-FI has already completed mining at the open pit and is looking to restore ecosystems around the top of the pit. The actual pit itself will be left, as it is 1.5km wide and 600m deep. FM did not indicate the size of the area that would be restored around the pit.

On the social side, the population near the mine is largely indigenous, and we wanted to ensure that they were respected and consulted throughout the process. PT-FI has extensive programmes and grievance management systems in place, contributes 1% of revenue to local communities, and native populations comprise 25% of the workforce. This information will be available in a PT-FI sustainability report, which it is hoping to publish in 2023, and is working with a third-party consultant to produce it. We encouraged FM to publicly disclose the information provided and look forward to seeing increased disclosure in its PT-FI-dedicated sustainability report.

- The objective has been achieved
- The engagement is ongoing
- The objective has not been achieved

Other climate engagements

UnitedHealth – decarbonisation plans

Objective: To further encourage US diversified managed healthcare company UnitedHealth's decarbonisation plans, including Scope 3 assessment and SBTi validation, as well as suggesting improved disclosure on governance and incentives in the next sustainability report. This meeting took place in the summer, continuing an engagement with the company from earlier in the year. We also used the opportunity to question UnitedHealth's involvement in the opioid crisis in the US, and related lawsuits, as this had been flagged as a negative by ESG ratings providers.

Action: We met with the company's director of sustainability and its investor relations to continue our dialogue.

Outcome: We were pleased to see that UnitedHealth had committed to SBTi validation, and planned to submit its targets for approval in 2023. The company had recently hired a chief sustainability officer, reporting to the chief executive, and subsequently published a much-improved sustainability report in June 2022 (and will take our points on board for next year's report). It intended to create an ESG steering committee, to be in place by the end of year, led by the chief sustainability officer and comprised of business leaders, to help further act on sustainability considerations. The company also planned to have its Scope 3 inventory completed by the end of the year. We will continue to engage with UnitedHealth as it moves along its path to decarbonisation. In terms of opioids, the company confirmed that it had not been named in any lawsuits or been implicated thus far. It also confirmed that it was engaging with the rating agencies to articulate its position on the controversary, and was confident that it would be able to get the flag removed. We will continue to monitor the situation, but believe that UnitedHealth was taking the issue seriously, and doing what it could to rectify it.

CTS Eventim – targets and disclosures

Objective: To encourage German ticketing and live entertainment business CTS Eventim to disclose its Scope 1, 2 and 3 carbon emissions (where currently there is no disclosure), and to consider decarbonisation plans, ultimately to be validated by SBTi.

Action: We met with the company's vice president corporate development & strategy to make our expectations known.

Outcome: Eventim was an obvious victim to COVID-19, as live events ceased under lock-down, and the company had been very focused on the welfare of its employees in light of this (it confirmed that it didn't cancel any contracts and maintained 90% salaries, with a one-off payment this year to make up the additional 10%).

The company had moved into a position to begin focusing on climate and reporting its emissions, the majority of which will be Scope 3, relating to travel to events, energy use at events and waste. The plan is to provide emissions disclosures in the 2023 annual report, with the publication of targets in 2024, likely to be put to the SBTi. We were pleased with this outcome, given the previous lack of disclosure and targets, and we will follow up with the company at the beginning of 2023 for an update on how data gathering is progressing.

Hyundai Motors – targets and disclosures

Objective: As part of a wider ESG engagement, to encourage South Korean auto OEM Hyundai to have its carbon reduction targets validated by SBTi, link them to long-term executive remuneration and disclose its Scope 4 emissions, particularly in light of the company being a leader in battery electric vehicles, and one of the major early developers of fuel cell electric vehicles.

Action: We met with the investor relations team, and representatives of the Sustainability and Carbon Neutrality team, to make our expectations known.

Outcome: The company outlined its current emission reduction plans, which included a full switch to renewable energy use in production – both self-generated and through PPAs and EACs – and the full electrification of its fleet. Its overall aim is to achieve net-zero carbon emissions throughout its entire value chain by 2045. It was assessing its upstream Scope 3 emissions, considering its engagement programme with suppliers, and performing a lifecycle assessment across its product range. It was at the point where it expected to review SBTi commitment in 2023. The company was also reviewing how to offset its remaining emissions after reducing Scope 1, 2 and 3. In terms of remuneration linked to achieving targets, it was not clear-cut on whether this would be put in place, but we will push on this point in future engagements. Overall, we were pleased with the company's progress in terms of its carbon neutrality aims, and we will continue to monitor progress.

Social engagement

Sibanye Stillwater – health & safety

Objective: As part of a wider ESG engagement, to push South African miner Sibanye Stillwater to improve its mine safety, in light of an unacceptable number of fatalities in its operations.

Action: We met with several members of the company's management team to make our expectations known.

Outcome: The company has developed a 'fatal elimination strategy' in light of 18 deaths in its mines in 2021. It said that 2018 had represented a step change in thinking about safety, given a number of deaths that year in its mines, leading it to develop a 'zero harm framework', which focused on environment, people and systems. Once this was put in place, the company saw good results in 2019 and to a lesser extent in 2020. However, COVID meant an incremental return to work, where teams that had worked together to embed safety in their daily practices got mixed and matched, leading to difficulties. An external consultant was brought in who found that, fundamentally, the systems were good, with a few tweaks, but realised the focus on safety was not well understood throughout the organisation, and people continued to take unacceptable risks.
The company also noted that the entire industry had moved to 'total incident rate' as a safety metric, but that focusing on low energy incidents does not fix high energy – ie fatalities. The company has begun a root and branch push to help ensure the safety strategy is understood at every level of the organisation, which we fully encouraged, and we suggested benchmarking against peers when different mining techniques presented different risks. We also encouraged mine safety to tie into executive remuneration, and the company confirmed that from January 2023, fatalities would be included in the STIP. While Sibanye seems to be doing the right things, we will carry on our dialogue with the company, and continue pushing it to improve its safety record.

- The objective has been achieved
- The engagement is ongoing
- The objective has not been achieved

CK Hutchison – labour management

Objective: To ask Hong Kong-based industrials conglomerate CK Hutchison (CKH) to improve labour management measures at its UK ports, namely Felixstowe. By way of background, 1,900 workers at the Port of Felixstowe took strike action twice in as many months over a pay dispute with CKH, the port owner.

Action: We met with the company's head of group investor relations to make our request known.

Outcome: CKH noted that it conducts an annual pay review at the start of each year in January, referencing current CPI data. The January 2022 negotiations (based on CPI of 5.4%) did not conclude and, in September 2022, a settlement was implemented: a 7% increase backdated to January 2022, as well as a lump sum of £500 in response to higher inflation paid in April 2022, which brought the effective rise to between 8.1% and 9.8%. The union wanted 10% given rising inflation.

Another branch of Unite that represents 500 workers (clerical, supervisors and engineering staff) at Felixstowe had accepted the pay deal, while the Southampton union workers accepted a 5% increase. In December 2022, the workers voted 90% in favour of the 2023 pay package. Given the detailed negotiations, the CPI + agreement in January, the April top up and the successful negotiations, it feels as if CKH has acted reasonably and not crossed any red lines in this case. We will continue to monitor the situation, and determine if further engagement is required.

Kering – reputational damage

Objective: To understand from luxury brands group Kering how two widely deplored Balenciaga ad campaigns were allowed to be produced, and to encourage the company to put enhanced monitoring and control systems in place to avoid a similar situation in future.

Action: We met with the company's lead independent director, group general counsel, head of HR and head of sustainability, as well as a member of the investor relations team, at the company's London headquarters. We also had a group follow-up call with Kering Group's managing director.

Outcome: The controversy lies in two campaigns. To simplify, the first highlighted various Balenciaga products, including a handbag designed as a teddy bear in leather gear (which was presented during a Fashion Show held 6 months before and was in fact a reference to punk, although was perceived by some to be 'bondage gear') in the hands of a young girl. The second, that had been shot earlier, showed an office, in which there were supposed to be fake office papers on a desk, but which upon close inspection turned out to be a reproduction of real legal papers, including one about a Supreme Court ruling on child pornography. For the first, the company has apologised without reservation, recognising this was in terrible taste. For the second, the issue appeared to be a lack of proper implementation of Balenciaga guidelines for the shooting by the set design company. The two campaigns were subsequently conflated with the notion that Kering was promoting paedophilia, then widely disseminated, particularly in the US. Balenciaga immediately pulled the campaigns, and Kering launched an internal investigation into how both incidents took place. The company explained at length how it would improve its processes and monitoring, including bringing in a more diverse group of overseers who could give a more international perspective to the oversight process.

Governance engagement

Unifirst – board refreshment

Objective: To encourage board refreshment at US workwear and textile service business UniFirst.

Action: We met with the company's chief financial officer to make our expectations known.

By way of background, three non-executive members of UniFirst's seven-member board, who are considered 'independent', are over the age of 75 with tenures of 14, 15 and 22 years. We would not consider these board members as independent given their tenures. We also questioned the need for the company to maintain a classified board, encouraging annual election for all members, as well as encouraging greater board diversity.

Outcome: UniFirst confirmed that other investors had shared similar concerns, but that it did not currently have plans to publicly announce board refreshment. The CFO did take our points on board, however, saying he would raise the issue with the board, and suggested we write a letter outlining our concerns to add credence. We subsequently wrote to the board chair, including an additional request for disclosure of workforce diversity at management level, as well as mentioning our position on the company's dual share structure (also mentioned in the meeting). The chair politely rebutted most of our suggestions, and after the reporting period we voted against both him, and another long-tenured director, at the company's AGM.

SolarEdge

Objective: To encourage US-listed solar energy specialist SolarEdge to increase the gender diversity of its board, to declassify the board and move to the annual re-election of directors, and to reclassify a director with 16 years tenure as non-independent, as well as removing him as chair of the remuneration committee.

Action: Ahead of SolarEdge's AGM, we met with the company's general council at her request. She was seeking our support for the election of an existing board member, which was recommended against by ISS, given the classified board structure.

Outcome: The board member in question is one of two females, and a supporter of changing to a non-classified structure. The company confirmed that, following repeat shareholder requests, it was making the move to declassifying. It also confirmed that an additional director was being added to the board, and both candidates for the role were female. In terms of the long-tenured independent director, the company understood our request, and would raise the issue with the board. The director was one of the company's original seed investors and brings a wealth of knowledge, which we see of obvious value – but have difficulty with the independent classification. We will follow up in due course.

Diversity engagement

With the end of the five-year review by Hampton Alexander in 2020, and diversity & inclusion (D&I) being one of our primary ESG priorities, in 2021 our Stewardship & Sustainability team analysed our equity portfolios for laggards in D&I, using tools available through data provider MSCI. We then discussed the output with individual investment teams to compile an aggregate engagement list of companies. Over the course of the year we wrote to, or engaged with, 92 companies (35 UK and 57 international companies) that did not meet our minimum criteria.

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

Our expectations on pathways to get there differ between large and small companies and across geographies. In our view, companies should disclose sufficient information and proposed plans on diversity to enable shareholders to make an informed judgement on progress. To provide context for investee companies, we set out our minimum expectation for board diversity globally on a regional basis:

- For companies listed in the UK (FTSE350), Europe, North America and Australia, the minimum expectation was for boards to be 33% or more female by the Annual General Meeting held in the calendar year 2022, and progress towards 40% by the AGM held in calendar 2023.
- For UK small and AIM-listed companies, the minimum expectation was 25% or more female by the AGM held in calendar year 2023, and have a pathway of how to get to gender equality by 2027.
- For the rest of the world, including emerging markets, the minimum expectation was 10% female by the AGM held in calendar year 2023, with a published strategy of how the board proposes to get to gender equality by 2027.
- Diversity is not just about gender, and our minimum expectation for FTSE100 companies was to have at least one director from a minority ethnic background by the AGM held in calendar year 2022.

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

Summary

We recorded engagements with 22 companies during the year on diversity and inclusion issues. In 2023 we will be undertaking a top-down diversity engagement programme to meet with companies that aren't meeting our minimum expectations, to push for progress from a D&I perspective and to broaden out the discussion of diversity beyond board level gender diversity, and ensure that companies are considering ethnic representation as well.

Examples of other thematic engagements

Living wage

During the year we had a number of engagements with retailers on the topic of the Real Living Wage, including with WH Smith, Tesco, M&S and Sainsbury's, as well as NGO ShareAction.

We met Sainsbury's as part of a collective engagement via the Investor Forum to discuss a ShareAction resolution that asked the company to become Real Living Wage accredited. The company informed us that it pays its employees at or above the real living wage, however, this did not extend to contractors. Given that the company operates on 3% margins, it expressed concerns over a third party setting the floor for its largest cost base. This year the company invested £100 million in employee pay rises and £500 million to reduce prices at the till.

In our meeting with WH Smith, we requested improved disclosure in relation to staff and the living wage, asking the company for a number of metrics. These included: the number of staff that were currently paid below the real living wage rate, and as a proportion of total hourly paid staff; what the cost would be to bring these staff in line with the current real living wage; what the overall effect of doing this would be on the business; the approach to agency staff; and job / work hours security. WH Smith acknowledged that it needed to improve disclosures relating to its workforce, and agreed to collect the requested data.

We met with Tesco to ask what barriers were preventing it from becoming an accredited living wage employer. Tesco has a very healthy relationship with the Usdaw union, which is involved throughout the process of establishing remuneration for employees. Tesco echoed similar points to Sainsbury's (as well as to M&S in a written response) – it did not want to lose the autonomy to time pay as it sees fit, with increased reputational risk if it did not comply. Tesco also informed us that it would have to move its pay review forward by a number of months, which would have a large impact on cash. It is something that Tesco was aware of and was working on, but the company remains alert to unintended consequences of increasing pay too quickly, such as redundancies.

Following these conversations, several meetings with ShareAction and multiple discussions between investment teams, we took the measured decision to vote against the ShareAction resolution filed at the Sainsbury's AGM.

Safer gaming

With the imminent arrival of the UK's gambling review, we wanted to engage our investee companies with the largest exposure to this review, namely Rank Group and Entain, and ensure they were prepared for the impact of any policy changes. While many of the major operators have been involved in the review consultation, it was important for us to assess the risks and ensure companies were acting in line with the correct governance processes. In light of this, we also engaged with one of the world's larger video gaming companies in China.

Rank Group

Objective: To ensure UK-based gambling company Rank Group had sufficient governance processes in place around safer gaming, and that the business was prepared ahead of the UK Gambling Commission review. Also, we wanted to ensure the company's strategy was aligned with the key risks surrounding safer gaming, as identified within Rank Group's recent Responsible Business Report.

Action: We met with the company's chief executive and the head of investor relations to make our expectations known.

Outcome: A comprehensive review of ESG risks was published within the business report in January 2022, which provided further disclosure on a number of key issues. A materiality matrix identified customer privacy, protecting young and vulnerable customers, safer gambling and complying with the regulation as all top priorities for Rank. However, the company acknowledged that this report was separate to the annual report; within the next annual report we should expect to see a more integrated approach, which highlights key KPIs and details how these are likely to be achieved and rated. It is key for the business to embed ESG (including safer gaming) within its strategic objectives.

The board has established an ESG and Safer Gambling committee, which spends the majority of its time focusing on safer gambling. Each year the company sets its safer gambling strategy and then undertakes a comprehensive review, which is submitted to the Gambling Commission. Internally, all employees continually complete mandatory training modules on safer gambling, and the highest mark of the employee survey is always around the protection of customers and the priority that Rank as a business focuses on this.

Rank uses a 24/7 live monitoring system of customer transactions and behaviours, 'Hawkeye', to spot potential problem gambling in its online business. Around 7% of players are marked within casinos, and around 5-6% of online players. The business is also able to track all transactions online. In venues, Rank uses data models, reporting and trained staff to identify customers who may be at risk of gambling-related harm.

We are comfortable that Rank is working hard to ensure safer gaming is embedded within the business. The chief executive stated that the company was hoping the Government's ongoing review of the Gambling Act 2005 would provide further clarity around gambling regulations, and allow gambling businesses to align with market regulations.

- The objective has been achieved
- The engagement is ongoing
- The objective has not been achieved

Entain

Objective: As with Rank Group above, to ensure UK-based gambling company Entain had sufficient governance processes in place around safer gaming, and that the business was prepared ahead of the UK Gambling Commission review.

Action: We met with the company's group head of sustainability and chief IR officer to make our expectations known.

Outcome: Entain has a very clear governance process in place around ESG, which it publishes within its annual report. The board has ultimate responsibility for ESG, with safer gaming included within this. There is a board governance committee which focuses on key ESG topics and addresses issues raised from the business, as well as an ESG Steering Group comprising key executives to ensure delivery of the board's objectives in this area.

The chief governance officer heads up safer gaming from within the organisation, and has ultimate control over the company's internal monitoring system (ARC). ARC has allowed the company to monitor 26 markers of protection, not just the seven that it was reliant on prior to ARC's existence. The system continues to learn and improve the algorithm. Personal behaviour is monitored in real time, and the system is able to tailor proactive responses to the customer, versus being reactive. In 2022, ARC was rolled out across 22 regions and territories outside of the UK, with further rollout planned for 2023.

The company is also working closely with Harvard Medical School Faculty and EPIC Risk Management to further its internal processes and education on problem gambling, and is working with charities to understand what more can be done to encourage safer gaming.

We felt assured that the correct processes were in place and the issue of safer gaming has sufficient board and executive level coverage and responsibility.

Tencent

Objective: Having engaged with Chinese internet giant Tencent on climate, we used the opportunity to ensure appropriate systems and processes were in place concerning cyber security and the safeguarding of minors online.

Action: We met with Tencent's investor relations team to discuss the matter.

Outcome: Tencent has been leading the industry in terms of safeguarding minors. It implemented real-name verification, and enforced game time limits and spending limits for minor players in 2018, before the respective statutory regulation was introduced. Minor protection is a top priority for the company, with considerable resource going into this area to ensure effective implementation. As an example, in July 2022, time spent by minors had decreased by 92% year-on-year, and constituted 0.7% of total time spent on Tencent's domestic game products in China.

For cyber security, Tencent has an internal technology and engineering group (TEG) responsible for service and data security, including preventing cyber-attacks. TEG has a dedicated security team, which provides comprehensive security protection for the company's products and services, with the technical support of Tencent Security Labs. Tencent operates a dedicated security response centre, where the company collaborates with external researchers and partners to jointly clear/fix potential flaws in systems. It has a Security Technology Committee led by senior management, as this is considered a top priority.

- The objective has been achieved
- The engagement is ongoing
- The objective has not been achieved

Bioethics

Bioethics is the consideration of ethical, social, and legal issues that arise in biomedicine and biomedical research. Given that we invest in a number of companies with exposure to potential bioethical risks, we began engaging on this topic last year – initially in light of exposure to the Xinjiang region of China.

Thermo Fisher Scientific

Objective: to ensure that US medical technology and analytical equipment business Thermo Fisher Scientific had effective policies and procedures in place to help avoid the misuse of its equipment.

By way of background, following public reports regarding human rights violations against the Uyghur people in China's Xinjiang region, coupled with speculation that Thermo Fisher's STR (Short Tandem Repeat) DNA products were being potentially used in a manner inconsistent with human rights principles, the company ceased any new sales of human identification (HID) products to Xinjiang Public Security Bureaus in March of 2019. This equipment is usually used in, for example, forensics - to match DNA to an established database - and cannot, in and of itself, be used to identify or profile ethnic minority populations.

Action: We met with the company's investor relations and senior director of corporate social responsibility to discuss the issue.

Outcome: We were satisfied that Thermo Fisher had taken the issue seriously, and responded by improving its policies and procedures. The company has a Code of Business Conduct and Ethics, applicable to all directors, officers, and employees, who receive annual training on the code, which has been in place for a long period of time, which is applicable to all directors, officers, and employees, who receive annual training on the code. In order to help ensure that no products or services are sold that could potentially be used in unintended ways to violate human rights, the company implemented a multi-level purchasing process designed to prevent the ordering and resale of HID products to public security bureaus in the region. The company has an approved network of authorised distributors that agree to comply with this purchasing process under the terms of their contract.

Thermo Fisher also has in place a cross-functional Bioethics Committee, consisting of the Executive Vice President, the Chief Scientific Officer, and leaders representing its life sciences and diagnostics businesses and legal and communications functions. The Bioethics Committee regularly assesses the ethical and social implications of scientific developments in biotechnology, and has regularly reviewed Thermo Fisher's existing policies and provided updates to the company's Science and Technology Committee of its board of directors. We will further engage with the company on matters of bioethics in due course.

Illumina

Objective: We met with US genetic-sequencing specialist Illumina to gain greater clarity on negative news flow that had been weighing on the company's share price, and used the opportunity to engage on bioethics and ensure it had effective policies and procedures in place to help avoid the misuse of its equipment. This was in light of the aforementioned situation in China's Xinjiang region.

Action: We met with the company's chief executive to discuss these issues.

Outcome: We were satisfied that Illumina takes concerns around bioethics seriously, and had policies and procedures in place to help avoid the misuse of its equipment. The company has a policy not to sell instruments or consumables to law enforcement or forensic agencies in Xinjiang, and has updated the terms of use on all contracts to put in specifics on how its technology can be used. Illumina has people on the ground at customer sites, who have been trained to look for any signs of misuse. Where there are any bioethical concerns relating to a customer, it will not sell to that customer. Specific to China, the company has established relationships with relevant parts of government, allowing it to ask questions and gain greater comfort that its products will be used as intended. As with Thermo Fisher, we will further engage with the company on matters of bioethics in due course.

Private company engagements

We met with a number of private companies over the course of 2022, with each engagement usually having several objectives, including climate, diversity & inclusion, cyber security, and health & safety. In most cases we saw that these companies were doing considerable ESG work behind the scenes, but were not reporting it externally, as they are not held to the same reporting standards as publicly-listed companies. In all cases we emphasised to publicly disclose the work they were doing.

Climate examples

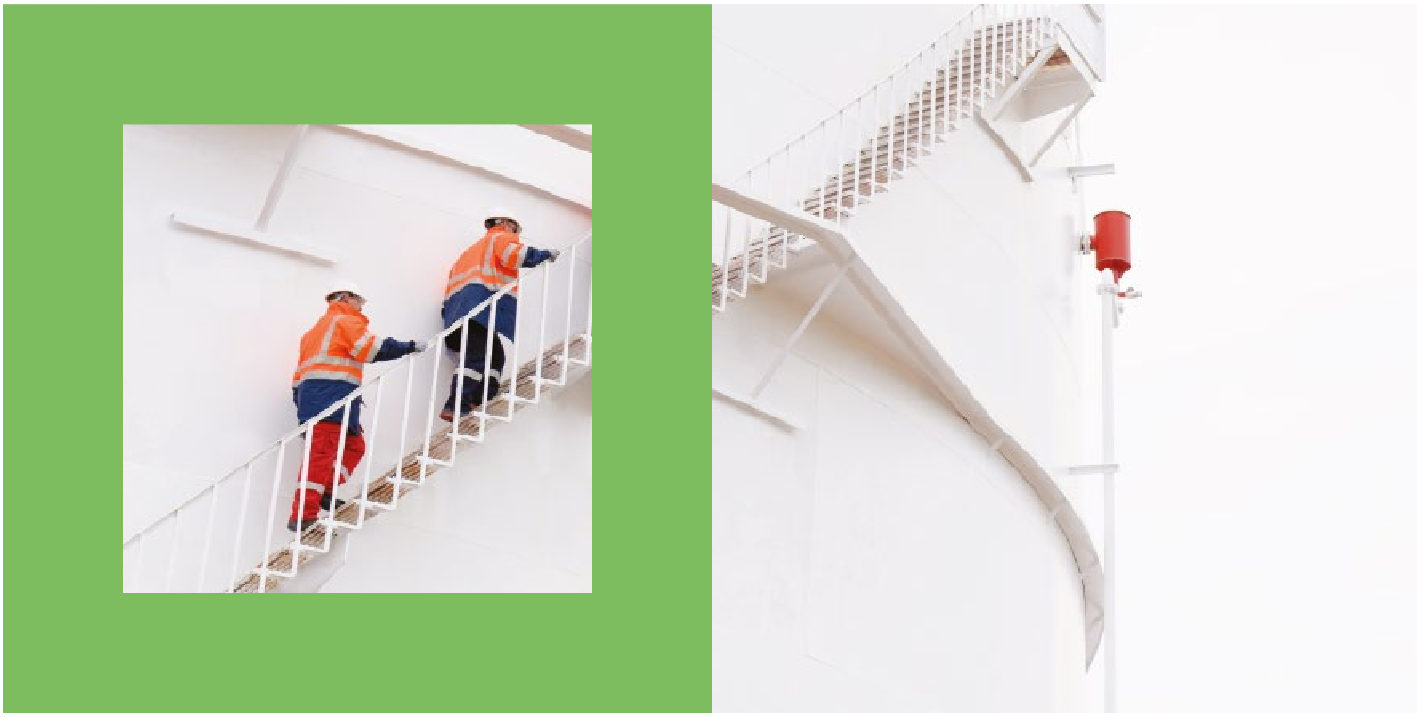
In terms of climate engagement examples, we encouraged German building materials company Xella to commit to the Science Based Targets initiative (SBTi), on a Scope 1 and 2 basis, by 2023. Xella set up its ESG roadmap (including monitoring/disclosures of Scope 1-3 emissions and SBTi) and published a 2020 Sustainability Report in April 2021. Since then it has made considerable progress in terms of climate reporting – it has begun disclosing Scope 1 and 2 emissions within its sustainability report, as well as performance against its targets. In December 2022, Xella committed to a near-term SBT. This goal builds on the company's current target to reduce its Scope 1 and 2 emissions intensity by 30% by 2030 (compared to 2019). Xella acknowledged the need to report Scope 3 emissions (80% of its total emissions) and noted that once it completes the process of setting up an SBT, it will add an absolute reduction target for Scope 3 emissions. We pushed for these to be externally audited, which the company intends to do. Elsewhere, we requested that German building service provider Techem improved its carbon emissions data disclosure through reporting to CDP. The company informed us that this is something that it is actively considering, but first wants to report in line with TCFD in summer 2023. From there, Techem will use this data to help form the basis of a CDP submission.

We met with Belgian aluminium systems specialist Corialis to discuss ESG topics like carbon emissions disclosure and targets as well as diversity. In terms of carbon disclosure, Corialis will report the full carbon footprint in the 2022 Sustainability report, which will be shared by the end of April 2023. In 2022, it also committed to SBTi to establish carbon reduction targets in line with the level of decarbonisation required to meet the goals of the Paris Agreement.

Social examples

From a social perspective, we met with Refresco, a global drinks bottling company, to ensure that there were adequate health and safety processes and procedures in place, following a fine, and that these were publicly disclosed. Refresco has worked with its employees to address the issue, which has been settled, and all of the minor incidences have been rectified. We met with Belgian aluminium systems specialist Corialis to request that it improves diversity and inclusion practices by setting and implementing gender diversity targets across the workforce. Although the company has set targets at a leadership level, and is clearly taking D&I into account, we emphasised that we would like to see some more ambitious targets set in the coming years, particularly at a board level. We met with Norwegian classifieds specialist Adevinta to improve modern slavery practices, by asking it to commit to organising independent audits on a regular basis. Adevinta is in the process of enhancing its supplier auditing process and, by the end of the year, is planning to conduct a taxonomy review of all suppliers and create risk metrics. In 2023 it will go one level deeper and establish a specific plan for different categories of suppliers, which includes both social and environmental aspects.

Infracapital



Infracapital, the private infrastructure equity arm of M&G Investments, has raised and managed over £6.8bn investing in, building and managing European infrastructure in the mid-market. As a long-term investor providing essential infrastructure services to society, we recognise the long-term value that can be achieved through sustainable growth, and the distinct opportunity we have to make economic growth more sustainable and inclusive. As such, we consider responsible investing across all of our investment activities, seeing ESG as a value-enhancing lever in its own right. As part of our investment strategy, the team takes an active role in all investments to ensure they are adaptable and resilient to the changing world. Building businesses that are committed to sustainability drives value for investors and aids environmental and social cohesion for the communities in which we operate.

The Infracapital Responsible Investment Committee oversees the implementation of our ESG commitments. All Managing Director members of the Responsible Investment Committee sit on the Investment Committee, ensuring that ESG considerations are aligned in the investment decision-making process. In addition to the committee, we ensure all of our staff attend monthly training sessions held with external advisers.

These are designed to improve the knowledge and experience of the team in all matters related to investment activities, including ESG risks and opportunities. Often these will relate to specific ESG factors, such as Directors Duties, Health & Safety and net zero. We also run ESG-focused workshops, bringing together key executives from across our portfolio companies to share best practice and ensure prioritisation of ESG-related matters.

We further recognise the importance of ESG factors across our investor community and work to support the delivery of their ESG objectives. We commit to being transparent to our investors on our ESG performance, and have integrated ESG reporting into our Monthly Fund Updates, in addition to reporting annually via a dedicated ESG report. We produce annual ESG reporting, with detailed KPIs on an asset-by-asset basis, including alignment with the Sustainable Finance Disclosure Regulation, where appropriate.

Please note, Infracapital's portfolio range is not suitable for retail customers.

Infracapital investee companies: case studies

Gridserve

In August 2022, we acquired Gridserve, one of the UK's largest charge point operators offering rapid and high-powered EV charging. There is a critical need for public charging infrastructure if we want to achieve mass adoption of electric vehicles. The decarbonisation of transport will be a huge factor in getting to net zero, which is evident in support from governments across Europe with incoming bans on the sale of internal combustion engines. Additionally, its chargers are partially powered by renewable energy from its solar farms. Gridserve's 'sun-to-wheel' concept is unique in the EV charging sector. An acre of solar panels in England can today generate enough energy for one million miles of EV driving each year. We are delighted to have invested in Gridserve, as part of our ongoing drive to enable positive change and to make a meaningful contribution to the energy transition while delivering value to our investors.

Enel X-Bus Partnership

X-Bus is a partnership targeting concession agreements with public authorities/transport companies to provide and maintain e-buses and associated EV chargers. In August 2022, X-Bus signed its first project in Italy consisting of a fleet of 20 electric buses that are bringing students with disabilities to school in Rome. It will also install the charging infrastructure needed to supply the buses. The buses were delivered in October 2022. The E-bus market share is expected to represent 40% share of new vehicles in Europe in 2025, with Italy and Spain currently lagging. Through our investment in X-Bus, we aim to support the decarbonisation agenda, facilitating Italian and Spanish efforts to reach net zero targets through the electrification of mobility, with transport accounting for c.25% of EU GHG emissions.

MCS

During 2022, we acquired MCS, one of the Netherland's largest container logistics companies. A highly complementary business to BCTN, which we acquired in 2021, the MCS acquisition allowed for further consolidation in the region under the new name Inland Terminal Group. Inland shipping is an environmentally friendly solution for transporting goods, and is a resilient and growing segment in the Benelux logistics sector, providing a significantly more sustainable alternative to road haulage. Each barge can transport the equivalent load of 100 trucks with 75% less CO_2 emissions. MCS is well positioned to benefit from the structural shift to barging, which is underpinned by the need to decarbonise, to reduce road congestion around the ports and political support for inland waterways. Our investment is an important strategic step in the market for inland shipping. As companies of all shapes and sizes increasingly look to reduce their environmental impact, both MCS and BCTN have the opportunity to shape the future of sustainable shipping in the region. Inland Terminal Group, for example, operates the world's first battery-hybrid barge, which uses 30% less energy than conventional vessels and cuts CO_2 emissions by 40% per TEU. Again, these highly complementary businesses are benefitting from the structural shift to barging, and we look forward to growing this platform in the years ahead.

Zenobe

Zenobe, owner of e-buses, owner/operator of associated electric vehicle (EV) charging points and connected batteries-on-buses, was acquired in November 2020. Zenobe delivers ample positive environmental impact by addressing the decarbonisation agenda through direct local air quality improvement and facilitating national growth of renewable energy to the grid. Zenobe's landmark 100MW battery storage project at Capenhurst, the largest transmission connected battery in Europe, has now gone live. The project will ensure security of power support for the Mersey region and, over the next 15 years, is forecast to remove c.1 million tonnes of CO_2 compared to traditional sources – a significant milestone towards enabling a zero-carbon power system and meeting the delivery of the UK's net-zero ambitions.

Real Estate

We recognise that as one of the world's largest real estate fund managers, our business activities have wide-ranging social, environmental and economic impacts.

We take a long-term, active approach to investing in property. Responsible investing is a key aspect of this and we aspire to create and manage exceptional places that enrich the lives of people and communities to deliver long-term value for our investors, society and the environment.

Environmental and social issues are already influencing real estate market fundamentals including obsolescence, rate of depreciation, voids, operational costs and liquidity. By being at the forefront of identifying and influencing the drivers of change, and shaping our investment strategies accordingly, we believe that we will continue to deliver strong returns to our investors in the long term and support creation of positive environmental and social outcomes.

Full details of our approach to ESG governance and integration into the real estate investment process is detailed in M&G Investment's Real Estate ESG Investment Policy, which is published on our website and reviewed annually. This Policy sets out how we consider ESG within our investment processes and how we will implement our ESG strategy; please visit: **https://www.mandg.com/~/media/Files/M/MandG-Plc/documents/mandg-investments-policies/2022/april-22-mgreal-estate-esg-investment-policy.pdf**

Please note, not all of M&G Investments' real estate offerings are suitable for retail customers. Please visit M&G Investments' direct customer website for further details.

Net zero and climate resilience

We believe that climate change is the most important environmental issue facing the world today.

The impact of climate change on the built environment is becoming increasingly apparent, and this will continue unless substantial action is taken to cut emissions. Understanding and managing physical and transitional climate risks is becoming increasingly important, and building these considerations into our strategies is key.

Further to M&G plc commitments to focus and accelerate efforts to address climate change, we made a commitment in late 2019 to achieve net zero carbon emissions by 2050 across our global real estate portfolio, as one of the founding signatories of the Better Buildings Partnership (BBP) Climate Change Commitment.

In 2021 we published our net zero carbon pathway, which outlines the actions to reach net zero across our real estate operations, refurbishments and acquisitions. In the past year, significant steps have been taken to inform our delivery plans, with a series of detailed net zero carbon audits at the asset level. These identify and cost measures required to hit net zero, and involve active engagement with our occupiers – an important set of stakeholders for decarbonising real estate assets.

Indeed, considering that the vast majority of our carbon emissions are linked to the energy consumed by our tenants, measuring and making progress towards our energy and carbon targets is dependent on acquiring high-quality energy data across our portfolios. For this reason, in the last year, we have launched a major drive to increase portfolio data coverage – including from traditionally harder-to-reach asset classes.

As well as driving forward with the decarbonisation of our buildings, we are also putting steps in place to actively mitigate climate-related risk. For example, all assets have been recently assessed for their physical climate risk exposure, looking ahead to the 2100 timeframe under the RCP 8.5 scenario (this predicts an average temperature change in the order of 4.3°C by the end of the century, assuming no global response to climate change beyond what has already been committed to. There are concerns about the credibility of this scenario. However, it is widely used in industry to represent a 'worst-case' outcome as an unlikely high-risk future).

We also produce TCFD-aligned disclosure for our real estate business and funds.

Acquisition

Governance of ESG-related risks is embedded from the earliest stage of our investment life cycle. As part of the acquisition due diligence process, we assess current performance and improvement opportunities through our ESG due diligence requirements. These have recently been extended to include net zero audits, which identify any technical barriers to net zero and enable the financial cost to transition assets to be underwritten and managed.

Developments

Our Sustainable Development & Refurbishment Framework outlines how sustainability is integrated throughout the design and construction process in the UK and Europe. It prescribes minimum standards and aspirational targets for a range of ESG issues, including net zero carbon and physical climate-related risk in the development of residential and commercial assets, as well as refurbishment to existing. We are working with Arup to review and update this Framework to ensure it continues to meet everchanging ESG requirements.

Portfolio management

Once we acquire an asset, we put in place a Sustainability Asset Plan to drive further asset-level improvements. An important part of this is engaging with our customers to work together to improve the performance of the building. As such, we continue to introduce 'green lease' requirements within leases to facilitate greater collaboration and sharing of data. In recent lease negotiations with tenants in one of our European property strategies, we agreed to invest more than €0.25 million in energy efficiency and lighting improvements within an industrial property. We also continue to explore opportunities to deploy on-site renewable energy systems in cooperation with tenants. For example, we recently installed solar panels on the roof of a logistic unit in Redditch in the UK, which is projected to deliver significant carbon and cost savings for the tenant.

Case study:

New sustainable warehousing facility

Brackmills Industrial Estate in Northampton consists of three units totalling 820,000 sq ft located within the Golden Triangle, an area in the East Midlands renowned for its high density of distribution facilities.

The asset – completed in December 2022 – is our largest speculative industrial development. The development has been designed to meet best in class sustainability criteria, delivering a BREEAM rating of Outstanding and an EPC A+ certification – placing it in the top 1% of UK non-domestic / industrial buildings for sustainability. We have committed to additional investment in the existing design that will further strengthen its sustainability credentials by incorporating extensive electric vehicle charging provision, solar-ready warehouse roofs, rainwater harvesting and a solar thermal hot water system in response to growing occupier appetite for the very latest in renewable energy and eco-focused technologies.

Case Study:

Sustainable workspaces that enhance wellbeing

40 Leadenhall is one of the biggest schemes to ever receive planning permission in the City of London. Located in the City's insurance district, it will accommodate up to 10,000 people upon completion and aims to be a champion of sustainability and wellbeing within the central London office market. The building is targeting BREEAM 'Excellent', NABERS 5 Star, and 'Platinum' WELL, WiredScore and SmartScore ratings.

40 Leadenhall will capitalise on the demand for best-in-class office buildings that meet key sustainability and employee wellbeing demands. Occupiers will benefit from light-filled workspaces as well as extensive amenity space, including multiple outdoor terraces, restaurants, a library, state of the art fitness studio, wellness lounges, a central square with trees and bike storage. Operational carbon emissions will be minimised through the use of air source heat pumps and renewable energy.

Case study:

low carbon living

Castle Park View – one of Bristol city's newest residential schemes – is the tallest residential block in Bristol.

The 180,000 sq ft brownfield site, previously occupied by Bristol Ambulance Service, is now home to more than 700 residents in 75 affordable and 300 private low-carbon rental apartments, and is a strong example of how public and private sector partnerships can fulfil important social needs – in this case the regeneration of derelict land to provide high quality, sustainable rental accommodation.

Occupying a prime location in central Bristol, the building is the first to take heat from the city's new water source heat pump, served by its historic docks, which will contribute to Bristol's 2030 Net Zero carbon aspirations. Built with brown roofs and allotment areas to encourage biodiversity, solar panels are expected to reduce carbon emissions by 20% and the contents of two permanent food and clothes banks, which residents can donate to, will be distributed to those most in need locally.

Voting

Introduction

In 2022, we voted at 3,756 meetings, comprising 799 UK meetings and 2,957 international meetings (please note, bondholder meetings, 'do not vote' instructions and court meetings have been removed from these statistics). Overall we voted at 97.6% of eligible meetings; at 1,897 meetings, at least one management voting recommendation was not supported. Please see charts below.

The M&G Investments Voting Policy is published on our website and is regularly reviewed in consultation with our investment teams. We use the ISS voting platform to vote and receive bespoke policy research to support our decision making.

As shareholder meetings arise, we use research from ISS (and voting information service IVIS for UK companies) to highlight any contentious issues that we were not aware of from previous consultations with investee companies.

Our starting point as an active fund manager is to support the long-term value creation of our investee companies, and there will be occasions when we need to vote against management-proposed resolutions or support shareholder resolutions which are not recommended by the board, if we believe this is in the best interest of our clients and the company.

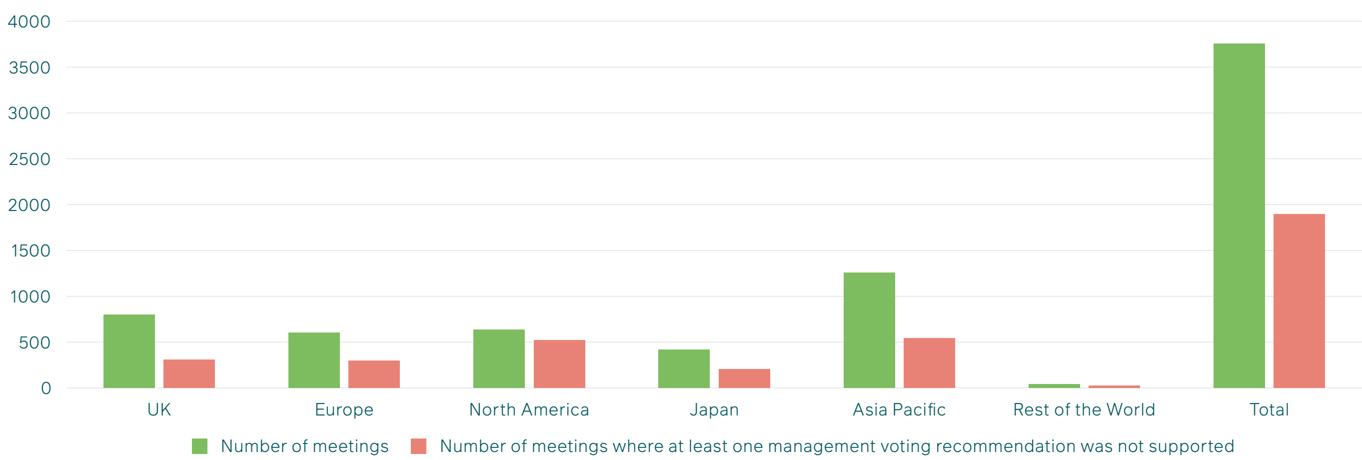
When considering how to vote, we take into account our policy and opinions expressed by members of the S&S team, investment analysts and investment teams. Fund managers have the final say on the voting decision. In the UK, we will, where possible, try to inform the company in advance if we are voting against. In most circumstances, especially on remuneration-related issues, there will have been a previous dialogue with the company.

To read M&G Investments' voting policy, visit: **https://www.mandgplc.com/~/media/Files/M/MandG-Plc/documents/responsible-investing/stewardship/mandg-voting-policy.pdf**

To see our voting history, updated quarterly, visit: **https://www.mandgplc.com/our-business/mandg-investments/responsible-investing-at-mandg-investments/voting-history**

Below we highlight some of our voting decisions taken during the year.

Meetings where at least one management recommendation was not supported



Source: M&G

Votes cast as 'against' 'abstain' or 'withhold' by category and region

	UK	Europe	North America	Japan	Asia Pacific	Rest of world
Directors-related	16%	51%	43%	93%	45%	46%
Remuneration	15%	12%	6%	1%	7%	16%
Capital-related	60%	11%	0%	0%	20%	9%
Corporate activity	2%	0%	0%	4%	13%	2%
Anti-takeover	0%	0%	3%	0%	0%	0%
Routine other business	7%	25%	24%	0%	12%	28%
Shareholder resolutions	0%	1%	25%	1%	2%	0%
	100%	100%	100%	100%	100%	100%

Source: M&G

United Kingdom

Pre-emption

The largest proportion of our votes against management resolutions in the UK has traditionally related to our voting policy that larger companies should not seek more than 5% disapplication of pre-emption rights, which we believe would otherwise risk excessive dilution for existing shareholders. However, in the fourth quarter of 2022 we updated our policy in line with the new pre-emption guidelines, meaning some related resolutions were voted against (in line with the previous policy) and some for (in line with the new rules).

Remuneration

Given the uncertainty that has prevailed around pay and the cost of living, we kept a close eye on directors' remuneration in the wider context of employee pay. While we expected remuneration committees to motivate management and set stretching targets, our overall message was to ensure that executive pay was appropriately aligned with shareholder returns.

As discussed in the engagement section of this report, we met UK supermarket Sainsbury's as part of a collective engagement via the Investor Forum to discuss a ShareAction resolution that asked the company to become Real Living Wage accredited.

The company informed us that it pays its employees at or above the real living wage, however, this did not extend to contractors. Given that the company operates on 3% margins, it expressed concerns over a third party setting the floor for its largest cost base. This year the company invested £100 million in employee pay rises and £500 million to reduce prices at the till. Following this conversation, several meetings with ShareAction, meetings with other retailers and multiple discussions between investment teams, we took the measured decision to vote against the ShareAction resolution filed at the Sainsbury's AGM, alongside over 80% of other shareholders.

Throughout the year we had various consultations with companies on proposed remuneration updates and plans due to unforeseen market conditions. We saw a number of remuneration committees use discretion to accelerate the vesting of 'under water' LTIPs. Hospitality company Intercontinental Hotel Group has clearly been impacted by the pandemic, but we did not agree with, and subsequently voted against, the remuneration report. This was due to the remuneration committee's decision to change in-flight metrics to allow vesting of the bonus. At construction company Morgan Sindall Group, the remuneration committee used discretion to change in-flight LTIP targets to ensure vesting.

We voted against this proposal. Zinnwald Lithium, an advanced, integrated lithium project located in Germany, proposed a one-off payment to the chief executive during the year. We do not generally approve of one-off grants, and prefer companies to adjust the current remuneration structure to incentivise management.

We also saw a number of new remuneration policy proposals for less traditional remuneration structures. These included replacing the traditional LTIP structure with Value Creation Plans (VCP), Restricted Share Plans and Performance Share Plans. We assess each remuneration proposal on its own merits, but do think that certain schemes are better suited to certain sectors. For this reason, we voted against exhibitions and conferences organiser Hyve Group in relation to its value creation remuneration plan proposal. Along with 25% of other shareholders, we did not feel a VCP was appropriate for the business at the time. Along with 19.8% of shareholders, we voted against online hostel booking company Hostelworld Group's remuneration proposals to introduce a Restricted Share Plan. In addition, we voted against the remuneration policy and bundled compensation plan at electrical retailer AO World due to concerns around the newly introduced value creation plan (VCP) arrangement and overall quantum. While we do assess on a case-by-case basis, we are generally not supportive of value creation plans, as we believe they promote unnecessary risk taking and can incentivise the wrong behaviour for the long-term success of a business.

Within remuneration policy structures, we do not generally accept directors being incentivised by reward for raising capital or for executing takeovers, as this can potentially drive the wrong behaviour for the long-term business outlook. We abstained on the financial statements and reports at surgical and medical technology manufacturer Creo Medical, due to the executives being granted equity for each capital raise completed. We engaged with the company to encourage the board to ensure this does not occur again, hence our abstention and not a vote against. Gas and oil production company Diversified Energy Company currently includes 5% of the bonus to be made up with acquisition and company operations funding. Following an engagement with the company we supported the remuneration vote, but requested for this to be removed in future remuneration iterations.

As mentioned in previous reports, a continued engagement area for us is the alignment of all executive director pensions with the general workforce. Following a meeting with product testing and certification company Intertek's chair, and the company's position to keep the chief executive's pension contribution significantly above the general workforce, we voted against the remuneration report; the company received an 18% vote against the report. Soft drink manufacturer A.G. BARR also received significant dissent (27%) at its AGM, with executive director pensions still misaligned with the wider workforce.

Where disclosure around remuneration was limited, we looked to vote against the remuneration report if we did not have sufficient information to make a comprehensive decision. At used car dealership company Pendragon we voted against the remuneration report, along with 65% of other shareholders, given insufficient information on the strategic metrics under the 2020 and 2021 LTIP award. Similarly, we voted against IT security firm Avast's remuneration report, due to the company failing to disclose the strategic KPI or the personal financial performance metrics used within the bonus structure. Airtel Africa, a telecommunication provider, failed to disclose any LTIP underpins, so we voted against the overall remuneration policy.

Diversity

A key voting focus for us throughout 2022 was board gender diversity. During the year we voted against board directors at 24 UK companies, due to not meeting our minimum expectations on board gender diversity. We typically targeted our voting at nomination committee chairs (who often are also the board chair) and will vote against all companies that fail to meet our voting policy unless there are extenuating circumstances. We voted against the nomination chair due to gender diversity concerns at a board level at British retail, sport and intellectual property company Frasers Group, financial services firms Caledonia Investments and CMC Markets, aerospace company Babcock, cruise operator Carnival, pharma company Hikma Pharmaceuticals, online grocer Ocado, fuel cell technology specialist Ceres Power, addiction cessation drug maker Indivior, nutrition specialist Glanbia, private healthcare provider Spire Healthcare, electric utility ContourGlobal, and payment solutions provider Network International Holdings.
We also took into consideration adherence of FTSE100 companies with the Parker Review.

Climate

Climate was a key part of this year's voting, with many companies putting their climate plans to vote. These included miner Rio Tinto, stockmarket operator London Stock Exchange Group, banking group NatWest, insurer Aviva and electric services company Centrica. We supported the majority of climate plans and deemed they were appropriately stretching. We did vote against miner Glencore's climate plan, given concern around thermal coal activities and the legitimacy of the glide path proposed. At Banking Group Barclays' AGM, along with circa 20% of other shareholders, we voted against the climate plan due to concerns around the ambitiousness of the transition plan.

Directors

In line with the UK Corporate Governance Code, we expect all remuneration and audit committees to be fully independent and not comprise of any non-independent directors or executives. For JD Wetherspoons, a pub company operating in the UK and Ireland, we voted against the re-election of a director due to independence concerns, in line with our voting from the last few years. By virtue of their sixteen-year tenure, we considered the director to be non-independent. This is an issue as they sit on both the Audit and Remuneration Committees. Similarly, at the AGM for airline Jet 2, we abstained from voting on the financial statements and statutory reports, and voted against the re-election of a director due to concerns around board independence, and the fact that the executive chair also serves on the remuneration committee and audit committee.
Mineral drilling solutions provider Capital proposed a director for election holding a dual chair and chief executive role. Due to other independence concerns on the board, we concluded by voting against two directors, including the chair/chief executive. John Menzies, an aviation services business, also proposed a joint chair and chief executive election. We voted against, in line with 10% of other shareholders.

North America

Climate

2022 saw a record number of shareholder resolutions in North America, with responsible investors and NGOs looking to build on the recent years' momentum for shareholder activism. Climate change continues to be at the heart of this stakeholder advocacy, with shareholder resolutions now actively looking to align company operations and strategy with 1.5°C scenarios. We have been supportive of resolutions asking companies for enhanced disclosure around decarbonisation, transition plans and emissions target setting. However, we have been wary of supporting resolutions we consider to be overly prescriptive, too narrowly focused or otherwise potentially harmful to shareholders. While we encourage the adoption of net zero strategies with robust interim targets, we do not wish to unduly restrict our investee companies' ability to realise their strategic objectives.

One instance where we believe more can be done in terms of climate change risk mitigation was at membership-only retailer Costco, where we supported a shareholder proposal requesting that the company adopt short, medium and long-term emissions reduction targets. The proposal received overwhelming support, with almost 70% of votes cast being supportive.

As in previous years, we opposed the lead director at oil and gas major ExxonMobil for failing to positively engage with shareholders on climate issues. At the same meeting, we co-filed a resolution requesting the company to report on financial impacts from the IEA Net Zero by 2050 scenario, which received majority support from shareholders. Furthermore, we supported resolutions at AGMs of other energy companies asking for the adoption of emissions reduction targets, such as Chevron and Valero Energy. We were also supportive of similar resolutions at retail company Dollar Tree, beverage company Monster and shipping company UPS. Moreover, we supported a resolution asking for a report on stranded asset risks in relation to natural gas extraction at Dominion Energy.

Environmental

Water risk is becoming a central environmental issue, as water scarcity is an inevitable consequence of climate change. At the annual general meeting of technology conglomerate Alphabet, shareholders asked the company to improve disclosure around water risks related to its data centres, which use water as a coolant to the possible detriment of nearby communities. We supported the proposal to promote enhanced water risk reporting, and to help shareholders understand the role water access can play for companies that use large data centres. For similar reasons, we supported a shareholder proposal at food manufacturer Heinz, requesting an assessment of its water risk exposure in light of growing pressure of water supply quality.

At food producer Tyson Foods we supported a shareholder proposal asking the company to report on its efforts to reduce absolute plastic packaging use. Companies are facing increased scrutiny over plastic waste, and we believe the report would help shareholders assess the company's exposure to related environmental and reputational risk. We supported a similar resolution at food distributor Sysco Corporation.

Diversity

One addition to the repertoire of socially-themed proposals included a request for disclosure on the potential financial implications for female employees ahead of the, then, anticipated overturn of Roe vs Wade. We supported the resolution as it could provide clarity on abortion rights and related benefits to employees. Another novel resolution was filed at waste manager Republic Services, asking the company to conduct an audit to assess whether it contributes to environmental injustice by disproportionally operating in communities of colour.

Gender diversity is one of our stewardship focus areas, and our enhanced policy stance led us to vote against directors at over 200 companies during the year for failing to meet our board gender diversity expectations. At investment vehicle Berkshire Hathaway we supported resolutions requesting the company to report on the effectiveness of its diversity & inclusion initiatives. In a similar vein, we typically support proposals asking for companies to disclose gender and racial pay gaps. These generally receive decent support, but it is unusual for them to gain majority support. However, one such resolution passed at the AGM of retailer Lowe's Companies, with 58% of shareholders voting in favour. We supported a proposal requesting Canadian food retailer Metro to annually report on female representation at management level.

We voted in favour of a number of shareholder resolutions at the AGM of tech giant Apple, including a report on forced labour, a request to disclose median and racial pay gaps and a request to conduct a civil rights audit, all of which we believe help identify key areas of improvement. We supported a shareholder-requested report on human rights due diligence at media and entertainment company Disney.

Remuneration

Various remuneration issues, including quantum, severance arrangements, special awards, use of discretion and inadequate disclosure, resulted in us opposing a number of 'Say on Pay' votes at US companies.

At game developer Take-Two Interactive we opposed the Say on Pay vote as we did not consider the targets for the year in review to be sufficiently challenging. Other shareholders shared our concerns, resulting in the resolution failing, receiving only 42% support. Furthermore, we opposed the Say on Pay at aerospace manufacturing company TransDigm Group due to concerns over consecutive years of insufficient response to investor feedback. The vote passed with a small margin, with just over 50% of shareholders voting in favour.

Occasionally, when we find pay practices to be particularly concerning, we will consider opposing the chair of the remuneration committee, which we did at online travel company Expedia, whose chief executive was awarded equity grants in excess of USD$300 million without sufficient justification. In recent years, pay disparity has become an important issue for investors and, sharing these concerns, we voted in favour of a resolution at food manufacturer Kellogg requesting the remuneration committee to take wider employee pay into account when setting executive pay.

At software company Norton LifeLock and game developer Electronic Arts we supported a shareholder proposal requesting to put future severance agreements to a non-binding shareholder vote. We have also supported similar governance-related proposals that we believe enhance shareholder rights. Another such example was a management-sponsored resolution filed at food manufacturer J.M. Smucker to remove time-phased voting rights, as we believe such provisions diminish shareholder democracy.

Covid-19 sparked numerous workforce-related controversies at US retail companies, which in 2022 still persisted. At online retailer Amazon's annual meeting we supported a number of shareholder resolutions, including a report on protecting the rights of freedom of association and collective bargaining. At the same meeting we also supported proposals requesting a third-party human rights assessment of the supply chain and a report on the company's use of its facial recognition technology in relation to racial bias.

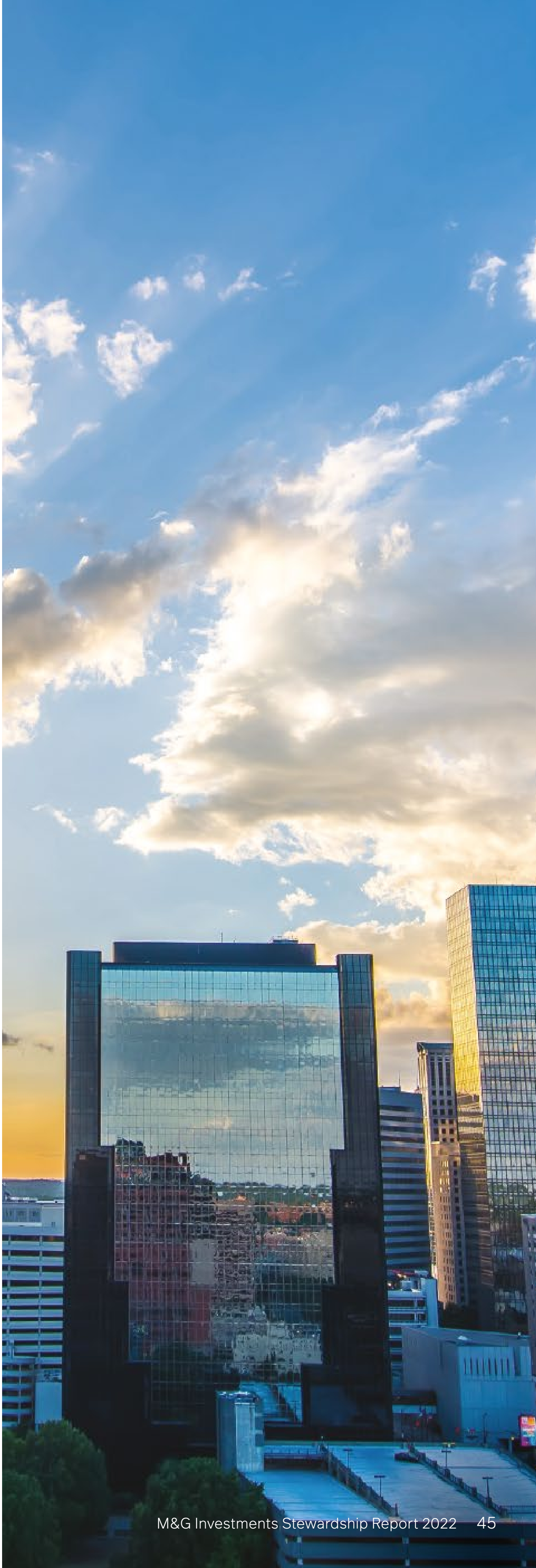
Amid growing concerns over the monopolistic power of some biotech and pharmaceutical companies, we supported shareholder resolutions for reporting on how anti-competitive behaviour risks are mitigated at Pfizer, Eli Lilly, Gilead Sciences and AbbVie.

During the year we were generally supportive of resolutions asking for enhanced disclosures on ESG matters. Such topics included the rights of indigenous people, political spending, deforestation, animal welfare and vaccine pricing. One such resolution, requesting more information on deforestation in the supply chain, was filed at home improvement retailer Home Depot and was of particular importance as it received overwhelming support from shareholders, with 65% voting in favour.

As in previous years, a host of shareholder resolutions were filed at electric car manufacturer Tesla. In light of recent labour-related controversies surrounding the company, we supported a shareholder proposal requesting the adoption of a policy on respecting the rights to freedom of association and collective bargaining. To promote enhanced ESG-related disclosures, we were supportive of increased reporting on water risk exposures, corporate climate lobbying, the use of mandatory arbitration and efforts to prevent racial discrimination. For similar reasons, we supported proposed reporting on climate lobbying and electioneering contributions at transport company FedEx. Furthermore, at food manufacturer General Mills we supported a shareholder proposal requesting additional reporting on efforts to reduce plastic waste.

In 2022, we supported the acquisitions of investment holding company Alleghany Corporation and video game publisher Activision Blizzard by Berkshire Hathaway and Microsoft respectively. We also voted in favour of Elon Musk's acquisition of social media company Twitter and the merger between real estate investment trusts Prologis and Duke Realty. We did, however, oppose the related advisory vote on golden parachutes at Duke Realty, as we were concerned about the single triggered provisions attached to the severance agreement. The vote failed, receiving a meagre 8% support. We also supported the acquisition of AT&T's WarnerMedia business by media company Discovery.

At technology companies Microsoft and Cisco, after consulting internal expertise, we abstained on a shareholder resolution requesting the companies to issue a tax transparency report prepared in consideration of the guidelines set forth in the Global Reporting Initiative. While we appreciate that the direction of travel is increased tax transparency, we were nonetheless concerned over the uncertainties related to the implementation of the proposal.



Europe

Governance

A dispute over corporate strategy at Euronav, the Belgian oil and gas transportation company, led to a dissident shareholder putting forward proposals for the appointment of three nominee directors. We considered the strategic proposals of the dissident not to be in the company's interests and voted against, along with the majority of other shareholders. However at Pandora we again abstained on the re-election of two directors at the Danish jewellery company over concerns relating to strategy and performance.

Swiss company ABB, an industrial automation firm, sought shareholder approval for the spin-off of its turbocharging business, which we supported.

Our preference is for chief executives not to move to the board chair position, but in the case of French manufacturer Compagnie de Saint-Gobain we decided to support the move as being in the best interests of the company. At Irish-listed medical device company Medtronic we considered the inclusion of two directors with tenures of over twenty years on the board committees as undesirable, and opposed their re-elections.

Diversity

In Europe, as elsewhere, a number of investee companies are, in our view, failing to do enough to achieve appropriate diversity in the boardroom. As mentioned previously, in these instances, our policy is to target the chair of the nomination committee or the chair of the board, though often these positions are held by the same person. We have a significant position in FBD Holdings, an Irish insurance company where gender diversity on the board is low, and of the six most recent appointments, only two have been women. Following a letter to the company, we decided to vote against the chair, who is also chair of the nominations committee. Another Irish company in which we have a significant holding, Greencoat Renewables, also has low female representation on the board, and we opposed the chair of the nominations committee over this concern. Diversity concerns meant that we voted against directors at a number of other European companies where our shareholdings were lower, including Spanish real estate specialist Inmobiliaria Colonial, Swedish gaming company Evolution and Dutch biotech argenx. EMS-Chemie Holding, the Swiss chemicals company, has a small board that includes only one female director. There is no nomination committee and so we opposed the board chair to express our concern over the low level of gender diversity on the board.

Articles

At multinational food company Danone, we supported a proposal to enshrine the conditions relating to an honorary chair in the Articles, which currently only exist in the board procedures. While we typically do not support the appointment of honorary positions, due to unaccountable influence and power, we considered that this proposal ameliorated the current situation.

At Spanish insurer Mapfre we opposed a resolution for Article amendments to allow virtual only meetings. Proposals at fellow Spanish companies Banco Santander and utility Naturgy Energy Group were also not supported over virtual-only meetings.

Greek energy company Public Power Corporation proposed changes to its Articles to remove the need for shareholder approval in relation to certain aspects of executive recruitment and remuneration. Given the reduction in accountability to shareholders, we opposed the changes.

Share issuance

We opposed authority resolutions at several companies, including German medical device company Siemens Healthineers and British-German travel agency TUI, due to share issuance without pre-emption rights exceeding our guidelines; although it was only at American-Swiss electronics business TE Connectivity where such a resolution failed to pass.

Auditors

At Seagate Technology, the Ireland-incorporated data storage company, we opposed the resolution to appoint the company's auditors, due to the length of their tenure which exceeds 40 years. The long tenure of the auditors at medical device company Medtronic led to a negative vote there as well.

Remuneration

Akzo Nobel, the Dutch paints and coatings company, disclosed a one-off restricted share grant to the chief executive. We considered this unjustified and, therefore, opposed the resolution to approve the remuneration report. At German insurer Hannover Re we abstained on the remuneration report over a lack of disclosure to explain the recruitment arrangements of the chief executive. Concerns over remuneration arrangements and related disclosure resulted in us not supporting resolutions at several other companies including French pharma Ipsen, Spanish real estate specialist Inmobiliaria Colonial, French luxury goods company LVMH, French telecom Orange and French media company Vivendi. German industrial services company Bilfinger was flagged by our policy research due to special payments for executives. However, we voted in favour as, in our view, the amounts were reasonable and the company's progress has been acceptable.

Buzzi Unicem is a family-controlled Italian building materials company, and while executive pay is not a concern, the board has not established a remuneration committee. This led us to oppose the proposal for approving remuneration policy, as we did last year.

Spanish insurer Mapfre attracted a negative vote from us due to excessive pension contribution levels in our view.

Other issues

Swedish telecoms company Ericsson was subject to investigation due to apparent misconduct around payments and activities in connection with Iraq and terrorism. We declined to support a number of director-related resolutions over concern that internal controls appear to have been inadequate.

We abstained or did not instruct our votes at the handful of Russian companies where we are a shareholder, due to Ukraine-related sanctions and associated uncertainties. X5 Retail Group is a Russian retailer headquartered in the Netherlands, where sanctioned Russian directors had resigned and the auditor had suspended its audit. We abstained on all resolutions due to governance concerns.

Turkish companies attracted negative voting due to poor or absent disclosure across resolutions for electing directors, approving remuneration and authorising charitable donations.

Shareholder resolutions

There were a number of resolutions put forward by government shareholders. Polish bank Powszechna Kasa Oszczednosci Bank Polski faced resolutions from the Polish government, a major shareholder, to change the supervisory board. The proposer failed to justify the changes and we abstained; though the resolutions did pass. Similarly, the Polish government took action at metals processor KGHM Polska Miedz, but again failed to provide adequate information, and so we were unsupportive. A notable shareholder resolution was put to the shareholders of Spanish technology company Indra Sistemas, in which the Spanish government has a substantial stake. In line with the board recommendation, we opposed the resolution to appoint a shareholder-nominated director to the board as the nomination was not justified, especially given the requisitionist's shareholding size. However, in the event the resolution passed and the company subsequently announced changes to its corporate governance structure, in a move that is possibly associated with the vote outcome. Israeli EV platform maker REE Automotive, where we have a significant shareholding, faced a proposal from a major shareholder to elect a new director, but again we did not support due to lack of justification. The resolution failed to pass.

Two, what we considered, unusual shareholder resolutions appeared during the year. The first was at French utility Engie where shareholders were asked to approve a proposal to reduce the dividend. We opposed, along with the vast majority of other shareholders. Then at Danish stone wool specialist Rockwool there was a resolution proposing a charitable donation of up to US$28 million to support the reconstruction of Ukraine. Due to our concerns around the administration and potential uses of the money, and related risks, we decided to oppose the resolution.

Asia Pacific

South Korea

Turning to Asia Pacific, March is proxy voting season in South Korea, and it was notable for the number of companies dealing with criminal controversy. Samsung Electronics has hopefully put its governance tribulations behind it, but for a number of other South Korean companies – financials Shinhan Financial Group and Woori Financial, trading company SK Networks, chemical company Lotte Chemical, and biologics specialist Celltrion Healthcare – we opposed a number of resolutions for a variety of failings. Silicon Works, now called LX Semicon, sought shareholder approval to relist on the main market, which we believed to be in shareholders' interests and supported.

China and Hong Kong

A frequently arising aspect of corporate governance for voting approval by shareholders of Chinese companies is the establishment and role of Party Committees. Our approach is to abstain when resolutions seek to establish a Party Committee (as we did with solar specialist LONGi Green Energy Technology and optical communications manufacturer Zhongji Innolight) and oppose resolutions that would provide the Party Committee with a leadership role within the company. As an example of the latter, drinks company Kweichow Moutai proposed an amendment to its Articles dictating that the 'Party secretary and chairman of the board of directors shall be the same person' – a proposal that we opposed. The proposed Articles amendment at commercial bank China Everbright Bank Company, which has already established a Party Committee whose role relates to the implementation of Communist Party of China policies and guidelines, was different by adding the requirement 'to thoroughly study and implement Xi Jinping thought on socialism with Chinese characteristics for a new era, strengthen the Party's political building, adhere to and implement the fundamental systems, basic systems, and important systems of socialism with Chinese characteristics'. We abstained.

The resolutions on agendas at Chinese companies cover a wide range of authorities and governance issues. Often the resolutions relate to quite specific management issues such as borrowing, transactions and working capital, where we are typically supportive, although resolutions on allowing disproportionate loan guarantees is one example where we tend to oppose. Often changes to Articles or management procedures are not set out for shareholders, so we are also unsupportive in these instances.

The majority shareholder of Chinese auto parts company Nexteer Automotive Group requisitioned a meeting to remove two directors and propose three new directors, but provided no explanation or rationale for the action. Given the lack of information to explain the proposals, we supported the board by opposing the resolutions.

At Hong Kong-listed shipping company Pacific Basin Shipping we decided to oppose the election of the finance director, due to concerns over performance in the role in relation to a capital raising with convertible bonds. Another finance chief, this time at Chinese chemicals company Dongyue Group, drew our ire over a stock options transaction and we declined to support his re-election as well.

We had yet more discontent with Hong Kong-listed packaging company Greatview Aseptic, where our expectations for the company have not been fulfilled in terms of both performance and corporate governance. We decided to oppose the re-election of all three directors that were standing, including the chief executive.

Taiwan

A board proposed resolution that appeared on the agendas of several Taiwanese companies sought to amend the Articles so that the board could determine the level of dividend without shareholder approval. In our view, such a reduction in shareholder rights was without merit and we opposed at many companies including specialist equipment maker Fittech, electronics contract manufacturer Hon Hai Precision Industry and semiconductor company MediaTek to name just three.

Singapore, Malaysia and India

For some time fund managers have been engaging with Singaporean communications company Netlink NBN Trust over the company's dividend policy. Last year we considered voting against directors, but chose to support in the hope that there would be action to meet our concerns. Unfortunately, the company had not changed its stance and so this year we decided to oppose the election of three directors.

High non-audit fees were paid to the auditor of Malaysian holding company Hartalega for the second consecutive year, raising concerns over independence and leading us to oppose members of the audit committee and the auditor's re-appointment.

The appointment of a non-executive director at Indian aerospace and defence electronics company Bharat Electronics, who is a shareholder nominee of the Indian Government with an indefinite term, was in our view unnecessary and unacceptable and we opposed the director's election.

Australia

Australia's proxy season occurs across October and November. At AGL Energy, a utility company, a major shareholder was behind the successful nomination of four directors, three of whom were opposed by the board. Given the proposer's shareholding and their recent attempt to acquire the company, we followed the board's recommendation of supporting one nominee and opposing the other three. At pharmaceutical company Starpharma, a retail shareholder sought election to the board. However, the rationale for the nomination was not provided and the board doubted their suitability, leading us to oppose. CSL, the biopharmaceutical concern, proposed the re-election of a director who is a senior adviser to a company that provides professional services to CSL. Our concern is that such business relationships may affect independence and we opposed the resolution.

We are a significant shareholder in miner White Energy Company, but decided to oppose the proposed new constitution over the inclusion of provisions allowing for virtual-only shareholder meetings.

Financial company Insurance Australia Group disappointed in light of the low level of gender diversity on the board, especially considering that all the most recent board appointments have been male. We decided not to support the re-election of the board chair, who is also chair of the nomination committee.

Remuneration concerns at regenerative medicine company Mesoblast, including the granting of options to non-executives, were allayed following a discussion with the company to better understand the circumstances, and we subsequently supported the board's proposals. However at airline Qantas Airways and commercial property company Goodman Group we were unsupportive due to concerns over quantum.

Australian oil and gas company Santos has not done enough, in our opinion, to set and disclose environmental targets, and this was reflected in our vote against the board resolution to approve its climate change plan. The company also faced a shareholder resolution that referenced the IEA's Net Zero by 2050 Scenario. However, in our view that scenario tool is not appropriate as a guide to how companies should transition away from carbon. For similar reasons we opposed two other shareholder resolutions, one stating 'shareholders request that our company cease all private and public advocacy, both direct and indirect, that contradicts the conclusions of the International Energy Agency'; and the other requiring an 'analysis of the useful life of all assets using different oil and gas demand scenarios, including the IEA Net Zero by 2050 scenario'.

Integrated energy company Origin Energy faced four shareholder resolutions (aside from the requisite facilitating resolution to amend the Articles) covering climate accounting, water, cultural heritage and consent resolution. The first was withdrawn before we could vote, due to the company agreeing with the requisitionists to provide the information requested by the proposal. The water-related resolution asked for the company to make commitments on water quality, social consultation and related disclosure. The resolution relating to cultural heritage requested the company to comply with recommended legislative changes and cease operations until all of the recommendations of the Scientific Inquiry into Hydraulic Fracturing in the Northern Territory's Final Report had been implemented. The last resolution requested the company to deal with traditional owners within specific conditions. We considered each of these resolutions and decided not to support them, due to the resolutions being, in our view, unnecessary in light of the company's disclosures.

A shareholder proposal at Australian insurer QBE Insurance Group required the company to reduce investment and underwriting exposure to oil and gas assets and disclose associated targets. While we have a Thermal Coal Policy, it does not currently require the phasing out of all fossil fuels. As such, we do not typically support resolutions requiring a reduction in exposure to oil and gas. We therefore opposed the resolution.

Japan

Japanese companies faced a number of shareholder resolutions to amend their Articles. These were to enshrine a corporate strategy (such as withdrawing from nuclear power generation at Chubu Electric Power Co) or to ban an activity, due to environmental concerns. We typically oppose such resolutions, due to concern that amending the Articles for these purposes is inappropriate and reduces boards' ability to act in the best interests of the company. However, at utilities Chugoku Electric Power and Tokyo Electric Power, we did support shareholder resolutions to amend Articles, as each of these concerned disclosure of executive remuneration. We opposed resolutions at a number of companies that were seeking to amend their Articles to allow for virtual only meetings, such as camera maker Nikon, IT services and systems provider BIPROGY and security firm Central Security Patrols. All these resolutions passed, with dissent ranging from 7% to about 19%.

Independence of directors remains an issue due to cross-shareholdings, which is a prominent characteristic of corporate governance within Japanese companies. We opposed a number of directors at shareholder meetings where this was a concern, including electronics business NEC Corporation, media and broadcasting company TBS Holdings, specialist equipment maker Nippon Thompson and building construction company TAISEI Corporation.

Nippon Signal, an electronics company, proposed to adopt a poison pill which would be in effect for three years. Given the shareholding structure and some concerns over independent oversight, we concluded that the resolution was not in shareholders' interests and we opposed. In the event the pill was adopted, but there was a significant level of opposition.

Bank holding company Mizuho Financial Group has suffered a number of technology and operational failures, the latest being a series of incidents affecting ATMs. While new directors have been appointed as a result of these issues, we decided to oppose the most senior and longest-tenured external director on the board over the continuing incidents at the company.

Finally in Japan, the fate of conglomerate Toshiba remains unclear, although a shareholder meeting giving shareholders the opportunity to indicate their collective preference took place during the year. On offer from management was a plan to split the company in two; and from a leading shareholder, a proposal for the company to seek alternative possibilities (such as a buyer). However, neither resolution was passed.

Rest of world

South African goldminer Sibanye Stillwater reported a shocking number of fatalities during the year, with disclosure on the reasons and causes of the deaths lacking. In light of these deaths, we did not support the re-election of two directors; and we declined to support both the remuneration policy and the remuneration report resolutions.

The board of miner African Rainbow Minerals includes a number of directors who we do not consider to be independent, due to excessively long tenures and professional relationships. Consequently, we opposed a number of committee and board appointments. At publishing company Naspers we opposed the re-election of a non-executive who has been on the board for over 20 years. Our concern centred on the director's chairing of the audit committee, which in our view is not appropriate for such a long-tenured director.

Mexican property company Fibra Uno Administracion has a large shareholder whose nominees dominate the company's board. The lack of board independence led us to oppose the re-election of three non-executives. Independence was also a concern at Brazilian transportation infrastructure company CCR, and consequently we opposed the re-election of the chair and the bundled resolution to elect directors.

UK Remuneration

During the year we received consultations on 96 new proposals from remuneration chairs, with subsequent follow-up letters and emails. We had a total of 19 remuneration-specific meetings during the year, in direct response to company proposals. Of note, we are members of the Investment Association's (IA) Remuneration and Share Schemes committees, where specific concerns are discussed.

Throughout the year, in line with IA guidance, we continued to keep a close eye on executive pension arrangements to ensure that they are in line with the wider workforce. Generally, most companies are compliant with this guideline as it was due to come into force by December 2022.

As in 2021, many companies proposed alternative remuneration plans, away from the traditional short and long-term bonus structure, in an attempt to remove some of the unpredictability in the remuneration outcomes in coming years. We saw a number of proposals related to short-term market volatility and the prospect of further downturns. While we understand the need to incentivise management, we expect remuneration proposals to focus on a long-term approach. Given the depressed nature of share prices during the year, we were very conscious of 'one-off share grants' and subsequent potential windfall gains post-COVID. Every company's proposed arrangements were assessed on their own strengths on a case-by-case basis.

In addition, we saw a number of companies propose a move to Restricted Share Plans (RSP), Performance Share Plans (PSP) and Value Creation Plans (VCP) and away from a traditional Long Term Incentive Plan (LTIP). We do not think these schemes should be used as a default solution to circumvent difficult decisions. However, due to the uncertainty and cyclicality of certain sectors, while we return to 'normal' post-COVID, we thought these were often appropriate for remuneration committees struggling to set LTIP targets that were suitable to motivate management and stretching enough to satisfy shareholders. Generally, we saw companies within highly cyclical industries propose these plans.

We did not just assess the short-term impact of the pandemic when assessing these proposals, but instead looked at the long-term benefits or shortfalls that the proposed policy could present for each company. Again, we considered each on a case-by-case basis.

Within more traditional proposals, we saw an uptick in non-financial metrics being included. Over recent years the percentage that these non-financial targets contribute to the overall remuneration structure has increased. Despite being supportive of the inclusion of these metrics, we remain cognisant of striking the correct balance between financial and non-financial metrics in incentive schemes. As such, we were very clear when consulting on proposals that we did not expect to see these non-financial metrics total more than 30% of the remuneration opportunity. While we value the importance of personal, strategic and other non-financial metrics, we have concern around the measurability and use of discretion when deciding on the vesting outcomes of these particular metrics.

Another key issue which was raised by companies throughout the year was the challenge of trying to compete with the US in regard to executive remuneration and the retention of employees. Attracting talent becomes very difficult when competing with US remuneration structures and the higher multiples that are available to many executives. While we, of course, want the best management teams and for executives to be sufficiently motivated, we do not think remuneration should be the only reason why UK companies can compete for US talent. We also remained cognisant of excessive executive pay increases in relation to the remuneration of the wider workforce, in the context of the ongoing cost of living crisis.

Other engagements and activities

We are willing to act collectively with other UK and overseas investors where it is in the interests of our clients to do so, and we are supportive of collaborative engagements organised by representative bodies such as the Investor Forum and Climate Action 100+. Members of the Stewardship & Sustainability team participate on a range of external committees related to shareholder issues, while also taking part in conferences, conventions and roundtables, among others. It is in the interest of our clients and society as a whole to have well-functioning financial markets. It is also important for us to engage with regulators, government officials and other important stakeholders to ensure the best outcomes for clients.

We are co-chairs of the International Corporate Governance Network (ICGN) Natural Capital Committee, which met at the beginning of the year and agreed to create a working group, tasked with developing the first draft of an introduction paper on biodiversity and natural capital. It will also develop a guide to how investors should approach this subject.

Separately, we attended a call with data-driven, not-for-profit organisation Global Canopy for a demonstration of its nature data solutions: Trase Finance and Forest IQ. Trase Finance is well-suited to deep-dive analysis at the individual company level, whereas the Forest IQ tool provides more of a portfolio-level view of nature-related metrics, which enables users to identify certain nature-related hot spots within their portfolios.

We joined the UK Endorsement Board (UKEB) Investor Advisory Group, which is the voice on IFRS reporting and influences the IFRS foundation and IASB, which meets quarterly on projects, with UKEB inputting into those discussions. The UKEB influences IFRS, but actually adopts IFRS for the UK (ie approves IFRS before it comes into the UK). The UKEB uses four working groups representing academics, accountants, investors and preparers to get views on proposed changes.

We attended the Everywoman Summit, which brought together over 500 senior women leaders from a broad range of industries to share global best practice in gender diversity and inclusion. The summit discussed all facets of diversity and inclusion, emphasising the need for an intersectional approach to these issues. As such, topics drilled down into neurodiversity, disability, LGBTQ+, ethnicity and mental health, as well as discussing gender diversity. Discussions included how we can implement effective allyship across businesses to ensure that everyone feels included in the workplace.

We attended an FCA hosted roundtable to get an investor view on sustainability, one of the key messages of which was that more regulation was needed in this area, as TCFD, for example, was not enough on its own.

Over the course of 2022, we took part in numerous other events related to responsible and impact investing, some of which are highlighted below.

Investor Forum

We are active members of the Investor Forum, a collective engagement association. The forum runs a number of engagements and organises company meetings for its members, and also arranges regular forums for educational purposes.

Two key engagements and company meetings that we were involved in during the year were:

Standard Chartered climate discussion

The Investor Forum invited Standard Chartered (SC) to present its net zero targets. SC disclosed its net zero target by 2050, as well as interim emissions reduction targets by 2030 for lending to its most carbon-intensive sectors. The bank plans to mobilise US$300 billion in green and transition finance by 2030, to help clients in emerging markets reach net zero. SC has also set out certain rules for coal, such as no direct financing of thermal coal mines, coal power plants or infrastructure; stepwise reduction thresholds in thermal coal revenue to under 5% by 2030, and others. Following these plans will enable an 85% absolute reduction in financed emissions. SC is also moving towards SBTi validation by the end of 2022.

Unilever company group meeting

We met with Unilever following the company's failed £50 billion acquisition of GlaxoSmithKline's consumer health business. Unilever is now out to build confidence with investors and regain trust within the market. The focus for the business is on consumer health, hence the proposed takeover. The company said it understood that confidence in management and the board had been lost over the deal, and it would not be repeated in a rush. It also raised the question around previous shareholder engagement, and the thought that this could be improved going forward. Within the US, the board struggles to meet with investors, so it is hard to gauge their feedback. Overall, though, the company's capital priorities are to maintain the dividend and undertake a serious share buyback scheme over the next three years, which means there is not much cash left for additional bolt-ons.

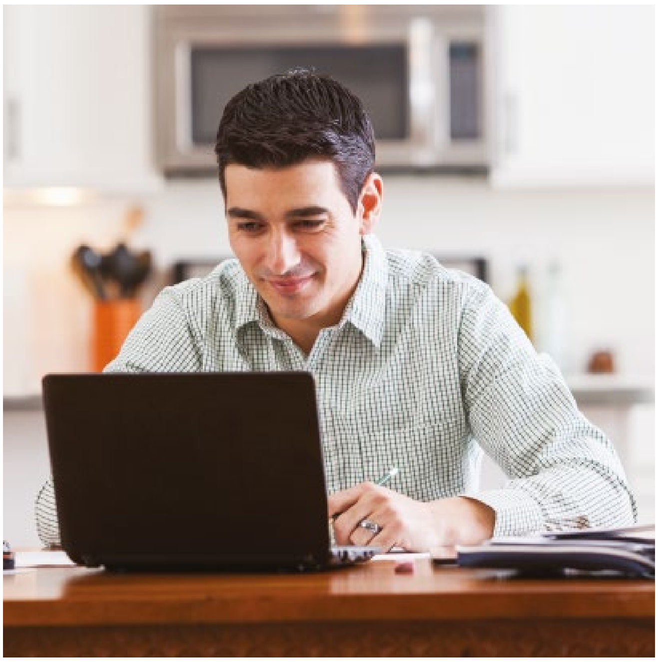
Forums

In terms of forums arranged during the year, these included:

- A session on banks and climate risk with Autonomous
- Implications of the LDI crisis for UK pension funds
- UK equity ownership and the case for reform with Ondra Partners
- Whether executive remuneration should be linked to ESG metrics with PwC
- A review of the 2022 AGM season, a session on the Real Living Wage, and a roundtable discussion on the 'end of ESG'
- A session on company net zero targets with Carbon Responsible
- The second capital raising review with Mark Austin
- An overview of investing in defence and screening products with Moody's; and
- Investing for a sustainable digital economy, among others.

Aside from ongoing engagement work on behalf of investors (which included the meeting with Sainsbury's mentioned earlier in this report), the Forum is also running a number of ongoing projects, including a paper to help investors formulate policies for investing in the defence sector and one looking at the impact of plastic pellet pollution, as well as two new projects exploring the cost of living and water usage and waste. We will be taking part in both of these projects, and will report back in due course.

The Forum also organised an investor webinar covering the topics of biodiversity and modern slavery. Given that currently there are no concrete frameworks or metrics for assessing biodiversity, the forum offered some ways that investors can begin to engage with investee companies on biodiversity issues. It also offered some examples of best practice in relation to companies reporting on modern slavery, which hinges upon transparency and disclosure. There was further discussion on how to engage with investee companies on this topic and how, crucially, the aim should be not to penalise companies for finding modern slavery within the supply chain, but to encourage them to find instances and mitigate them.



Institutional Investor Group on Climate Change (IIGCC)

AGM

We attended the IIGCC's AGM in July, where a number of topics were discussed, including how far we've come in just the last five years. Five years ago, net zero didn't exist, and there have now been multitudinous articles written in the mainstream press and over 4,000 companies that now have net zero targets. All IIGCC European focus companies now have net zero targets for Scope 1 and 2, but not all have Scope 3 yet. Moving forward, there will be more focus on the demand side (eg utilities, autos and cement), fixed income and emerging markets.

The chief energy economist at the IEA presented on climate with a very upbeat message. He thinks 1.5°C is still in reach and the energy crisis sparked by the Russian invasion could be the turning point. He believes there is now alignment between carbon reduction and energy security, which should accelerate the transition. US$1 trillion per annum has been spent on clean energy up to 2020, which is rising now, and could be US$2 trillion per annum by 2030. We could also have 5.5twh by 2030 – solar 3twh, wind 2.5twh and nuclear 0.5twh, with coal -1twh. Clean electricity is key. 300 GW of capacity was installed in 2021, and we need 1,200 GW installed per annum by 2030. This is not just replacing coal generation, as we also need to build battery storage.

IIGCC also announced that, with CERES, it will be providing the secretariat for Nature Action 100, which will follow the CA100+ structure – requesting companies to have board oversight, good assessment of risk, action plans, disclosures, lobbying, natural capital accounts and so on; but there are differences. For example, there is no sectoral pathway for biodiversity/nature. One target is to reduce impact by 2/3, but how this is done and measured in practice remains to be seen. We will also need to look at the whole value chain, as there is no one metric for biodiversity, unlike climate.

IIGCC Net Zero Engagement webinar

We attended a call with the IIGCC on the launch of the IIGCC NZ Engagement Initiative. The purpose of the call was to introduce and seek support from investors on a new collaborative engagement initiative, launching in early 2023, aiming to extend engagement beyond the scope of the CA100+ companies, with a focus on the energy demand side. The initiative is complementary to the CA100+ and we have become a signatory.

30% Club

Diversity and inclusion is one of our primary ESG priorities. As part of our efforts to progress the D&I agenda, we are active members of the 30% Club, a campaign group seeking to increase gender diversity on boards and senior management teams. Over the course of the year we attended quarterly meetings with the group to discuss progress and areas in need of attention. We have also joined a working group focusing on race equity, and at the end of last year the group launched an engagement campaign for all companies in the FTSE 350 that are not yet meeting the Parker Review requirements, and throughout this year we have collectively engaged with the companies. Please see an example of this engagement below in relation to Unite Group.

At a wider group level the priorities for 2023 include updating the 30% Club investor toolkit, to provide a refresh and focus it on broadening the conversation around the issues the 30% Club covers (inclusion) and get in touch with more investors who are having these conversations. They will also be producing an annual report for this year to summarise activities. The 30% Club is still seen as a board diversity campaign, and while there is still a lot of work to be done on that front, in 2023 and beyond, it will be focusing more strongly on the executive committee, specifically in developed markets. The 30% Club will try to expand the US chapter of the Club and focus on US executive committees. We will continue to work closely with the group and participate in the Race Equity Engagement Working Group.

30% Club collective engagement

We took part in this collective engagement with Unite Group, the UK'S largest owner, manager and developer of student accommodation, to ensure that it complied with the Parker Review, and the company confirmed that it intended to be Parker compliant by 2024. Beyond this we discussed a number of D&I issues relating to targets, data collection, pay gap reporting and inclusion. The company is working towards a 34% target for women in leadership positions, and wants to ensure that an intersectional approach is taken. The company is currently working on understanding what the barriers are to attracting and retaining diverse talent.

In terms of collecting ethnicity data, it had a 30% response rate last year, which was a good starting place and above peers. To improve this it is sending out emails prior to data collection, adding further questions based on feedback received, and is working on building relationships across the organisation to ensure trust among employees. Once it has increased its data collection, it will look to develop an ethnicity pay gap report; currently the data is not good enough to do so. Regarding inclusion, Unite informed us that it has developed an employee forum called 'Culture Matters', which has developed training to help employees tackle unconscious bias. This was sold out until December and the company will be developing it further in 2023. Furthermore, Unite has developed a new diversity policy this year, working with Stonewall, as it is aware of the need for a D&I strategy to be intersectional in its approach. Senior leaders underwent privilege and inclusion training to help to work to overcome discrimination, both conscious and unconscious. Overall we were pleased to see the various initiatives and approaches that Unite is taking to make its workplace more diverse and inclusive, and it was especially encouraging to see its emphasis on intersectionality. We look forward to seeing the company comply with the Parker Review, and will continue to monitor to ensure that it does so.

Impact Investing-related activities

It proved to be a busy year for the Impact team, within the Stewardship & Sustainability team. One of the key highlights was our continued participation in the impact working group of the Investment Association's Sustainability Committee to help articulate a definition and characteristics of impact investing for the UK market, with a particular focus on the concept of 'additionality', a central aspect of impact investing and one requiring clarity around implementation, especially in a public assets context. This working group is feeding into the FCA's developing work on sustainable fund labelling. We also took part in a roundtable organised by the Impact Investing Institute on impact in listed equities to inform the FCA's work.

We published our third annual SDG Reckoning Report, receiving a positive response and strong engagement from both internal and external stakeholders. The report was a culmination of research into global progress towards the SDGs, with a focus on the role of impact investors (and, indeed, private sector stakeholders more broadly) in contributing towards closing the funding gap and achieving the SDGs. Unfortunately, the continuing consequences of COVID-19 across the world, the war in Ukraine, high inflation and the bearish macroeconomic outlook have seen SDG progress stalled, and in some cases, reversed. We were hosted by Sky News, discussing how we, as impact investors, can contribute towards closing this gap.

The Global Impact Investing Network's (GIIN) listed equities working group, where we are also a member, produced a guidance document for listed equities on investing for impact. This was based on group discussions over the past year on issues such as additionality, investor contribution to impact, and 'theory of change' (which is the plan for how each impact investment aims to tackle a specific challenge). The paper is currently open to consultation.

We also took part in further thought leadership throughout the year, speaking on various industry panels and continuing to engage with the GIIN and the Investment Association.

Policy and disclosure-related activities

During 2022, the ESG Policy & Disclosure team – within the Stewardship and Sustainability team – focussed on a wide range of issues, including the response to regulatory updates, engagement with external stakeholders and participation in climate change and nature-focussed industry initiatives, among others. To highlight a few of our activities this year:

Following last year's response to the FCA Discussion Paper addressing the implementation of HMT's new integrated Sustainability Disclosure Requirements (SDR) framework and a sustainable classification and labelling system for investment products, the team contributed to our response to the subsequent FCA Consultation Paper and engaged with the Association of British Insurers (ABI) and UK Sustainable Investment Forum (UKSIF) on their respective responses on behalf of the industry. The team also fed into our response to the International Sustainability Standards Board's (ISSB) draft sustainability disclosure guidelines, as well as to the UK Transition Plan Taskforce's (TPT) Call for Evidence, to support the creation of a 'gold standard' for credible transition plans.

In terms of external stakeholder engagements, we continued our collaboration with CDP on water security and holistic water transition issues, which pose global systemic risks and are closely linked to climate change. As part of this work, we shared detailed feedback on the development of the CDP Company Water Questionnaire, as well as the investor challenges and barriers we identified to address nature-related issues. We also held dialogue with climate-focussed NGO Reclaim Finance over the course of the year. In addition to completing the annual survey to inform Reclaim Finance's 2022 asset manager ranking, we held an in-person meeting with the organisation to discuss our approach to fossil fuels, and provided our view in response to their joint campaign with other NGOs on TotalEnergies' oil & gas expansion in South Africa.

Over the course of 2022 we participated in several external industry events. For example, we joined panel discussions at the launch event of the Green Finance Institute (GFI) TNFD UK Consultation Group, as well as the UNGC Climate Action Summit's event 'Framework for managing nature-related risks', and provided the investor perspective on the decision-usefulness of nature-related disclosures. As a member of the UKSIF Policy Committee, we were invited to participate in the APPG Roundtable on Biodiversity 'Tackling Biodiversity Loss: driving up the ambition of UK policy makers and action by the finance sector ahead of CBD-COP15', which was initiated by ShareAction and UKSIF.

As members of the Taskforce for Nature-related Financial Disclosures (TNFD) Forum, we attended the Forum's thematic and TNFD framework-specific webinars to keep updated with the latest development on nature and biodiversity. We also reviewed the TNFD beta framework iterations that were released throughout the year. As part of our membership of the Powering Past Coal Alliance (PPCA), an initiative working to advance the transition from unabated coal power generation to clean energy, we engaged with the PPCA on its updated Declaration, and provided feedback on the revised PPCA Finance Principles, which are due to be published in the first half of 2023.

Other organisations and activities

PRI Conference

In November we attended the PRI conference, which covered a wide range of topics with a number of impressive keynote speakers.

Highlights included:

- Discussion around what China and the US are doing in relation to promoting green investments.
- Explanation by the PRI as to the next phase of CA100+, which will be relaunched in March 2023. Companies have made good progress on net zero targets, but need better decarbonisation strategies and capital alignment. A consultation is now open to update goals, expand investor contribution, enhance the benchmark and recalibrate participation.
- The PRI launched a new human rights and social issues programme called Advance, focusing initially on mining and renewables, as there are examples of poor engagement in this sector with indigenous people. Companies need to do proper due diligence at the local level and investors need to be educated and ask the right questions. For example, in mining, investors can ask which reserves are in conflict areas or on indigenous lands as a good starting point. Public policy advocacy is also important – sometimes it is easier to change the law than change the behaviour.
- Discussion around the future of ESG data and ratings. Data is lacking in emerging markets where it is needed the most.
- There was a discussion on whether ESG ratings should be standardised, or be like sell side research and avoid harmonisation. EU regulation welcomes transparency on methodology and conflicts of interest, and ISSB will help the data.

PRI: using investor stewardship to tackle human rights and social issues

This webinar explored how investors can collectively contribute to advancing the human rights agenda through their stewardship activities. It also provided an overview of the new PRI collaborative stewardship initiative on social issues and human rights, including the objectives and plans for the initiative. Questions were raised as to how effective stewardship has been in advancing human rights, and how it can be useful in political situations and help guide systemic failure to monitor authorities. It also raised the need for a more holistic approach, where investors are more intentional about the tools they use. It was noted that investors can increase their contribution by shifting to a more proactive, rather than reactive, approach, putting pressure on companies to disclose / collect more data, and take action against companies that do not have a human rights risk framework.

RI Europe

We attended this year's RI Europe conference, which covered sustainable finance developments and industry best practices. Discussions ranged across a number of ESG topics, including double materiality, addressing DEI in a meaningful and lasting way, ESG and the defence industry, human rights initiatives and biodiversity. A few notable themes that emerged were the need to look beyond short-term returns and take into account longer-term sustainability issues, and the need to consider the interconnectedness of the issues discussed – climate change, biodiversity, human rights and DEI – a fast and meaningful transition is one which has justice at its core.

Reset Connect conference

This was a two-day, climate-focused live conference/ convention, with M&G Investments as a key sponsor. A number of our fund managers, and our CIO for equities and multi asset, took part in panel discussions on various impact and sustainability-related topics. We spent much of the first day fielding questions from event attendees, which included IFAs, service providers and start-ups looking for capital investment.

UKSIF conference

This was a two-day conference covering a number of ESG topics from data and labelling, the financial sector and its approach to human rights, how investors can work to mitigate biodiversity loss and the effectiveness of carbon offsets, among others. UKSIF also launched its 'Net Zero Inquiry' in reaction to the Chancellor's announcement at last year's COP26, that the UK would seek to achieve becoming the world's 'first net-zero aligned financial services centre'. UKSIF undertook extensive consultation with its membership to explore how this goal could be achieved.

EY breakfast on Sustainable Disclosure Requirements (SDR) and Transition Pathway Taskforce (TPT)

EY hosted a breakfast with speakers from the FCA and TPT. SDR provides a label to protect consumers. There are three categories – sustainable focus, improver and impact. Unlike SFDR, there is no hierarchy in these categories, treating all current sustainable companies as one category, with the improver category using active stewardship to encourage improvement. Sustainable objectives are not prescriptive and there is no authoritative taxonomy, so the FCA will provide oversight instead. The FCA will also not provide prescriptive guidance on KPIs; it will allow firms to develop their own objectives. SASB is a good foundation and an ecosystem should build itself. Stewardship is a core principle, and firms will need to disclose their approach as part of the Stewardship Code. At product level, firms will be able to cross-reference to the entity Stewardship Report. The FCA is seeking feedback on whether stewardship should be provided at the firm or product level, and will look beyond TCFD and align with ISSB S1 for climate.

TPT, meanwhile, is a natural progression from TCFD, ESG integration and net zero. The transition plan is an opportunity for companies to explain how they are going to hit their targets, and is intended as a stand-alone document. This should be a three-year plan, with an annual update. There will be consultation throughout 2023, with final and sector guidance by the end of the year.

Just Transition Workshop Series

We attended the Just Transition Workshop Series, hosted by CA100+. The group aims to strengthen investor-corporate engagement on this topic. Throughout we discussed corporate briefs, engagement plans and heard from guest speakers. Of note was a presentation by the World Benchmarking Alliance on Just Transition Policy Engagement and Alignment. In 2021, Just Transitions Indicators, which align closely with CA100+ indicators, were developed to ensure that decarbonisation goes hand-in-hand with a just and equitable transition. The assessment showed a large number of low scorers, with only nine out of 180 companies scoring above 50%, and 11 million workers at risk of unemployment. Overall there is a huge lack of disclosure and data available on company's just transition plans.

All Party Parliamentary Corporate Governance Group (APPCGG)

We attended an APPCGG breakfast with Steven Kay QC as the guest speaker, who is a leading international criminal lawyer with a global reputation. He has been in many of the landmark cases that have established modern international criminal law. Steven's breadth of practice ranges from cases of war crimes and genocide to international bribery, corruption and fraud. We also attended the APPCGG annual lunch, which included M&G plc's chair on the panel, speaking about the governance of ESG and how it was being approached from a board perspective.

Farm Animal Investment Risk & Return (FAIRR)

We further strengthened our relationship with FAIRR, continuing to support the group's Working Conditions and Sustainable Proteins collaborative engagement programmes – focused on labour risk within the global meat supply chain and the development and growth of sustainable and alternative protein strategies, respectively. Throughout the year we supported on investor letters, including to animal health company Zoetis and food companies Cranswick and Marfrig, and within group engagement sessions, as well as leading on the Sustainable Proteins engagement with Kraft Heinz, results of which will all ultimately feed into the next iteration of the FAIRR Protein Producer Index. We continue to view the work facilitated by FAIRR as increasingly important given the contribution of the meat industry to climate change and the concentration of labour risks within the sector.

Corporate finance

As part of our role as long-term investors, we play an important part in providing capital through the equity markets for the benefit of our investee companies and, therefore, our investors.

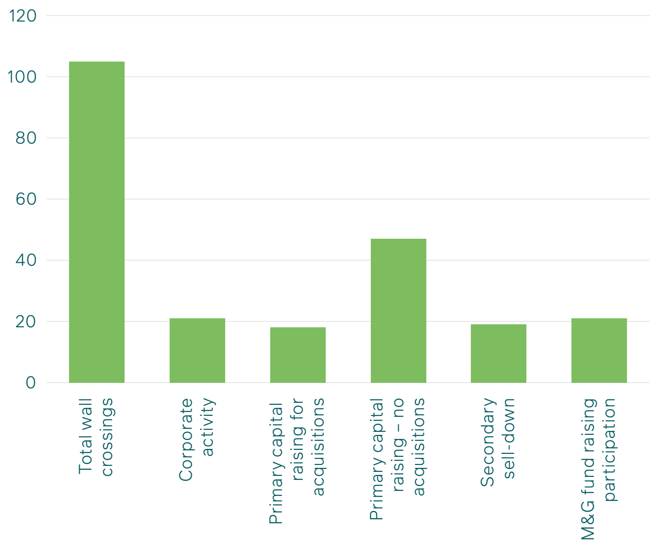
We are involved with companies at all stages of their evolution in the public markets, from the initial public offering (IPO), through periods of capital raising and expansion, to those companies being sold. In this way, we can provide equity capital to our investee companies to help fund their growth phases, and then recycle that capital back again into the market when we receive the proceeds for companies that are sold, often at a significant premium to the market price.

In order to effect these processes, we are prepared to be made 'insiders' and receive price-sensitive information by investee companies for short periods of time ahead of the information being made public. Typically, this is in relation to a transaction such as an equity capital fund raising, a takeover offer or a significant management change, where it is useful for the company and its advisers to try to seek support from major shareholders – whether to finance a transaction or get feedback ahead of a management change.

The Stewardship & Sustainability team acts as the primary contact point for the flow of this type of information into the equity investment team. The process of receiving price-sensitive information is known as 'wall crossing'.

For the year in full, we were wall-crossed in respect of 105 companies in relation to proposed transactions or board changes prior to them being made public. Of these, 65 were related to equity capital fund raising with 18 of those specifically funding acquisitions. There were 19 related to secondary placings. We participated in 21 of the primary issues and none of the secondary placings.

2022 wall crossings



Key terms

Scheme of arrangement: a court-approved agreement between a company and its shareholders or creditors.

Placing: the issue of new securities, which are sold directly to holders, usually institutions. Unlike a rights issue, a placing of shares is not an offer to existing shareholders, but to any suitable buyers who can be found.

Rights issue: an issue of shares offered at a particular price by a company to its existing shareholders in proportion to their current holding of existing shares. The rights to subscribe for shares may be traded in the market during the rights issue offer period.

Open offer: a secondary market offering, similar to a rights issue, however, the rights to subscribe for shares cannot be traded in the market.

Irrevocable undertaking: A binding agreement by a target shareholder to accept a takeover offer or vote in favour of a scheme.

Mergers & acquisitions (M&A) and fund-raising case studies

Some of the notable activity in 2022 included:

Workspace

In February, commercial business premises provider Workspace announced the acquisition of a portfolio property company, McKay Securities, for circa £500 million. The core acquisition rationale was to develop the footprint outside Workspace's current geographies and avoid stamp duty by acquiring the company whole. We were concerned the proposed acquisition was somewhat of a diversion from the company's core business, and questioned management closely on the plans. The acquisition was structured as a Scheme of Arrangement (which ultimately received court approval).

TruFin

In March, fintech business TruFin raised £8.0 million in a placing, with an open offer for a further £2.0 million to fund its loan platform business Satago. The platform has an anchor client, Lloyds Capital Invoice Financing, which has invested directly in the platform. Along with Oslo-based Watrium (a 21% shareholder), we took a pro-rata share of the placing and open offer, which increased the company's capital by around 14%.

Countryside Properties

Countryside Properties, the UK housebuilder, received what was, in our view, a low-ball offer for the company from one of its newer shareholders, Inclusive Capital. We met with the chief financial officer to communicate our view about the level of the offer, and support the board's view to not consider it. We were concerned that Browning West, another US investor with a seat on the board, had undue influence as a shareholder. Further to our meeting, our fears were realised when the company announced the beginning of a sale process under pressure from its US investors. They apparently accounted for more than 50% of the register, and were threatening to call an emergency general meeting (EGM) to unseat the board if a sale process was not instigated. Eventually a takeover was agreed with housebuilder Vistry Group, in a deal worth around £1.25 billion. Countryside shareholders would own 37% of the enlarged group, and 39% of those shareholders publicly supported the bid. However, some of the M&G Investments shareholders in Countryside were not enamoured with the level of the bid, and voted against the scheme.

Go-Ahead

Australian travel company Kelsian and Australasian bus operator Kinetic were in a bidding war over Go-Ahead, the UK-listed transport company. Kelsian initially assumed that no one else was in the running to bid for the company, but then had to compete. It had worked with Go-Ahead for 10 years in the UK and five years in Singapore, and does a very similar thing in Australia – but that market is saturated and so was looking internationally, hence the bid for Go-Ahead. The company asked about the possibility of buying our shares (at an agreed price in the future as no pricing was discussed), or trying to get us to sign an irrevocable. It would need to raise equity at the same time as counterbidding, so wanted some degree of certainty. In the end, Kinetic won out, with the acquisition of Go-Ahead completed under a consortium with Spanish transport company Globalvia.

TP Group

TP Group, the engineering services company, received a 2.25p per share cash offer from Science Group; at the time a 28% shareholder with two Science Group directors on the board. This was a disappointing result compared to the 6p per share cash offer that was mooted the previous year, but we begrudgingly accepted the offer as there did not seem to be any better options.

Beazley

Beazley, the UK insurer, announced a placing of new ordinary shares to raise £370 million (10% of the existing share capital) to fund its growth in attractive underwriting opportunities. We were a circa 2% shareholder, and participated in the capital raise pro rata.

Aveva

Aveva, the British software company, received a cash offer from its majority shareholder Schneider Electric at £31 per share. Despite being at more than a 40% premium to the undisturbed share price prior to the offer, the price was below the £40 levels that the shares had been trading in previous years. We reflected this feedback to the chair and his advisers, made our views public in the press and then spoke to a number of other shareholders. We also initiated a collective action by the Investor Forum, who wrote to the Aveva board on behalf of seven of its members, expressing their disappointment with the level of the offer. At the last-minute Schneider Electric raised its offer by 4% to £32.25, which was enough to get the deal through.

The Stewardship and Sustainability team

Our Stewardship and Sustainability (S&S) team acts as a dedicated central ESG resource for the whole of M&G Investments, working collaboratively with investors across our wholesale and institutional business. Having a central function team to cover these areas ensures oversight and accountability for stewardship within the organisation.

The team coordinates our stewardship activities, engaging with companies on a number of issues from corporate governance to environmental sustainability, alongside the investment teams. Closely linked to this engagement work, the team undertakes our voting responsibilities at shareholder meetings, which we see as one of our central responsibilities as long-term shareholders. The team votes in line with our Voting Policy, which has evolved to reflect our increased engagement focus on both climate and diversity.

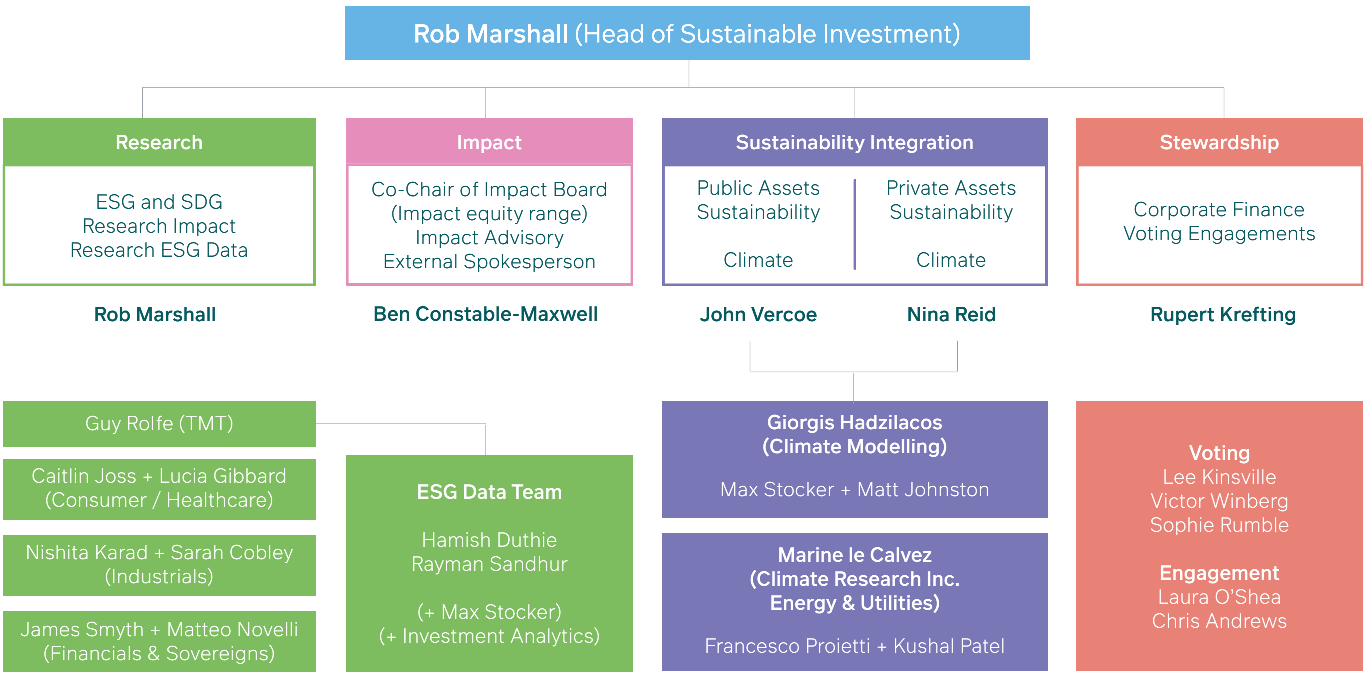
The team is responsible for coordinating our participation in various external initiatives and investor collaborations, including the UK's Investment Association, the Investor Forum and the Institutional Investors Group on Climate Change, among others. The team also maintains our relationships with responsible investment-oriented organisations, including the UN-backed Principles for Responsible Investment (UNPRI) and the Global Impact Investing Network (GIIN).

The S&S team does not force action onto managers, but rather collaborates both directly and via our analysts to equip managers to make better-informed decisions, knowing the full spectrum of ESG risks that could impact their portfolios, as well as where these risks may be concentrated within certain issuers or holdings. By working in conjunction with the credit and equity analysts on ESG, the S&S team is able to ensure that ESG risks and opportunities are considered throughout the full investment process, as well as in the monitoring of companies.

At the end of 2021 there were 19 full-time members of the S&S team, which by the end of 2022 had risen to 24, with further additions to the team planned for 2023. Near the end of 2022, the team was restructured around three key functions: Research, Sustainability Integration (including climate), and Stewardship.

This new structure was designed to deliver three objectives:

- To increase the output of decision-useful ESG and Climate content flowing from S&S to investment teams.
- To increase the flow of reliable ESG and Climate Data to investment teams and other data users.
- To help further embed sustainability considerations in the investment process.



Initiatives

Appendix 1: Companies

Recorded engagements in 2022

Company	Country	Sector	ESG Pillar	Outcome
AB InBev	BEL	Consumer Staples	Environment	
Airport Authority Hong Kong	HKG	Industrials	Environment	
Akzo Nobel	NLD	Materials	Environment	
Alfa	MEX	Industrials	Governance	
ALK-Abelló	DNK	Health Care	Environment	
Alpha Financial Markets Consulting	GBR	Industrials	Environment	
American Express	USA	Financials	Environment	
Ansys	USA	IT	Environment	
ArcelorMittal	LUX	Materials	Environment	
Arrow Global	GBR	Financials	Governance, Social	
Ashtead Group	GBR	Industrials	Environment	
Baidu	VGB	IT	Governance	
Ball Corp	USA	Materials	Social, Environment	
Bank Of Georgia	GBR	Financials	Social	
Baoshan Iron & Steel	CHN	Materials	Environment, Social	
BASF	DEU	Materials	Environment	
BlueScope Steel	AUS	Materials	Environment, Social	
Buzzi Unicem	ITA	Materials	Environment	
CCR	BRA	Industrials	Governance	
Ceres Power	GBR	Industrials	Governance	
CK Hutchison	CYM	Industrials	Environment, Governance, Social	
CK Infrastructure	BMU	Utilities	Environment	
Clarkson	GBR	Industrials	Environment, Governance	
COSCO Shipping Ports	BMU	Industrials	Environment, Governance, Social	
Credit Saison	JPN	Financials	Governance	
Creo Medical	GBR	Health Care	Governance	
CRH	IRL	Materials	Environment	
Crystal International	CYM	Consumer Discretionary	Environment, Social	
CTS Eventim	DEU	Communication Services	Environment	
Diversified Gas & Oil	GBR	Energy	Governance	
Domino's Pizza	GBR	Consumer Discretionary	Governance	
Dongyue Group	CYM	Materials	Environment, Social	
Earth Corp	JPN	Consumer Staples	Environment, Governance, Social	
Ecolab	USA	Materials	Social	

Company	Country	Sector	ESG Pillar	Outcome
Electrocomponents	GBR	Industrials	Governance	🟥
Emera	CAN	Energy	Environment	🟨
Entain	GBR	Consumer Discretionary	Governance, Social	🟩🟨
Ericsson	SWE	Communication Services	Governance	🟨
Fibra Uno Administracion	MEX	Real Estate	Governance	🟥
First Pacific	BMU	Consumer Staples	Environment, Governance	🟥
First Quantum Minerals	CAN	Materials	Governance	🟥
FirstEnergy	USA	Utilities	Environment	🟨
Freeport-McMoRan	USA	Materials	Environment	🟨
Fresenius Medical Care	DEU	Health Care	Environment	🟨
Frost CMBS	IRL	Financials	Environment	🟩
Future	GBR	Communication Services	Governance	🟨
Gaming Realms	GBR	Communication Services	Governance, Social	🟩🟨
Gaztransport et Technigaz	FRA	Energy	Environment	🟨
Grifols	ESP	Health Care	Environment	🟨
Haci Omer Sabanci	TUR	Financials	Environment	🟨
Haleon	GBR	Consumer Staples	Governance	🟨
Helios Towers	GBR	Communication Services	Governance	🟩
Honda Motor	JPN	Consumer Discretionary	Environment	🟨
Hutchison China Meditech	CYM	Health Care	Environment	🟨
Hyundai Motor	KOR	Consumer Discretionary	Environment, Governance, Social	🟨
Iceland Foods	GBR	Consumer Staples	Environment	🟩
Illumina	USA	Health Care	Social	🟩
Infineon Technologies	DEU	IT	Environment	🟨
Informa	GBR	Communication Services	Governance	🟩
Intertek	GBR	Industrials	Governance	🟥
Intu (SGS) Finance	GBR	Real Estate	Environment	🟩
IQE	GBR	IT	Environment	🟩
IWG	JEY	Industrials	Governance	🟩
JAPFA	SGP	Consumer Staples	Environment	🟨
Kering	FRA	Consumer Discretionary	Governance	🟨
Keyera	CAN	Energy	Governance, Environment	🟩
Kinder Morgan	USA	Energy	Environment	🟥
Kooth	GBR	Health Care	Governance	🟩

Company	Country	Sector	ESG Pillar	Outcome
Linde	IRL	Materials	Governance, Environment	
LyondellBasell	NLD	Materials	Environment	
Manhattan Associates	USA	IT	Environment	
Marks and Spencer	GBR	Consumer Discretionary	Social	
Mesoblast	AUS	Health Care	Governance, Social	
Mirriad Advertising	GBR	Communication Services	Governance	
Mitsubishi Corporation	JPN	Industrials	Environment	
Mitsui & Co	JPN	Industrials	Environment	
Moneysupermarket.com	GBR	Communication Services	Governance	
MSA Safety	USA	Industrials	Governance	
Nestlé	CHE	Consumer Staples	Environment, Social	
Netlink NBN Trust	SGP	Communication Services	Governance	
NextEra Energy	USA	Utilities	Environment	
Nippon Pillar Packing	JPN	Materials	Environment, Social	
Nippon Steel	JPN	Materials	Environment	
onsemi	USA	IT	Environment	
Oneok	USA	Energy	Environment, Governance	
Oxford Nanopore Technologies	GBR	Financials	Environment, Governance	
Pacific Basin Shipping	BMU	Industrials	Environment	
Paragon Bank	GBR	Financials	Governance	
Paypoint	GBR	IT	Governance	
Petrobras	BRA	Energy	Environment	
Pemex	MEX	Energy	Environment, Social	
Pinduoduo	CYM	Consumer Discretionary	Governance	
Rank	GBR	Consumer Discretionary	Governance	
Reach	GBR	Communication Services	Governance	
Real Estate Investors	GBR	Real Estate	Governance	
Relia	JPN	Industrials	Governance	
Republic Services	USA	Industrials	Environment	
Restaurant Group	GBR	Consumer Discretionary	Governance	
Rexford Industrial Realty	USA	Real Estate	Environment	
Rockwool	DNK	Industrials	Governance, Environment, Social	
Rotork	GBR	Industrials	Environment	
Samsung Electronics	KOR	Financials	Environment, Governance	

Company	Country	Sector	ESG Pillar	Outcome
SATS	SGP	Industrials	Governance	
Sempra Energy	USA	Utilities	Environment, Governance	
Seven & i Holdings	JPN	Consumer Staples	Governance	
Shimano	JPN	Consumer Discretionary	Governance	
SigmaRoc	GBR	Materials	Governance	
Silicon Motion Technology	TWN	Communication Services	Governance	
SK Square	KOR	Financials	Governance	
Smiths Group	GBR	Industrials	Governance	
Smiths News	GBR	Consumer Discretionary	Governance	
SolarEdge Technologies	USA	IT	Governance	
Sun Hung Kai	HKG	Real Estate	Environment, Social	
Sun Hung Kai Properties	CYM	Industrials	Governance	
Taylor Wimpey	GBR	Real Estate	Governance	
TC Energy	CAN	Energy	Environment	
Tenaga Nasional Berhad	MYS	Utilities	Environment	
Tencent	CYM	Communication Services	Environment	
Tesco	GBR	Consumer Staples	Social	
Thermo Fisher Scientific	USA	Health Care	Social	
TotalEnergies	FRA	Energy	Environment	
UGI	USA	Utilities	Environment	
UniFirst	USA	Industrials	Environment, Governance	
Uniper	DEU	Utilities	Environment	
Unite Group	GBR	Real Estate	Governance, Social	
UnitedHealth Group	USA	Health Care	Environment	
Vallourec	FRA	Energy	Environment	
Veolia Environnement	FRA	Utilities	Social	
Victoria Plumbing	GBR	Industrials	Governance	
Vita Scientia CMBS	IRL	Financials	Environment	
Wabtec	USA	Industrials	Governance	
Watkin Jones	GBR	Real Estate	Environment	
Weir Group	GBR	Industrials	Governance	
WH Smith	GBR	Consumer Discretionary	Environment, Social	

Appendix 2: M&G Investments and the UK Stewardship Code 2020

2022 submission

Contents

Introduction

UK Stewardship Code 2020

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

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

Of note, environmental, particularly climate change, and increasingly biodiversity, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship.

About M&G plc

M&G plc is a leading international savings and investments business, managing money for both individual savers and institutional investors in 26 markets. As at 31 December 2022, we have £342 billion of assets under management and administration, 4.8 million retail clients and more than 800 institutional clients. With a heritage dating back more than 170 years, M&G plc has a long history of innovation in savings and investments, combining asset management and insurance expertise to offer a wide range of solutions. We serve our retail and savings clients under the M&G Wealth and Prudential brands in the UK and Europe, and under the M&G Investments brand for asset management clients globally. For the former, we created M&G Wealth, our integrated wealth management business, to meet rising demand for easily accessible investment advice and wealth solutions.

The relationship between the asset owner and the asset manager

For the purposes of stewardship, M&G plc can be thought of as comprising two entities within the same group, the asset owner and the asset manager, mentioned above. The asset owner broadly corresponds to the Prudential UK and European life business, while the asset manager corresponds to M&G Investment Management (herein referred to as 'M&G Investments')[2]. The asset owner and the asset manager function independently, but are aligned to a common business purpose values and commitments, and operate under a group governance framework, all defined at the level of M&G plc.

The asset owner is responsible for 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. The investment strategies for these products differ, and are tailored to the requirements of each product, but may include multiple asset classes spread across a number of mandates or investment vehicles.

The asset owner appoints asset managers to manage its investment portfolios. Asset managers are appointed for their expertise in generating sustainable risk-adjusted returns, net of fees, over the long term, for a particular asset class or investment strategy. The primary asset manager that the asset owner uses is M&G Investments.

The asset owner endeavours to appoint asset managers that it deems to be best-in-class for an appropriate fee. The asset owner can, and does, appoint asset managers that are external to the M&G plc group. Among the external asset managers that the asset owner has appointed are BlackRock, Eastspring Investments and Value Partners LLP.

[2] Please note, responsAbility and M&G Investments Southern Africa are not in the scope of this report.

M&G Investments, the internal asset manager, in turn can, and does, manage assets for third-party clients that are not the internal asset owner. Indeed, while the internal 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 the internal asset manager offers.

The relationship between the internal asset manager and the internal asset owner is carefully managed to ensure that clients receive the best possible outcome. The asset owner endeavours to treat the internal asset manager as it would an external manager. Where the internal asset manager has been appointed to manage a portfolio, it has met the same criteria and reached the same standards as any external asset manager.

As both asset manager and asset owner, we report our stewardship activities in line with the 2020 Code. In relation to M&G Investments as asset manager, we are doing this in two ways:

- In the main body of this report, which highlights key activities as an asset manager from the previous year across Equities, Fixed Income, Real Estate and Infrastructure; and
- In this appendix, reviewed annually, that provides an overview of our stewardship approach at the asset manager level, and specifically outlines how we adhere to the Code. This is also framed against M&G plc at a corporate level.

2020 principles for asset owners and asset managers	
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.

Principle 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'

M&G plc

Purpose

M&G plc's purpose is to help people manage and grow their savings and investments, responsibly.

Culture and values

M&G plc has a clear ambition of what it wants its culture to be, which includes ensuring that we build a safe, inclusive and diverse culture.

Its culture and core values underpin everything it does. 'Culture' is the values, beliefs and attitudes that the organisation shares, defining how people work together and what is expected from everyone on a day-to-day basis. Above all we:

- **we act with care** – treating clients and colleagues with the same level of respect we would expect for ourselves, and investing with care, making choices for the long term; and
- **we 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.

This culture of care and integrity is central to how the business operates. It defines how everyone behaves towards each other, how they interact with our stakeholders, and above all, how we will deliver on our purpose.

ESG, sustainability and stewardship priorities

M&G plc believes that a well governed business, run in a sustainable way, delivers stronger, more resilient investment returns in the long-term for clients and shareholders, and better outcomes for society. That's why sustainability is being incorporated into everything our business does.

To enable our sustainability-driven ambitions, M&G plc has identified the following key priorities in the ESG, sustainability and stewardship space:

- **Climate change** – committed to a near term carbon emissions reduction of 46% across its operations (Scope 1, 2 and Scope 3 travel) by 2030 at the latest, and to achieve net zero carbon emissions across its investment portfolios by 2050 in aggregate to align with the Paris Agreement on climate change.
- **Diversity and inclusion** – committing to achieving greater representation of gender and ethnicity in senior leadership (Executive Committee and their direct reports) with goals of achieving 40% female representation and 20% representation from Black, Asian and minority ethnic backgrounds by 2025.
    - As an asset manager: across investment portfolios, there are minimum diversity expectations for the boards of our investee companies. For the asset manager's approach to diversity, please see the main body of this report, under both the ESG Engagement and Voting sections.
    - As an asset owner, to evaluate the diversity policy of investment managers that manage assets on our behalf, and how investment managers challenge investee companies to improve and maintain diversity.
    - To continue to meet our external benchmarks, including the National Equality Standard and LGBT Great Equality Index.

M&G plc acknowledges the importance of a variety of ESG issues, and has implemented investment strategies, policies and engagement activities to address many of them. To ensure appropriate consideration of ESG and sustainability in everything the company does, it has adopted the following sustainability principles, as outlined within the M&G plc Sustainability Report.

- To consider sustainability and ESG factors when determining our corporate strategy and new business initiatives.
- To embed sustainability considerations throughout our business.

- To consider the interests of all stakeholders and ensure our views on sustainability are consistent with our long-term approach.
- We manage our businesses – and hold our investee companies – to the principle of 'acting responsibly'.
- To identify and incorporate ESG risk factors into our general risk management process.
- To review our sustainability thinking regularly in order to align with scientific and technological improvements, and changes in the global economy, ethics and consumer preferences. We aspire to be a thought leader, to innovate, and to advance understanding of sustainability issues.
- To use our influence as a global investor and asset owner to drive positive change in sustainability policy and corporate standards. We believe in active asset ownership and management which encourages companies to transition towards a sustainable future.

Strategy

M&G plc has a proud history in managing savings and investments, delivering superior outcomes for its clients through its investment expertise and innovative propositions, in line with its purpose.

Through the combination of its differentiated business model and a deep understanding of its clients' needs, M&G plc offers a broad and distinctive set of savings and investments propositions. M&G plc is also investing in its digital capabilities to ensure it makes financial advice more accessible in the UK market, and to deliver strong service to support all of its clients.

Maintain financial strength

Maintaining financial strength is essential. M&G plc's clients must have confidence in the company's ability to manage their money and deliver superior outcomes over the long term. M&G plc rewards shareholders with attractive and dependable dividends, so investments are carried out carefully, using experience and expertise, to target high-potential growth opportunities.

Priorities are to:

- Deliver proactive financial management
- Maintain strict capital allocation
- Diversify revenues

Simplify the business

To deliver its strategy and drive improvements that best serve its clients, M&G plc needs to transform how it operates, while investing to enhance its capabilities.

Priorities are to:

- Streamline its organisation
- Digitise and automate
- Modernise its technology estate

Deliver profitable growth

M&G plc will focus on targeted opportunities where its differentiated propositions and services give a strong starting point.

Priorities are to:

- Grow external flows in Asset Management
- Deploy a full savings and advice offering in the UK
- Offer innovative solutions to selected defined benefit pension funds

To read M&G plc's Annual Reports and Accounts visit: **https://www.mandg.com/investors/annual-report**

Business model

As an international savings and investments business, M&G plc manages and administers £342 billion of financial assets for the benefit of its clients. Its clients consist of a broad range of individuals, pension funds, insurance companies, wealth managers, financial advisers and other distribution partners across 26 markets.

M&G plc provides a wide range of savings and investments products and services to its clients, who trust the business to manage their assets responsibly and help them achieve their financial goals.

M&G plc segments its business into Asset Management and Retail and Savings, which reflects the range of propositions and services it offers to its clients.

- The Asset Management business manages more than £300 billion in client assets, and are among the largest managers of private assets in Europe. The Asset Management business is also recognised for its broad public fixed income expertise, a long track record in multi-asset solutions, and a growing range of sustainability-driven thematic equities products.
- In Retail and Savings, the PruFund range is one of Europe's largest multi-asset propositions. It provides access to insurance-based solutions such as smoothing, with a distinctive blend of public and private investments, delivering average investment returns of 6.7% a year over the past 18 years. In addition, M&G Wealth offers a comprehensive savings proposition to UK clients, including investment solutions, portfolio allocation and advice. Retail and Savings also includes the Heritage portfolio of traditional with-profits and annuity policies.

M&G plc uses its financial strength, scale and long-term investment horizon to provide security to its clients and enable its investment teams to build new capabilities that enhance financial outcomes.

Serving a wide range of clients

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

Individual savers and investors

Clients invest directly with us to save for their family's future or draw an income from long-term savings.

Institutional clients

We partner with pension funds, insurers and others to design investment solutions.

Professional investors

We work with financial partners worldwide to meet their clients' investment needs.

Financial advisers and paraplanners

We have a range of products, educational and business development services to help financial advisers and paraplanners to serve their clients better.

A commitment to excellent client service is woven through all levels of our company. Whoever the client, we try to ensure their experience is streamlined, transparent and offers value for money. From our digital transformation programme for retail clients, to taking steps to minimise any Brexit disruption both in the UK and overseas, we always act with our clients' best interests at heart.

Understanding our clients

M&G plc interacts with our clients in a number of ways. To understand the needs of our institutional clients, which represent both pooled and segregated mandates, our client teams maintain ongoing relationships to understand their needs, offer solutions and provide regular feedback through reporting. Our sales teams regularly arrange roundtable discussions and interactive seminars with the advisory community, which allow us to understand their requirements and for them to understand the solutions we can provide to meet those requirements. Our Client Insights team is also tasked with understanding the needs of clients across the spectrum.

In order to better understand our retail clients, M&G plc uses the research platform 'MyView'. This includes a number of panels, dedicated to the asset manager's clients, as well as clients of the asset owner side of the business. This provides a ready group of clients and advisers who have elected to take part in research, providing access to their views and feedback, and allowing us to be flexible in our research. MyView includes monthly engagement activities, such as polls and forums, as well as the capacity to host communities for larger projects, meaning there are always new insights being generated. These insights are shared with relevant business areas to improve company performance in line with our clients' needs.

M&G Investments

Investment philosophy

Our active management approach aims to deliver outperformance regardless of market conditions. We believe that this is underpinned by fundamental analysis and our fund managers' ability to act with conviction.

At M&G Investments, our portfolios are managed within a robust framework of construction and risk management, helping us to achieve the right balance between risk and return.

Over many years we have developed a strong investment culture, and are considered a trusted partner by delivering investment strategies that are client centric. Trusted relationships are the cornerstone of our valuation-based, long-term investment approach, which we achieve through our expertise and innovative investment thinking.

All of our funds have separate Investment Mandate Agreements, which clearly set out for our clients the investment strategy and fees of the funds in which they invest. Increasingly, we are creating new products to provide solutions that meet the evolving needs of our clients. This includes launching new strategies that provide, for example, sustainable investments, impact investments and climate solutions.

Our ESG Investment Policy sets out the ESG Investment Principles that we use to inform and guide all investments made as an asset manager. These principles are consistent with M&G plc's sustainability principles and reflect the firm's purpose and corporate values of Care and Integrity. It sets out our principles-based approach to addressing ESG matters in investing, and provides policies for specific ESG matters that must be applied by the asset manager across all asset classes. To read the full ESG Investment Policy, please visit: **https://www.mandg.com/~/media/Files/M/MandG-Plc/documents/mandg-investments-policies/MG-Investments-ESG-Investment-Policy-January-2022.pdf**

Equities

Our Equities team has a conviction-led and long-term approach to investing. The team is driven by a fundamental belief that we can generate performance through active, unconstrained management. We believe that the stock market is often mispriced and that its tendency to be swayed by short-term noise creates opportunities for long-term investors. Experience tells us that company fundamentals drive share prices over the long run, not the vagaries of economic cycles or the fickleness of market sentiment.

For our passive funds, we look to replicate requisite benchmarks in the most cost-effective way. In terms of our stewardship activities around engagement and voting, we have historically been more focused on our active holdings. In 2020, M&G Investments voted its UK active and passive holdings, and those international holdings that were actively held. From January 2021, we began voting our international passive holdings as well, meaning that we aim to vote all of our shareholdings, irrespective of holding size.

Fixed income

Our investment philosophy is based on our belief that markets are routinely driven away from fair value by such factors as greed, panic, investing restrictions and forced selling. As a result, a patient investor with a good understanding of fundamental value can take advantage of these situations to acquire assets when they are attractively valued, and avoid those that appear expensive. We believe that assets tend to move toward fair value over the medium term, as the impact of short-term technical factors recedes. The heart of our investment approach is our ability to assess, in real depth, the fundamental creditworthiness of issuers.

Multi asset

Our investment approach seeks to identify 'episodes', or periods of time during which, in the opinion of the fund managers, assets become under- or over-priced as a result of investors reacting emotionally to events rather than considering normal fundamental investment principles, such as inflation or interest rates. These episodes could be short-lived or last several years.

Real Estate

M&G Real Estate is a specialist investor in all major real estate sectors across the globe. We focus on generating long-term, income-driven returns through active management and offer institutional investors exposure to real estate through both pooled vehicles and segregated mandates, as well as providing real estate investment access to retail clients.

Private Infrastructure

Infracapital, the private infrastructure equity arm of M&G Investments, are long-term investors providing essential infrastructure services to society, with many stakeholders. As part of Infracapital's investment strategy, the team takes an active role in all investments to ensure they are adaptable and resilient to the changing world. As a result, we believe this drives value for investors and aids environmental and social cohesion for the communities in which we operate.

Approach

We are, first and foremost, stewards of our clients' assets, and we take seriously the responsibilities that come with this role. With that in mind, our company framework – the principles, values and behaviours that underpin everything we do – are designed around a clear goal: to help people manage and grow their savings and investments, responsibly.

At a time when the typical holding period of an investment can be measured in months rather than years for some investors, our approach is different, and we are willing to support good companies throughout their business and market cycles. This long-term approach means that there is a wide spectrum of both financial and non-financial factors that we need to understand when considering the long-term prospects for a business.

This includes traditional governance issues, like remuneration and board composition, as well as environmental factors, in particular climate change and biodiversity, and social factors, including modern slavery, stakeholder engagement and diversity & inclusion.

Environmental matters and social issues are often important aspects of assessing an investment, and our subsequent stewardship activities, and our approach is to integrate environmental, social and governance (ESG) factors into our investment decision-making process. Investment teams share an acute awareness of their duties as stewards of our clients' assets, and this perspective informs all of our investment decisions.

We manage funds with a range of investment strategies on behalf of clients on both an active and passive basis. We endeavour to extend the principles outlined in this document to both our UK and overseas investments as widely as possible, taking into consideration relevant local differences, including regulations and legal frameworks, company structures and market practice.

Process

For active funds, we seek to add value for our clients by pursuing an active investment policy, through portfolio management decisions, by maintaining a constructive dialogue with company management and by voting on resolutions at general meetings. Decisions on initial investment, ongoing ownership and, ultimately, divestment are made on an informed basis and following extensive research, which continues throughout the period in which we are invested. Meetings with companies occur on a regular basis, enabling us to monitor company developments over time and assess progress against objectives.

Monitoring

Stewardship activities of monitoring and engaging with investee companies, as well as voting at shareholder meetings and reporting to clients, are undertaken by the investment teams, analysts and members of our Stewardship & Sustainability team on an integrated basis. To ensure an integrated approach, regular investment meetings are held with investee companies (and meetings with potential investee companies), with representation from each team. More information on our processes can be found in the principles below.

Our policies are formally reviewed annually to ensure they are still effective and applicable. When assessing how effective our stewardship activities in aggregate have been, a number of factors can affect the outcome and make measurement difficult. There may be influence from many stakeholders, we may be a relatively small holder of a security, or an engagement may be collective, for example. Likewise, some engagements may take years to resolve, making a short-term account of their effectiveness problematic. The main body of this report provides examples of our engagement and voting activities from the previous year, including the relevant outcomes from those activities.

Over the previous year we believe that our overall stewardship activities have been effective in serving the long-term interests of our clients and beneficiaries. Please refer to the main body of this report for specific examples, including the ESG engagement section from page 12 and the voting section from page 36.

Value assessment

M&G Investments undertook the first 'value assessment' of our wholesale funds in 2019, considering the value for money of each fund based on a number of criteria. This assessment included an explanation of our methodology for determining value, and corrective action in instances where a fund was deemed to be delivering poor value for our clients.

The 2021 assessment continued to use a proprietary methodology, guided by the Financial Conduct Authority (FCA). This focused on what we considered to be the most relevant value metrics, with weightings that reflected the priorities of our clients. The assessment included the following seven criteria: quality of services; investment performance; cost; economies of scale; comparable market rates; comparable M&G services; and share classes.

Principle 2

'Signatories governance, resources and incentives support stewardship'

M&G plc

Governance structure

M&G plc, a company incorporated in the United Kingdom, is the ultimate parent company of M&G Investments (the asset manager) and the Prudential Assurance Company Limited (the asset owner).

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

- Approving M&G plc's strategic aims, objectives and purpose, proposed by management, setting M&G plc's standards and culture, and ensuring that these are aligned
- Oversight of effective risk management and internal control processes, including macroeconomic, financial environment and emerging risks
- Taking strategic decisions and the approval of any changes relating to M&G plc's capital, corporate and/or listed structure
- Setting M&G plc's ESG strategy, values and principles.

In discharging its responsibilities, the 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 Board delegates certain responsibilities to its committees and, in compliance with the Code, has established an Audit Committee, a Nomination Committee and a Remuneration Committee. M&G plc has also established a separate Risk Committee. The Terms of Reference for each Board Committee were reviewed and approved by the Board in December 2022 and are available to view on M&G plc's website.

Sustainability governance

As highlighted in Principle 1, sustainability drives M&G plc's purpose: to help people manage and grow their savings and investments, responsibly. The Board is ultimately responsible for all of M&G plc's stewardship activities and it continues to recognise its crucial role in providing oversight and ensuring stewardship of the firm's culture.

At the Group Executive Committee level, responsibility for sustainability strategy, policy, commitments and governance model, including climate, sits with the Chief Financial Officer. A Central Sustainability Office was created in 2022 to implement a Group-wide sustainability governance operating model, shape the group's sustainability strategy and policy, and oversee delivery of its commitments.

The immediate focus was to implement a new central Sustainability governance model for the group, to ensure transparency and robust governance to enable delivery of the sustainability commitments, with accountability across the different entities. An M&G plc Executive Sustainability Committee was therefore established and is responsible for:

- Supporting the Board in the successful execution of M&G's sustainability strategy, policy, public sustainability commitments and disclosures
- Promoting and driving a collaborative approach across M&G plc
- Tracking the progress and delivery of sustainability commitments and targets
- Tracking sustainability spend and forecasts and the sustainability programme costs
- Reviewing sustainability emerging topics and risks, as presented to the committee by risk, and
- Reviewing external ESG disclosures.

These governance enhancements highlight the progress made against the commitments disclosed in the 2021 report to ensure that ESG and effective stewardship activities are embedded across the whole firm and are an inherent part of the governance structure.

Whilst decisions within the ESG space continue to be taken independently by the asset owner and asset manager, using existing governance structures (see below details on the asset manager's governance and processes), it is key that ongoing dialogue and alignment continues across the wider group, with the appropriate management of conflicts of interest (see Principle 3) – and the creation of the Central Sustainability Office and the Executive Sustainability Committee are key enablers for this.

Further detail on the M&G plc governance structure can be found in our M&G plc Annual Report and Accounts here.

Training

In line with our sustainability ambitions and principles, it is key that all staff have an understanding and appreciation of what sustainability means for the company, and hence that everyone is encouraged and supported to keep abreast of developments in stewardship, ESG and ESG investing, as well as having a wider understanding of sustainability subjects. Sustainability topics are included in formal, all-staff training modules, delivered in multiple parts throughout the year.

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

Lunch & Learn Sessions

In 2022 M&G plc launched regular 'Lunch & Learn' Sustainability sessions as a way to provide employees with an overview of sustainability-related topics and demystify ESG concepts. Sessions typically involve an overview of the topic and an interactive discussion and are usually led by a thought leader or guest speaker.

Topics covered included:

- Corporate Human Rights Benchmark (CHRB)
- KnowtheChain and forced labour in supply chains
- The Significance of the European ESG Template (EET) for Clients and Distributors
- The Just Transition: Investment considerations, decarbonization and socio-economic impacts

M&G plc's Sustainability Hub provides a centralised and internal place for staff to go for everything sustainability-related, including sustainability- related learning materials and key internal and external sustainability-related news. The site also includes insights on how to effectively discuss our work with key stakeholders, and on how we are building sustainability into our business activities and processes. In line with the objective of streamlining our training, employees now have access to the latest internal sustainability-related news and videos as well as resources to gain a greater understanding and embed awareness of M&G plc's community objectives which are aligned with Group Governance and reporting requirements.

Incentives

At M&G plc, compensation decisions are based on a holistic appraisal process with appropriate objectives set according to the role. From 2021, all employees of M&G plc's Investments division (spanning both asset owner and asset manager) have an ESG-related objective which requires each person to take into account ESG considerations in their day-to-day work. Achieving this objective forms part of the annual performance assessment, and success here is crucial to both a good performance rating and remuneration.

The Long Term Incentive Plan (LTIP) for M&G plc executives has a 25% non-financial component linked to specific outcomes, including in the areas of diversity and sustainability.

The M&G plc ESG Risk Policy, which sets out the requirements for managing ESG risks on an ongoing basis (see Principle 4), includes specific requirements to ensure ESG commitments/targets are considered as part of the annual review of the Remuneration Policy for senior executives and board members, in order to promote the long-term prosperity of the company.

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

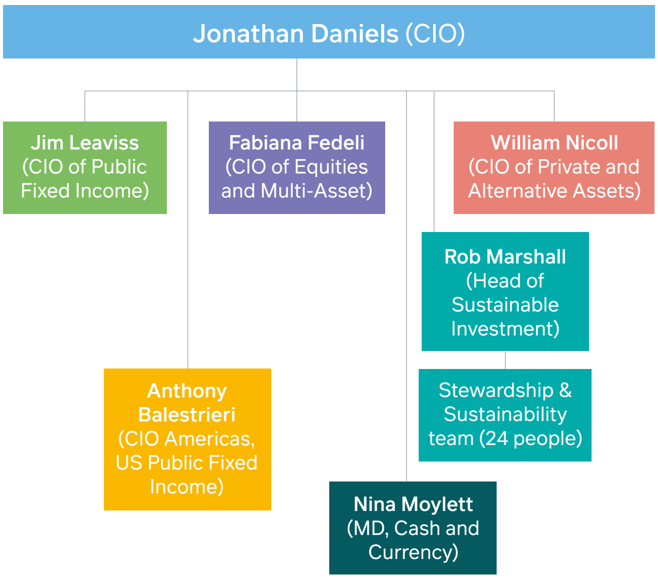
M&G Investments

Governance

The asset manager of the M&G plc group is called M&G Investment Management Limited and is known as M&G Investments. M&G Investments is a separate legal entity, has its own board and is regulated by the FCA.

The investment management business is governed by M&G Group Limited (MGG), one of the two main subsidiaries of M&G plc. The business is overseen by the MGG board, whose responsibilities include approving and overseeing the implementation of the strategy for the Asset Management business, as well as ensuring high standards of governance are maintained. The MGG board is chaired by Massimo Tosato, who is also a member of the M&G plc board. Including Mr Tosato, the board has five non-executive directors alongside one executive.

Investment Leadership team as at 31 December 2022



The heads of our investment teams (equity & multi-asset, public fixed income and private and alternative assets) report into the Chief Investment Officer, who sits on the M&G plc Excom (alongside the Chief Financial Officer, who is responsible for Sustainability across the group), as well as the MGG board. The Head of Sustainable Investment reports to the CIO of Equities, Multi-asset and Sustainability, and the Stewardship & Sustainability team reports to the Head of Sustainable Investment. While the overall Stewardship & Sustainability team is responsible for the asset manager, several members sit across both the asset manager and asset owner.

The Stewardship & Sustainability team grew out of our Corporate Finance & Stewardship team in 2020, to help meet increased client demand for ESG-integrated, sustainable and impact products and develop the roadmap to meet M&G plc's commitment to achieve net zero carbon emissions across its investment portfolios by 2050. The team further builds our capability in research, policy, evaluation, integration and reporting of environmental, social and governance risks and opportunities across asset classes. It also leverages M&G plc's scale and influence as a global asset manager and asset owner to engage with investee companies to encourage transition to sustainable business models, including a climate engagement programme focused on companies with high carbon exposure. The team is widely integrated across all of our research and investment teams, indicative of the importance of sustainability to the group across all of its businesses.

The Stewardship & Sustainability team supports and works closely with the equity, multi-asset and fixed income teams on a day-to-day basis, attending relevant meetings with the investment teams and their investee companies. In this way, engagement with companies and voting is fully integrated into the investment process. Ultimately, all investment and voting decisions lie with the fund managers; the role of the Stewardship & Sustainability team is to support that process.

In order to manage the complexities of our evolving ESG, sustainability and impact strategies, the ESG Governance Meeting (ESGGM) was created, which has delegated authority from the Investment Leadership Team and is chaired by the Head of Sustainable Investment. The purpose of this group is to provide first-line oversight of our ESG, sustainability and impact investment activities, taking into account inputs from quarterly ESG portfolio reviews, as well as items raised on a day-to-day basis. The ESGGM reviews and decides upon ESG issues and exceptions raised by the investment teams – such as differences in internal and third-party ESG views on a company – approves any new investment exclusions, and is responsible for the M&G Investments ESG Investment Policy, please visit: **https://www.mandg.com/~/media/Files/M/MandG-Plc/documents/mandg-investments-policies/MG-Investments-ESG-Investment-Policy-January-2022.pdf**

The ESGGM comprises representatives from all investment teams and research as well as members of the Stewardship & Sustainability team, and other functions, including compliance, operations and technology. The diverse membership is designed to ensure ESG decisions are well considered and have the appropriate inputs.

In conjunction with the ESGGM is the ESG Strategy meeting, which helps to formulate broad, strategic ESG-related considerations.

Policies

As mentioned above, at the beginning of January 2022, we published our ESG Investment Policy. This 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 manager across all asset classes. In the first quarter of 2021, M&G plc published a position paper on coal, and M&G Investments' Thermal Coal Investment Policy came into effect in April 2022. We aim to use our influence as a global investor to drive positive change, to help decarbonise the energy system and increase energy and resource efficiency. We commit to reducing our exposure to unabated coal by 2030 in OECD and the EU and by 2040 across the rest of the world. By adopting a forward-looking approach as an active investor we can support companies as they transition their businesses towards net zero and phase out thermal coal from the energy system, in line with the Intergovernmental Panel on Climate Change (IPCC). The policy is mandatory across public listed equities, public bonds listed by a single corporate entity and single name derivatives thereof, including credit default swaps (CDS) and equity warrants, as well as convertibles.

Processes

Our processes across the business are designed to support our clients in the most effective way; this applies to our stewardship processes. For us, the Stewardship & Sustainability team has regular meetings with fund managers to monitor and identify potential issues and provide support.

We prefer the use of proprietary ESG research in the investment decision-making process, and have developed a number of tools and processes to assist these processes. A selection of these is included below:

Centrali: a third-party system, acting as an app store to provide ease of access to the full range of internally developed ESG-related tools.

Corporate ESG Scorecard: proprietary, issuer-level ESG research framework, acknowledging the qualitative nature of many ESG considerations. Allows analysts to express their views in primarily qualitative terms, within the context of a structured and disciplined framework.

Scorecard Viewer: a PowerBI dashboard displaying outputs from M&G Investments' proprietary ESG Scorecards; displaying scores, commentary and company comparison for both the Corporate and ABS Scorecards.

ESG Scorecard Coverage: a Tibco Spotfire tool, highlighting scorecard coverage based on Asset class, desk, portfolio and benchmark. The tool allows research analysts to monitor the completion of scorecards as a percentage of market value.

RadX: an application used for uploading data aggregated from financial statements, balance sheets, Intex, ESG data sources and other reports. The tool uses a flexible data model, allowing users to onboard new data instantly, regardless of shape and structure. RadX provides users with a Web UI, API and Excel add-in for ad-hoc queries and reporting.

Portfolio Analysis Tool – v2: a Tibco Spotfire tool providing targeted analysis for portfolios in the following areas: portfolio analysis; company analysis; and net-zero. Outputs include, but are not limited to, SFDR PAIs and KSIs, ESG metrics, both internal and external, ESG IQ, and Net-Zero Frameworks.

E-Luminate: a Tibco Spotfire tool surfacing issuer level data including internally defined SFDR Principle Adverse Impact Indicators (PAI's), as well as ESG metrics relating to climate, social & governance in order to aid research.

ESG Securitisation Scorecard: follows the approach of the Corporate ESG Scorecard in taking a qualitative approach to ESG considerations, and assesses securitised products in the context of Transactions, Assets and Counterparties (TAC).

Carbonator: a tool using Artificial Intelligence (AI) to estimate emissions for private companies. This allows users to understand and manage climate risk in our investment portfolios, and help drive transition towards Net-Zero.

Engagements App & Dashboard: records engagements (as defined by the PRI) conducted by the Stewardship & Sustainability team and the investment teams across asset classes. The tool records both private and public engagements to ensure we can consistently and accurately report our engagement activities to clients. A separate tool was developed to record company meetings which do not qualify as 'ESG engagement', and highlights the ESG topics discussed with companies. This is being upgraded in conjunction with a third-party provider, and as mentioned in Principle 7 below, we use hashtags to denote these topics in research and company notes, which will feed through to the new tool.

Climate Dashboard: a PowerBI dashboard surfacing curated climate data and visualisations on an issuer level, with sector and benchmark comparisons.

What If Optimiser: a custom optimisation engine that maximises/minimises ESG characteristics in absolute or benchmark-relative terms. This allows users to simulate changes in existing portfolios and view the impact on portfolio level ESG characteristics in comparison to benchmarks.

ESG IQ: a core ESG screening engine with a web-based UI, the primary function of which is to compliment Aladdin pre/post trade ESG workflows by providing what-if/idea generation capabilities.

UNGC: a PowerBI dashboard providing users with information on company exclusions and engagements based on the United Nations Global Compact. This allows users to screen issuer and parent issuers for UNGC compliance, and view M&G Investments' UNGC monitoring list.

Alternatives ESG Questionnaire: a tool providing insights on underlying managers' ESG credentials by scoring responses to the M&G Investments Alternatives ESG Questionnaire. The tool calculates scores across the following five categories: investment process, intention & philosophy, governance, climate disclosure and social.

External data: our analysts and investment teams also make use of external ESG content for a range of purposes. We have portal and data access with a number of ESG vendors, including MSCI, ISS, Sustainalytics and other specialist advisers. In addition, we obtain ESG data through authorised aggregators or channels, including Bloomberg, Factset, Refinitiv Eikon and Aladdin. Our ESG Data Strategy records preferred vendors for particular coverage and subject matter requirements.

The use of these vendors for different applications should balance the following requirements:

- Data quality and accuracy – whether the vendor's products deliver accurate, actionable information in the context of the envisaged use case
- Breadth of coverage for particular asset classes

ESG portfolio reviews: listed equity and fixed income funds were supported through periodic ESG Portfolio Reviews by the Stewardship & Sustainability team. At the review meetings, the relevant investment teams were provided analysis on a number of ESG-related areas. This includes, but is not limited to, portfolio climate metrics, board diversity and workforce/stakeholder issues, UNGC flags, and examination of third-party ESG ratings for companies within the portfolio. Portfolio managers and analysts scrutinise and explore the impact of ESG themes and risks on portfolio holdings and trading activity. Any ESG issues that were taken into account in investment decision-making were also discussed. Where relevant, specific ESG issues were raised for engagement with investee companies. To note, at the end of 2022 the risk team added the responsibility of ESG oversight of the portfolio reviews to their own risk reviews and the Stewardship & Sustainability team are now developing a new meeting to be either run in conjunction with the risk team's meeting or separately to encompass any relevant engagement and voting issues.

As mentioned above, ESG engagements are recorded in a central log for use by the different investment, client and marketing teams within M&G Investments. A sample of significant ESG engagement case studies is published in the main body of this report, from page 12.

Resources

We believe effective stewardship is part of our duty to our clients and improves the long-term returns of our investments. As such, it is ultimately the responsibility of our investment teams, supported by the Stewardship & Sustainability team, to ensure effective stewardship is undertaken.

Investment teams

Equities: The equities investment team comprises 25 fund managers, 21 embedded analysts and nine sector research analysts.

Fixed Income: The fixed income team comprises 77 fund managers and 132 research analysts.

Multi-asset: The multi-asset team comprises 15 fund managers and two analysts.

Real estate: The real estate team globally comprises 27 fund managers and 11 research analysts.

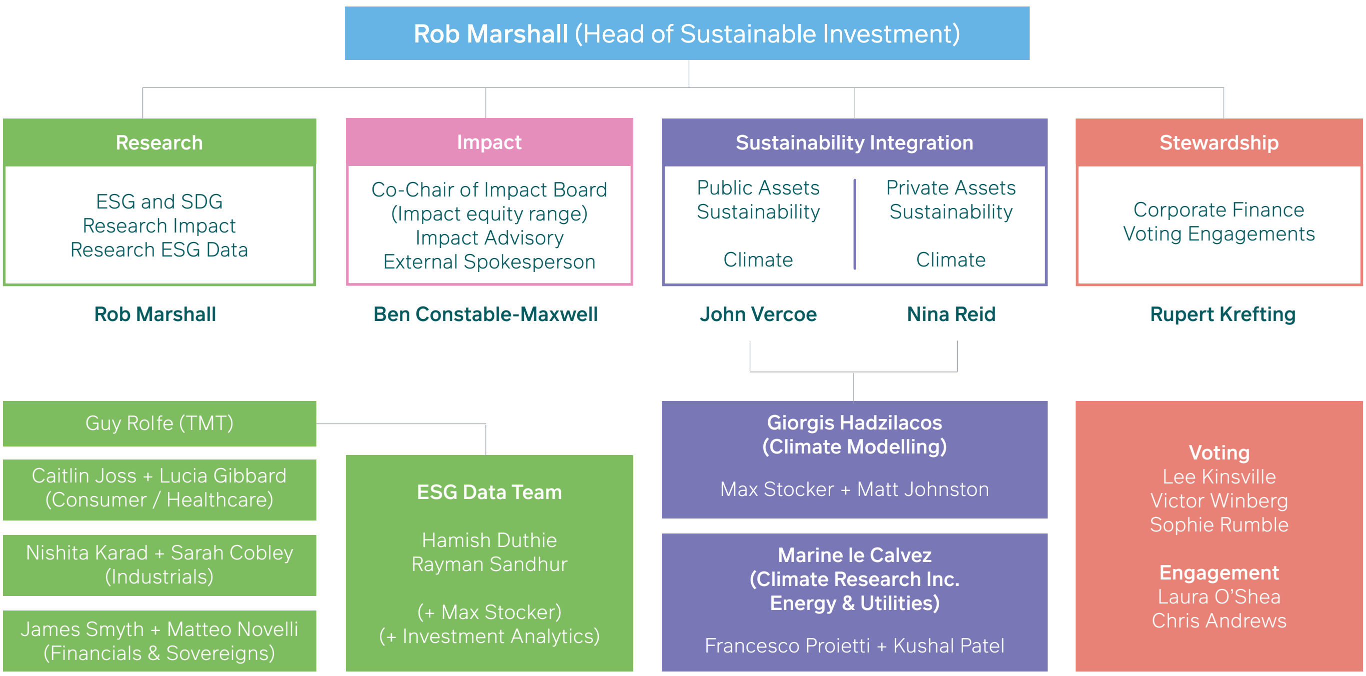
Infracapital: The Infracapital team comprises 49 investment professionals, seven investor relations / co-investment professionals and six finance professionals.

(Figures as at 31 December 2022).

Stewardship and Sustainability team

As at 31 December 2022, the Stewardship & Sustainability team comprised 24 permanent members of staff focused on environmental, social and governance issues, with specific teams within Stewardship & Sustainability concentrating on: ESG research; sustainability integration and climate; corporate finance & stewardship; and impact investing. The ESG policy and disclosure team, previously part of Stewardship & Sustainability, moved from asset management to support the business at plc level.

M&G Stewardship and Sustainability team



Corporate governance is a key underpinning factor in our investment decisions, as are environmental and social factors where material to risk or return. Our Stewardship & Sustainability team is integrated into the investment team to support and co-ordinate stewardship activities. Third-party research providers are also used as a resource for ESG data. Further information on how we utilise these can be found in Principle 8.

The Stewardship & Sustainability team is focused on company engagement, voting activities, thematic research, ESG integration & climate, and our impact investment activities. Members of the team will discuss issues with the investment team on an ongoing basis, and will routinely attend company meetings hosted by the investment teams, as well as initiating meetings with companies on specific areas of engagement (which will normally also be attended by the investment teams). For further details of the Stewardship & Sustainability team, see the main body of this report on page 64.

Performance management or reward programmes

Compensation decisions are based on a holistic appraisal process with appropriate objectives set according to role.

All investment professionals have a clear ESG Integration objective, requiring them to consider non-financial factors within the context of research output, idea generation and investment decision-making.

Outcome

Overall, the combination of current expertise, experience and diversity of teams ensures sufficient subject matter expertise in all areas of Sustainability / ESG, ESG risk management, and stewardship activities. This is further supported by ongoing company-wide training and incentive programmes, input from industry-recognised third-party service providers, and streamlined processes for the management of our ESG strategy.

In 2021 our internal governance focus was on assessing the effectiveness of the governance structure for M&G plc as a standalone, newly-publicly listed corporate entity, and ensuring effective governance across our ESG activities. This structure had been well-received by the business, with feedback received and consequent improvements being made in relation to the management of our independent entities and underlying potential conflicts of interest through 2022.

Principle 3:

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

M&G plc

M&G plc is committed to find ways to manage conflicts of interest in order to protect its clients and employees. This is in line with its fiduciary duty as a financial services firm to act in the best interests of its clients and beneficiaries.

A conflict of interest is defined as 'a situation, decision, or arrangement where competing obligations or motivations may damage the interests of a client'. We recognise 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

It is critical that a consistent approach is applied to conflicts, and that the business is able to demonstrate this effectively to prevent arising conflicts of interest from adversely affecting the interests of clients. The expectations for managing conflicts of interests are denoted within the M&G plc Code of Conduct, and all staff and colleagues are provided with training to ensure awareness and understanding of how conflicts could arise and to enable staff to identify, report and adequately manage such conflicts.

The M&G plc Conflicts of Interest Policy is applied to all aspects of the business and is implemented by all areas across the business at a group and material subsidiary level (asset manager and asset owner). The Policy sets out the group-wide approach and requirements of how conflicts should be escalated, recorded and managed and to ensure compliance with regulatory requirements.

A number of additional resources are made available to all employees to familiarise themselves to 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 this 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.

Policy updates in 2022

In May 2022, various updates were made to the M&G plc Conflicts of Interest Policy. The aim of the updates was to make the Policy more operational and to enable the organisation to focus on the most material conflict risks, while continuing to meet the needs of its clients. The key changes to the Policy include additional guidance on the types of changes that require a documented conflicts of interest assessment and specified timeframes for new identified conflicts to be recorded in the Conflicts Register.

As specified in the Policy, necessary steps are established, including disciplinary action, for failure to act in accordance with the Policy. Acts or omission include:

- Failure to comply with the requirements set out within the M&G plc Conflicts of Interest Policy
- Failure to operate / follow a key control that manages or seeks to avoid a conflict
- Failure to appropriately manage a conflict, leading to client detriment and would constitute as a breach.

M&G Investments

The M&G Investments conflicts of interest disclosure statement can be found on our website.

In identifying the conflicts of interest that may arise when providing services to our clients, we will take into account the following:

a. Whether any M&G entity is likely to make a financial gain, or avoid a financial loss, at a client's expense (firm versus client conflict)

b. Whether a client is disadvantaged or makes a loss when an employee or other person connected to a M&G entity makes a gain (individual versus client conflict)

c. Whether a client makes a gain or avoids a loss where another client makes a loss or is disadvantaged (client versus client conflict)

d. Whether a M&G entity, employee or fund benefits at the expense of another M&G entity or fund (intra group conflict).

Conflicts that arise from personal activities of employees (for example, outside appointments, involvement in public affairs, personal political donations and personal investments) are also closely monitored and managed.

On occasion, we may encounter conflicts of interest related to our stewardship activities. It is incumbent on all investment professionals and members of the Stewardship & Sustainability team to identify and manage such conflicts, in line with the wider M&G plc Conflicts of Interest Policy. In all such instances, our objective is to ensure that these conflicts are identified and managed appropriately, to ensure our clients' best interests are served.

Examples of conflicts that may arise in relation to stewardship activities are provided below. The potential conflicts arise both in the way the investee company monitoring and engagement is managed, and in relation to voting activities where we are voting on resolutions.

In each case, where a conflict arises, the conflict is identified and reported in line with the wider M&G plc Conflicts of Interest Policy, and an appropriate plan for mitigating the conflict is agreed. This might include referring the matter to the M&G plc Conflicts of Interest Committee for deliberation.

Conflicts arising from M&G plc's dual role as asset owner and asset manager

To manage these conflicts, both parties ensure that operations and investment decisions are kept separate and independent, with the flow of information between the asset owner and asset manager functions of M&G plc being carefully controlled.

The investment activities of the asset owner and asset manager are run as two separate businesses; however, the Chief Investment Officer straddles both businesses, as do several members of the Stewardship & Sustainability team. Back-office functions, such as HR, legal, accounting and marketing, are a shared function. The investment teams do not have access to each other's IT systems and the asset manager treats the asset owner just as it treats external wholesale and institutional clients. There is an Investment Mandate Agreement in place for each fund that sets out the strategy and fees for the fund. The funds are overseen by the asset owner just like any other external client for the asset manager, and the asset manager reports to the asset owner in the same way as any other client.

Our decisions, and whether or how to vote in relation to company shares, will always be solely made in the interest of our clients. In light of the latter, the rationale for voting against a management resolution is recorded and made public to ensure transparency on any voting decision.

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Our decisions, and whether or how to vote in relation to company shares, will always be solely made in the interest of our clients. In light of the latter, the rationale for voting against a management resolution is recorded and made public to ensure transparency on any voting decision.

Examples of other potential conflicts

Other conflicts of interest potentially arise where:

- An employee or director of any M&G plc company is also a director of a company in which M&G Investments invests
- M&G Investments invests in a company that is also a client; or
- M&G Investments invests in a company that is a significant distributor of our products

In such instances, we may be conflicted, for example, in the way we deal with the directors and/or company management, votes on their election, and votes on remuneration policies that might apply to them.

Where a potential conflict arises, the conflict is reported in line with the wider M&G plc Conflicts of Interest Policy and an appropriate plan for mitigating the conflict is agreed. In determining the appropriate mitigation, a number of factors will be considered. These include the nature of the relationship with individuals and the extent to which the relationship could be managed by individuals who are not conflicted, the materiality of any contracts, and the risks of the potential conflict to client interests.

Interests of clients diverge on issues being voted on

On occasion, the interests of clients may diverge on issues on which we are voting. For example, where segregated mandates are being managed alongside a wholesale fund, or where clients within the same fund have different views.

We are able to vote shares differentially and will assess the voting of shares against each client mandate. Where client interests diverge, then we will vote accordingly, but this is a rare event.

Generally, we vote by proxy at general meetings on all equity holdings held in both active and passive funds. On occasion, we will attend a general meeting where our clients' interests are best served by us doing so. For additional information, please see the Voting section in the main body of this report.

Asset classes

Conflicts may also arise where fixed income or equity investors have differing viewpoints on the strategy of an investee company. These may arise over differences in strategy, for example over capital allocation (increase investment or return surplus capital to shareholders) and on distributions (debt reduction vs buybacks or dividends). We always act in the best interest of our clients, and where a conflict of this nature may arise, the fixed income and equity teams would act separately as appropriate for their clients.

Difference between stewardship policies of managers and their clients

We publish our approach to responsible investing, including, inter alia, our remuneration and voting policies. We publish the results of our voting on a quarterly basis, which is also summarised in the main body of this report.

We manage funds for institutional clients, retail clients and on behalf of the asset owner function of M&G plc. Only occasionally does our stewardship policy differ from an institutional client who wants to apply its own stewardship policy. Where this occurs, we compare policies and to date where this has happened our clients have preferred our policy.

ESG-related reputational risk and client outcomes

Conflicts between reputational risk and investment/ client outcomes are managed by the ESG Governance Meeting (ESGGM) – please see Principle 2 for more on this. Our ESG Investment Policy states that fiduciary duty prevails over other actual or perceived priorities, including our reputation. Conflicts are recognised, reported and disclosed where required.

Activity and Outcome

We aim to continuously manage conflicts of interest by putting the best interests of clients and beneficiaries first, through appropriate governance channels and compliance to our existing policies. As a case in point, and as mentioned elsewhere in this report, our coal policy came into force in April 2022, with appropriate governance in place to implement and manage the policy. Generally the approach to all future 'green' policy implementation will follow a similar control/mitigation framework considering:

- Advance engagement with clients, corporate issuers and all internal stakeholders: prior conflicts are intended to be dealt with in advance through securing client preference/ guidance as a mitigating measure.
- External disclosure: where deemed appropriate, disclosures can be made to stakeholders informing them of the strategy.
- Trading restrictions and monitoring mechanisms: various monitoring mechanisms help to oversee trading activity and trends, including, but not limited to: side-by-side monitoring; fair allocation; order inflation.
- Training and awareness: all Staff training helps to ensure that staff, including fund managers, are aware of conflicts and the responsibility to identify, manage and report. In addition, the content of the training is reviewed annually and refreshed as required.
- General information barriers: these include restricted access to sensitive information, segregation in governance between the asset manager and asset owner, information classification guidelines, and committee meeting membership/ attendance.
- Divestment and potential losses, or a change of exclusion ie exclusion to inclusion.

Principle 4

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

M&G plc

Market-wide and systemic risks are recognised as the possibility that an event, internal or external, to the company could trigger instability or collapse in an industry or economic environment. M&G plc recognises that these risks have the potential to adversely impact clients' funds and investment processes and have therefore implemented a variety of frameworks and processes to manage these accordingly, in line with the business' fiduciary requirements. Overall, this enables the business to meet its commitments to its clients, comply with legislation and regulation, while appropriately managing and mitigating key systemic risks, including ESG-related risks such as climate change, biodiversity loss and social inequality.

The M&G plc Board ('the Board') has ultimate responsibility for managing risks across M&G plc, including establishing effective internal controls and taking into account the current and prospective macroeconomics and financial environment. M&G plc recognises that all employees will encounter risks relevant to the activities they undertake. For this reason, the board also has the responsibility for instilling an appropriate corporate risk culture within the company. This risk culture is centred around the organisation-wide programme of 'I Am Managing Risk' which requires colleagues to take personal responsibility and accountability for Identifying, Assessing, Managing and Reporting risk, and working together to do the right thing for clients, wider stakeholders and the business. The M&G plc Operational Risk Framework standardises the requirements for Risk & Controls and processes for the 'I Am Managing Risk' culture across business functions.

The M&G plc Risk Committee supports the board in its risk activities, providing leadership, direction and oversight, and the M&G plc Audit Committee assists the board in meeting its responsibilities for the integrity of financial reporting, including obligations for the effectiveness of the internal control and risk management systems. The M&G plc Remuneration Committee ensures that compensation structures place appropriate weight on all individuals adopting the required risk culture and behaviours.

Underpinned by this is the Risk Management Framework (RMF), which sets out our tailored approach to managing risks within agreed appetite levels, and which is further supported by a suite of risk policies and standards. This provides a disciplined and structured process for the taking and managing of risk, enabling the business to make better decisions for its clients and shareholders.

In alignment with the RMF, M&G plc operates an effective risk management cycle in maintaining ongoing process of identifying, measuring, assessing, managing, monitoring and reporting current and emerging risks:

- **Risk Identification:** regular, bottom-up risk identification processes are undertaken to identify risks to which M&G plc is currently exposed, or could be exposed to in the future.
- **Risk Assessment:** risks are first measured using appropriated metrics. Risk monitoring is also an ongoing process to track the status of risks and is undertaken by both risk owners and through oversight and assurance activities undertaken by Risk, Compliance and Internal Audit.
- **Risk Management:** risks are evaluated, treated and managed against the defined risk limits, triggers and indicators in order to establish whether the business is operating within risk appetite.
- **Risk Reporting:** to ensure timely and appropriate decision making, both the asset manager and asset owner are provided with accurate and timely risk reports.

ESG risk management

To help mitigate emerging ESG risks, which includes potential environmental, health, social and corporate governance issues, M&G has put in place a tailored framework for the identification, assessment and management of ESG risks to be embedded in line with the M&G plc Risk Management Framework set out in the earlier section.

The framework is intended to help inform, educate and communicate the importance of ESG risk across the business and consists of five core components: ESG risk culture, identifying and assessing ESG risk, managing and reporting effectively on ESG risk, embedding risk governance and protecting reputation.

The framework is supported by the M&G plc ESG Risk Policy, which articulates the company's ESG risk appetite and sets out key requirements, applicable to all business areas, for the management of ESG risk in a manner consistent with the risk appetite. ESG risks are escalated within risk reporting provided to the Executive and Board Risk Committees, with further escalation to the board as required.

Managing Greenwashing Risks

M&G plc recognises the importance of managing greenwashing risks, to ensure that what is communicated to our stakeholders with respect to our ESG activities, including our clients, is reflective of our activities.
The business is expected to manage all risks, including greenwashing risks, in line with M&G plc Risk Management Framework, and to establish the respective controls and processes to facilitate this. With the continued expansion of our ESG activities, M&G plc endeavours to continue to strengthen its processes and controls for this specific area of risk.

Working with other stakeholders to improve functioning of financial markets

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

M&G plc, the asset manager and the asset owner, engage with, participate in, and in some instances chair, a number of associations and initiatives. For M&G plc, this includes, but is not limited to:

- TheCityUK; which champions the UK-based financial and related professional services industry. We have been on the Leadership Council of CityUK and have spoken at its events. We participate in its meetings with policymakers and sit on various of its committees.
- The Investing and Saving Alliance's (TISA), whose 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. We sit on various committees and feed into policy documents.
- The International Regulatory Strategy Group (IRSG), a body comprising of leading UK-based figures from the financial and related professional services industries. It is one of the leading cross-sectoral groups in Europe for the industry to discuss and act upon regulatory developments. We chair the IRSG's ESG Committee, sit on its board and council and participate in many of its committees.

Further asset manager-specific activities are outlined below.

M&G Investments

Working with other stakeholders to improve the functioning of financial markets

As a large investor, we recognise that we have responsibilities to the wider market, industry and society. Where there are systemic risks, we recognise the need to act collectively to solve issues, while continuing to meet our responsibilities for our clients.

We actively engage with trade bodies, policymakers and NGOs, including, but not limited to:

- The Department for Business, Energy and Industrial Strategy (BEIS)
- The Financial Conduct Authority (FCA)
- The Financial Reporting Council (FRC)
- The Investment Association (IA)
- The United Nations Principles for Responsible Investment (UN PRI)
- The Institutional Investors Group on Climate Change (IIGCC)
- Climate Action 100+
- UK Sustainable Investment and Finance Association (UKSIF)
- The European Fund and Asset Management Association (EFAMA)
- The Investor Forum
- The International Corporate Governance Network (ICGN)
- All Party Parliamentary Corporate Governance Group (APPCGG)
- UK Endorsement Board Advisory Group (UKEB Advisory Group)

Examples of this over the last 12 months can be found in the main body of this report.

Market-wide risks

With regards to market-wide risks, at a fund level it is the responsibility of every portfolio manager to manage these risks. Market-wide risk is a key element of investment analysis as we look to maximise our clients' risk-adjusted returns. For instance, within emerging markets a premium would be applied to account for the increased geopolitical risk.

We then have a centralised second-line risk function that looks across our assets. The independent risk team approaches risk management pragmatically through a combination of quantitative and qualitative measures. This team remains in constant dialogue with the portfolio managers and performs regular independent oversight/challenge of fund positioning. In order to identify risks, we perform stress testing on our portfolios for a variety of market-wide risks and take appropriate action, such as enforcing liquidity limits and monitoring sensitivity to currency or interest rate movements. This team has now taken over ESG risk oversight as previously mentioned in principle 2.

At a firmwide level, our risk function sets and monitors limits within our risk appetite for areas including, but not limited to, liquidity, market and credit risk. As mentioned above, we engage with regulators and industry bodies to help develop effective regulation and to promote well-functioning markets.

In the UK, political instability in 2022 led to a spike in market volatility, requiring central bank intervention, a significant increase in borrowing costs and a weakening of Sterling. This added to existing pressures on households and businesses. To effectively manage our business and our clients' assets through this volatile period, we brought together colleagues from across the company to provide an enhanced monitoring and decision-making capability. Actions we have taken include adjustments to risk limits and hedging portfolios to reduce the risk of unexpected collateral calls.

Systemic risk

As highlighted previously, we are also in contact with stakeholders, including industry organisations and regulatory authorities. This is to ensure we are fulfilling our duties as responsible investors and supporting industry initiatives and regulation that is in the best long-term interests of our clients, as well as the financial system more generally. This includes global issues such as climate change, governance issues such as audit and remuneration committees through the Investment Association, and sector-specific issues such as safety standards.

M&G plc has prioritised two key ESG issues as both a business and an investor: climate change and diversity and inclusion. As mentioned previously in this document, M&G plc aims to achieve carbon net zero investment portfolios by 2050, across the group's total assets under management, to align with the Paris agreement. This was a focus for engagement in 2021, continued to be a focus in 2022, and will continue being so, as will diversity and inclusion. We have published our net zero and diversity & inclusion commitments and targets, as well as our Thermal Coal Investment Policy.

For both us and the asset owner, the climate emergency is one of the most important environmental issues facing the world today. We believe that climate change will have a material impact on our clients' investment returns. With this being the case, identifying the specific risks of climate change is crucial to minimise or mitigate the impacts.

Effectiveness

We believe that we continue to effectively identify and respond to market-wide and systemic risk, at both a fund level, through the ongoing monitoring and investment activities by our fund managers, and at a company level, through the establishment of effective risk governance measures. In addition, our active involvement in a wide range of market initiatives ultimately aids in the improved functioning of financial markets, through collaborative action, regulatory development and innovation in the provision of services. For examples, please see the main body of this report, particularly the 'other engagements and activities' section from page 53.

Outcome

With the ESG landscape ever evolving it will always remain a priority to keep abreast of the risks and challenges that our industry and organisation face. While this remains an industry-wide challenge, our ongoing monitoring of risks in our own and other areas of responsibility, in combination with our expertise and ongoing dialogue with regulatory and industry bodies, allows us to meet our responsibilities, with appropriate integration of such risks and factors within our investment activities.

Principle 5

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

M&G plc

The M&G plc Group Governance Framework (GGF) is key in ensuring the appropriate assurance of policies and processes within the wider business. The GGF comprises a suite of group-wide governance policies and sets out the roles and responsibilities across the group in relation to policy development, maintenance, implementation and compliance. Group-wide Policies such as the M&G plc ESG Risk Policy are part of the M&G plc Policy Governance Framework, a core component of the GGF, which supports the overall system of risk management and internal control. All governance policies have a designated M&G plc Executive Committee Owner who is accountable for the content and implementation of the policy across the business and input from wider stakeholders is important to ensure the policies are fair, balanced and understandable.

The establishment of a strong governance structure across the business is also key to ensure the effective review and challenge of processes and policies. In 2022, this was further enhanced with the development of the M&G plc Executive Sustainability Committee, which was established to act as a dedicated committee to review and approve group-wide Sustainability and ESG matters (see Principle 2).

Internal and External Assurance

In alignment with the Risk Management Framework (RMF) (see Principle 4), M&G plc's management of risks is underpinned by the 'three lines of defence' model to risk governance, supporting the board, and its underlying committee. This model provides an effective way to clearly illustrate how responsibilities to managing risks (including in the process of assurance) are separated:

First Line of Defence (1LOD)

The first line of defence business areas seek to identify and manage risks and are overseen by the second line of defence Risk and Compliance functions.

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.

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.

The 1LOD responsibilities are carried out by the Product/Proposition, Marketing, Client & Distribution and Investment teams, Operations, Finance, Technology and other Central functions who also have ultimate accountability for the business' systems of internal control and risk management. Specifically, 1LOD functions develop processes and procedures to integrate risk management principles into day-to-day violation of compliance or risk management policies, mandates or instructions.

The 2LOD responsibilities are carried out by the Risk and Compliance teams. Aside from contributing advice and guidance, second line functions provide independent oversight and challenge of first line activities. This is achieved by monitoring and reviewing first line of defence compliance with alignment to the RMF. An aggregate view of M&G plc's risk profile is provided additionally to the board with support in identifying and assessing emerging risks which could potentially threaten the successful achievement of the M&G plc's objectives.

The 3LOD is provided by Internal Audit. The primary objective of Internal Audit is to provide independent and objective assurance to the M&G Plc Board Audit Committee (BAC) and Executive Management on the adequacy of the design and effectiveness of the organisation's systems of internal control, thereby helping them to protect the assets, reputation and future sustainability of the group. This is achieved by assessing whether all significant risks are identified and appropriately reported by management to the BAC and Executive Management, assessing whether they are adequately managed, and by challenging Executive Management to improve the effectiveness of governance, risk management and internal controls.

External assurance

M&G plc has previously engaged with external professional assurance providers to combine the strengths of non-financial assurance experience with technical competency in corporate responsibility. This was done in 2021, whereby KMPG LLP provided limited assurance on selected indicators. More information please visit: **https://www.mandg.com/investors/annual-report**

Limited external assurance was also provided by PwC on the total community investment spend and selected metrics in the GHG Emissions Statement in the 2022 M&G plc Annual Reports and Accounts.
For more information please visit:
https://www.mandg.com/investors/annual-report

Board of directors

Risk and audit committees

Three lines of defence

1 Risk identification and management

- identify, own, manage and report risks
- execute business plan and strategy
- establish and maintain controls
- stress/scenario modelling
- operate within systems and controls
- ongoing self-assessment of control environment effectiveness

2 Oversight, advice and challenge

- oversight, advice and challenge
- owner of Risk and Compliance Framework
- stress/scenario setting and oversight
- regulatory liaison
- proactive and reactive advice and guidance
- risk and compliance monitoring and assurance activities
- risk and compliance reporting

3 Assurance

- independent assurance of first line of defence and second line of defence
- independent thematic reviews and risk and controls assessment

M&G Investments

Review of policies and assurance of processes

We have formal reviews of all our policies annually to ensure they are still appropriate and effective. Both our second and third lines of defence have conducted independent internal assurance of our sustainability strategy including a greenwashing risk review. This supports the business in identifying where processes, policy and controls can be continually strengthened.

Out first line controls and assurance team partner with business heads and investment professionals in order to close assurance actions on time and provide support in documenting, enhancing and testing key controls where required. There are dedicated governance structures in place that oversee ESG risks internally, which consist of senior executive management and ESG SMEs.

In addition to this internal assurance, our controls and processes in place receive annual assurance through an external auditor. In order to invest in and improve our on-going capabilities around ESG Data Governance and Data Quality, we recently collaborated with an expert team from Deloitte. This involved an independent and detailed assessment commissioned in 2022 and has led to a series of strategic recommendations for improving ESG data processes, which we will be continuing to invest in throughout 2023.

A climate-specific external assurance example is the use of an independent party to undertake assurance for our climate metric methodologies that support the production of the M&G plc TCFD and Sustainability Report disclosures. Through our interactions with NGOs, completing external surveys, such as CDP and the UN PRI, attendance of Investment Association committees and IIGCC meetings, our work with the International Corporate Governance Network, as well as working with clients and external stakeholders, we are helping to develop best practice, and ensure this best practice is incorporated into our policies. This allows us to stay up to date across asset classes on the range of issues which are important to investors and the wider market.

Examples include the publication of our ESG Investment Policy, updates to our voting policy to take account of diversity & inclusion and climate, and the M&G plc position papers on coal and the just transition. As mentioned above, our controls and processes in place receive annual assurance through an external auditor, in particular in relation to our voting process, while our internal audit function assures the controls and processes involved in producing this report, with the potential for external audit in future.

Effectiveness of our activities

We report annually, externally, and quarterly, internally to a number of internal boards (where internal money is managed) and other stakeholders, on how we discharge our stewardship responsibilities. For instance, our quarterly internal stewardship report not only goes to the boards of M&G Investment Management and M&G Alternatives Investment Management, but to a wide range of interested internal parties, while we report to clients on stewardship activities on request. We have also begun including stewardship information in standard wholesale client reporting, including if a given fund actively engages and votes, whether it is ESG integrated, sustainable or impact-focused, and any exclusions it has in place as part of the investment mandate. For our labelled ESG range of funds, we also provide fund-specific engagement case studies on a quarterly basis, while across funds we report climate metrics on a monthly basis as well.

Through dialogue with our clients and continuous internal review, we ensure not only that our policies are fair, balanced and understandable, but also that they lead to effective stewardship. This report allows us to collate and reflect at a holistic level where we could strengthen and develop in future. The report has been reviewed by M&G Investments' ESG Disclosure Review Panel, in order to help ensure it meets the aforementioned requirements of being fair, balanced and understandable, and we will consider external assurance of the report in future.

This report has been approved by the M&G plc Management Disclosure Committee and the Board of M&G Investment Management Limited, reviewed by the M&G plc Executive Sustainability Committee, and signed off by the Chief Executive Officer of M&G Investments.

Outcome

An internal audit covering the control framework in place over the preparation and submission of our 2021 Stewardship Report was completed in December 2022. The objective, approach and outcome of this audit are outlined in the case study below. As noted above, external assurance has also been obtained to provide substantive assurance over certain key reportable metrics.

In addition, both our proxy voting process and stewardship report process are being mapped by a central team as part of a wider review of ESG-related controls in the investment business, ensuring that the relevant processes and controls are clearly documented.

We deem these combined forms of assurance to be necessary in order to ensure that we are accurately reflecting the stewardship activities that we undertake, with full and ongoing documentation of those activities. This also includes public disclosure of our voting, and the aforementioned new system to both track and disclose our engagement activities.

As the market for external assurance develops, we will consider further external assurance in the future.

Case study:

Internal Audit Review of the FRC Stewardship Report

M&G Investments is a signatory to the FRC UK Stewardship Code 2020 ("the Code") and reports against the Code's 12 'apply and explain' Principles via annual Stewardship Report. As part of a 2022 audit of "External ESG Reporting", Internal Audit included the Stewardship Reporting in scope.

Objective

The objective of this audit review was to provide independent assurance over the design and operating effectiveness of the control framework in place around the preparation and submission of accurate, complete and timely FRC Stewardship reports on behalf of M&G Investments.

Approach

The audit was performed through review of relevant documentation and management information; performing walk-through of relevant processes; conducting sample testing of key and/or mitigating controls within the processes in place around the preparation and submission of the Stewardship Report.

Outcome

A report detailing any issues identified was reported to relevant Senior Management, Executive Management and the Board Audit Committee with issues added to the internal audit system for tracking to completion.

Principle 6

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

M&G plc

The assets under management and administration for M&G plc as both asset owner and manager, as at 31 December 2022, were £342 billion.

M&G Investments

In terms of M&G Investments, as asset manager, this was broken down as:

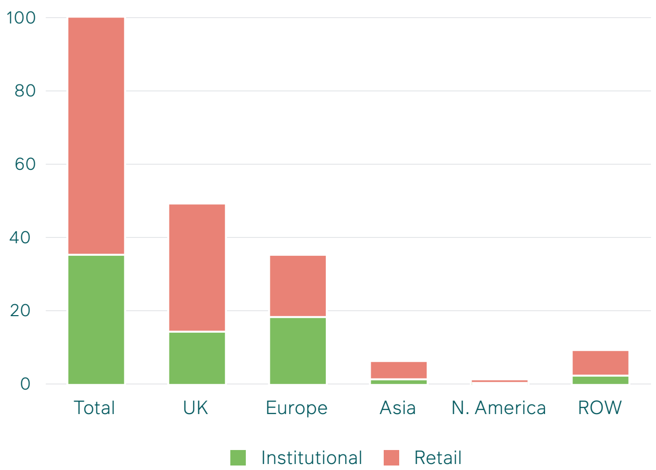
External	£153.1bn
Internal	£149.9bn
Total	£303.0bn

For M&G's externally managed AUM, this was broken down as:

Total equities	£42.5bn
Total fixed income	£88.5bn
Total property	£16.8bn
Other/Cash	£5.3bn

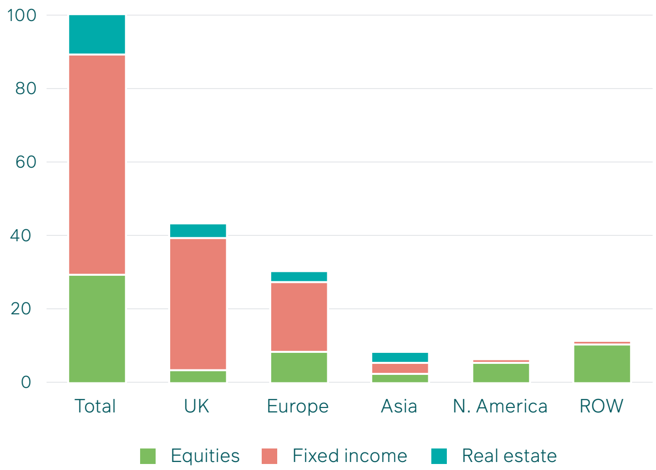
Source: M&G, as at 31 December 2022.

% External AUM by client type and geography



Source: M&G, as at 31 December 2022.

% External AUM by asset class and geography



Source: M&G, as at 31 December 2022.

Note: Fixed Income includes 'cash and cash equivalents'

We run a range of investment strategies, the majority of which are long term in nature, meaning we take a long-term view of the investments we make on our clients' behalf. When we buy shares in companies, for example, we typically hold these shares for three to five years as a minimum. The timeframe for fixed income, real estate or infrastructure investments may be even longer.

We have a diverse range of clients, from institutional investors and pension schemes, who may require very granular detail around our voting and engagement activities to satisfy their own reporting requirements, to retail investors who often take a more hands-off approach. Across the needs of all our clients, though, we acknowledge that as an asset manager we have to be accountable for our actions and demonstrate that we vote and act in a consistent manner, based on our principles.

Client policies

We listen carefully to our clients' views and requirements in respect of stewardship, at both the institutional and retail level. For the latter, this includes our interactions with the advisor community, as well as with individual investors through organisations like the Wisdom Council. For the former, this involves ongoing interactions between clients and our client relationship teams, as well as meetings with our sales and investment teams.

Ensuring that we are meeting our clients' needs is an on-going process of discovery, planning and implementation. We are cognisant of various industry policies and standards – including industry-wide voting and engagement reporting templates – and are often involved in their development. As one example, we were part of the PLSA's Voting and Implementation Statements Working Group (VISWG), to develop standardised templates to allow pension schemes to meet their regulatory stewardship reporting requirements.

We have clear stewardship policies with which all fund managers are expected to comply, although the policies contain appropriate flexibility to allow fund managers to express their individual investment views and styles to achieve our clients' investment objectives; it is to be expected that stewardship activities and approaches will differ across funds.

The requirements of our clients are kept under regular review. There are legal, regulatory and operational requirements and challenges for both investment managers and clients in relation to pooled investment client voting, for example. We recognise that clients often have strong views on voting. In our experience, clients take a close interest in our voting policy and how it is implemented, and for the moment we believe that clients are satisfied that our policy fulfils their requirements and objectives, but we are not complacent and keep this under constant review.

To date, our clients have not requested that we implement their own particular voting or stewardship policies. We can offer segregated account arrangements should this meet clients' needs better than a pooled investment. We have though been reviewing tools that allow clients to express their voting preference and we remain open minded as the debate on this topic continues.

Transparent communications

Much of our engagement with companies is confidential, but we publish case studies of our interaction with companies on less-sensitive issues. We also publish this report within the sustainability section of the M&G plc website, providing an overview of the full range of stewardship activities undertaken over the previous year.

We provide transparency on our voting activity on our website, including our rationale when voting against management or abstaining from a vote. A summary can be found in this report and our full voting record online.

All of our voting is also processed and recorded through an external voting service, on which a full record of all voting activity is retained, along with voting rationale.

Again, we report annually, externally, and quarterly, internally on how we discharge our stewardship responsibilities, and regularly report to clients on stewardship activities for bespoke requests.

We maintain records of interactions with companies, with a system for recording general monitoring activities for equity holdings, the development of an enhanced system for fixed income holdings, research platforms for both equity and fixed income where research and meeting notes are recorded, as well as a system specifically designed to record ESG engagements, as defined by the PRI. Records of specific stewardship activities are also retained within the Stewardship & Sustainability team.

Outcome

We take into account feedback from clients on our reporting and look to make improvements. This has included more stewardship information in regular monthly and quarterly fund reports, more granular information on engagement and voting activity for institutional clients, and the publication of climate metrics across our range of funds. We are always open to feedback on our approach from clients, whether institutional, wholesale through IFAs or retail through our call centres and Client Insights team.

To ensure we are meeting client needs, every manager invests in line with the mandate of their fund, which has been clearly articulated to clients. We provide a variety of fund-specific reporting for wholesale clients, including monthly, quarterly and annually, while reporting on a bespoke basis for different institutional mandates.

Principle 7

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

M&G Investments

As noted previously, we run a range of investment strategies, the majority of which are long term in nature, meaning we take a long-term view of the investments we make on our clients' behalf. To read the ESG Investment Policy which we use to inform and guide all investments made as an asset manager, please visit **https://www.mandgplc.com/~/media/Files/M/MandG-Plc/documents/mandg-investments-policies/MG-Investments-ESG-Investment-Policy-January-2022.pdf**

Integration of stewardship

As long-term investors, we take great care with our clients' savings and work closely with the management of those companies and assets we invest in to help ensure they are delivering the best possible risk-adjusted returns. This includes challenging the environmental, social and corporate governance practices of these companies, particularly if we think these pose a risk to long-term performance.

We believe that ESG factors can have a material impact on long-term investment outcomes. Our goal is to achieve the best possible risk-adjusted returns for our clients, taking into account all factors that influence investment performance. Consequently, ESG issues are integrated within investment decisions wherever they have a meaningful impact on risk or return.

Within our analysis, we typically look at capital allocation, financials, strategy and performance, as well as non-financial matters (such as environmental, social and governance factors; capital structures; board performance and understanding how boards are fulfilling their responsibilities; succession planning; remuneration; and culture, among others).

While we consider it essential to include ESG factors in our investment analysis, we do not take investment decisions based solely on our ESG views. Rather, investment decisions are made after giving appropriate consideration to all factors that influence an investment's risk or return. We are long-term investors, and since ESG issues tend to evolve over the longer term, we consider such factors as a fundamental component of our investment process. We regard it as part of our fiduciary responsibility to include ESG issues in our investment views, as we do for all factors that influence long-term investment results for our clients.

For examples of how our integration of ESG has progressed over the last year, please see the main body of this report.

Stewardship activities, such as monitoring and engaging with investee companies, as well as voting at shareholder meetings and reporting to clients, are undertaken by the investment teams, research analysts and members of our Stewardship & Sustainability team on an integrated basis. To ensure an integrated approach, regular investment meetings are held with investee companies (and meetings with potential investee companies), with representation from each team. This is then fed back into our internal view of the company. Examples can be seen in the ESG Engagement and Voting sections of this report.

How we monitor and engage with companies is described in more detail in Principle 9.

Activity

Principles of ESG integration

We subscribe to the UN PRI-endorsed definition of ESG integration, as being the explicit and systematic inclusion of ESG factors in investment analysis and investment decisions. Our implementation of these principles rests on three pillars:

- integration of ESG issues into investment research
- integration of ESG issues into investment decision making and portfolio construction
- periodic ESG portfolio reviews

In recognition of our role as stewards of our clients' assets, we are fully committed to the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, society and the environment.

For active funds, we seek to add value for our clients by pursuing an active investment policy: through portfolio management decisions; by maintaining a constructive dialogue with investee company management; by voting on resolutions at company general meetings; and by negotiations on covenants, engagements and voting on waivers and amendments.

We systematically include consideration of material ESG factors into our investment analysis and decision making in all asset classes on an iterative and continuous basis.

Integration across asset classes, geographies and funds

ESG integration varies more between sectors than between asset classes, as underlying ESG issues typically vary depending on a business or asset's profile.

Across company types and geographies, one significant variance is the level of disclosure and ease of access to information and data; larger listed companies generally produce the best levels of disclosure, while companies in developed markets generally provide better disclosure than those in developing markets.

Within certain fixed income asset classes, such as asset backed securities (ABS) and leveraged finance, the integration of ESG can involve multiple parties, such as the originator/sponsor/servicer, along with the underlying company or asset pool.

For some funds, namely those that invest primarily in sovereigns, ESG integration and engagement is more limited.

Framework for ESG integration

In order to provide an overarching taxonomy for the consideration of ESG issues, we make use of the Sustainable Accounting Standards Board (SASB) framework. This framework is used to gather and record evidence of the prevalence of ESG issues within the investment process. The SASB Materiality Map is used to inform the M&G Investments ESG Scorecard, which is used to analyse and expose the impact of ESG issues on a particular company. The SASB framework may be supplemented by additional ESG factors as we deem appropriate.

The following structure applies globally to listed equity and fixed income funds, as well as to private assets, where the formalisation of ESG integration began in 2021.

Integration into investment research

The Stewardship & Sustainability team, and domain subject matter experts, undertake and produce thematic research providing thought leadership and working examples that explore and describe 'lateral' ESG factors.

The Research teams comprise career analysts with deep knowledge and insight into their sectors. They have access to internal proprietary ESG thematic research, as well as relevant data from other sources. They evaluate the impact and materiality of these ESG themes within the context of the industries and companies that they cover, with assistance from the Stewardship & Sustainability team.

In collaboration, these teams deliver actionable investment research that includes ESG issues, insights and recommendations to fund managers for use within the investment decision-making and portfolio construction process. For single stock and sectoral research, the research analysts are accountable for determining the materiality of ESG factors, which are incorporated into such investment decisions.

Integration into investment decision making

Investment decisions are taken following the consideration of a wide range of investment drivers. Such drivers will include, but are not limited to: mandate restrictions, market liquidity, valuations and investment research. Where ESG factors are material within such drivers, they will be incorporated into decision making. Examples of how such information is included in the investment process includes: written research that integrates ESG factors; Stewardship & Sustainability team publications on thematic ESG issues; face to face discussions; sector and ranking reviews; proprietary tools; and the consumption of external sources, including ESG data. Again, we use a variety of external data providers to help inform our decisions, including those that specifically provide ESG data to support the integration of stewardship and investment.

Integration of ESG issues into investment decision-making and portfolio construction, for listed equity and fixed income funds, is overseen through periodic ESG portfolio reviews.

Portfolio reviews

As highlighted in Principle 2, listed equity and fixed income funds are overseen through periodic ESG portfolio reviews. At review meetings, members of our Stewardship & Sustainability team convene with the relevant investment teams to provide analysis on a number of ESG-related areas. This includes, but is not limited to, portfolio climate metrics, board diversity and workforce/stakeholder issues, UNGC flags, and examination of third-party ESG ratings for companies within the portfolio. Portfolio managers and analysts scrutinise and explore the impact of ESG themes and risks on portfolio holdings and trading activity. Any ESG issues that were taken into account in investment decision-making are also discussed. Where relevant, specific ESG issues may be raised for engagement with the investee company (see Principle 7 below on engagement).

Outcome

Evidence of ESG integration

Hashtags for investment research: where ESG factors are incorporated within written research they should be highlighted by the addition of a specific hashtag representing the ESG issue. The list of hashtags is derived from the SASB materiality map and supplemented by additional hashtags for factors that are agreed between the Stewardship & Sustainability and analyst teams.

Central ESG engagement log: where ESG engagement with companies, issuers or policy makers is undertaken, this should be recorded in the central ESG engagement log, including the objective, action and outcome of the engagement, the broad ESG pillar under discussion, and the relative state of the engagement ie successful, ongoing or unsuccessful. The Stewardship & Sustainability team approves engagements entered into the log, to ensure they are compliant with the PRI ESG engagement definition.

Minutes of portfolio review meetings: copies of all reports prepared to analyse portfolios are recorded, as are the action points arising from the meeting. Notes are also kept of ESG issues that were considered in investment decision-making since the last meeting.

Principle 8

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

M&G Investments

Service providers

Activity

We use the ISS voting platform to vote and we have built, with ISS, a custom voting service that reflects our public voting policy. As company meetings arise, we use research from ISS (and voting information service IVIS for UK companies) to highlight any contentious issues that we were not aware of from previous consultations with investee companies.

Before deciding to abstain or vote against a resolution that has been flagged by ISS or IVIS, we will either discuss straightforward issues within the Stewardship & Sustainability team or involve the relevant fund managers for more contentious issues, allowing them to make the ultimate decision. We will, where possible, try to inform the company in advance if we are voting against management. In most circumstances, especially on remuneration-related issues, there will have been a previous dialogue with the company.

We feel that the ISS platform, in conjunction with our custom voting service, has adequately met our needs, allowing us to effectively vote 3,756 meetings in 2022. There were no actions taken during the year in response to our expectations not being met, although we do have meetings with ISS to discuss areas of potential improvement.

Outcome

Our Stewardship & Sustainability team meets with ISS on a quarterly basis to discuss operational and contractual issues such as technical updates, policy changes and new products related to voting. We interact with ISS on an ad-hoc basis when we have more urgent queries, often related to operational performance or research. We also use this opportunity to develop our custom voting service.

Research providers

Activity

Research providers are monitored and scrutinised for accuracy, and while the data from these providers feeds into our analysis, they are not the sole input. We currently primarily use ISS, MSCI and Sustainalytics for ESG research, which is delivered through dedicated data portals to our Investment, Research and Stewardship & Sustainability teams, among others. Other research sources include, but are not limited to, Bloomberg, Refinitiv, Baringa, Morningstar, CDP and Macrobond.

We hold regular meetings with research providers to understand new functionality or to suggest areas we think can be improved. We also meet with providers when we feel, for example, a company ESG rating is not accurately reflecting the activities that company is undertaking, or to understand remediation efforts a company can undertake to improve its rating or to, for example, remove a UN Global Compact-related flag.

Outcome

We have regular dialogue with our research providers to query any issues which arise during the year. Typically, this is where we consider the research provider to have made a factual error.

We also have a central team to act as a formal point of contact and monitoring for our service and information providers.

Monitoring of service and research providers

The M&G plc Market Data team is responsible for managing the ongoing relationship with our service and research providers and for reviewing the overall quality of service provided. Any issues raised by the business will be followed up by the Market Data team, and until an appropriate resolution has been achieved. We 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 soon quarterly) basis. Those that are not considered strategic due to low monetary value and low impact are not monitored on a monthly basis, but Market Data continues to oversee the relationship and is the point of escalation for the business should any questions or issues with the service or data arise. Our Strategic partners include MSCI, Sustainalytics, ISS, Morningstar, Refintiiv and Bloomberg.

Market Data holds monthly meetings with our strategic partners, which are often facilitated by constructive feedback and provide an opportunity to determine whether corrective actions or improvements are necessary, as well as information on new products and services that may be of interest to the business. An agenda is produced ahead of the meeting and minutes are taken and circulated after the meeting. Where we have multiple services provided by one provider, ie Bloomberg and Refinitiv, we produce monthly 'packs' which log all the engagements and issues raised during the month and go through the pack during our meeting.

We are satisfied with the services provided by our service providers. We recognise that improvements could be made with our ongoing engagement and communication with third-party service providers and will endeavour to find ways to enhance our monitoring processes in respect to the wider consideration of ESG and stewardship. To this effect we will be introducing formal quarterly service reviews with our ESG Vendors, where we will produce a pack detailing discussion points, engagement with us throughout the previous quarter, review any technical challenges and discuss key strategic updates from both us and the vendor. Our Data Assurance team is also working to produce data quality metrics to enable us to understand data coverage and gaps from our vendors, so we can use these metrics to further hold our vendors to account.

Outcome case studies

Bloomberg SFDR and EU Taxonomy data

We purchased Bloomberg's SFDR and EU Taxonomy solutions to help deliver regulatory requirements. In November 2022, we discovered that Bloomberg was delivering inaccurate and incomplete data and not in line with project timelines. The Market Data team escalated this with weekly, bi-weekly and monthly meetings during our service reviews, and the matter was escalated to the global head of EMEA operations within Bloomberg, to challenge the process and demand a better service going forward. This was tracked on logs which were shared between both parties at regular meetings. Bloomberg acknowledged that it had not met its deliverables and agreed to improve the service and data it was providing. Since then, data has been complete, correct and on time, and we continue to meet bi-weekly to track progress and raise any additional challenges.

Refinitiv – Green Bond flags

Internal stakeholders had asked if the Market Data team could source Refinitiv's definition of a 'Green Bond' so that we could understand how to best use this data within our processes. Once the definition had been sourced, we realised it was not precise enough and did not give us the clarity we needed to clearly understand the definition of a Green Bond. Through our monthly service reviews with Refinitiv, and constant email communication, Refinitiv agreed and rewrote its definition, producing a data dictionary which allowed us to appropriately understand its data and ultimately make more informed decisions using the data.

Principle 9

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

We believe that the long-term success of companies is supported by effective investor stewardship and high standards of corporate governance. We think that if a company is run well, and sustainably, it is more likely to be successful in the long run.

M&G Investments

Prioritisation

Our resources are generally applied based on a range of factors, including the materiality of the issue and the size of our holding. Our focus will be on issues that are likely to be material to the value of the company's assets and are in the long-term interests of our clients. This includes challenging the environmental, social and governance practices of companies, particularly if we think these pose a risk to long-term performance.

As a general rule, where our holding is a small fraction of the company's total capital, and a small fraction by value of a fund, there will be proportionately less resource applied to engagement (reflecting the reality that our influence is less significant).

Our engagement priorities stem from both a bottom-up approach, for example from individual portfolio reviews, and also top down, where the house often has a large exposure. For the latter, as mentioned in the engagement section in the main body of this report, a major area of focus is climate change, including engagement with companies with thermal coal exposure, in light of our Thermal Coal Investment Policy that went live in April 2022. We have also published our net zero and diversity & inclusion commitments and targets, and our Thermal Coal Investment Policy.

Develop objectives

Before engaging, we identify a specific target for our engagement based on our desired outcome, tempered by realistic expectations based on the amount we hold and in which asset class. Fixed income assets, for instance, have less routes for direct engagement and escalation, but where there is overlap between equity and fixed income we try to work together.

Regular and proactive monitoring, including open and purposeful dialogue with investee companies, enables us to determine whether the board is fulfilling its mandate to shareholders and if engagement is required, and ultimately whether an investment remains appropriate. This monitoring process typically includes:

- Arranging regular meetings with executive management, the chair and/ or other non-executive directors
- Daily monitoring of company announcements
- Reviewing company results (annual and interim)
- Reviewing external research materials (eg broker research reports)
- Attending company capital markets days for investors and undertaking site visits
- Attending broker meetings to discuss investment recommendations
- Engaging in specific discussions with companies on material topics, including: strategy, performance and non-financial matters (such as environmental, social and corporate governance factors; capital structures; board performance and understanding how boards are fulfilling their responsibilities; succession planning; remuneration; and culture, among others)

- Attending company engagement/corporate governance meetings (arranged by companies to enhance the engagement process and provide a forum for governance and responsible investment subjects to be discussed)
- Meetings with remuneration committee chairs (in particular where the company is reviewing its remuneration policy, or prior to general meetings where sensitive or contentious resolutions are being put to shareholders to vote on)
- Corresponding with non-executive directors in instances where issues have been raised with management, but where progress on these issues is inadequate
- Maintaining a record of all interactions with companies
- Attending shareholder meetings

Details of how we escalate issues can be found in Principle 11 below.

As an active fund manager, we interact with companies to add value to the investment process (ie reinforcing a buy/sell/hold decision), to increase our understanding, or provide feedback to a company. We may also engage as fixed income investors where we seek to protect our clients' interests, through seeking amendments to the documentation that underpins the investment. If this is an ESG engagement, our aim is to influence company behaviour or disclosure.

Active and informed voting is an integral part of our responsibility as stewards of our clients' assets. In using our votes, we seek both to add value and protect the interests of our clients as shareholders. Our starting point as an active fund manager is to support the long-term value creation of our investee companies, and there will be occasions when we need to vote against management-proposed resolutions or support shareholder resolutions which are not recommended by the board, if we believe this is in the best interest of our clients and the company. In these cases, where it is practical, we try to engage with the company beforehand. Indeed, voting against resolutions may be seen as a failure of engagement.

We will consider shareholder resolutions on a case-by-case basis and will typically support those that request additional disclosure which in our view will add long term value to our investment.

Our stewardship activities are overseen by the Financial Reporting Council, with engagement and voting seen as fundamental parts of stewardship. Both evolving legislation and client expectations have also raised the bar of what asset managers should be doing as stewards of client assets. This includes increased reporting requirements, particularly concerning company engagements and significant votes.

Categories of company interaction

We categorise company interactions into three types:

- Company meetings: as part of company monitoring, updates on trading strategy, capital allocation etc.
- ESG informed meetings: in company monitoring meetings we may ask questions relating to ESG, which are recorded using hashtags as described above. This could include remuneration and more general governance meetings, or understanding a company's environmental and social policies and procedures, for example.
- ESG engagements: these must have a specific objective, action and outcome which is measurable, and will in longer-term engagements be tracked over time. An ESG objective seeks to influence a company's behaviour or disclosures, and cannot be merely to increase understanding. Each engagement is assessed for its effectiveness and is designated a red, green or amber traffic light colour coding. Amber suggests further monitoring or engagement is required, green that the engagement was successful and red that it was not.

These three levels of engagement can be conducted through both meetings with companies and/or correspondence. The engagements can be bilateral or through collective engagement vehicles, such as Climate Action 100+ or the Investor Forum.

Engagement framework

We have two approaches to our engagement programme – top-down and bottom-up.

Top-down, pro-active ESG engagement programmes are thematic, such as our climate engagement programme, diversity and inclusion, engagement on controversies or potential controversies, including UNGC red flags and modern slavery within operations or supply chains. These engagements are conducted across all investment teams.

Bottom-up programmes create individual engagements, with proactive targets arising from: company monitoring; ESG portfolio reviews; annual governance meetings; remuneration reviews; controversial resolutions at shareholder meetings et al. We also undertake reactive engagements in light of company news, including on trading, changes to the board, M&A etc.

ESG engagements are recorded in a central log, maintained by the Stewardship & Suitability team, for use by the different investment, client and marketing teams within M&G Investments.

Engagement across asset classes and geographies

Our approach across asset classes continued to develop in 2022, as we increasingly make use of our broad cross-asset capabilities, often as a holder of both a company's equity and debt, to increase the significance of our engagement activities. During the year our Stewardship & Sustainability team began working more closely with our private assets team, and an overview of resultant engagement activity can be found in the main body of this report, in the ESG Engagement section. Across asset classes, the end goal of all of our stewardship activities is to best serve our clients by achieving positive outcomes, and helping ensure our investee companies are effectively dealing with all of the material risks affecting them, both financial and non-financial.

Public equities: engagement with investee companies is generally undertaken by fund managers, analysts and the Stewardship & Sustainability team on an integrated basis. Regular meetings with executives, company directors and other members of management allow us to identify whether a company's strategy is aligned with our interests as long-term shareholders. Our active interactions with companies help us to understand the issues affecting them and, through both bilateral and collective ESG engagement, to encourage positive change. This could require continued engagement to bring about such change or, where this does not prove possible, voting against board members or ultimately divesting from a company.

Public fixed income: engagement with issuers is usually undertaken by our credit analyst teams, with support when needed from the Stewardship & Sustainability team, since our analysts have a clear and detailed understanding of the ESG issues affecting the credit quality of the issuers that they cover. Although bond holders normally have less influence than equity holders when engaging with companies, we consider it still important to engage with fixed income issuers regarding material ESG issues to encourage improved ESG practices.

Private assets: as investors in private or illiquid asset classes, or where there is an intention to hold the asset to maturity, we undertake extensive due diligence and engagement prior to, and throughout, investment on the basis that the ability to add value occurs during the investment decision-making process and that engagement is a more constructive decision than divestment.

Our equity and fixed income strategies provide both regional and global propositions, and in both instances we engage with management despite the country in which the company operates. As noted previously, different regions will have different levels of disclosure, different local norms in terms of, for example, board diversity, and different expectations for the level of investor access. We take account of such norms when undertaking engagement activity in the various regions and countries around the globe where we invest. For instance, under our new D&I policy we have different expectations according to geography.

Outcome

A sample of significant ESG engagement case studies is published in the main body of this report.

Principle 10

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

M&G Investments

We are willing to act collectively with other UK and overseas investors where it is in the interests of our clients to do so. We endeavour to maintain good relationships with other institutional investors and support collaborative engagements organised by representative bodies, including through the Investor Forum, Climate Action 100+(CA100+) and NGOs such as ShareAction and informal collective groups such as Find it, Fix it, Prevent it looking at modern slavery.

CA100+ is an investor-led initiative that exists to help ensure that the world's 167 largest corporate greenhouse gas emitters take necessary action on climate change. It is made up, at the time of writing, of 700 global investors who are responsible for more than US$68 trillion in assets under management across 33 markets.

At the time of writing, within CA100+, we were co-leads on miner Rio Tinto, chemicals company BASF and energy company TotalEnergies, and more recently cement maker Holcim Group. We are active working group members, including on energy company Petrobras, chemicals companies LyondellBasell and Air Liquide, pipeline operator Kinder Morgan, miner Anglo American, steel maker ArcelorMittal, and Heidelberg Cement. In addition, we sit on the Corporate Programme Advisory Group, which helps set future CA100+ priorities, and the Escalation Working Group (to advise on contentious issues arising during the voting season). We are also members of the Net Zero Stewardship Working Group.

A range of factors are considered in deciding whether or not to collectively act with other shareholders, including, but not limited to:

- Whether we can be more effective in our engagement unilaterally or collectively
- The extent to which the objectives of other investors are aligned with our own
- The potential sensitivity of the issue and the extent to which conversations with the company are confidential

We will also speak to other minority investors on a case-by-case basis in takeover offers (either reactively or proactively) and are prepared to go public by speaking to the press when we have a strong view that we think the Board is not taking account of. On a case-by-case basis we will also talk to activist shareholders if approached.

In addition, members of the Stewardship & Sustainability team participate on a range of external formal and informal committees related to broader shareholder issues.

Outcome

As highlighted under Principle 4, we are a member of a number of other associations and initiatives designed to improve collaborative efforts. For details of our collaborations over the past year, please see the main body of this report.

Companies wishing to initiate a discussion on collective engagement should contact Rupert Krefting, Head of Corporate Finance & Stewardship at **rupert.krefting@mandg.co.uk**

Principle 11

‘Signatories, where necessary, escalate stewardship activities to influence issuers’

M&G Investments

As a general approach, as active fund managers, we are supportive of the management of the companies in which we invest. However, when companies consistently fail to achieve our reasonable expectations, we will actively promote change. These changes might range from the formation of a new strategy to the appointment of new directors or supporting shareholder resolutions.

We seek close dialogue with investee companies and are prepared to be wall-crossed in order to facilitate dialogue on price sensitive matters such as transactions, capital raisings, takeovers and changes in management before they are announced to the market. Appropriate procedures are in place to manage such information. For further details, please see the main body of this report, in the Corporate Finance section.

We will engage on any issue that may potentially affect a company’s ability to deliver long-term sustainable performance and value to our clients. Issues may include, but are not limited to:

- Acquisitions and disposals
- Biodiversity
- Business strategy
- Climate change
- Culture
- Diversity & inclusion
- Environmental and social responsibility
- Financing and capital allocation
- Governance
- Internal controls
- Management and employees
- Membership and organisation of governing structures and committees
- Operations
- Performance
- Remuneration policy, structures and outcomes
- Quality of disclosure
- Risk
- Sustainability
- Thermal coal exposure
- Shareholder resolutions

These issues can manifest as a reaction to events or result pro-actively from our in-house analysis or issues raised by other shareholders.

The approach taken by our investment team and Stewardship & Sustainability team will be issue specific. Wherever possible, we seek to achieve our objectives by agreement and in a confidential manner, but may be prepared to support the requisition of a meeting, or requisition a meeting ourselves, to enable shareholders as a whole to vote on matters in dispute or make a public statement to the press.

As previously mentioned, our resources are generally applied based on a range of factors, including the materiality of the issue and the size of our holding. As a general rule, where our holding is a small fraction of the company's total capital, and a small fraction by value of a fund, there will be proportionately less resource applied to engagement (reflecting the reality that our influence is less significant) unless we can act collectively through organisations such as the Investor Forum or Climate Action 100+.

In terms of voting, we would always seek to discuss any contentious issues before casting our vote, in order to ensure that our objectives are understood. We monitor progress of engagements against identified objectives on a periodic basis. To us, confrontation with boards at shareholder meetings represents a failure of corporate governance.

Escalation is normally conducted by the investment team alongside the Stewardship & Sustainability team, and may involve meeting with the company's chair and/or senior independent director, the executive team, other shareholders and/or company advisers. In a limited number of cases, it may be appropriate for the Chief Executive Officer of M&G plc, or the Chief Investment Officer, to be involved.

We believe company boards must consistently satisfy clients, shareholders and the reasonable expectations of employees, as well as acting responsibly towards society as a whole, in order to ensure success over the long term. Focused intervention will generally begin with a process of enhancing our understanding of the company's position and communicating our position to the company. This might include initiating discussions with the chair and/or the company's advisers. We may also speak to senior independent directors or other non-executive directors and other shareholders. The extent to which we might expect change will vary, depending on the nature of the issue. In any event, we expect companies to respond to our enquiries directly and in a timely manner.

We expect the boards of our UK investee companies to comply with the Corporate Governance Code and the spirit of it. It is incumbent on a company to explain the rationale for diverging from the Code's principles and, subject to this explanation, we will determine the appropriateness of the divergence on a case-by-case basis. On occasion, we may support resolutions that are not compliant with the Code – which we believe are the right courses of action for the given circumstances or which progress towards compliance – after discussion with the company on the specifics.

In the case of board appointments, remuneration and corporate activity, shareholders are likely to be given the opportunity to vote on the company's approach. Where we remain unhappy with the proposed outcome of an intervention, or where the rationale is unconvincing, we will vote against relevant resolutions and, potentially, the reappointment of those directors responsible for the proposals with whom we have engaged. This is assessed on a case-by-case basis.

In the case of takeover offers, if we are unhappy with the level of a cash bid we will seek to speak to the board, the Investor Forum (if it is a UK listed company) other minority shareholders and, if necessary, make our views public to the press.

Ultimately, as an active investor, where the outcome of our engagement is unsatisfactory, we have the option to dispose of an investment. This might be for a variety of reasons, including that the company is no longer suitable for the fund mandate, the outcome of engagement is unsatisfactory or as a result of the investment team's valuation assessment. Investment decision-making is undertaken by our fund managers.

In relation specifically to our coal policy, examples of escalation include our coal appeals process – where a fund manager may instigate an appeal for an issuer to be treated as an exception to or exemption from the Policy, where there is credible evidence that the issuer complies with the material features of the Policy – and time-bound engagement plans, which had been agreed ahead of the policy going live in April 2022.

As mentioned in Principle 9, our equity and fixed income strategies provide both regional and global propositions, and in both instances we engage with company management despite the country in which it operates. As noted previously, different regions will have different levels of disclosure, different local norms in terms of, for example, board diversity, and different expectations for the level of investor access. We take account of such norms when undertaking engagement activity in the various regions and countries around the globe where we invest. Our approach to escalation is similar across geographies, although our fixed income strategies do not have the additional lever of voting against management when our expectations are not being met.

Outcome

For details of our escalations over the past year, please see the main body of this report – as a prime example, please see the 'Diversity engagement' section. A key engagement and voting focus for us throughout 2022 was board diversity. During the year we recorded engagements with 22 companies on diversity and inclusion issues, while voting against directors at 24 UK companies and 254 international companies that were failing to meet our minimum expectations. At the beginning of 2022 we had written to 1,094 UK and international names, outlining those expectations.

Other examples of escalation can be found in both the ESG Engagement and Voting sections in the main body of this report.

Principle 12

‘Signatories actively exercise their rights and responsibilities’

M&G Investments

Voting

An active and informed voting policy is an integral part of our investment philosophy. Voting should never be divorced from the underlying investment management activity. By exercising our votes, we seek both to add value to our clients and to protect our interests as shareholders. We consider the issues, meet management if necessary, and vote accordingly.

The M&G Voting Policy is published on our website and is regularly reviewed in consultation with our investment teams. Based on this policy we have constructed with ISS a detailed custom voting policy which helps to refer potential votes against management resolutions. In addition, as company meetings arise, we use research from ISS (and voting information service IVIS for UK companies) to highlight any contentious issues that we were not aware of from previous consultations with investee companies.

Before deciding to abstain or vote against a resolution that has been flagged by our custom voting policy, ISS or IVIS, we will either discuss straightforward issues within the Stewardship & Sustainability team or involve the relevant fund managers for more contentious issues, allowing them to make the ultimate voting decision. We will, where possible, try to inform the company in advance if we are voting against. In most circumstances, especially on remuneration-related issues, there will have been a previous dialogue with the company.

Our starting point as an active fund manager is to support the long-term value creation of our investee companies, and there will be occasions when we need to vote against management-proposed resolutions or support shareholder resolutions which are not recommended by the board, if we believe this is in the best interest of our clients and the company.

Individual funds do not have their own voting policies – they all share one house policy. However, where a vote is contentious, for example a shareholder resolution which the board has not supported, then the voting decision comes down to the individual fund manager concerned, who is ultimately responsible for voting decisions. When changes are made to the voting policy, for instance on climate change or diversity, then we try to represent the consensus of opinion for all fund managers, as well as leading on best practice.

We do not currently have clients in segregated mandates or pooled accounts whose interests diverge, but if this were to happen we would be pragmatic, discuss their voting preferences and conclude how we could accommodate their requirements. We do not currently have clients who expect us to implement their voting policy. We either vote on our clients’ behalf, using our voting policy, or, in the past, some of our clients have done their own voting. Clients cannot, and have rarely tried, to override the M&G Investments Voting Policy.

We strongly believe that we can be more effective as a steward of our clients’ assets as a whole if we can act as one voice, rather than voting in different ways for different clients.

Summary of voting policy

In determining our vote, a number of factors will be taken into consideration, including our voting guidelines (which are reviewed regularly), company-specific information and the extent to which we have been able to obtain any additional information required to make an informed decision.

A responsible board should consult significant shareholders in advance of a company meeting, rather than risk putting forward resolutions which may be voted down. We are generally supportive of management and we aim to be pragmatic, but we will abstain or vote against the company if a resolution conflicts with our voting guidelines. We would always seek to discuss any contentious resolutions before casting our votes in order to ensure that our objectives are understood. Confrontation with boards at shareholder meetings represents a failure of corporate governance.

The Annual General Meeting serves a useful purpose by reinforcing the board's accountability to shareholders. Where accountability is lacking we will, on occasion, use these meetings to remind the board of its obligations to shareholders.

We seek to vote on all resolutions at shareholder meetings. We may not vote in favour of resolutions where we are not able to make an informed decision on the resolution because of poor-quality disclosure, or due to an unsatisfactory response to questions raised on specific issues. We endeavour to discuss our concerns with the company in advance of voting against a resolution.

Stock lending

Any shares on loan are recalled whenever there is a vote on any issue affecting the value of shares held, or any issue deemed to be material to the interests of our clients.

Transparency

We provide transparency on our voting activity on our website, including our rationale when voting against management or abstaining from a vote. This is updated on a quarterly basis.

All voting is processed and recorded through an external voting service on which a full record of all voting activity is retained, along with voting rationale.

Fixed income

With regard to fixed income, we carry out extensive pre-investment analysis of issuers including their structures and covenants. Our analysts engage with companies pre- and post-investment, and where it is appropriate we engage as both an equity and bond holder.

As part of this process, we regularly feed back to issuers or proposed issuers on what our preferred transaction structure would be. Our investment is dependent on the outcome of this feedback.

Activity

In 2022, we voted at 3,756 meetings, equating to 97.6% of eligible votes; at 1,897 meetings, we voted against at least one resolution.

There may be occasions when we choose not to vote because share blocking is in place (ie the practice under which shares when voted on are temporarily blocked from trading), while bondholder meetings, 'do not vote' instructions and court meetings have been removed from these statistics. We also do not vote if there is a conflict of interest on M&G Investment funds. For example, we do not vote our shares in M&G plc.

We use the ISS voting platform to vote and we have built, with ISS, a custom voting service that reflects our public voting policy. Our systems link the holdings of our strategies to the ISS platform, and a central data function of M&G Investments ensures that new funds are subsequently linked into the system – through the system we generate reports of upcoming votes and prepare accordingly.

While our voting policy does not vote in line with ISS recommendations, it is linked to recommendations in some areas. For example, if ISS recommends opposing a remuneration report, we receive a referral, and will subsequently make our own voting decision. These referrals are not in reference to ISS's policy, but according to either our own instructions or according to management.

Typically, we vote by proxy at general meetings, but on occasion we will attend a general meeting where our clients' interests are best served by us doing so. Again, our full voting record, updated quarterly, can be found on our website.

Within Fixed Income, investment analysts seek to engage with companies prior to investment to enhance covenant packages where possible, in the context of market norms. The analyst is responsible for reviewing the prospectus and transaction documents at the time of the investment. Amendments are typically sought by the borrower, not the investor, but we will typically engage with the issuer to determine whether these are appropriate and, where necessary, to secure changes to the proposal and/or compensation for investors to agreeing to the waivers. The work on amendments is undertaken on a case-by-case basis, and is based on the merits of the request in hand.

Impairment rights

We note, however, that many developed market financial sector borrowers are covered by legislative resolution regimes and regulatory requirements, which limit our ability to amend contract terms and conditions here. Financial sector analysts, therefore, seek a deep understanding of the laws and regulations in the borrower's host country, in order to assess the impairment risk for a particular investment. In some cases, analysts are able to engage with and/or provide feedback to a particular jurisdiction's regulators and/or resolution authorities, in order to play a part in informing their policy stance.

Trust Deeds

Other than as summarised or replicated in the disclosure documents, access to trust deeds will generally only be undertaken by our legal representatives at the time of an amendment request or specific stressed scenario. On occasion Trust Deeds have formed part of the original suite of disclosed transaction documents, but this is unusual.

Outcomes

For examples of how we exercise our rights and responsibilities, please see the main body of this report.