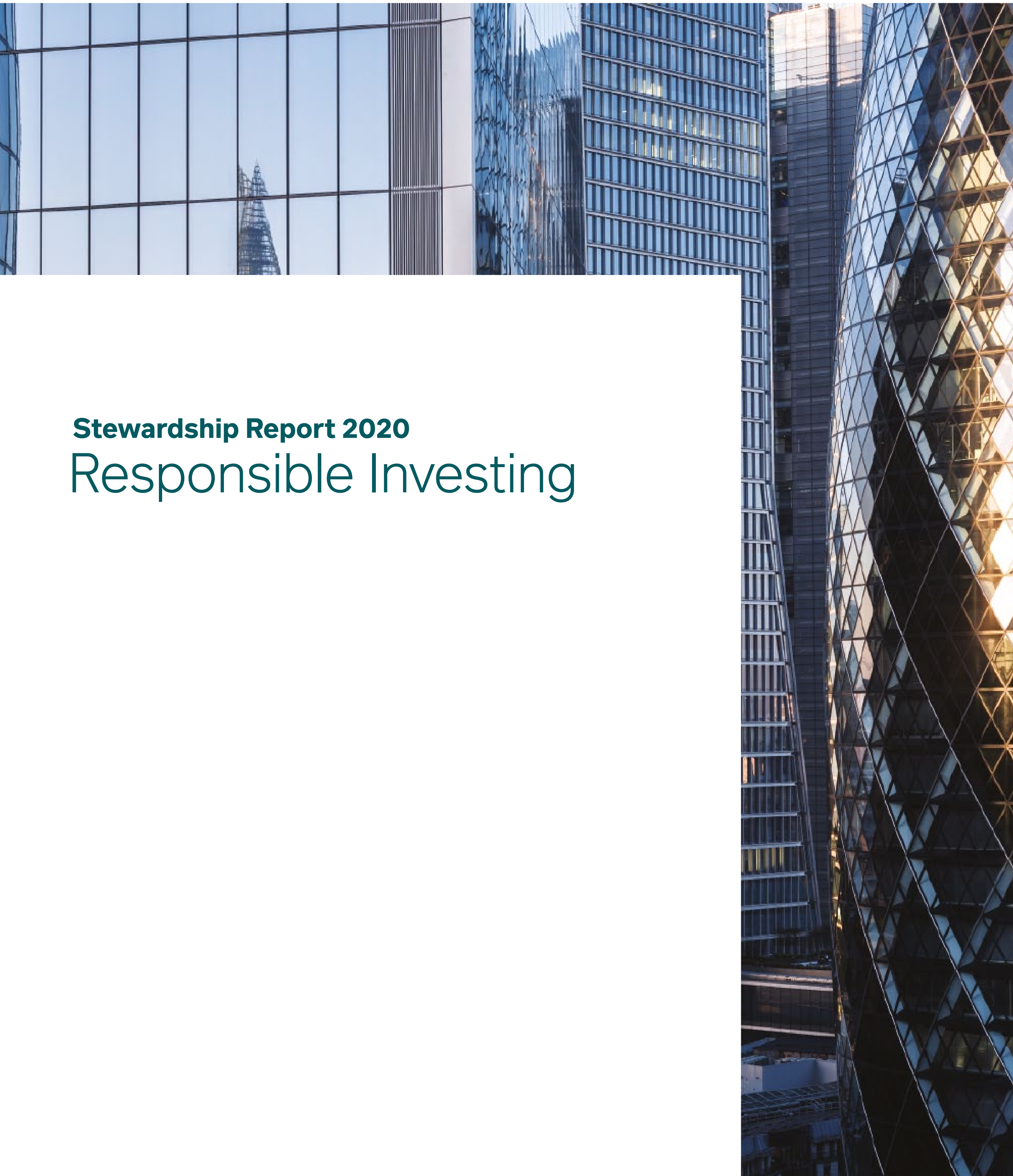
M&G Investments



Stewardship Report 2020
Responsible Investing

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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 asset manager, with the asset owner filing a separate report.

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 will 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.

M&G Investments was an early adopter of the 2020 Code, and reported in line with the new Code in our 2019 Stewardship Report. In both that report, and this one, we have demonstrated that our stewardship activities are in line with the Code. We've done this in two ways:

- Through this annual Stewardship Report, which highlights key activities from the previous year across Equities, Fixed Income, Property and Infrastructure; and
- 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.

Foreword

John Foley
Chief Executive Officer

Our first year as an independent company has coincided with dramatic movements in world markets, as the outbreak of the global pandemic posed unprecedented medical, economic and social challenges.

No asset class and no geography has been left untouched by the COVID-19 virus. But our job as asset managers is to navigate this market turbulence with diligence and skill, as we seek to fulfil the investment mandates our clients entrust to us.

At times like this, engagement with investee companies is more important than ever. Amid the crisis, we shifted the emphasis of our engagement to aid companies through these difficult times, while also encouraging them to do the right thing for employees and their wider stakeholders.

Despite the difficult operating environment – probably the most difficult in many people's lifetime – we have accomplished much as a business since we listed our shares in October 2019, expanding our investment management capabilities and putting sustainability at the heart of the business.

We now have four investment management hubs around the globe – London, Paris, Singapore and Chicago. New team structures to foster greater collaboration in both public and private assets are already bringing additional benefits to clients.

Building on our strong reputation for stewardship, we are pivoting the entire company to sustainability, embedding its principles throughout the business and throughout asset management. An expanded Stewardship and Sustainability team is working hard to advance our ambitious plans on ESG, sustainable investment and impact.

We also continue to work on launching innovative solutions to meet our clients' changing needs, including new funds focused on climate and sustainability. We are focused on promoting investment-led innovation and eliminating inefficiencies across the business which hinder the success of such innovation.

At M&G our vision, put simply, is to become the best-loved and most successful savings and investments business, built upon our core values of care and integrity. By care I mean treating customers, clients and colleagues with the same level of respect we would expect for ourselves. And we invest with care, making choices for the long term. In terms of integrity, we empower our people at M&G to do the right thing, honouring our commitments to others and acting with conviction. Our business is built on trust.

We have been serving individual savers since 1848 and 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 customers 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 investors to promote good practices at our investee companies. 2020 will be a year we all remember for many reasons, and I am really proud of our collective human and professional response.

Introduction

Rupert Krefting
Head of Corporate
Finance and Stewardship

Welcome to M&G Investments' Annual Stewardship Report for the year ended 31 December 2020.

When I wrote this introduction last year and was looking ahead to 2020, I was focused on our ESG integration work, as well as climate change and diversity, our top two ESG priorities. Little did I know that the most significant societal upheaval in our lifetimes was on the horizon, as COVID-19 began its spread around the globe.

After the first lockdown in March, and when the market began to settle, our focus quickly moved to capital raising; working out which companies needed capital and which ones M&G Investments was going to support. In the second quarter alone we saw a record number of capital-raising requests, and for the year as a whole we supported the primary issues of a significant number of companies in need of additional capital. Please see the Corporate Finance section of this report for further details

At the same time, we entered the busy proxy voting season and saw a number of companies cancel their dividends, having only announced them a few weeks previously with their results. This made us think hard about how we would be voting during the health crisis, and made us look closely at directors' remuneration for 2019. This was not just for companies that cut dividends, but also those that made significant staff cuts or accepted furlough cash. We engaged with these companies on how executive pay should be adjusted to reflect this, which ultimately led M&G Investments to vote against a much larger number of remuneration reports than normal.

Once we got through the summer, we accelerated our climate work – creating our climate engagement programme and a climate voting framework.

Climate change is a central focus of our top-down engagement programme for investee companies in both developed and developing markets, focusing on strategy, disclosure, goals and targets to achieve decarbonisation.

We mapped our holdings to determine a targeted engagement list, based on highest emissions and largest M&G Investments-wide exposure. For each company, we devised a specific engagement strategy with a clear objective, key performance indicators to determine progress to delivery, and a timetable for engagement. Overall, we expect companies to commit to reaching net zero in line with Paris, and to provide credible targets and metrics for how they will do so.

From our top 100 identified exposures, we created a priority list of 20 companies. M&G Investments met with nine of these companies in 2020, and is planning to meet a further six in Q1 2021.

We have also stepped up our engagement activity externally through the Institutional Investors Group on Climate Change (IIGCC) and collective engagement initiative Climate Action 100+ (CA100+). M&G Investments joined the IIGCC Corporate Programme Advisory Group, as well as a number of working groups on the CA100+ focus list. We are also now co-lead, representing the 500 plus members of CA100+, on two issuers: miner Rio Tinto and chemicals company BASF.

In terms of voting, we are focusing on M&G Investments' largest exposures, the CA100+ focus list of 167 companies, and the companies we perceive as laggards in our active portfolios. Where we have an opportunity we will be engaging with management beforehand, but if a company is, in our opinion, inadequately reporting in line with TCFD (Task Force on Climate-related Financial Disclosures) or has no credible plan for carbon reduction, then we will look to vote against the re-election of the chair.

Diversity and inclusion is our second sustainability priority, and as members of the 30% club (a global campaign taking action to increase gender diversity at board and senior management levels) we have been examining board composition to identify the diversity laggards. Our approach is to first engage companies where we can, and if we then think not enough effort is being made to improve diversity, we will look to vote against the re-election of the chair or chair of the nominations committee.

Elsewhere, during 2020 the Corporate Finance & Stewardship team formed part of a wider team called Stewardship & Sustainability. I continue to head Corporate Finance & Stewardship, while M&G Investments' Global Head of Research now runs the Stewardship & Sustainability team. This allows the team to be more widely integrated across all of the M&G Investments research and investment teams, as sustainability grows in importance to M&G plc across all of its businesses.

In this report we detail some of the actions and initiatives that M&G Investments has been involved in over the past year, offer case studies of our voting and engagement activities and provide examples of our interactions with external parties. I hope that it gives you a better insight into M&G Investments' activities as a responsible investor.

Stewardship overview

At a time when the typical holding period of an investment can be measured in months rather than years for some investors, M&G Investments' 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 sustainability of a business. This includes traditional governance issues, like remuneration and board composition, as well as environmental and social factors.

M&G's investment teams share an acute awareness of their duties as stewards of our clients' assets, and this perspective informs all of our investment decisions. As a responsible investor we have increasingly widened our research and engagement activities across equity, multi-asset and fixed income, to focus on more non-financial environmental and social topics. This includes climate change, diversity, modern slavery in supply chains and the positive (or negative) societal impacts that companies are delivering, to name a few. These factors represent both risks and opportunities, and we need to ensure they are being taken account of in our investment processes.

Our approach to climate change, specifically, is at the forefront of our stewardship framework. The climate crisis is clearly the world's dominant systemic risk, and M&G plc, our parent company, has committed to reducing the carbon emissions on our total book of assets under management and administration to net zero by 2050, in line with the Paris Agreement and the UK Government's target (we are also committed to reducing our own carbon emissions to net zero by 2030).

Near the beginning of 2020, we established M&G Investments' Climate Technical Working Group to support rigorous, informed choices in relation to climate tooling, data, methodology, modelling, risk assessment and disclosure. The group has helped to develop our climate analysis methodology, has created a 'Climate Baseline' template to be incorporated into M&G Investments' proprietary ESG scorecard for investee companies, and has been involved in the development of a number of tools, alongside our technology solutions colleagues, including our Climate Analysis tool and Climate Transition Tracker tool.

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 M&G Investments-developed tools, which ensures that the teams have sufficient ESG data and research that can be used by both portfolio managers and analysts respectively when engaging with companies on the issues that are material to them.

M&G Investments' Stewardship & Sustainability team supports our investment teams 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, 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 M&G Investments' 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 M&G Investments' voting responsibilities at shareholder meetings, which we see as one of our central responsibilities as long-term shareholders. The team votes in line with M&G Investments' Voting Policy, which is evolving to reflect our increased engagement focus on both climate and diversity.

The team is responsible for coordinating M&G Investments' participation in various external initiatives and investor collaborations, including the UK's Investment Association, the Investor Forum, the Institutional Investors Group on Climate Change and the Asian Corporate Governance Association, among others. The team also maintains M&G Investments' relationships with responsible investment-oriented organisations, including the UN-backed Principles for Responsible Investment (UNPRI).

Our approach across asset classes continued to develop in 2020, 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. Across asset classes, the end goal of all of our stewardship activities is to best serve our customers 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, M&G Investments believes 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.

Equities

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. Social and environmental issues can also have an important impact on a company's performance and successful development. We therefore look at how companies address both the risks and opportunities that these issues represent when we analyse them.

M&G Investments' Stewardship & Sustainability 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 engagement with companies helps us to understand the issues affecting them and, where appropriate, 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, 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 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 2020, we undertook a number of such engagements, while continuing to increase our focus 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 in our approach to ESG risks and opportunities. In 2020 we saw a continued acceleration of ESG integration within fixed income, as the wider market begins to recognise the long-term value of considering non-financial ESG issues in credit analysis. M&G Investments has long understood this, and we 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 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, M&G Investments considers it important to engage with fixed income issuers regarding material ESG issues in order to gain a better understanding of ESG risks, and 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 M&G Investments' 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 Investments' fixed income offerings are suitable for retail clients. Please visit M&G Investments' direct customer website for further details.

ESG engagement

In 2020, M&G's Equities team attended 1,860 company meetings, of which 704 were with the management of UK companies (including 532 meetings with companies in the FTSE350) and 1,156 international companies.

The M&G Stewardship & Sustainability team had 256 additional meetings with company chairs and/or directors and/or executives, including 140 with FTSE350 companies and 45 with international companies, as highlighted in Figure 1.

Over the course of the year, M&G's Fixed Income team carried out 464 interactions with companies where ESG matters were discussed. Topics covered are highlighted in Figure 2. Please note, in some meetings multiple topics were discussed.

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.

At the beginning of 2020 we began using 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

Figure 1 Stewardship & Sustainability meetings by issue covered

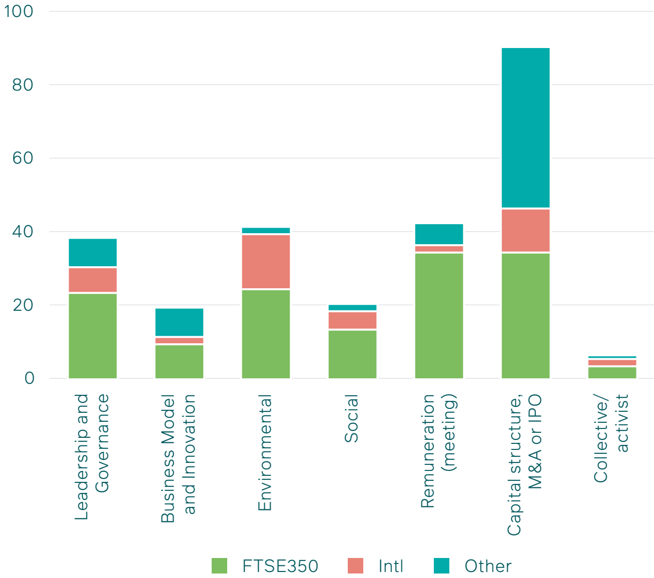
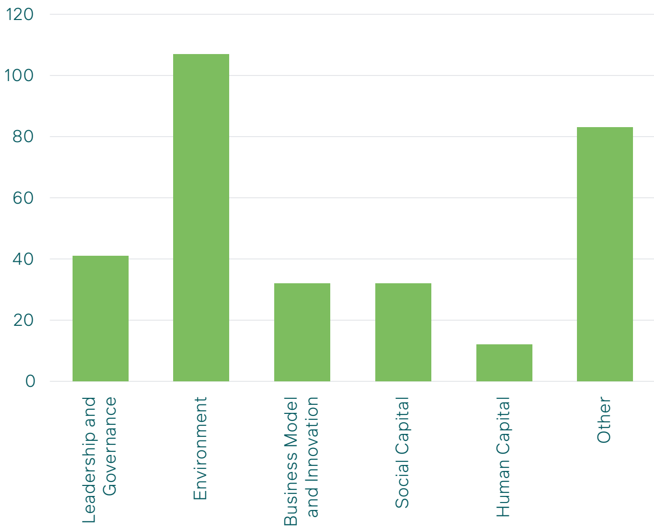


Figure 2 Fixed Income ESG-related activity by issue covered



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 2020, we engaged on an array of specific, systemically important environmental and social themes. These included the establishment of a top-down climate engagement programme (explained below), as well as thematic engagements on modern slavery in supply chains, animal protein production, and UN Global Compact-based controversies, among others, encompassing a range of companies and organisations. The following are highlights of some of those engagements.

Top-down climate engagement

Climate is a central focus of our top-down engagement programme for investee companies in both developed and developing markets, focusing on strategy, disclosure, goals and targets to achieve decarbonisation.

In 2020, we mapped our holdings to determine a targeted engagement list, based on highest emissions and largest M&G Investments-wide exposure. For each company we devised a specific engagement strategy with a clear objective, key performance indicators to determine progress to delivery, and a timetable for engagement. Overall, we expect 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.

From our top 100 identified exposures, we created a priority list of companies, and began the engagement process near the end of the year. This includes engaging both bilaterally and collectively as part of Climate Action 100+ (CA100+). This process will continue into 2021, and we will report our further progress in due course. The following are several examples of our initial engagements.

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

Woodside Petroleum – emissions targets

Objective: For Australian petroleum exploration and production company Woodside Petroleum to raise its 2030 targets of a 30% reduction in scope 1 and 2 emissions. We also wanted it to set a net zero scope 3 target for 2050, set a 'flaring' target for gas and explicitly reflect these targets in executive remuneration.

Action: We met with the company's chair, and others, to discuss these points, and followed up with a letter to ensure our requests were clear. These included clearly disclosing the split of the company's missions between different processes, how it would hit an initial 30% reduction target and how carbon offsets figured in the strategy, and how it would build its emissions reduction plan into executive pay. We also asked for a public disclosure of the breakdown.

Outcome: As with many long-term engagements, this is ongoing. Our feedback and suggestions were circulated with senior management, and we will monitor the company's public disclosures in 2021 around our suggested targets before determining our next steps.

AB InBev – emissions targets

Objective: For multinational drinks company AB InBev to set medium-term scope 1-3 emissions reduction targets, post 2025, as well as a net zero target for 2050 or sooner.

Action: We met with the company to run through our expectations, and its sustainability team explained the company's main challenges to reducing emissions. These primarily focused on the heat required in the brewing process – which is currently two-thirds of its energy requirements – and product packaging, which represents around 36% of its value chain emissions.

The company's 2025 goals include a science-based target in line with a 1.5°C pathway to reduce scopes 1 and 2 emissions by 35%, as well as a 25% emissions reduction target across the value chain (scopes 1, 2, 3) against 2017 baseline. The company has also set a 100% renewable electricity target by 2025.

Outcome: The company is clearly aware of its challenges and is working on the solutions, which could include the increased use of returnable glass bottles and recycled content on the packaging side in addition to green logistics and refrigeration. As with other engagements, we are now giving the company time to work through these solutions, and subsequently publish reduction targets and pathways. We will then decide if further engagement is necessary.

BASF – emissions targets

Objective: For German chemicals company BASF to agree to a net zero carbon target by 2050 for scope 1 and 2 emissions, and a reduction in those emissions by 2030.

Action: M&G Investments and other CA100+ members met with the company. We discussed the bottlenecks to further scope 1 and 2 emission reductions and pushed for the company to disclose new reduction targets and a net zero ambition by 2050.

Outcome: The company explained that it had already cut greenhouse gas emissions by half since 1990, while doubling its production volumes. Now, however, the low-hanging fruit had been harvested. BASF stated that it aimed to achieve CO_2-neutral growth until 2030. To achieve this, the company has adopted a carbon management programme with three levers: optimising its plants; increasingly sourcing low-carbon energy; and developing completely new, low-emission technologies and processes. With these innovations, BASF wants to lay the foundation for significant emission reductions from 2030 onward. The company was reluctant to set a net zero target, as it believed the technical feasibility and economic viability remained to be proven. Our clear message was that the company needed to be more ambitious, and we will use our position as active investors to further encourage this. We will continue to engage with the company.

BP – strategy and climate

Objective: Having undertaken engagement activity with oil major BP at the beginning of the year, and following the company's net zero strategy announcement in February, we wanted clarity that its reported ambitions to become an integrated, sustainable energy company were viable, and that its overall strategy was in line with our investment expectations.

Action: As part of an ongoing Climate Action 100+ engagement, we and other members of the collaborative engagement group met BP's chief executive and members of his management team in the summer.

Outcome: BP's plan consists of three key elements: the company talked through the new strategy aimed at delivering on its net zero ambition; a clear financial framework balancing financial hurdles with its sustainability strategy; and a new investor proposition – focusing on how BP will pay distributions and deliver sustainable returns.

BP described the strategy as significantly informed and improved by engagement with investors, notably CA100+. It also noted the CA100+ group's public statement of support after the net zero announcement (an Annual General Meeting statement co-signed by M&G Investments), was much appreciated in getting support for its ambition, while holding the company to add further detail. The statement included a call for improved disclosures on areas such as BP's short and medium-term targets covering levels of investment in traditional oil and gas and low carbon technologies, and the resulting absolute greenhouse gas emissions across scopes 1, 2 and 3 on the journey to net zero. BP also said the subsequent letter from the CA100+ group informed this latest strategy update. This was the start of a journey from 2020 to 2050, involving 2025 targets and 2030 milestones on how to create sustainable value along the way. We are supportive of the company's ambitious plans, while recognising they will be challenging to achieve. We shall continue to monitor progress on the crucial element of strategic delivery, on which the company appears to be appropriately focused.

Other environmental

AstraZeneca – multiple topics

Objective: We identified three priority areas for engagement with multinational pharma company AstraZeneca: to gain a better understanding of its 'Ambition Zero Carbon' strategy to eliminate emissions by 2025 and be carbon negative across the entire value chain by 2030; to learn about the company's current efforts to tackle anti-microbial resistance; and to learn how it was dealing with supply chain risk.

Action: We held a dedicated engagement with senior individuals across the environment, anti-microbial and supply chain teams.

Outcome: Focusing on climate, we came away with a much stronger sense of how the company has prioritised and structured itself to deliver on these priority targets, especially following its Ambition Zero Carbon launch. The current strategy accelerates existing science-based targets, doubling energy productivity and using renewable energy for both power and heat, as well as switching to a 100% electric vehicle fleet five years ahead of schedule. The company has allocated key resource to these areas, and we accepted an offer to review its climate scenario analysis.

AstraZeneca subsequently requested a meeting with M&G Investments to further discuss its Ambition Zero Carbon strategy. The company had produced some very clear disclosure and reporting on environmental metrics, including greenhouse gas emissions across all scopes. We also discovered that Astra is leading on 'pharmaceuticals in the environment', which looks at patient excretion, improper disposal of unused medicines and discharges from drug production that result in the release of active pharmaceutical ingredients (APIs) into the environment.

GlaxoSmithKline – multiple topics

Objective: As with AstraZeneca above, we identified three priority areas for engagement with British pharma company GlaxoSmithKline: to discuss its climate change strategy; to understand current efforts to tackle anti-microbial resistance; and to enquire into supply chain transparency.

Action: We spoke with senior individuals across the environment, anti-microbial and supply chain teams.

Outcome: A key outcome was understanding how the company is aligning its reporting to the UN Sustainable Development Goals (SDGs), and a keen willingness to engage further with us on carbon pricing and use of science-based targets. The board now aims to focus more on environmental issues, will decide what environmental positioning it wants to add and build from the ground up. The company does not yet have any climate-related targets linked to incentivisation, but has flagged this to the remuneration committee. The remuneration committee is reviewing how goals are structured and will consider whether changes need to be made.

Upfield – deforestation and supply chain

Objective: Having engaged with Dutch spreads company Upfield (formerly Flora) while it was part of the Unilever business, we wanted to speak to the company again to ensure its ESG practices remained in line with our expectations, in light of Upfield's purchase by investment firm KKR. This was specifically on Upfield's deforestation and supply chain management practices, where we also sought greater disclosure around these issues now that the brand is privately owned.

Action: We undertook an in-depth ESG engagement involving members of the Stewardship team and the Leveraged Loans team to delve into the company's ESG efforts. We focused the conversation mainly around responsible sourcing, given Upfield is one of the largest procurers of palm oil globally, but also discussed the company's approach for identifying and remediating modern slavery and forced labour, as well as its carbon strategy. Having been run with sustainability at the core of its business as part of Unilever, Upfield demonstrated that there was still clear oversight and accountability for its material ESG risks.

Outcome: We are comfortable that Upfield has a robust approach to managing its most material ESG risks, however, we do feel that the company lacks transparent, public disclosure in many of these areas. We were, therefore, pleased to learn that Upfield will be publishing its first ESG report this year. We look forward to the company's increased disclosure, and will reassess once published.

Social

As we started 2020, the deteriorating climate crisis remained the headline global concern, but then came the coronavirus and global lockdown. This shone a harsh light on the scale of the social challenges the world faces, but also on how interlinked all these social and ecological issues are. Aside from the direct health impact, COVID-19 also hit the real economy hard, shuttering businesses and even industries, halting other medical treatments and vaccination programmes, and deepening poverty and inequality. We had numerous meetings with companies to understand how they were weathering the crisis, how their employees and other stakeholders were being looked after, and how executive remuneration was reflecting this. Other key social topics over the year included protein production, modern slavery and indigenous rights.

Marfrig, Minerva and MHP – protein production and COVID-19

Objective: To better understand how meatpacking companies were dealing with the impacts of COVID-19 regarding human capital management and health and safety in their processing plants, after a series of outbreaks had been linked to similar facilities and competitors.

Action: We contacted several protein processing companies to question them on their practices throughout the COVID-19 outbreak. Having spoken with several of these companies on the issue of deforestation in 2019, this engagement focused more on the social implications of the virus. It aimed to develop our understanding of how each of these employers were protecting their workers' health and safety, and whether COVID-19 had impacted their activities or required new approaches to be developed.

Outcome: We were able to get a sense for how seriously the companies were taking the risk presented by the virus, and how they had adapted their policies and procedures to ensure the safety of their employees and their products. It was reassuring to learn that several extended their employee emergency pay policies and closely monitored the instances of COVID-19 in their workforce, as well as implementing social distancing measures in a timely manner.

MHP – animal welfare

Objective: MHP is the largest poultry producer and exporter in Ukraine, and we wanted to better understand the standards to which the company was held – both for the domestic market and its overseas markets – in relation to animal welfare through the full lifecycle, as well as health and safety standards.

Action: We spoke with the company, including with its chief ecologist, with the discussion focused on living conditions for the animals, the use of antibiotics and the birth-to-slaughter process. The company seems to be investing in technologies to make this process less stressful for the birds, but did highlight that such upgrades were expensive and that it was already operating with standards above the requirements for domestic markets and EU exports.

We also discussed waste management, including the company's use of biomass to generate heat for the chicken sheds. There are some historical concerns around waste disposal which have attracted the attention of various non-governmental organisations (NGOs), such as using filtration fields and releasing treated waste water into rivers. However, the company does seem to have robust systems in place to minimise the risks that are associated with this type of business activity.

Outcome: Having had this discussion, we felt that MHP, compared to some other industry peers, was taking the issue of animal welfare seriously. In regards to health and safety, the company is going above and beyond what is required to produce animal products for the domestic market and is in line with EU expectations. We felt comfortable that the company was successfully considering and managing its material ESG risks, but will continue to monitor and engage to ensure this is maintained and that standards are improved where possible.

Darling Ingredients – impact suitability

Objective: To determine if sustainable food, feed and fuel ingredients manufacturer Darling Ingredients was a suitable investment for our impact strategies, given potential ESG risks from parts of its operations.

Action: We met with the chief executive and chief financial officer to discuss its feed business and its renewable fuel joint venture, Diamond Green Diesel.

Outcome: Darling Ingredients collects and recycles animal processing by-products and used restaurant cooking oil, transforming them into ingredients and solutions for feed and fuel. It is a global developer and producer of sustainable natural ingredients from edible and inedible bionutrients, and its customers include the pharmaceutical, food, pet food, feed, industrial, bioenergy and fertiliser sectors. While its circular business model and role in managing a major waste contributor are clear, we wanted to understand better how the company manages the risk of potential violations of animal welfare standards (in the abattoirs from which the company collects animal by-products to be converted into biofuel and other ingredients).

There is increased scrutiny from the USDA (Agriculture department) at these plants, and in Europe, Darling is an active member of GME's (Gelatine Manufacturers of Europe) working group aimed at improving and monitoring animal welfare standards. Darling also ensures the abattoirs it works with in areas where it operates follow the local country-specific regulations pertaining to animal welfare and food safety. The company gave the example of Brazil, where it works to ensure animals have not been reared on deforested rainforest land. Overall, while we think this is an area for continued close monitoring, we remain comfortable with the impact case for the business, and gained further comfort from the publication of Darling's first comprehensive ESG report – the first of its kind in the industry.

Rio Tinto – indigenous rights

Objective: In May of 2020, Anglo-Australian mining company Rio Tinto demolished a number of caves in Western Australia's Juukan Gorge. The caves showed evidence of 46,000 years of human habitation, and this became a subject of outrage from media and wider society. M&G Investments arranged to meet with the company for an update and to understand what happened.

Action: M&G Investments met with the company, and this was the first item on the agenda. According to management, Rio had received legal consent for the iron ore mine in 2011, despite objections from the Puutu Kunti Kurrama and Pinikura ('PKKP') people. Archaeologists removed 7,000 items from the site in 2013. When it was due to be mined, the PKKP people protested but the mining still went ahead. An apology has been made by the company and a full report was commissioned by the board.

Outcome: It appears that the company is taking this matter seriously. It has apologised and is working on its procedures to keep these damaging events from happening in the future. Also, in light of investor demands for strong action from the board, Rio's chief executive and two other senior executives stepped down.

Sainsbury's – modern slavery and human rights

Objective: In line with our work as supporters of the CCLA's 'Find It, Fix It, Prevent It' initiative relating to modern slavery and human rights, we have begun to engage with UK retailers to understand their efforts in this area. As supermarket chain Sainsbury's is a recognised leader in this regard, we wanted to better understand its programme of works to combat modern slavery, as well as any instances of best practice that we could use to inform our research and engagement in future.

Action: We engaged with Sainsbury's to gain full insight into its approach for dealing with modern slavery in its supply chains, and about industry initiatives which had been beneficial to it in order to improve its prevention and remediation efforts.

Outcome: Sainsbury's was very open about the strengths of its work, but also of the difficulties that retailers face when looking at modern slavery in supply chains – such as the length and complexities of such chains and providing support to identified vulnerable people. Sainsbury's works in alliance with other UK retailers to share best practice and information, especially where suppliers are providing goods to multiple retailers and a joined-up approach can have the most impact. We discussed the training measures and technology used by the company to identify potential 'hot spots' or cases of modern slavery, and heard about the support provided to people where issues have been identified, such as help in finding a new role and emotional support. The company gave us good insights that will feed into our further work on this topic.

BAE Systems – controversial weapons production and other topics

Objective: To ascertain why British aerospace and defence company BAE Systems' carbon figures, from a selection of ESG data providers, appear high compared to peers. The meeting was also to discuss the company's involvement in the production of smoke grenades that use white phosphorus, a legal, but controversial, military device. As a further discussion topic, having previously engaged with BAE on its graduate and apprenticeship scheme, we understood that the company relies on these schemes to develop future talent. We wanted to ensure it was still able to offer these, given the COVID environment.

Action: We had an initial meeting with the chief executive and finance director to discuss the items listed above. Given restrictions on time in the initial meeting, we had a follow-up call with the company's head of investor relations to answer our remaining questions.

Outcome: The company's carbon emissions appeared high compared to peers as emissions from two large government-owned, contractor-operated plants in the US are reported in BAE's data. As the company is not responsible for capital allocation at these plants, and therefore the level of emissions per unit of output, BAE argued that the data was unrepresentative of the company's own carbon emissions. Whether it is the state owner or the operator who is responsible for reporting the emissions is an ongoing question. BAE is working to remove these emissions from its total figure.

The company's involvement with white phosphorous is solely in relation to manufacturing defensive smoke grenades for the UK Armed Forces, an allowed use under international law. BAE confirmed these devices were not available for export. Though financially immaterial, BAE is aware of the possible controversial attention this could bring. We will continue to monitor the company's behaviour in relation to white phosphorous, but feel confident it is taking these issues seriously.

Finally, BAE is continuing to run its graduate schemes and apprenticeships programmes, although some of these have experienced a slightly delayed start date. The company stressed the importance of these schemes and ensured us they would continue to do all they could to allow these to continue.

UN Global Compact (UNGC) flags

The United Nations Global Compact (UNGC) is a non-binding pact to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. UNGC is a principle-based framework, stating ten principles in the areas of human rights, labour, the environment and anti-corruption. As part of ESG data providers' research, company activities are monitored globally, and where found to be in breach of the principles, or potentially in breach, they are flagged respectively as either red or amber.

Andritz – UNGC amber flag

Objective: Andritz is a technology and market leader in the fields of hydropower, pulp and paper and metalworking and steel. Our objective was to develop a better understanding of the UNGC amber flags related to environmental and social impacts of hydropower dams in which Andritz is involved in Turkey, Brazil and Laos. These are amber flags, as opposed to red flags, suggesting the issues are being managed or remediated, but we wanted to clarify the status and understand the implications for the company's broader sustainability credentials. It was also an opportunity to understand the policies, procedures and governance measures in place for managing these, and other, ESG risks, as well as opportunities for the company in low-carbon solutions and clean tech.

Action: We held a call with the company, with the particular aim of finding out more about the opposition from local indigenous groups around the São Luiz do Tapajós dam in Brazil, and the negative biodiversity and local community impacts at the Ilisu dam in Turkey. We talked through the individual dam projects and the challenges experienced with each.

Outcome: We developed an improved understanding of the issues faced in these hydropower projects and Andritz's involvement in them. The company does not manage or construct these projects, but its equipment is a fundamental part of the overall project, hence it recognises its responsibility for conducting due diligence alongside the other partners. The company has developed new guidelines post Ilisu and has rewritten its code of conduct to be applied across all projects in which it is involved. The due diligence process has been improved, including a questionnaire that has been developed with the OECD and a number of NGOs. The company is engaging early with customers so it is prepared to take or support mitigation steps if needed. Andritz also talked through a recent project where it did not participate on account of the complexity of the project, where the necessary environmental standards would not be met. In the Laos project in which it was involved, the project has been significantly improved in recognition of the environmental considerations (and criticisms). The project has been significantly scaled back.

Samsung Electronics – former UNGC red flag

Objective: Samsung is a leading Korean electronics manufacturer. From June 2018, the company had a red UNGC flag related to alleged involvement by its vice chair, previously a board member, in a bribery case. While the court case was still ongoing, we wanted to ensure Samsung was making the appropriate changes to both its culture and compliance so that such an incident did not happen again.

Action: We engaged numerous times with the company on the issue of bribery and the related UNGC breach, as well as other ESG matters.

Outcome: Vice chair Jay Y. Lee is no longer a member of the board, but remains a corporate vice chairman, without pay since early 2017. When the final court ruling occurs we will assess the company's response. During our engagement, Samsung Electronics took several measures to strengthen its compliance scheme, including the introduction of more stringent compliance standards, revising its anti-corruption policy and the establishment of an independent and external compliance committee. The Samsung Compliance Committee, chaired by a former Supreme Court justice, was launched in Feb 2020 to prevent top-management-related risks, will give recommendations to the board and can publish these on a separate website, making it clear when the board has not followed them.

While we are comfortable holding the company for now, the Seoul High Court is due to give an opinion on whether Samsung's compliance programme and the new committee are effective, and we await the outcome of this while continuing to monitor and engage with the company ourselves. (Outside of the time period for this report, Jay Y. Lee was sentenced to two-and-a-half years in prison. The red flag was removed by ISS in Nov 2020, in recognition of the improvements made by Samsung.

Bayer – UNGC red flag

Objective: To better understand the context around German pharmaceutical and life sciences company Bayer's UNGC red flag, relating to GMOs and the alleged harm on biodiversity, as well as on neonicotinoids and bee toxicity, and clarify the company's stance on and approach to these issues. The meeting was also to discuss the company's involvement in the production of white phosphorus.

Action: We engaged with Bayer to discuss the red flags issued by data providers ISS and MSCI associated with the company. In relation to neonicotinoids and the alleged harm on bees (ISS), Bayer explained that the insecticide implicated by the flag was only considered harmful within the EU, as opposed to being fully accepted by North American, Latin American and Asian regulators. Bayer has engaged with the ESG rating providers to discuss the issues and maintains the opinion that the EU's decision to disallow this pesticide is leading to decreased crop yields and an increase in more toxic, less efficient alternatives. With respect to the GMOs and the alleged harm on biodiversity (MSCI), the company stated that it is not in line with the different claims. Bayer made its statements available on the company website.

In relation to the company's involvement with, and use of, white phosphorous, Bayer explained that this chemical is a key ingredient to its number one selling crop protection product in North America, Glyphosate. It reiterated that, although sometimes controversial, white phosphorus is entirely legal and that the company sells under 1% of its supply to wholesalers – ensuring the vast majority is used strictly for its own products. Bayer also explained that if the company did not own the mine in Soda Springs, it could be at a serious competitive disadvantage, being unable to control supply or price.

Outcome: We were encouraged to hear that Bayer was aware of the flags and had been in dialogue with the ESG rating providers to better understand the issues and to explain its defence for each. We will continue to monitor the company's behaviour while the red flag remains, but we feel confident that it is taking these issues seriously.

Shell – UNGC red flag

Objective: To determine if M&G Investments agreed with the UNGC red flag, as ascribed by data provider ISS, in relation to oil major Royal Dutch Shell's operations in Nigeria and associated oil spills.

Action: We met with Shell to discuss the issue of oils spills, which was then followed up by a meeting with the company's managing director of Nigeria.

Outcome: Shell has four businesses in Nigeria, including SPDC, which is a joint venture where Shell has 30% interest and the Nigerian government 55% (the balance is owned by Total, 10%, and Eni, 5%). SPDC owns 4,000km of onshore and shallow water oil and gas pipes in the Niger Delta. In 2019 there were seven operational spills and 156 illegal spills. Shell acts as the operator of the joint-venture, and therefore draws the most scrutiny, but the issue is equally relevant for Total and Eni.

Accountability sits with the government, but Shell does not want to remain static and allow these spills to keep happening. In response, Shell has put in place a number of actions: CCTV; use of drones; patrolling of the pipelines; and increasing employment prospects for locals in order to discourage oil theft. As a result, Shell claims the volume of oil spills is down 30% over recent years, but the number of illegal spills is increasing. On average 11,000 barrels of oil are stolen or lost per day (c.$250m of lost revenue per annum over the 156 sites). The thefts range from a nail in the pipeline and a bucket, up to much more sophisticated theft using pipework and mobile refineries.

HYPREP (Hydrocarbon Pollution Restoration Project) was set up in 2016 to remediate the pollution from the oil spills, but the government owns the process and it is far too slow. SPDC has agreed to pay $900m in total, with $360m paid in to HYPREP so far (30% of which has been from Shell), but only $40m has actually been spent. Shell has offered additional help to HYPREP, including resources, engineers etc.

Conclusion: Due to the reputational damage of owning SPDC, Shell is considering selling its stake in the pipeline network, although it would still be reliant upon it for transporting hydrocarbons. The dilemma for investors is whether they would prefer Shell to remain the owner and try to sort out the issues – and accept the associated reputational damage – or wash its hands of the problem by disposing the assets to what might be a less scrupulous operator, who may allow more damage to the environment. One of the solutions is to incentivise the right behaviour from the local people. Shell's question is how it can best incentivise locals to defend the pipelines and not steal from it.

Engagement with Shell has provided us with some comfort that it is the best owner for these assets. It is clear HYPREP has not been functioning effectively and would benefit from further organisational and engineering expertise from Shell, as well as its funding, which has already been committed.

Serco – UNGC red flag, Australian immigration centres

Objective: To verify the validity of the UNGC red flag assigned to British contractor Serco in relation to its involvement in Australian immigration centres.

Action: Following a call with the company's chief executive and chief financial officer in late September, we had a meeting with the general counsel to discuss the ISS-assessed UNGC red flag in relation to the Australian onshore immigration facilities that the company operates. We wanted to understand how Serco had responded to the flag, and if there had been any internal changes following the allegations against the company. We also had a call with the covering ISS analysts to understand the backing data to the flag, and which reports had flagged the issues.

Outcome: The company is clearly aware of the risks that it is exposed to, and given it operates prisons and immigration centres worldwide, it is familiar with the demands of differing governments. The crux of the matter was that ISS assesses the Australian government's human rights laws as failing to meet the expectations of the UNGC, which the Australian government has pushed back against. We found the meeting very useful to understand how Serco was working with the government to implement stricter measures within the centres.

The company has been engaging with the ESG data providers to understand the data behind the allegations. Serco has also engaged a number of independent organisations to undertake reviews and investigations into the allegations, while other parties, including the Commonwealth Government and the police, have also investigated. ISS, meanwhile, believes that the UNGC red flag is appropriate. We will continue to engage with and monitor Serco around the issue.

Sustainability strategies

During the year, M&G Investments was approached by a number of companies asking us to review their sustainability reports and provide feedback as to what we would expect to be included. Companies seeking our guidance included Japanese manufacturer Bridgestone, Irish housebuilder Cairn Homes, Spanish bank BBVA and utility China Resources Power. As a result of this increasingly common request, we have developed a template that can be sent to companies, highlighting the key areas that we would expect a 'best-in-class' sustainability report to contain. The template is available on request. As a few examples of our discussions:

Canada-based midstream oilfield service company Gibson Energy – one of our largest shareholdings – asked us to help develop its sustainability strategy and share best practice on ESG disclosure and reporting. Following a series of meetings, in May 2020 Gibson launched its inaugural sustainability report: Setting Our Sustainability Roadmap. We commend the company on this effort and the strong messaging from its chair and chief executive, which talks about an increased focus on environmental responsibility, plans to integrate ESG into strategy and embed ESG throughout the business. We recognise the effort that went into generating this report and look forward to probing further to gain a better understanding of its sustainability key performance indicators (KPIs), carbon intensity, and investments in initiatives that focus on greenhouse gas emission reduction and energy efficiency.

We encouraged ALK-Abelló, the global leader in allergy immunotherapy, to improve its sustainability targets and disclosures, and discussed the areas we believe the company should integrate into its reporting. This included Access to Medicine, where we discussed the actions being taken to improve affordability to lower income patients, and highlighted the new Access to Medicine Index methodology, which ALK is considering.

Meanwhile, CCR, a transportation company with interests in private interstate highway concessions, airport operations and metro systems in Brazil and other countries, contacted us in regard to its new sustainability report. The company was keen to understand the areas in which it could improve and develop the report further. We suggested it include forward-looking ESG targets, rather than just retrospective improvements, and also disclose remuneration targets for executive pay, and to include ESG metrics within these targets. Due to the nature of the business, we suggested human capital or health and safety targets could be used. We await to see what the company produces.

Infracapital

Infracapital, the infrastructure equity arm of M&G Investments, has raised and managed over £6bn investing in European infrastructure in the mid-market. As a long-term investor providing essential infrastructure services to society, we are alive to the numerous stakeholders we impact. Infracapital recognises 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 well as helping to achieve many of the UN Sustainable Development Goals. As such, we consider responsible investing across all of our investment activities. 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, building businesses that are committed to sustainability. As a result, this 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 members of the Responsible Investment Committee sit on the Investment Committee, ensuring that ESG considerations are aligned in the investment decision process. In addition to the committee, Infracapital ensures all its 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 the Directors Duties and Health & Safety. Infracapital also runs ESG-focused workshops, bringing together key executives from across our portfolio companies with Infracapital teams to share best practice and ensure prioritisation of ESG-related matters.

Infracapital also recognises the importance of ESG factors across our investor community and works to support the delivery of their ESG objectives. As such, 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.

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

Infracapital investee companies: case studies

Gigaclear

As the pandemic persists, and with it remote working, fibre connectivity has become widely recognised as an essential utility. Now more than ever, being connected is of the utmost importance and we are pleased to announce that, during 2020, Gigaclear officially launched its Community Hub scheme, which aims to provide free broadband to critical community services. The scheme provides one free connection to a community centre in areas in which Gigaclear is building, enabling communities to do more and enjoy the benefits of connectivity, while enabling digital inclusion. Notably, the environmental impact of our fibre networks, emitting approximately 88% less greenhouse gas emissions per Gigabit compared to legacy technologies, further highlights the need for growth in this key sector.

Zenobe

Our greenfield strategy is optimally positioned to deliver impact, providing much needed capital in response to the need for new sustainable infrastructure to address various challenges, from renewable energy generation to digitalisation. We are excited by the potential impact of our recent investment in Zenobe, a provider of emission free energy and transport solutions to electric vehicle (EV) operators, utilities and industrial and commercial businesses. This enables the transition to full zero carbon, non-pollution power and transport systems. Through our investment in Zenobe, we will facilitate international efforts to meet binding carbon reduction targets, with c.770 tonnes of CO_2 saved per EV over 15 years, by addressing the growing need for clean, new build infrastructure.

Recharge

Following our recent electric vehicle charging investment in Recharge, the business continues to deliver measurable impact towards the decarbonisation agenda by delivering electric vehicle charging infrastructure. The recent statistics which show electric vehicle sales in Norway exceeding 50% of car trade in 2020, confirm the business case for our investment. In an effort to make electric vehicle charging more accessible, Recharge has partnered with EasyPark, enabling electric vehicle drivers to pay for parking and charging in the same app. We look forward to delivering further innovative ideas in this space to create a seamless experience for our customers, in order to deliver maximum social and environmental impact.

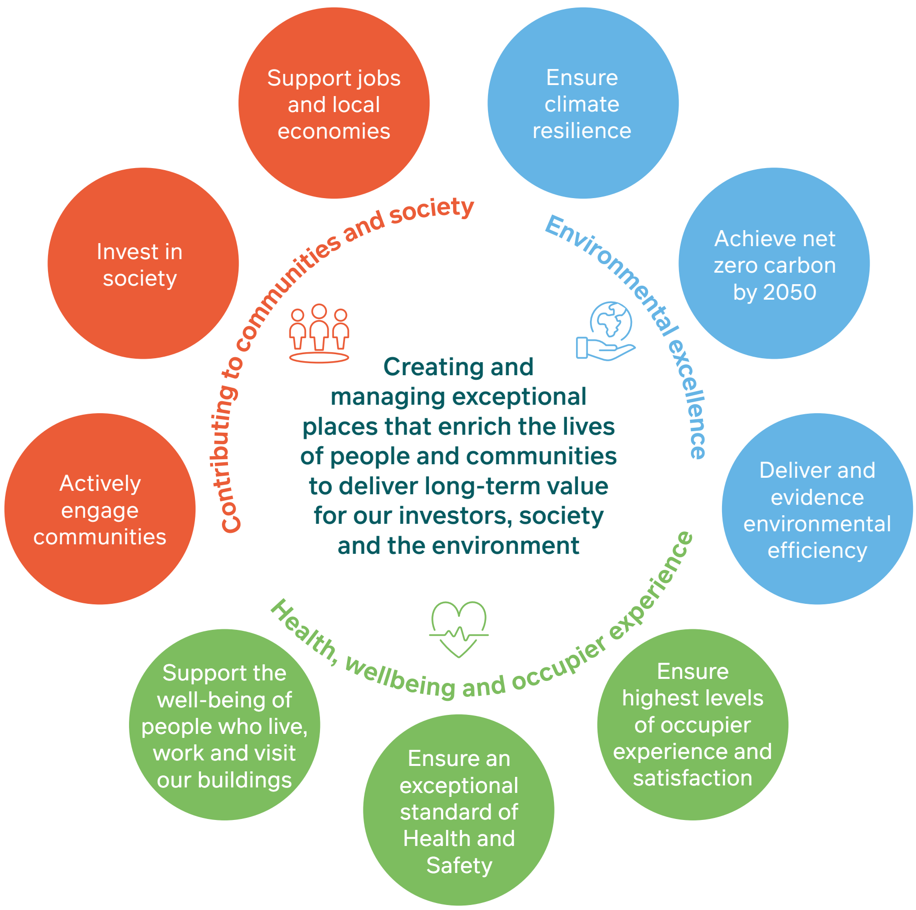
Adven

The third quarter of 2020 marked the sale of our investment in Adven. As reflected in the value achieved, Adven delivered substantial growth during our ownership. Leveraging our experience and expertise, Adven was transformed to position sustainability at the heart of the strategy, and the business as a leading provider of clean energy solutions to industrial clients. The efforts to drive the business's ESG performance was evidenced by its improved GRESB scores, ranking in the top 15% of all GRESB infrastructure asset ratings in 2019, and reducing the carbon footprint per sold megawatt by 20% since our ownership began in 2016. Adven proved to be a fantastic example of being able to achieve both attractive returns for investors while delivering against the Sustainable Development Goals.

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. By being at the forefront of identifying and influencing the drivers of change, and shaping our investment strategies accordingly, we aim to deliver strong returns to our investors in the long term, and support the creation of positive environmental and social outcomes.

Our approach to RPI (responsible property investment) also enables us to safeguard and future-proof our assets (meaning they should remain viable spaces as we move through the energy transition), helping to ensure they have enduring appeal as workplaces, homes and leisure destinations, benefiting communities and economies around the world. In order to deliver our RPI vision and objectives, M&G Real Estate seeks to embed responsible investment considerations into all investment activities and decision-making. We are focused on performance in three key areas:



Full details of how we are managing and responding to these issues can be found in our Responsible Property Investment Report, which we publish on an annual basis on our website. For case studies of some of our activities throughout 2020, please see below.

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 carbon

We believe that climate change is the most important environmental issue facing the world today. The risks posed by climate change are multi-faceted and far reaching, and the implications on our environment and society are profound.

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

With the built environment contributing approximately 40% of global carbon emissions, if we are to limit the worst effects of climate change we must achieve decarbonisation of our built environment.

As part of the Climate Change Commitment, we have published our pathway to achieving our net zero ambitions. Full details are published on our website. We have tried to be open about the complexity and challenges we face, both as an organisation and as a sector. We will report progress annually against our pathway.

Case studies

Luisenforum Shopping Centre, Germany

In 2020, a significant lighting upgrade project was committed to: to convert all landlord-controlled lighting systems to low energy LEDs. The project will replace over 1,000 existing individual general and safety luminaries with an LED equivalent. The project commenced in 2020 and is underway in common areas. The improvement to lighting will deliver an estimated 230MWh of energy and 122 tonnes of CO_2 savings every year. Other benefits will include improved visual comfort and aesthetics in the mall area, and a significant reduction of service charge energy and maintenance costs, which will directly benefit occupiers.

Lockdown Hero

To help ensure ongoing improvements to occupier satisfaction, in 2020 M&G Real Estate ran the 'Lockdown Hero' initiative to recognise and reinforce behaviours of exceptional occupier customer services among third-party property managers. The initiative sought nominations on individuals or teams who had demonstrated exceptional effort in addressing occupier concerns during the COVID-19 pandemic. All nominations received a personalised thank you letter signed by the Global Head of M&G Real Estate, while the ten best entries, chosen by a steering committee, also received an awards trophy.

Inclusivity

Providing buildings that serve people's needs is a practical means of improving occupier experience, and a staple objective. Our shopping centres are often the cornerstone of local communities, and we want them to be accessible to everyone that wants to visit. For this reason, accessibility surveys were carried out at our UK shopping centres during late 2019 and 2020. The aim of the surveys was to share accessibility information with the public in an open and transparent way, and identify and prioritise potential barriers and areas for development. Asset teams are reviewing implementation of the improvement recommendations as part of asset planning activities.

Occupier engagement in residential assets

Occupier engagement is a key factor in the success of our residential assets. Across our large UK residential portfolio of built-to-rent properties, we have been working hard to make our customers feel secure and part of a community; this has been at the forefront in 2020 owing to the COVID-19 pandemic. Our programmes have focused on enhancing customer experience and developing communities, as well as ensuring positive well-being across the portfolio. We created a digital platform for customers in March 2020, to help them connect with each other and feel part of a community while COVID-19 restrictions were in place.

We were conscious of the mental health of our customers, particularly during periods of lockdown, so we introduced newsletters to provide advice, tips and engaging articles. Content included ideas of books to read, recipes to cook, and links to playlists as well as to support groups such as the charity Mind. The digital platform also provides access to online workouts via the 'stronger together' platform to encourage our customers to exercise in the comfort of their own homes. We are pleased to report that over 2,000 customers have been reached through our platform, with our occupiers and built communities interacting virtually through forming book clubs, food clubs, and online yoga sessions.

'Thinking green' has been the thrust of a campaign to educate our customers to act responsibly and in a 'green' fashion. Recycling posters have been displayed at all assets, which highlight the dos and don'ts of recycling and how to be better informed. Additionally, battery recycling banks have been installed at each built-to-rent asset in the reception areas and bamboo toothbrushes are being given to all residents to help reduce the amount of plastic used.

We also want to be an active presence in local communities, making a positive contribution to the people that live in our buildings and to the communities in their vicinity. We have introduced seven clothing banks across five of our schemes. The donated clothes are either recycled or resold at White Rose stores, where all proceeds support the charity, Aegis Trust. At the end of 2020 we had collected 17 tonnes of clothing, equating to the weight of 1.5 London buses. Furthermore, the clothes collected offset circa 60 tonnes of carbon emissions, which is equivalent to 12 return flights from London to Sydney and had a projected resale value of £66,000 for charity. In addition to the clothing banks, food banks were also introduced; we have partnered with four local charities to collect food for those in need within our communities. For Christmas, we took part in the Giving Tree initiative, which partners with the charity Kids Out. Presents were donated by our customers to children in local refuges. Over 300 gifts were collected and dropped off at the Kids Out drop-off centre in time for Christmas.

For 2021 we have partnered with The National Trust to support its effort to plant 20m trees in the UK by 2030. For every new residential tenancy or renewal in 2021, we will plant a tree with The National Trust. By the end of 2021, we hope to have planted two hectares of woodland, which is the equivalent of four football pitches.

Voting

Introduction

Few days pass by when a large quoted company is not mentioned in the headline news over concerns about its operations or governance. ‘Fat cat’ pay has given way, though not wholly, to news reporting on a range of issues such as the treatment of employees, environmental concerns and information security. Social media is playing a big part, empowering employees, customers and other stakeholders to seed and grow complaints, frustrations and perceived injustices that force responses from regulators and companies. Shareholders have the ability to hold company directors to account through proxy voting; and laws and regulations continue to evolve to encourage and empower investors to fulfil that responsibility, and, in turn, require themselves to be more transparent and accountable to clients and society. In this regard, the requirements of the Shareholder Rights Directive II came fully into effect during 2020, and more can be expected shortly as the UK Parliament debates proposed reporting requirements relating to climate change.

The issues for consideration by shareholders have expanded well beyond the boardroom and the share price chart. But even within the boardroom change is afoot, as companies and shareholders consider the need for transformation, particularly with regard to diversity; this will be a central theme in our voting during 2021.

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 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 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. In most circumstances, especially on remuneration-related issues, there will have been a previous dialogue with the company.

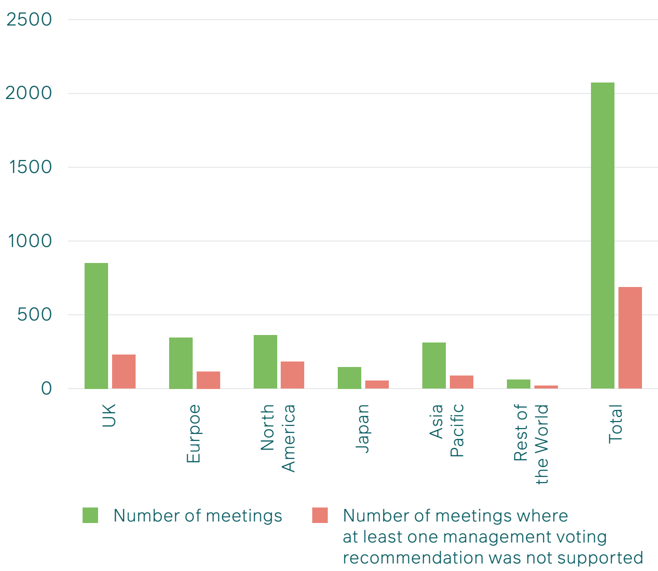
Our starting position is to be supportive of the management of companies in which we invest. However, there are occasions when company boards put forward resolutions that we feel are not in the best interests of the company. Here we highlight some of our voting decisions taken during the year.

In 2020, M&G Investments voted at 2,029 meetings; at 687 meetings M&G voted against at least one resolution.

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**

Meetings where at least one management recommendation was not supported



Votes cast against management recommendation by category and region

	UK	Europe	North America	Japan	Asia Pacific	Rest of World
Directors-related	16%	25%	45%	83%	23%	65%
Remuneration	44%	37%	5%	4%	8%	13%
Capital-related	16%	17%	0%	0%	54%	0%
Corporate activity	0%	1%	0%	1%	4%	0%
Anti-takeover	0%	1%	1%	1%	0%	0%
Routine other business	20%	17%	5%	0%	7%	23%
Shareholder resolutions	4%	2%	43%	11%	4%	0%
	100%	100%	100%	100%	100%	100%

Commentary

Coronavirus

Towards the end of the first quarter of 2020, we reviewed our voting approach in light of the impact that COVID-19 was having as it spread across the globe. As a result, we relaxed our stance on companies raising capital through share issuance without pre-emption rights. This was to take account of the cashflow difficulties that we expected companies to experience as a result of lockdowns, travel bans and other ramifications of the virus.

We also reviewed and discussed our expectations regarding executive remuneration given the effects of the virus on operations, employees, suppliers and shareholders. Further details are provided below.

The pandemic has created challenges for companies in organising their annual general meetings, but also for shareholders in determining and lodging their votes. However, it seems that companies, shareholders and other institutions and agencies involved in the proxy voting process have managed to fulfil their obligations, in spite of the difficulties of lockdown. This was, in no small part, helped by the regulatory relaxations enacted around the world.

A number of companies proposed changes to their Articles of Association to allow hybrid or virtual-only meetings. Despite the effects of the pandemic, we decided to keep our policy of not supporting resolutions that allow virtual-only shareholder meetings on a permanent basis, in order to allow minority shareholders the opportunity to meet the board at least once in the year.

United Kingdom

As mentioned above, in light of the coronavirus pandemic we changed two major aspects of our voting policy. Firstly, we relaxed our position on the disapplication of pre-emption rights; secondly, as outlined below, we reconsidered our approach to remuneration resolutions to take into account board decisions on dividends, executive pay, employees and government assistance. One of the most significant issues for our UK fund managers has been the cancellation, reduction or suspension of dividends. Our voting reflected our position that the pain of the economic impact of coronavirus should not be disproportionately borne by shareholders and/or employees.

While appreciating that some awarded bonuses had already been paid, we did expect action in relation to salary. During the pandemic some companies, such as cinema company Cineworld, sports betting company GVC, housebuilder Persimmon, supermarket group

Sainsbury's and recruitment business Page Group, significantly reduced 2020 salaries and suspended the 2020 bonus scheme. In contrast, we have seen some companies making minimal or no changes to remuneration, and we have therefore not supported the remuneration report resolutions at a number of general meetings, including commercial property developer Land Securities, telecom BT Group and commercial property investment company McKay Securities.

Aside from issues related to coronavirus, we were disappointed with the implementation of branded catering and retail unit operator SSP Group's remuneration policy. The bonus payment to the former chief executive failed to be pro-rated for her time served on the board, and we felt the salary increase for the new chief executive was excessive. Due to these concerns, we voted against the remuneration report.

We had similar concerns with global technology product provider Chemring, where we voted against the remuneration policy over concerns that the EPS targets, on which executive remuneration was based, was starting from a very low base.

Avation, a commercial passenger aircraft leasing company, proposed a one-off share grant, with no performance conditions. We subsequently voted against the remuneration report and remuneration policy.

A key voting focus for M&G Investments in 2020 was the alignment of executive and employee pension levels. Our stance was typically to oppose remuneration resolutions where there was a significant difference, and the company had not demonstrated that there was a glide path in place for this to happen by 2022. For example, retailer WH Smith failed to meet our expectations on this, with its new chief executive starting on a much higher pension contribution than the majority of the workforce. Consequently, we voted against the remuneration report. Other examples of this issue included tobacco company Imperial Brands, defence business BAE Systems, certification company Intertek, Wm Morrison Supermarkets, energy company SSE and packaging business DS Smith.

Our preference is for the roles of chair and chief executive to be separate. However, in respect of Avation we decided to support the re-election of the director holding the current joint chair and chief executive role, with the expectation of change in the near future.

But, at Jet2, the airline holding company formerly known as Dart Group, we abstained on the founder's re-election due to his chair and chief executive role. After an initial engagement, in September the company confirmed that the roles of chair and chief executive had been split.

Imperial Brands, meanwhile, has continued to disappoint on strategy and performance and we voted against the chief development officer and the chief financial officer.

We decided to abstain on the re-election of the chair at wealth manager St. James's Place in reflection of our disappointment that our expectations for the company had not been met.

Commodity trading and mining company Ferrexpo has been facing allegations of financial irregularities, involving charitable donations and the controlling shareholder Kostyantin Zhevago. We decided to oppose the remuneration resolutions as well as the re-election of three directors.

Food packaging company Hilton Food's chair has served for more than nine years, having previously served as the chief executive. However, we considered a change in chair at this stage not to be in the company's interests and so we supported his re-election.

After engaging with currency specialist Alpha FX to understand the rationale behind the decision to receive consulting advice from one of the non-executives, we decided to support his re-election. However, we expressed to Alpha FX that we may not be supportive in the future.

Pub operator JD Wetherspoon proposed the re-election of two directors who have been on the board for over nine years. In line with our votes at the company's 2019 AGM, we opposed the re-election of both board members. At the AGM, both directors received a circa

17% vote against. In our view, board refreshment is very important, with new directors bringing fresh challenge.

At airline operator easyJet we abstained on the re-election of a director, due to their position on the Wirecard board at the time of the company's collapse. The resolution was subsequently withdrawn, with the director resigning as a non-executive of the company.

We abstained on the re-election of an alternate director position at Grit Real Estate Income Group. We have reservations with alternate director positions.

At insurer Hastings Group, we opposed the re-election of one non-executive director due to continued low board meeting attendance. At specialist regeneration developer U&I Group we opposed the chair's re-election due to concern over the number of his directorships.

Northgate, the commercial vehicle rental provider, proposed an all-share merger with support services group Redde, which we supported.

A small number of resolutions were put forward by shareholders. At branded spirits producer Stock Spirits Group, we opposed the special dividend payment resolution, as we felt it was not in the company's best interest to return this cash to shareholders.

The controlling shareholder of easyJet called a shareholder meeting and proposed the removal of four board directors, including the chair and chief executive, over strategic disagreement. Together with the majority of shareholders, we opposed the resolutions and they failed to pass.

Banking group Barclays and energy company Royal Dutch Shell faced shareholder resolutions on climate issues, and these are outlined below.

Europe

Our ongoing concerns over branded jewellery company Pandora were alleviated with the appointment of a new chair and two new independent directors. However, we believe further refreshment is needed and considered it appropriate not to support the re-election of the vice chair, who has been a director for nine years. We also did not support another non-executive of four years standing, but who, in our view, has an excessive number of directorships.

French shopping centre operator Unibail-Rodamco-Westfield faced several shareholder proposals at its general meeting in November. We supported the three resolutions, which proposed members for the supervisory board. All three were passed at the meeting, with approximately 60% support for each resolution. Further, we voted against the issuance of equity due to concerns over the dilution of shareholders.

Compagnie Financière Richemont, the luxury goods holding company, presented a very similar board for re-election as it had the previous year, and as with the previous year, we voted against four directors over independence concerns.

Corporate governance at media group Vivendi, where Bollore Group is a 29.6% shareholder, is a concern for us. We voted against a large number of resolutions, in particular proposals to enhance pension values for executives ahead of scheme closures and the remuneration of Vincent Bollore, who had recently taken the role of censor.

French utility Engie asked shareholders to approve the termination package of its former chief executive. We declined to support due to concerns over payment for a non-compete agreement and in light of circumstances resulting from the pandemic. In a similar vein, while the one and only dividend was cut, executives did not reduce their remuneration. We expressed our view that there should be alignment between directors and shareholders by opposing the remuneration proposals.

Given the continuing criminal investigation at Spanish bank Banco Bilbao Vizcaya Argentaria, it was appropriate to abstain on the resolution to discharge directors (although no wrong-doing by them has been discovered). The extraordinarily high pension contributions received by directors meant we opposed the remuneration report resolution.

We voted against all resolutions to approve discharge of management board members at car manufacturer

Volkswagen. VW continues to deal with countless legal proceedings and regulatory investigations worldwide that could have a significant impact on shareholder value.

Spanish utility Endesa sought to introduce a shareholding requirement to be able to attend general meetings in person. We opposed the change to the articles, as this breaches the equal treatment of all shareholders.

European companies that were subject to climate-related resolutions are discussed below.

North America

Methanol producer Methanex, where we are a major shareholder, was a significant meeting for us as we decided to withhold support from all but two of the directors seeking election. We also withheld support on the re-appointment of the auditor and opposed the resolution on remuneration. This reflected our continuing concerns over corporate governance and strategy.

Our negative voting on management resolutions in North America is mainly related to directors where independence is a concern, often due to the amount of time served on the board. However, at energy company Exxon Mobil we opposed several directors, as we felt their behaviour in refusing to positively engage with shareholders was not in the company's interests.

At multinational technology giant Cisco System's annual general meeting, we voted against the re-election of three directors due to concerns over independence due to board tenure, particularly in light of the combined chair and chief executive role. We supported the shareholder resolution to require an independent chair, as we did for the vast majority of similar proposals at other meetings.

Pay arrangements at casino operator Las Vegas Sands, particularly around severance with its single trigger clause that could result in executives receiving payments without actually losing their jobs, were cause for us to oppose the pay resolution. At IT services provider DXC Technology, we opposed the say on pay proposal over the leaving arrangements of the departing chief executive; and for similar reasons at beauty company Coty.

We opposed the pay resolution at Google's parent company Alphabet where the new chief executive was granted incentive awards of $250,000,000 with few performance conditions attached and insufficient explanation. Other examples of oppose votes due to concerns over excessive pay included investment bank Goldman Sachs, social media operator Facebook and entertainment company Walt Disney.

Shareholder resolutions were on the agendas of many annual general meetings concerning a wide range of issues across corporate governance, shareholder rights and corporate social responsibility.

Food producer Tyson Foods, e-commerce giant Amazon, retailer Kroger, tech giant Apple, and car maker General Motors all faced resolutions relating to human rights, and in each of these cases we decided to support the resolution as, in our view, companies should make appropriate disclosures to shareholders.

While most shareholder proposals failed to gain sufficient support to pass, there were some notable exceptions. At energy company Chevron and transportation and logistics business JB Hunt Transport Services, climate-related resolutions succeeded. A resolution asking the board to report on governance and opioids was supported by shareholders at medical and consumer manufacturer Johnson & Johnson. More than 70% of shareholders of streaming service Netflix voted for the company to adopt a simple majority vote standard.

In 2021 we will be looking more closely at auditor tenure, and we expect to be opposing resolutions to re-appoint the auditors at a number of North American companies.

Japan

The pandemic caused us to suspend our voting policy relating to poor capital-related returns at Japanese investee companies.

Most of our negative voting in Japan related to director re-elections and was due to concerns over independence. However, at banking group Nomura, we supported a particular director's re-election having previously opposed, following the provision of detailed information from the company.

Abrasives maker Fujimi proposed the adoption of a shareholder rights plan (poison pill), but on balance we decided to oppose, as we did not believe it to be in shareholders' interests.

The meeting of utility The Kansai Electric Power Company was notable for the large number of shareholder resolutions, including one calling for the abolition of senior adviser positions. The first ever climate-related shareholder resolution at a Japanese company was proposed at bank holding company Mizuho Financial Group, requesting disclosure on the company strategy in relation to the Paris climate goals.

At conglomerate Toshiba's AGM, we opposed five shareholder resolutions to appoint new directors, as we felt that the newly reconstructed board was appropriately focused on the key issues impacting Toshiba, and therefore, additional change at the board level did not appear necessary at this time.

Asia Pacific

Director elections and share issuance are the two main concerns for our voting of Asia Pacific shareholdings. Concerns over directors often relate to independence, but directors having multiple directorships and the inadequate provision of information to shareholders also makes supporting certain directors problematic. At investment manager First Pacific Company we opposed both a director and a capital resolution.

Oil and gas company China Petroleum & Chemical Corp. only provided limited disclosure regarding the proposed issuance of debt financing instruments, and we decided to oppose.

Our voting at South Korean financial services business Shinhan Financial Group differed among fund managers, considering concerns regarding the conduct of the company's chief executive, Cho Yong-Byoung, who has been convicted for malpractice relating to employee recruitment.

The upheld conviction of Jay Y. Lee for bribery meant that his name did not appear on the voting agenda at electronics company Samsung Electronics.

In Australia, at mining company BHP's AGM, we supported the shareholder resolution to 'approve suspension of memberships of industry associations where COVID-19-related advocacy is inconsistent with Paris agreement goals'. The company had recently published an updated climate policy with commitments to the Paris agreement, but we felt there was inconsistency between these updated policies and those of its industry associations. The resolution received circa 22% support at the company's AGM, which is much higher than many previously proposed resolutions.

Again in Australia, at multinational banking and financial services company Australia and New Zealand Banking Group, we voted against both proposed shareholder resolutions related to climate transition planning disclosure. Following a satisfactory engagement with the company, we concluded that it had made good progress in regard to its coal policy, and that the shareholder resolution did not take account of that recent progress. We will continue to monitor the situation. Similarly, at National Australia Bank's AGM, we voted against both shareholder resolutions for the same reasons. The company has already set stretching targets, and assured us that by 2022 it would have published targets for Paris alignment by sector breakdown. We supported the shareholder resolution at energy business Woodside Petroleum to meet the Paris Goals.

Rest of World

Brazilian transport company CCR held a special meeting to adopt various changes to its bylaws. Among the bundled proposals were changes we considered unacceptable, as they reduced accountability, and so we opposed the resolution. At the subsequent annual general meeting, we abstained on a number of resolutions due to various concerns over corporate governance.

Israeli financial firm Plus500 sought shareholder support for a one-off bonus payable to the finance director, but we voted against as, in our view, the arrangement was not justified.

A significant number of our negative votes on directors related to just one company, Mexican financial company Grupo Financiero Banorte, which proposed a number of alternate directors. In line with our policy, we opposed these resolutions.

Climate-related shareholder resolutions

This was a pivotal proxy season for climate-related shareholder resolutions, with a record number of resolutions filed receiving record levels of shareholder support. As a member of the Institutional Investors Group on Climate Change's (IIGCC) resolutions working group, we continued to play an active role in this area, participating in the formulation of the group's proxy voting strategy, and, more specifically, supporting the resolutions themselves and engaging with companies around them. To highlight a few examples:

We engaged with banking group Barclays, both directly and through a collaborative dialogue coordinated by responsible investment charity ShareAction and other investors. This was to push the bank towards phasing out non-Paris-aligned fossil fuel activities as part of its ongoing strategy, in order to meet its 'net zero by 2050' ambition. At the 2020 AGM, ShareAction and a number of institutional investors filed a climate-focused resolution (a landmark for a bank) which prompted the board to file its own competing resolution. Reflecting our support for the progress the ShareAction engagement had achieved, we made a public statement pre-announcing our support of both the ShareAction resolution and the management resolution, with the intention of encouraging other mainstream investors to view this course of action as a viable option. The board's resolution received 99.3% support and the ShareAction filing received almost 24% support. Barclays has pledged to align all its financing activities with the goals of the Paris climate agreement as a direct response to investor pressure.

M&G Investments also co-filed a resolution at oil and gas major ExxonMobil's AGM. This requested the board to issue an audited report to shareholders on whether and how a significant reduction in fossil fuel demand, envisioned in the IEA Net Zero 2050 scenario, would affect its financial position and underlying assumptions.

A number of shareholder resolutions were also tabled at other oil and gas majors by climate focused NGO Follow This and affiliates. These included filings at energy companies Shell, Equinor and Total calling for greater alignment of strategy and targets with the Paris agreement. After engaging directly with company managements and other investors (often via the IIGCC coalition), we supported the resolutions at Shell and Equinor (which ended up receiving 14% and 3.2% support, respectively. However, Equinor is 67% owned by the Norwegian state, which voted against the resolution, meaning the supportive non-government share of the vote was significantly higher).

At Total, following discussions with the company and other shareholders (please see below), we abstained on a similar resolution at the company's AGM due partly to significant progress post the filing of the resolution, and partly due to concerns about the legal complexities of the resolution itself. In order to keep up pressure on the company, we issued an AGM statement supporting its progress and calling for further improvements to its recently announced strategy.

With regards to UK major BP, we have played an active role in the Climate Action 100+ (CA100+) shareholder group coordinating the shareholder engagement strategy. As a result of the sector-leading progress announced by the company at its February 'net zero' strategy day, Follow This pulled the shareholder resolution. We joined others in the CA100+ engagement group in making an AGM statement with specific asks, to keep up the pressure on the company. These included a call for improved disclosures on areas such as BP's short and medium-term targets covering levels of investment in traditional oil and gas and low carbon technologies, and the resulting absolute greenhouse gas emissions across scopes 1, 2 and 3 on the journey to net zero.

Remuneration

During the year we received 116 new proposals from remuneration chairs, with subsequent follow-up letters and emails. We had a total of 27 remuneration-specific meetings during the year.

We are members of the Investment Association's (IA) Remuneration and Share Schemes committees, where specific concerns are discussed.

The first UK binding remuneration policy votes occurred during 2014, and so 2020 saw many renewals given the three-year policy periods. However, given the conditions of uncertainty created by the pandemic, a number of companies decided to roll over their current policy for another year. The thinking was that a constructive shareholder engagement process around new remuneration policies was better suited to a post-COVID environment.

Below, we highlight the three key remuneration themes from the year.

Pension alignment

Throughout the year, in line with IA guidance, we kept a close eye on the executive pension arrangements being proposed within new remuneration policies. When engaging with companies on executive remuneration concerns throughout the year, we informed companies that we expected to see a glide path to alignment of executive pensions with those available to the wider workforce, and do not generally support 'cliff edge' drops. As this alignment is due to be in place by December 2022, we voted against or abstained on the majority of new remuneration proposals that failed to demonstrate how this would be achieved.

Impact of COVID-19

The COVID crisis caused remuneration committees and investors to re-assess executive pay, in light of the negative impacts on operations and stakeholders. It is vital that incentive structures and targets are perceived as being fair and equitable within the context of the wider stakeholder base and society's expectations. Our voting during the year reflected our position that executive remuneration should be aligned with the experience of shareholders, employees and wider stakeholders. While appreciating that some awarded bonuses had already been paid, we did expect action in relation to salary as a minimum, when appropriate.

In that regard, the main issues we considered were:

Dividends – during the year one of the most significant issues was the cancellation, reduction or suspension of dividends, as companies shored up their financial positions. We considered whether any interim dividend had been paid earlier in the year.

Government support – many companies affected by lockdowns took advantage of government assistance, including furlough arrangements, loans and rates relief. We saw a number of companies voluntarily repay furlough payments, and other government assistance schemes, following the initial lockdown period. However, a number of companies continued to keep staff on furlough, and continued to use government support packages to stabilise balance sheets. We considered the support received when reviewing remuneration reports.

Incentive schemes were another area of consideration, particularly the probability of meeting performance conditions. We took the view that retrospective adjustments of in-flight awards were not acceptable. In looking at the formulation of future arrangements, we argued for wide and shallow vesting schedules. In addition, a firm cap on the overall size of the award should be considered to prevent potential windfall gains due to grants at depressed share levels. We also remained cautious on the dilution of the importance of financial metrics and a move towards personal or strategic targets.

We also assessed the appropriateness of potentially splitting the 2019 bonus payments into two, six-month allocations, where it was likely in many cases that the first half of the year bonus objectives would have been met, hence at least half the bonus could be paid out at the remuneration committee's discretion. We decided it was not appropriate for the majority of companies.

Given the uncertain future that COVID presented this year, we saw an increased number of Restricted Share Plan (RSP) proposals. We do not think RSP's should be used as a default solution to circumvent difficult decisions, but for some companies RSP schemes are appropriate. We did not just assess the short-term impact of the pandemic when assessing RSP proposals, but instead looked at the long-term benefits or shortfalls that an RSP could present for each company.

Inclusion of ESG metrics within remuneration policies

Throughout the year we saw the inclusion of ESG metrics within a number of remuneration proposals. In general, we are very supportive of the inclusion of these metrics, however, we do expect these to be measurable with tangible outcomes. ESG considerations should be a fundamental part of a company's strategy, and we encourage companies to include metrics that relate directly to their ESG risks and opportunities.

Despite being supportive of the inclusion of these metrics, we are very cognisant of the correct balance between financial and non-financial metrics being included in incentive schemes, and do not expect ESG metrics to be too heavily weighted. The issue of overweighting non-financial targets was discussed at the Investment Association committee meeting during the year, and our views that remuneration bonus proposals should not go beyond a 30% non-financial weighting, were shared by others.

Other engagements and activities

M&G Investments is 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.

Over the course of 2020, M&G Investments' Stewardship & Sustainability team took part in numerous events related to responsible and impact investing. As just a few examples of these, we joined a panel at the London Stock Exchange to discuss ESG integration and disclosure, alongside the Financial Reporting Council (FRC) and FTSE Russell. There was general consensus that investee companies faced an enormous challenge to disclose material ESG information, and companies are sometimes confused by the many reporting standards. We highlighted the value of several standards, including the Sustainable Accounting Standards Board (SASB) framework and the TCFD (Task Force on Climate-related Financial Disclosures) recommendations, as these disclosures help us to engage with investee companies on financially material ESG issues.

We were invited to join a panel at a Pensions Lifetime Savings Association (PLSA) event, to give an overview of how asset managers are integrating ESG into the investment process. The audience was a mixture of asset owners, lawyers and pension funds, with many questions on integration, impact investing and climate solutions.

We attended three working sessions on ESG metrics and reporting for social housing hosted by the Good Economy. The aim of the workshops was to identify key ESG metrics that social housing providers can report on, which are of material use to investors and indicate the direction of travel in regards to sustainability.

Members of the Stewardship & Sustainability team, along with M&G Investments' Positive Impact team, presented to a group of Masters and MBA students from Imperial studying finance and impact/responsible investment. The presentation covered ESG integration and impact investing at M&G Investments, including integration work over the past year and an overview of our Impact Framework. The students were highly engaged and asked some challenging questions on our approach.

As a few other examples at an Investor Relations Society conference we explained how we made use of the SASB framework to structure our ESG engagements, as well as the development of ESG training. With the Natural Resources Forum we updated on ESG, specifically as it related to the mining sector, while at the Corporate Governance Council we took part in a multi-faceted discussion which included shareholder engagement, EU directives, capital allocation and the global context of the shareholder versus stakeholder debate.

We believe that these types of events emphasise the importance of M&G Investments continuing to play an educational role with our clients. Encouragingly, it also highlights the fast-growing demand for information on our approach to responsible investment and growing appetite for funds that are explicitly linked to ESG.

In addition to meetings and presentations, we also think it is important to stay engaged with the market. For this reason we are members of a number of industry working groups and committees in which we pride ourselves on being active members, actively participating in remuneration, corporate governance and sustainability committees. A selection of these groups, along with events attended throughout the year, are detailed below.

Environmental

Given the already apparent systemic risks that climate change represents, this is a clear priority for M&G Investments. At the beginning of 2020 we published our Approach to Climate Change, and activities related to combating the climate crisis were prevalent throughout the year. Internally, throughout 2020 M&G Investments further enhanced the way we analyse carbon elements of portfolios, through a bottom-up approach developed within our Climate Technical Working Group. This group comprises fixed income and equity analysts, experts from the Stewardship team and other climate specialists. The group is working collaboratively to advance a structured framework for carbon risk analysis, which can be rolled out across individual holdings and also provide an overarching portfolio view on climate risk.

We recognise that climate change poses material challenges to adopt new production methods and consumption patterns across our investee sectors, representing both substantial opportunities and risks over future decades. Navigating this transition effectively is fundamental to fulfilling our role in successfully channelling capital for improved long-term societal outcomes. This is aided through our work with groups like Climate Action 100+ and the IIGCC, as well as other various climate-focused organisations.

Climate Action 100+

As mentioned earlier in this report, M&G Investments now sits on a number of working groups on the CA100+ focus list, and we are co-lead, representing the 500 plus members of CA100+, on two issuers: miner Rio Tinto and chemicals company BASF. As part of this, we helped plan, with other members of the group, a net zero mining roundtable, with representation from BHP, Rio Tinto and Anglo American on the mining side.

One of the questions to come out of the roundtable was how relevant scope 3 emissions were for diversified miners, particularly those that do not mine coal. With iron ore, for example, the most significant scope 3 emissions come from steel production. One participant suggested that miners needed to establish partnerships with steel manufacturers, and needed a clear action plan linked to executive remuneration. Ultimately, steel makers themselves need to set stringent scope 1 and 2 reduction targets.

One of the key results from the year related to energy company BP. CA100+ has been actively engaging with the company, with M&G Investments as part of the BP engagement group. This engagement work helped encourage BP to announce a ‘net zero’ climate strategy, which included the first time an oil major has recognised there will be absolute reductions in emissions, not just in emissions intensity. We highlight some of our interactions with BP in the engagement section of this report.

Institutional Investors Group on Climate Change (IIGCC)

In 2020 we continued our active participation with the IIGCC, which included attending meetings, seminars and roundtables with the group, to share best practice on approaches to addressing climate change, understand the approaches other organisations were taking, and to help encourage joined up action from across the investment industry. Some highlights from the year included:

The International Energy Agency and energy transition scenarios

This focused on the reliance of today's energy systems on fossil fuels, which remains stubbornly high, and the not-fast-enough development and adoption of renewable energy and carbon capture storage (CCS) geotechnologies. It explored the different pathways to decarbonisation, and highlighted that if the world is to turn today's emissions trend around, it will need to focus not only on new infrastructure, but also on the emissions that are 'locked in' to existing systems, as Asian coal-fired plants, for example, have potentially long operational lifetimes ahead of them.

It also explored the role of solar PV, and other renewable technologies, that are turning initial policy and financial support into large-scale deployment, as well as carbon capture, utilisation and storage (CCUS) which will have to be part of the solution. The IIGCC ran a subsequent carbon capture and storage seminar, as all pathways to a 1.5°C world involve an element of carbon capture. However, the technology is still at a nascent stage and isn't scalable at this point. Hydrogen is a possible solution, but, when made from renewable power, it is currently more than double the cost of production from fossil fuels.

EU Sustainable Finance Policy

Under the EU's renewed sustainable finance strategy, non-financial reporting is set to become increasingly onerous, both for corporates and investors. The Non-Financial Reporting Directive (NFRD) is under review, with new reporting requirements expected in 2022, while the sustainable 'Taxonomy' is set to be adopted at the end of 2021. Meanwhile, the Sustainable Finance Disclosure Regulations (SFDR) begin to come into effect in March 2021, with a slew of company-wide and fund specific disclosures related to sustainability, including 'adverse impact' metrics where data is currently patchy. The IIGCC has held a series of seminars to delve into the practicalities and implications for investors, particularly given that much of the 'Level 2' regulation – ie how the regulations must be implemented – and reporting specifics have not yet been published.

Nature-Based Solutions (NBS)

NBS is the forgotten climate solution, it was argued at this seminar, and could provide a carbon sink for 11 gigatonnes (GT) of CO_2 per annum (equivalent to the combined current emissions of the United States and the EU), representing one-third of the decarbonising solution with only 3% of the funding. Two-thirds of emissions are absorbed by land and sea, so no new technology is required – it just needs good organisation. The challenge is how to scale up the solution.

Net Zero Investment Framework

IIGCC's Net Zero Investment Framework, launched in August 2020, provides the first practical blueprint for investors to maximise their contribution to tackling climate change and achieving net zero emissions globally by 2050. The framework's principles of impact, rigour, practicality, accessibility and accountability aim to establish a pathway to net zero and determine targets for reduction and alignment. The framework covers fixed income and equity asset classes across four categories: net zero; aligned; potentially aligned; and not aligned. This framework's prospects compare favourably to the Asset Owner Alliance, with the use of one unified framework.

Rio Tinto

In addition to other engagement activity related to miner Rio Tinto, this was the first in a series of meetings to challenge the company's pathway to achieving the goals set out in the Paris agreement. Rio's group executive for strategy and development outlined the company's scope 1 and 2 targets and spoke of the challenges, as a result of technology, to reach net zero. He also explained how iron ore mines would be first in the switch to renewables and that they were still aiming for net zero by 2030. The company is also engaged with universities regarding scope 3 emissions, as well as a joint venture with the Canadian government concerning aluminium smelting – this would begin testing in 2021, with the aim of reducing sulphur dioxide emissions.

IIGCC AGM

At the end of the year we attended the IIGCC's AGM, which, unsurprisingly, focused on how we would get to net zero by 2050. While ambitious, the IIGCC pointed out that this transformation was necessary, achievable and highly desirable in the face of otherwise devastating impacts of climate change across the global economy.

The AGM looked at the pathway to 2050 and the role of investors in helping lead the transformation. Topics presented on included the obstacles and opportunities involved in creating a net zero global economy and the IIGCC's aforementioned Net Zero Investment Framework. BP chief executive Bernard Looney was also in attendance, in light of the 2020 climate resolution passing with 99% support, meaning BP would transition from an oil company to an integrated energy company. As he put it, with finite carbon budgets and renewables becoming cheaper, the choice was to 'double down or transform', with BP choosing the latter. As mentioned, IIGCC led the BP investor engagement through Climate Action 100+, which helped put the company on the path it is now pursuing.

Other climate-related examples

We participated in engagements with UK bank Barclays and responsible investment NGO ShareAction as a result of the shareholder resolution tabled by ShareAction and a group of other institutional shareholders for the Barclays AGM in May. The resolution called for Barclays 'to phase out provision of financing to customers in the power and energy sectors that are not aligned with Paris', which we see as valid and a necessary part of any transition strategy

M&G Investments was invited to join a panel at the CDP UK Leadership Summit. According to the Energy and Climate Intelligence Unit (ECIU), nearly 20 countries have agreed to set long-term pathways to reach net-zero emissions, and some of them already have net-zero legislation in place (Norway, Sweden, UK and France). To date, the concept of climate neutrality in the corporate sector has been approached in different, and sometimes divergent ways. This makes the definition of leadership in this space a difficult task for corporates. CDP, a leading NGO, has been working with the Science-Based Targets initiative (SBTi) to support the creation of a standardised set of definitions for what net zero could translate into for a corporate.

We attended various seminars with the Transition Pathway Initiative (TPI), including one on determining 'management quality' and 'carbon performance' in relation to diversified miners. These determinations are more problematic for diversified miners, given the difficulty of consistent measurement within the sector due to the complexity of its outputs. One solution is to normalise production through use of a 'copper equivalent' for the different outputs, but this in itself has also had difficulties.

M&G Investments met with the Climate Bond Initiative (CBI) to share market updates. CBI is an international organisation working solely to mobilise the global bond market for climate change solutions. CBI promotes investment in projects and assets necessary for a rapid transition to a low-carbon and climate-resilient economy.

M&G Investments was invited to join a Natural Environment Research Council (NERC) meeting to discuss the acceleration of the adoption of environmental science for green finance. The purpose of the meeting, hosted by Impax Asset management, was to create a business forum for a small group of individuals from the finance sector to meet with NERC and select academics, including those from the Centre for Climate Finance and Investment at Imperial College Business School, the National Centre for Earth Observation, and the Oxford Sustainable Finance Programme.

Social

Modern slavery

The hidden nature of slavery today means it can be easily overlooked. Yet it was estimated that in 2016 there were 40m people living in modern slavery worldwide. Within this total, 25m people were in forced labour, that being non-voluntary work or service exacted under the menace of penalty. More than two-thirds of victims were women, and a quarter were estimated to be children.

While M&G Investments does not consider itself the moral compass for our clients, there is a basic universal expectation that investors will not profit from modern slavery. M&G Investments has a policy of engagement with companies that we invest in to face the issue head on. In practice, this means we seek a constructive dialogue with company management on the topic, supporting and encouraging them to find and remedy instances of slavery.

Over the course of 2020, the Stewardship team attended various events on the theme of labour rights and modern slavery. One discussion centred around the lack of data and some of the issues with inaccuracy when looking at modern slavery indicators. The Investor Forum is aiming to pull together feedback on possible tools which could be developed to help with these problems. Another session was run by a leading law firm to discuss the ways in which financial institutions need to prepare themselves for the changing nature of human rights law. Our work in this area saw us continue to look into specific holdings for modern slavery and labour risks, and ensure that we maintain momentum in this area through initiatives such as the CCLA's 'Find it, Fix it, Prevent it'.

We met with Impactt, an ethical trade consultancy, to discuss its work on modern slavery and protecting vulnerable workers across the globe. Specifically, we touched upon Impactt's project on abolishing recruitment fees and its Principles for Reimbursement of Recruitment Fees. We also discussed several key M&G Investments holdings that may be impacted by modern slavery in the supply chain, and what we should be doing to uncover this. We also talked more broadly about additional actions investors could undertake to combat the issue.

Towards the end of the year, to supplement the work we had already undertaken on tackling modern slavery, we asked leading law firm Gibson Dunn to present to us on the topic from its perspective, providing insight into legislation and the differences found in approaching the issues across the globe. The discussion covered varying frameworks for mandatory human rights, due diligence and the role of asset managers in combating the issues within investee companies. We looked at regulatory obligations, the impact that active ownership and engagement can have, and covered some emerging topics, such as growing shareholder activism and enhanced obligations from pension scheme trusties. Overall, the session was insightful and added more for us to think about when looking at modern slavery risks in our portfolios.

Diversity and inclusion

The pandemic has shone a harsh light on societal injustice and inequality, and has had adverse effects on the progression of workplace diversity. For example, more women have been made redundant, taken pay cuts, or been placed on furlough than men, mainly due to the sectors in which they more commonly work. This is obviously shifting the diversity needle backwards, and is a retrospective step. This will be a focus post-COVID, and the figures over the next few years will indicate the effect this has had on diversity within sectors.

Much of the diversity work carried out by M&G Investments is through the lens of the 30% Club, a campaign group seeking to increase gender diversity on boards and senior management teams. We hosted the first 30% Club meeting of 2020, where we talked through progress made by various workstreams, including the FTSE350 letter campaign for 'one and done' boards, all male executive committees and those companies at less than 30%. An update was also provided on the recent international 30% club meeting – with new groups being formed and progress updates from newer members such as Turkey, Canada and Brazil.

M&G Investments played an active role in composing and sending letters, on behalf of the club, to the companies with all male executive committees and those with a combination of all male executive committees and less than 30% female representation on their board.

During the year, the club also announced new targets for 2023. These included: beyond 30% representation of women on all FTSE350 boards, and to include one person of colour; beyond 30% representation of women on all FTSE350 executive committees, and to include one person of colour; and beyond 30% of all new FTSE350 chair appointments going to women between 2020 and 2023.

We look forward to continuing to support the group on its diversity initiatives and are investigating ways which we can be a more active contributor to the broader diversity agenda.

Animal protein production

To supplement our ongoing engagement work with animal protein producers (please see the ESG engagement section of this report) we met with FAIRR (Farm Animal Investment Risk & Return) to learn more about its work and how we could be more coordinated with its research and engagement projects. The initiative works to give greater transparency into companies' practices and performance regarding animal welfare, and the sustainable supply of protein. Its goal is to provide actionable, financially relevant insights into companies working in this space. FAIRR currently runs a Protein Producer Index, which is the only assessment of meat, dairy and farmed fish producers on material ESG risks. We used this to aid some of our engagements during the year on names such as Marfrig, Minerva and MHP. We will maintain close contact with the initiative, and hope to be a part of some of its collective engagement efforts in the near future.

Corporate governance

Good governance is a necessary basic function for companies to succeed in the long-term. Without implementing good corporate governance, it is unlikely that a company's social and environmental characteristics will be satisfactory, and its future sustainability will be questionable. M&G Investments is a member of various corporate governance-focused organisations, with which we had regular meetings throughout the year.

With the Asian Corporate Governance Association (ACGA), for example, we discussed executive remuneration in India, weighted voting rights in Hong Kong, revised stewardship principles in Taiwan and, In light of Samsung's compliance group in Korea, the need for an independent compliance watch dog.

Meanwhile, we attended a number of events with the International Corporate Governance Network (ICGN). This included a seminar hosted by the research division of Japan's Ministry of Finance, as the new disclosure rules in Japan reflect worries over national security. This includes prior notification if an investor wants a board seat or to force a transaction, and affects 155 of 1,465 sectors, including defence, nuclear and some large infrastructure (for instance, electricity production over 50,000kw).

Another interesting conference dealt with executive pay during and post COVID-19. Remuneration committees, and executive teams themselves, took very differentiated approaches when it came to executive pay changes as the pandemic developed. There were numerous issues with how executive directors appeared to give up a significant amount of remuneration, but in fact had forgone very little. Similarly, there were multiple examples of where executive directors had been granted shares in place of a cash bonus, and given the depressed value of those shares, would likely benefit from the downturn in the long run as those shares recovered.

The fact that remuneration remains the most engaged topic with companies shows that there is still work to be done in the area, and there will be for years to come. As with many corporate issues there is no obvious one-size-fits-all mechanism, hence every company must be assessed on its own basis. For more on this, please see the remuneration section of this report.

Increasingly we are seeing ESG metrics being included within executive pay bonus incentive plans. This is without a doubt most prominent in European and Canadian-based companies, with the US and Asia lagging. Broader social responsibility and health and safety metrics are the current most used figures to link to directors' bonus targets. In coming years it is expected that ESG factors will contribute to a higher percentage of total bonus incentives. Topics such as diversity and inclusion, supply chain assessments, energy and water usage and human rights litigation are likely to be encouraged within executive pay by investors, including M&G, over the coming years.

Impact-related activities

Over the past several years M&G Investments has been increasing its capabilities in the impact investment field, offering a number of specific solutions to our clients while interacting with industry bodies to help bring about improvements. As an example, we have been working with the Impact Management Project (IMP) (which aims to bring together different stakeholders across the impact spectrum) as part of a working group to develop improved standards and methodologies for impact investing and measurement. We recognise that greater standardisation in these areas is an important long-term goal for impact investing, and will be a crucial step in scaling up impact investing to the levels required to address the world's major social and environmental challenges. As a follow-up to a number of working group calls, we took part in a half-day workshop at the OECD in Paris as part of the Private Finance for Sustainable Development conference, working with representatives from a broad range of impact-oriented initiatives.

We see impact investing as an exciting prospect for both M&G Investments and our clients more broadly. Reflecting this opportunity, near the end of the year we ran an internal 'design sprint' with individuals from teams from across asset classes at M&G Investments that are either managing or developing impact investing-oriented strategies. The sessions focused on identifying and promoting the common characteristics of impact investing across different types of assets, as well as exploring some of the asset class-specific considerations we need to address in designing a framework that can be used by teams across the organisation. It was a hugely collaborative and engaging experience, and one that gives us great hope for the next stages of impact investing at M&G Investments.

The IMP's framework (and in particular its 'Five Dimensions of Impact') were a central part of the above-mentioned design sprint, while we took part in the newly created IMP+ACT Alliance (an affiliation of the IMP), which is a tool for asset managers and their clients to use in classifying their impact investments and their contribution to the UN SDGs (Sustainable Development Goals). We will be using the IMP's 'Five Dimensions of Impact' classification system to assess and illustrate the impact of our investments according to a framework that is increasingly commonly used by impact investors.

We were also among a select group of companies and investors invited to participate in the Impact Weighted Accounts Initiative, a Harvard Business School project which aims to adjust accounting methodologies to better reflect both positive and negative societal impacts that companies generate. This is a project that is pushing the boundaries of investing for impact, and we are excited about the prospects in 2021.

Other activities

Investment Association (IA)

M&G Investments is an actively engaged IA member and attended numerous meetings throughout 2020, including regular meetings of the Association's remuneration, stewardship and responsible investment committees, of which we are members. These meetings allowed M&G Investments to work with other investors to share thoughts and align views on a variety of topics.

Corporate Reporting and Auditing Group (CRAG)

CRAG is an important forum for investment managers to put their perspective forward on audit issues and broader financial accounting issues that concern investors.

In 2020 M&G Investments' Head of Corporate Finance and Stewardship Rupert Krefting took over as chair of CRAG. The aim was to reform CRAG by fitting it into the IA structure, cutting down on the number of meetings and seeking to foster broader collective support from the investment management community across a smaller range of issues. The Brydon Review and CMA study on audit reform have potentially major consequences for the industry, and the intention was to make CRAG relevant in the upcoming policy debates and regulatory reform initiatives.

UN PRI

We submitted our annual response to the Principles of Responsible Investment Survey. The survey is one of the most comprehensive and widely recognised assessments of responsible investment in the industry, covering all major asset classes and the organisation as a whole. M&G Investments' overall 'strategy and governance' score was A+, with all categories scoring above median.

Pre-emption Group (PEG)

In relation to COVID-19, M&G Investments suggested two actions that investors could take to help companies in the pandemic: to relax the pre-emption rules; and to short-circuit the process to produce a prospectus (required if a company is issuing more than 20% of its share capital in one year). As a result, M&G Investments was invited to join the Pre-emption Group and new guidance was duly published relaxing the requirement for pre-emption from 10% to 20% – this reverted in November.

Investor Forum

As highlighted in the ESG engagement section of this report, In May 2020, miner Rio Tinto demolished a cave in Australia's Juukan Gorge to expand an existing iron ore mine. The background to the Investor Forum meeting involved the Native Title Act of 1992, which recognises indigenous land in Australia, but does not provide sufficient protection for the aboriginal people, eg native title holders have no right of appeal after a magistrate decision is made to mine in that area.

The meeting concluded with some suggested action points. Firstly, the issue needs committed leadership to respect the rights of indigenous people. Since mining has government captured at state and national level, this can only be achieved by investors, who need to act together and ask how the company will fix the problem and implement industry standards. With the next Rio Tinto AGM in May 2021, it was suggested investors ask the company to remove gags on local people and not join lobby groups that contradict UN principles. The Forum acknowledged the importance of having a moratorium on demolishing sacred sites, until the law has been sufficiently strengthened to protect the rights of native people. As it stands, the system will still allow activities like those that occurred in Juukan Gorge to happen again.

The Investor Forum undertook an additional 12 active engagements during the year.

RI Digital Festival

RI Europe is one of the largest responsible investment conferences in the calendar, but given the lockdown situation, this year it went entirely digital (and free-to-air) with five days of keynote addresses, high-level plenaries, live Q&As and thematic breakout sessions. In light of sustainable finance regulation in the pipe, including the EU Taxonomy, Sustainable Finance Disclosure Regulations and a refresh of the Non-Financial Reporting Directive, there were quite a few sessions focused on what this will all mean for responsible investors. Other sessions included explorations of the road to net zero – both in portfolios and the real economy – where we currently are in delivering the UN Sustainable Development Goals, the role of AI in ESG, the increasing prevalence of impact investing, and the heightened focus on social issues in light of COVID-19 (among many others).

Corporate finance

As part of our role as long-term investors, M&G Investments plays an important part in providing capital through the equity markets for the benefit of our investee companies and, therefore, our investors.

M&G Investments is 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, M&G Investments is 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.

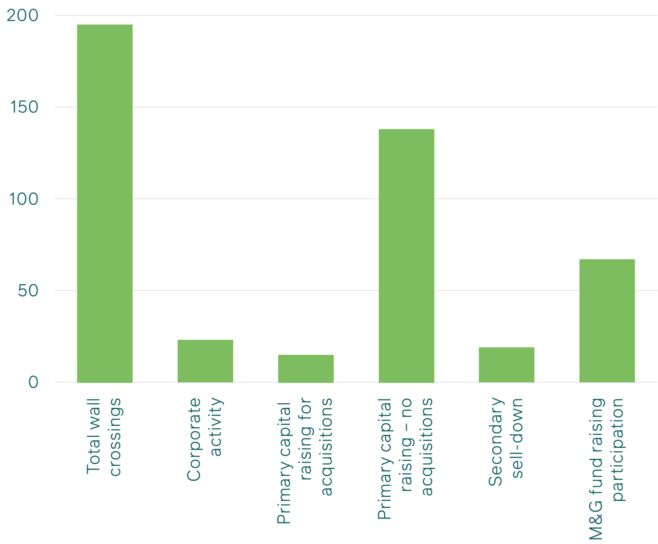
The Stewardship & Sustainability team acts as the primary contact point for the flow of this type of information into the equity investment team. The process of receiving price-sensitive information is known as 'wall crossing'.

A significant feature of the year was COVID-related equity capital raising to secure balance sheet strength, with events again demonstrating the vital role of shareholders in times of difficulty. This was essential for safeguarding companies' viability, as likely future revenues imploded in the face of wide-spread lockdowns and economic shutdown. According to institutional stockbroker Numis, some £40.2bn was raised during 2020, with £34.6bn of that in the Main Market, and £5.6bn in the Alternative Investment Market (AIM). The second quarter was exceptional busy, with £16.64bn raised (£14.34bn and £2.3bn between the Main Market and AIM respectively). This was reflected in our wall crossing activity, as the second quarter saw a record number of capital raising requests (68) representing 49% of 2020's total.

For the year in full, M&G Investments was wall-crossed in respect of 195 companies in relation to proposed transactions or board changes prior to them being made public. Of these, 153 were related to equity capital fund raising: 15 were primary issues to fund an acquisition and 138 were without an acquisition, while 19 related to a secondary placing. M&G Investments participated in 61 of the primary issues and six of the secondary placings.

Some non-COVID-related transactions are shown below.

2020 wall crossings



M&A and fund raising case studies

Some of the notable transactions in 2020 included:

IG Design

Greeting card company IG Design was acquiring the complementary business of the US-based CSS Industries. The consideration was £90m, representing the enterprise value of the company. This was to be funded by a 10% accelerated bookbuild (where shares are offered in a short time period) to raise £50m, and a second tranche following an extraordinary general meeting (EGM) to approve the disapplication of pre-emption rights (where existing shareholders have first refusal on the issue of new shares).

Due to significant demand, the placing was increased to £120m. Tranche 1 raised £55m at 694p, with Tranche 2 raising £65m at the same price. 694p was a 1% premium to the 689p close. In aggregate, M&G Investments applied for £13.4m and was allocated £4.42m (33% of demand).

Midwich

AV products distributor Midwich was seeking to acquire US company Starin, a similar business, for a fundamental value of £35m. This was to be funded by way of a 10% accelerated bookbuild raising £40m – 8m shares at £5, a 5% discount to closing market price. M&G Investments applied for £8m and was allocated £4.5m.

DP World

The 81% shareholder in port and cargo specialist DP World announced that it would take the company private and buy out the minority 19% free float. The reason given was that the company had a good long-term strategy, but investors seemed only to focus on the short term. As a result, the board did not think that the share price was reflecting the true value of the company.

The offer value at $16.75 was at a discount to the $20 that the shares had traded in the last year. Taking into account the short-term risks, such as trade wars and the prospect of a global slowdown (all pre-COVID-19), the board recommended the offer. M&G Investments was unhappy about having to accept such a low offer, but had no choice as the company threatened to delist DP World if shareholders did not accept. This is one of the risks of being a minority shareholder in a company with an 81% shareholder.

Hipgnosis Songs

Hipgnosis Songs is a music IP investment and song management company. It acquired a portfolio of performing royalty assets, with an associated income stream, from Cobalt for $325m. This represented a 12% discount to an independent valuation. The company intended, somewhat ambitiously, to fund this entirely from an equity raise of £250m. In the event, it raised £190m.

Due to the growth in streaming and demand for content (Spotify's market cap was $47bn at the time), this area is attracting considerable interest.

164m shares were issued at 116p – a 4.5% premium to net asset value (NAV). We applied for 5.6m and received our allocation in full. The chief executive subscribed for 100,000 shares.

TT Electronics

Electronics manufacturing company TT Electronics acquired sector peer Torotel for $43m. The company will increase its US capability in power electronics and will build on the acquisition of Covina from Jan 2020. The US defence industry is a key customer.

TT Electronics intended to fund this with a placing (representing 8.6% of the shares in issue) to raise £36m, dramatically reduced from a potential 14% requirement. This was due to the share price reaction to the company's potential COVID testing device (up 40%). What followed was share price volatility and the inevitable short selling (where investors bet on the share price falling), with negative comments regarding the COVID developments. This meant that the issue proved difficult to get away, as the share price fell from 230p to 212p. In the event, and after some delays, it announced 6.1% raising £20m at 200p per share.

We applied for 626,321 shares and received our allocation in full.

Countryside Properties

Countryside Properties raised £250m (15% of share capital) in a placing (£150m to accelerate growth and £100m to provide headroom in a worst-case scenario). M&G Investments is a 6% holder and was supportive of the fund raising, but wrote to the chair with concerns that the company appeared to be breaching the 10% limit under pre-emption guidelines, as not all the proceeds were directly related to COVID.

William Hill

Bookmaker William Hill announced a £2.9bn (272p per share) recommended cash offer from Caesar's Entertainment. Caesar's is William Hill's joint venture partner in the US. William Hill spoke to other potential purchasers of the business but Apollo, a private equity house that was interested, was put on Caesar's blacklist of potential business partners, effectively acting as a 'poison pill' to prevent Apollo buying William Hill. Despite some shareholders holding out for a higher price, including M&G Investments, the scheme vote was approved and the offer will proceed.

The Hut Group

We undertook a high level governance review for the initial public offering (IPO) of e-commerce company Hut Group. Both the investment teams and the Stewardship team had major concerns over corporate governance at the company, and M&G Investments did not proceed with an investment. Those major concerns included the dual class shares and related party transactions that were material in nature.

Grit Real Estate Income Group

The company required a $10m equity injection, either by way of a placing or by a commitment letter. We explored the options against a very short time scale (for the record, we previously provided a similar letter to Australian regenerative medicine company Mesoblast).

The portfolio is valued at $305m with a NAV/share of $1.18. The shares were trading at 63c. We subsequently provided this $10m commitment, thereby underwriting the proposed placing due to be announced after the financial results were published. We also negotiated a 0.75% commitment fee payable to the underlying funds. The company raised $9.75m with 15m shares being placed at 65c. We were allocated 13m shares. The pricing was above market so our allocation did not come as a surprise.

Inspecs

Inspecs acquired Eschenbach for $111m. Based in Germany, the company manufactures glasses. The deal was part funded by way of a £64m equity raise. This was a significant transaction in the context of a £155m market capitalisation and was dependent on shareholder approval. The price represented a 9X EBITDA (an earnings measure) multiple. With the raise, debt/EBITDA rises from 1.1X to 1.3X. We think it made strategic sense and significantly increased the company's market share in the fully integrated premium glasses frame (manufacture plus distribution) sector, where it will become number six, after one US and four Italian companies. We had demand for 5% of the issue with our pro-rata entitlement being 2.75%. We were allocated 3.5%.

Essentra

Component manufacturer Essentra acquired 3C!Packaging for $65m. This was accompanied by a £100m placing, representing 14% of the issued share capital, while it had been considering a 17% placing. There was no prior consultation with shareholders. This was not what the COVID relaxation of pre-emption guidelines was designed for, and a 15-20% disapplication should not be the new norm. We stressed this point to the company, and indicated our preferred structure would have been a rights issue or just to raise sufficiently for the transaction. The company had hoped that the disposal of filters would have given them sufficient latitude, as a number of bolt-on opportunities had been identified, but the timing was not yet right. Essentra acknowledged our concerns.

Elementis

We met speciality chemicals and personal care business Elementis ahead of the 'Put up or Shut up'* deadline in December. Mineral Technologies had made approaches at 107p, 117p and then 130p. All had been rejected without the books being opened. The uniqueness of Elementis's hectorite asset was, of course, mentioned, as was its chrome position in the US. Rejection was probably correct, but the new management team (from 2016) has a lot to prove given its recent track record. The offer subsequently lapsed.

*A requirement under the Takeover Code for a potential bidder to either announce a firm intention to make an offer, or announce that it does not intend to make an offer, within 28 days of the bidder being first identified.

Accreditations and initiatives

A+
UNPRI
Strategy and Governance Score

Tier
ONE
UK Stewardship Code

9th
ShareAction
responsible investment survey ranking

The Stewardship & Sustainability team

During 2020 M&G Investments' Corporate Finance & Stewardship team took on additional resource and renamed as M&G Investments' Stewardship & Sustainability team. The team now reports into M&G Investments' Global Head of Research, demonstrating the importance placed on effective ESG integration within our research and investment capabilities.

M&G Investments' Equities and Fixed Income investment teams represent some 94 fund managers and 78 analysts. The Stewardship & Sustainability team supports these investment professionals on a range of ESG issues that can affect our investments. The team coordinates M&G Investments' Stewardship and Responsible Investment activities, engaging with investee companies on issues including corporate governance, board composition, shareholder rights, remuneration, social responsibility and environmental sustainability. The team discharges M&G Investments' voting responsibilities at shareholder meetings and maintains a constructive dialogue with company management teams, believing these to be central responsibilities of long-term shareholders.

Beyond this, the team is responsible for coordinating M&G Investments' participation in external initiatives and investor collaborations including the UK's Investment Association, the Investor Forum and the Asian Corporate Governance Association. In addition to regular interactions with fund managers on ESG matters, the team provides a more formal oversight of ESG risks in our portfolios, as well as helping to monitor ESG engagements with companies.

Name	Role	Years at M&G Investments	Years of industry experience
Rob Marshall	Global Head of Research & Sustainability	20	22
Michael Posnansky	Head of ESG Research & Integration	13	19
Rupert Krefting	Head of Corporate Finance & Stewardship	4	23
Ben Constable-Maxwell	Head of Impact Investing	17	20
Annabel Nelson	Head of ESG Policy and Disclosure	2	21
Phil Cliff (secondment)	Director of Sustainability Research and Climate Technical Workstream Lead	9	20
Christoper Andrews	Head of Responsible Investment Communications	9	19
Matthew Beardmore-Gray	Director of Corporate Finance	35	35
Jeremy Punnett	Director of Corporate Finance	2	19
Victor Winberg	Voting Analyst	1	5
Lee Kinsville	Voting Manager	17	19
Guy Rolfe	ESG Manager	6	6
Caitlin Joss	ESG Analyst	2	5
Katie Allan	ESG Analyst	2	3
John Vercoe	ESG Manager	1	21

Years at M&G Investments
Years of industry experience

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

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 will 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.

About M&G plc

M&G plc is a FTSE100 savings and investments business, serving individual savers and institutional investors in 28 markets. We were formed by the merger of Prudential plc's UK and Europe life insurance operation (asset owner) and M&G Investments, the international asset manager. On 21 October 2019, we demerged from the international financial services group Prudential and listed on the London Stock Exchange as an independent business. Our aim is to make our innovative savings and investment solutions available to more customers and clients around the world.

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 Investments. The asset owner and the asset manager function independently, but are aligned to a common business purpose 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 customers, including retail customers, 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, Prudential Portfolio Managers America, and Value Partners LLP.

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

The relationship between the asset manager and the asset owner is intentionally kept at arm's length in order to ensure that customers receive the best possible outcome. The asset owner endeavours to treat the asset manager as it would an external manager. Where the 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 are now reporting 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, Property and Infrastructure; and
- In this appendix, reviewed annually, that provides an overview of our stewardship approach at both a corporate and asset manager level, and asset manager, and specifically outlines how we adhere to the Code.

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

Helping people manage and grow their savings so they can live the life they want, while making the world a little better along the way.

Strategy

With an established track record in growing our business and entering new markets, we believe we are well placed to capitalise on supportive long-term economic trends, deliver superior outcomes for customers and clients and to generate sustainable value for shareholders. Our approach is based on key strategic pillars, covering our growth markets within Retail Savings and Asset Management, and the active management of our Heritage business.

Our strategy also includes the promotion of One M&G, which aims to embed the vision, culture and benefits of the combined M&G plc as a single entity, fostering a spirit of collaboration, supporting new ways of working and embedding sustainability as we pursue long-term growth.

Execution of M&G plc's strategy is supported by four new Mega-Propositions, which aim to produce a new generation of products and solutions for our customers and clients. Active+ represents our core investment and stewardship capabilities; Smooth+ combines our active asset management and balance sheet to provide insured solutions; Planet+ underpins our sustainability and impact propositions; and Custom+ offers sub-advised solutions as a service through a customised set of active asset management components.

Business model

Caring for customers for more than 170 years

We have been serving individual savers since 1848 and 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.

Serving a wide range of customers and clients

Customers and clients come to M&G plc for two reasons – the quality of our savings and investment solutions and the care with which we look after their money.

Individual savers and investors

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

Understanding our customers

M&G plc interacts with our customers 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 Customer Insights team is also tasked with understanding the needs of clients across the spectrum.

In order to better understand our retail customers, M&G plc uses the research platform 'MyView'. This includes a number of panels, dedicated to M&G Investments' customers, as well as customers of the asset owner side of the business. This provides a ready group of customers 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.

Culture, priorities and values

Care

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

Integrity

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

Our priorities

Support the culture of One M&G

Realise the vision, promote the culture and access the benefits of M&G plc as a single merged entity – one team aligned around one purpose, one vision and one mission.

Promote diversity and inclusion

Our Global D&I strategy lays out our priorities and goals around gender, LGBT+, disability, ethnicity/nationality and life stages. During the year we announced our commitment for 40% of senior leaders to be women and 20% to be from a Black, Asian or minority ethnic background by 2025, in the process becoming the first savings and investment company to announce an ethnicity target.

Embed sustainability considerations in everything we do

Strengthen our role in driving societal change and promote better alignment with our clients' ESG objectives, both as a corporate, with significant invested assets of our own, and as an asset manager.

Embrace change

Support growth through new ways of working and ongoing transformation, underpinning colleagues' welfare and reducing our carbon footprint. Greater use of digital technology will improve effectiveness and efficiency, leading to better customer and client engagement and response.

Our sustainability principles

- We will consider sustainability and ESG factors when determining our corporate strategy and new business initiatives.
- We will embed sustainability considerations throughout our business.
- We consider the interests of all our stakeholders and ensure our views on sustainability are consistent with our long-term approach.
- We will manage our businesses to the same principles of acting responsibly that we hold our investee companies to account on.
- We identify and incorporate ESG risk factors into our general risk management process.
- We 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.
- We aim 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.

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, M&G Investments is creating new products to provide solutions that meet the evolving needs of our clients. This includes launching new funds that provide, for example, sustainable investments, impact investments and climate solutions.

M&G Investments' ESG Investment Principles Statement 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.

These principles support, and do not supersede, our fiduciary responsibility to our clients: to invest according to a given investment mandate, or as defined in fund documentation. In general, for funds other than ESG-labelled funds, the overall objective will be to deliver a specific financial outcome or to optimise investment return in line with any level of risk defined in the fund documentation or client investment mandate. To read the statement, please visit: **https://www.mandgplc.com/~/media/Files/M/MandG-Plc/documents/responsible-investing/responsible-investment/MG-Investments-ESG-Principles-Statement_Feb-21.pdf**

Equities

M&G Equities 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. In 2021, M&G Investments will also vote its international equity holdings that are only passively held.

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 cheap, 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.

Infrastructure

Infracapital, the 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, this drives value for investors and aids environmental and social cohesion for the communities in which we operate.

Approach

At M&G Investments we are, first and foremost, stewards of our customers' 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 our customers prosper by putting their savings to work.

At a time when the typical holding period of an investment can be measured in months rather than years for some investors, M&G Investments' 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 and social factors where these are material to risk and return.

Indeed, environmental matters and social issues are often important aspects of assessing an investment, and our approach is to integrate environmental, social and governance (ESG) factors into our investment decision-making process by putting them at the heart of what we do. Investment teams share an acute awareness of their duties as stewards of our clients' assets, and this perspective informs all of our investment decisions.

M&G Investments manages 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 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.

At M&G Investments 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 activities from the previous year, including the relevant outcomes from our voting and engagement 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 30**.

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. The 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 customers.

The 2019 assessment was developed using 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 customers. That first assessment included the following seven criteria: quality of services; investment performance; cost; economies of scale; comparable market rates; comparable M&G Investments services; and share classes.

Principle 2

'Signatories governance, resources and incentives support stewardship'

M&G plc's governance structure

M&G plc is a leading savings and investments business which was formed through the merger of Prudential plc's UK and Europe savings and insurance operation and M&G Investments, its wholly-owned international investment manager. M&G plc demerged from Prudential plc and listed on the London Stock Exchange in 2019.

We invest on behalf of our customers in two separate capacities, with distinct roles and responsibilities. On behalf of the With-Profits Fund and our pension savings and annuity books, we serve as an asset owner. We also invest as an asset manager, where we act on behalf of individual savers and institutional clients, working to meet their required investment objectives.

We have a clear governance framework which we use to deliver our responsibilities to our stakeholders, including identifying and managing risks, and managing conflicts between stakeholder groups.

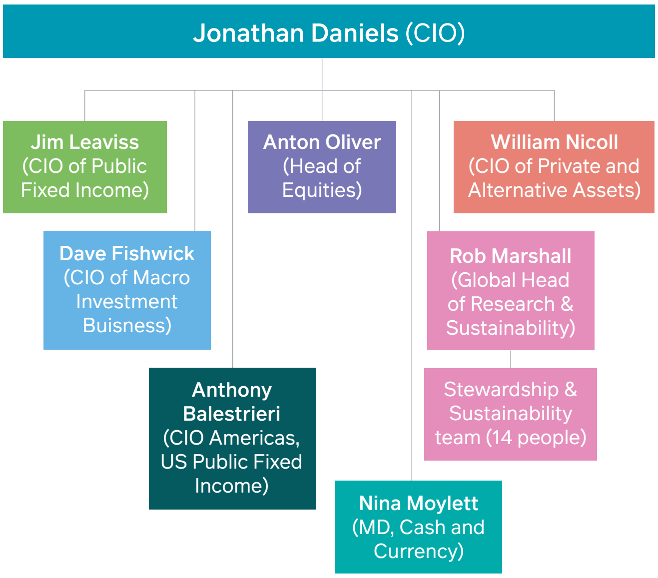
In 2020, the M&G plc board refreshed its terms of reference to formalise its responsibility for oversight of sustainability strategy, principles and values. This was to reiterate the importance of sustainability governance and oversight taking place at the highest level and having a regular place on the board's agenda.

We recognise that climate change has the potential to impact our business materially. Our Chief Financial Officer (CFO) and our Chief Investment Officer (CIO) are responsible for identifying and managing the financial risks associated with climate change. The CFO is also the appointed board member responsible for climate-related matters.

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 head of each of M&G Investments' investment teams (equity, multi-asset, fixed income, real estate and private equity, as well as the Global Head of Research & Sustainability) reports into the Chief Investment Officer (who sits on the M&G Excom) and M&G Investments' Stewardship & Sustainability team reports to the Global Head of Research & Sustainability. While the overall team is responsible for the asset manager, several members, including the Global Head of Research, sit across both the asset manager and asset owner.

The Stewardship & Sustainability team was formed 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 M&G Investment's 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 Stewardship & Sustainability team grew out of M&G Investments' Corporate Finance & Stewardship team. Rupert Krefting continues to head Corporate Finance & Stewardship, while Rob Marshall, as Global Head of Research & Sustainability, also runs the Stewardship & Sustainability team. This will allow the team to be more widely integrated across all of M&G Investments' research and investment teams, as sustainability grows in importance 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. Plans are being developed for the Stewardship & Sustainability team to also cover private assets. 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 M&G Investments' evolving ESG, sustainability and impact strategies, the ESG Governance Meeting (ESGGM) was created, which has delegated authority from the Investment Leadership Team. 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 group 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, currently under development. It seeks to balance client investment outcomes with reputational risk.

The ESGGM comprises representatives from all investment teams, 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.

Processes

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

M&G Investments has a preference for the use of proprietary ESG research in the investment decision-making process, and is in the process of developing the following tools and processes:

M&G Investments ESG Scorecard: M&G Investments' scorecard acknowledges the qualitative nature of many ESG considerations, and allows analysts to express their views in primarily qualitative terms, but within the context of a structured and disciplined framework. The responses provided then produce individual scores for E, S and G along with a total ESG score.

M&G Investments ESG Dashboard: M&G Investments is developing a proprietary ESG dashboard and climate tools in order to assist analysts and fund managers in reviewing and comparing a range of data points and qualitative disclosures across a broad range of ESG factors including: climate, governance, safety, and pollution.

Data strategy: M&G Investments' analysts and investment teams also make use of external ESG content for a range of purposes. M&G Investments has 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.

M&G Investments is developing an ESG data strategy which will record preferred vendors for particular coverage and subject matter requirements. This ESG data strategy will be posted as a supplementary appendix to M&G Investments' ESG Investment Policy.

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 are overseen through periodic ESG Portfolio Reviews. At review meetings, Stewardship & Sustainability team members 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.

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

Resources

At M&G Investments 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 and 24 research analysts.

Fixed Income: The fixed income team comprises 274 investment professionals.

Multi-asset: The multi-asset team comprises 14 fund managers and four dedicated research analysts.

Real estate: The real estate team globally comprises 20 fund managers and 13 research analysts.

Infracapital: The Infracapital team comprises 54 investment professionals. The investment team comprises 15 brownfield transaction professionals, 10 greenfield transaction professionals, 11 asset management professionals, two financing professionals and two legal professionals. The team is further supported by six investor relations / co-investment / responsible investment professionals and six finance professionals.

(Figures as at 1 January 2021).

Stewardship & Sustainability team

The Stewardship & Sustainability team comprises 14 individuals focused on environmental, social and governance issues.

Rob Marshall (Global Head of Research & Sustainability)

- **Michael Posnansky** (Head ESG Research & Integration)
- **Rupert Krefting** (Head Corporate Finance & Stewardship)
- **Ben Constable-Maxwell** (Head of Impact Investing)
- **Annabel Nelson** (Head of ESG Policy & Disclosure)

Consolidated capabilities across Stewardship and Sustainability

- **Phil Cliff (secondment)** Director of Sustainability Research and Climate Techincal Workstream Lead
- **Christopher Andrews** Head of Responsible Investment Communications
- **Matthew Beardmore-Gray** Director of Corporate Finance
- **Jeremy Punnett** Director of Corporate Finance
- **Victor Winberg** Voting Analyst
- **Lee Kinsville** Voting Manager
- **Guy Rolfe** ESG Manager
- **Caitlin Joss** ESG Analyst
- **Katie Allan** ESG Analyst
- **John Vercoe** ESG Manager

Corporate governance is a key underpinning factor in investment decisions at M&G Investments, 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, ESG integration and thematic research. Members of this 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, including relevant experience and areas of coverage, see the main body of this report, on **page 53**.

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

The focus in 2020 was constructing and implementing M&G plc's new governance structure across the asset manager and asset owner, following the demerger from Prudential plc in 2019. It is too early to tell how this structure can be improved, but changes will evolve as the new business matures. So far the new structure has been received enthusiastically by the business and we believe is a significant step forward for our stewardship activities.

Principle 3

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

M&G plc

It is a fundamental requirement for a financial services firm such as M&G plc to act in the best interests of its clients and/or its beneficiaries, and identify and manage conflicts of interest. This is central to our duty of care. Accordingly, it is important for our clients to know that M&G plc will use all reasonable endeavours to identify conflicts, manage them effectively and treat our clients fairly.

M&G plc has a Conflicts of Interest Policy which reflects both the nature of its business activities and its ownership structure (including any potential conflicts arising from M&G Investments' ownership by M&G plc). This Policy applies to both asset manager and asset owner.

M&G plc's staff are required to complete annual mandatory conflicts of interest training to ensure they understand all conflicts of interest that arise by virtue of the roles they perform, and are aware of the process for identifying and reporting conflicts so that they can be managed in an appropriate manner. Staff must also attest to the disclosure of conflicts on a quarterly basis.

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, M&G Investments 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 an 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 an 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 M&G Investments is 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 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.

M&G Investments' investment 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 Investments company is also a director of a company in which M&G Investments invests
- M&G Investments invests in a company that is a client of M&G Investments; or
- M&G Investments invests in a company that is a significant distributor of M&G Investments products.

In such instances, M&G Investments may be conflicted, for example, in the way it deals 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, M&G Investments votes by proxy at general meetings on all equity holdings held in active funds and UK passive funds. On occasion, we will attend a general meeting where our clients' interests are best served by us doing so.

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). At M&G Investments 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

M&G Investments publishes its approach to responsible investing, including inter alia its remuneration and voting policies. M&G Investments also publishes the results of its voting on a quarterly basis, which is also summarised in the main body of this report.

The majority of the funds managed by M&G Investments are either retail savings or invested on behalf of the asset owner function of the business. Only occasionally does M&G Investments' stewardship policy differ materially from an institutional client who wants to apply its own stewardship policy. Where this occurs, we would pragmatically seek a solution with the client.

Activity and Outcome

There were four specific conflicts that M&G Investments needed to deal with in 2020:

- Clients on the real estate side of the business asking if M&G Investments, as equity shareholders, could use our influence over investee companies. On these occasions, we declare a conflict of interest to our compliance department and refuse to participate in the issue.
- Voting on the election of directors of investee companies, who are employees or directors of M&G plc. On these occasions we analyse the vote in the same way that we would analyse a vote for any other investee company. This means weighing up the merits of the election by looking at the composition of the board for skills, experience, diversity, independence etc.
- Voting on resolutions for M&G plc. Since M&G demerged from Prudential plc and became a listed company in its own right, we have taken the decision not to vote our shares in M&G plc to avoid any possible conflict of interest or create a precedent with unforeseen consequences.
- Fixed income and equity investors having differing standpoints. As we continue to integrate ESG into our business, the fixed income and equity teams have been working more closely together, sharing research resources and meetings with investee companies. All of the investors are aware of the potential conflict when providing feedback to investee companies about capital structure and distribution policies. As long as the investors are aware of these potential conflicts and are transparent about which asset class they are representing, then we believe there is no reason why both asset classes cannot continue to represent their clients with differing viewpoints. This, we feel, is akin to having various equity mandates making differing voting decisions within M&G Investments.

Principle 4

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

Working with other stakeholders to improve functioning of financial markets

As a large investor, M&G Investments recognises it has 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.

M&G Investments actively engages 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)
- The Asian Corporate Governance Association (ACGA).

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.

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.

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. Please refer to the main body of this report for examples of this.

M&G plc has prioritised two key ESG issues as both a business and an investor: climate change and diversity and inclusion. 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 2020 and will continue to be a focus in 2021 and beyond, as will diversity and inclusion.

Principle 5

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

Review of policies and assurance of processes

We have formal reviews of all our policies annually to ensure they are still appropriate and effective. Through our interactions with NGOs, completing external surveys such as the UN PRI, attendance of Investment Association committees and IIGCC meetings, our work with the International Corporate Governance Network and Asia Corporate Governance Association, as well as working with clients and external stakeholders, we are helping to develop best practice. This ensures we stay up-to-date across asset classes on the range of issues which are important to investors and the wider market.

Our controls and processes in place receive annual assurance through an external auditor, in particular in relation to our voting process, while M&G Investments' 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), on how we discharge our stewardship responsibilities. For instance, our quarterly internal stewardship report goes to the boards of M&G Investment Management and M&G Alternatives Investment Management, 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 will be reporting climate metrics 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 Disclosure Committee and the Board of M&G Investment Management Limited and signed off by M&G plc's Chief Executive John Foley.

Outcome

As a result of our internal audit review in 2020, M&G Investments now has a more fully-documented process for the production and approval of this report. Also, 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.

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 funds under management and administration for M&G plc as both asset owner and manager, as at 31 December 2020, were £367.2bn.

M&G Investments

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

Total Equities	£60.3bn
Total Fixed Income	£188.7bn
Total Property	£29.3bn

Source: M&G Investments, as at 31 December 2020.

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 customers’ 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. 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 also report to clients on stewardship activities for bespoke requests.

M&G Investments maintains records of interactions with companies, with a system for recording general monitoring activities for equity and fixed income holdings. 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, and more granular information on engagement and voting activity for institutional clients, and will include 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 Customer 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 customers' behalf. To read the ESG investment principles which M&G Investments uses to inform and guide all investments made as an asset manager, please visit **https://www.mandgplc.com/~/media/Files/M/MandG-Plc/documents/responsible-investing/responsible-investment/MG-Investments-ESG-Principles-Statement_Feb-21.pdf**

Integration of stewardship

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

M&G Investments believes 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 would typically look at 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. M&G Investments is a long-term investor, 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, and how stewardship activities differ across asset classes, 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

M&G Investments subscribes 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. M&G Investments' 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 and geographies

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 asset classes, a 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 then 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.

Framework for ESG integration

In order to provide an overarching taxonomy for the consideration of ESG issues, M&G Investments makes 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 M&G Investments deems appropriate.

The following structure applies globally to listed equity and fixed income funds. The integration of private assets is in development.

Integration into investment research

The Stewardship & Sustainability (S&S) 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 S&S 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; S&S team publications on thematic ESG issues; face to face discussions; sector and ranking reviews; and the consumption of external sources including ESG data.

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, S&S team members 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 S&S and analyst teams.

Hashtags for ESG-informed company meetings: When meetings are arranged and the calendar entry is made within relevant MiFID tracking calendars, anticipated ESG discussion topics should be recorded using ESG hashtags. Where ESG factors are incorporated within written research following company meetings, they should be highlighted by the addition of a specific hashtag representing the ESG topics covered in the meeting.

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’

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 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.

Outcome

M&G Investments has an annual meeting with ISS after the main proxy voting season to discuss what has gone well and what has not. We also use this opportunity to develop our custom voting service.

Research providers

Activity

Research providers are similarly monitored and scrutinised for accuracy, and while these feed into our analysis, they are never the sole input. M&G Investments currently primarily uses ISS, MSCI and Sustainalytics for ESG research.

Outcome

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

M&G Investments has a central team to act as a formal point of contact for our service and information providers.

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.

Prioritisation

M&G Investments’ resources are generally applied based on a range of factors, including the materiality of the issue and the size of M&G Investments’ 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 these companies if we think these pose a risk to long-term performance.

As a general rule, where M&G Investments’ 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 M&G Investments’ influence is less significant). Following this principle, due to our assets being weighted to the UK, this is where most of our engagement activity takes place.

Our engagement priorities stem from both a bottom-up approach from individual portfolio reviews, and also top down, where the house has a large exposure.

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.

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 chairman 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, M&G Investments engages 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 be supportive of the boards of our investee companies, but there will be occasions when we need to vote against management-proposed resolutions or support shareholder resolutions which are not recommended by the board. In these cases, where it is practical, M&G Investments tries to engage with the company beforehand. Indeed, M&G Investments sees voting against resolutions as a failure of engagement.

M&G Investments' 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 engagement

We categorise engagements 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
- ESG engagements: These must have a specific objective, action and outcome which is measurable, and will 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 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 or 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 by the Stewardship & Suitability team for use by the different investment, client and marketing teams within M&G Investments.

Outcome

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

Principle 10

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

M&G Investments is 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+ and NGOs such as ShareAction. Climate Action 100+ represents over 500 asset managers globally and has a focus list of 167 companies for its engagement. M&G Investments is an active member of Climate Action 100+ and co-leads on two issuers listed in the UK and Europe, international diversified miner Rio Tinto and German chemicals company BASF.

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.

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, M&G Investments is 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'

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.

M&G Investments seeks close dialogue with its investee companies and is 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.

M&G Investments 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:

- business strategy
- performance
- financing and capital allocation
- governance
- risk
- management and employees
- acquisitions and disposals
- operations
- internal controls
- membership and organisation of governing structures and committees
- sustainability
- remuneration policy, structures and outcomes
- culture
- environmental and social responsibility
- quality of disclosure.

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.

As previously mentioned, M&G Investments' resources are generally applied based on a range of factors, including the materiality of the issue and the size of M&G Investments' holding. Our focus will be on issues that are likely to be material to the value of the company's shares. As a general rule, where M&G Investments' 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 M&G Investments' influence is less significant) unless M&G Investments can act collectively through organisations such as the Investor Forum or Climate Action 100+.

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 M&G Investments, 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 chairman 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 customers, 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 chairman 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.

Ultimately, as an active shareholder, 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.

Outcome

For details of our escalations over the past year, please see the main body of this report.

Principle 12

‘Signatories actively exercise their rights and responsibilities’

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. This is based on M&G Investments’ own custom voting policy; we do not automatically follow the default recommendation of a service provider. Our full voting policy can be found on our website.

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 M&G Investments tries 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 have any 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 never tried, to override the M&G Investments voting policy.

We strongly believe that M&G Investments 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.

For our actively managed portfolios, and passive portfolios holding UK-listed shares, 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.

We disclose our voting records on our website, which are published on a quarterly basis.

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, at M&G Investments 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

For actively managed portfolios and UK passive portfolios, we seek to vote on all resolutions proposed at general meetings. In 2020, this represented 2,063 meetings.

M&G Investments' international passive book has a long tail of small holdings. If we were to vote all of our international passive holdings, which do not have an associated active holding, then we would vote at an additional 1,192 meetings. As from 2021, M&G Investments will be voting these extra meetings, so that all meetings for equity holdings will be voted.

Typically, M&G Investments votes 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. 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 M&G Investments 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.