

M&G plc's pathway towards Net Zero investment as an Asset Owner

In line with M&G plc's commitment to achieve net zero carbon emissions across our investments by 2050, one of our key goals as an asset owner is to develop a robust pathway to net zero for the investments we look after on behalf of our policyholders and customers.

M&G plc joined the UN-convened Net Zero Asset Owner Alliance (NZAOA) in September 2021, a group of 74 leading global institutional investors committed to transitioning their investment portfolios to help limit global warming to 1.5°C. More information on the NZAOA can be found [here](#).

This membership formally committed the Asset Owner business to transition its investment portfolios to net-zero greenhouse gas emissions by 2050 and to set interim targets (in line with Article 4.9 of the Paris Agreement on Climate Change), while providing a Target Setting Protocol under which we can set and report targets and progress. Members are also required to participate and contribute to the NZAOA's work tracks and position development.

The Target Setting Protocol outlines requirements and recommendations of members in setting targets. Members are required to set targets against a minimum of three out of four topics of focus, with an engagement target being mandatory:

- Engagement
- Sub-portfolio (i.e. asset class) emissions reduction
- Sectoral emissions reduction
- Financing transition

The Target Setting Protocol is reviewed and published annually, increasing the scope of target requirements and adjusting existing guidance in line with the most recently available, scientific findings.

The Asset Owner's initial interim targets

As a next step, we have sought to set meaningful interim targets on the pathway to 2050, with a focus on real world outcomes. The targets cover those portfolios over which the Asset Owner has investment decision making authority, and cover Scope 1 & 2 emissions. Our initial targets cover £99bn (\$132bn) of our AUMA as at the YE2019 baseline valuation. We will continue to set targets in-line with the NZAOA Target Setting Protocol, expanding on the below commitments as the Target Setting Protocol increases its scope.

- **On Engagement:** we commit to engage with the 40 biggest corporate contributors of carbon emissions to our portfolios, to encourage them to set net-zero targets in line with NZAOA criteria¹. These issuers currently account for more than 50% of our owned emissions within our equity and corporate fixed income portfolios. These were taken as at HY2022, to ensure engagement targets are up-to-date relative to holdings.²
- **On sub-portfolio decarbonisation:** we commit to reducing carbon emissions intensity in our public equity, public corporate debt and real estate portfolios, where we have direct investment control, by 2030 as set out below.
 - Public equity and public corporate debt: a 50% reduction in emissions intensity (tCO₂/\$m invested), by 2030 (YE2029) relative to YE2019.

¹Engagement will be in line with our [Shareholder Engagement Policy](#), via our asset managers or our internal asset manager's membership of CA100+.

²Due to manager/mandate changes since YE2019, and progression of Coal Policy implementation throughout 2022, many top emitters from YE2019 are no longer held as at HY2022.

- Real Estate: a 36% reduction in emissions intensity (kgCO₂/m²) within our directly owned Real Estate portfolio, by 2030 (YE2029) relative to YE2019; a target in alignment with the Carbon Risk Real Estate Monitor (CRREM) 1.5°C scenario.
- **On Sectoral decarbonisation:** we commit to reducing sectoral emissions intensity (tCO₂/\$m invested) as below, by 2030 (YE2029) relative to YE2019:
 - Utilities: 60%
 - Oil, Gas and Coal: 50%
 - Materials, steel: 40%
 - Transport, road: 50%
 - Transport, aviation: 25%
 - Transport, shipping: 25%

Our starting point

As at YE2019 our emissions intensities can be seen below:

Sub-portfolio:

- Equity: 102 tCO₂/\$m, 90.3% data coverage
- Corporate debt: 74 tCO₂/\$m, 45% data coverage
- Real estate: 38 kgCO₂/m², 67% data coverage

Sectoral:

- Utilities: 468 tCO₂/\$m, 58% data coverage
- Oil, Gas and Coal: 264 tCO₂/\$m, 90% data coverage
- Materials, steel: 497 tCO₂/\$m, 78% data coverage
- Materials, cement: 2085 tCO₂/\$m, 96% data coverage
- Transport, road: 169 tCO₂/\$m, 86% data coverage
- Transport, aviation: 1212 tCO₂/\$m, 76% data coverage
- Transport, shipping: 412 tCO₂/\$m, 96% data coverage

There is awareness of the data challenges faced with respect to emissions reporting, and we are working with asset managers and vendors to improve upon this. Where our top corporate emitters have set targets, some are already ratified (e.g. by the Science Based Targets initiative), while others' targets will require assessment as to the degree of alignment with NZAOA requirements. Where data, reporting and our understanding improves, and results in changes to any of our baselines or targets, we will be transparent in disclosing and explaining any differences.

How we will achieve these targets

Decarbonising our portfolios is a complex undertaking that requires careful planning and execution, and will require us to use different approaches at different stages of the journey to 2030.

We have already begun this journey with our commitment to end our investments in any coal-related company that doesn't have a public commitment to phase out coal (by 2030 in OECD economies, and 2040 in non-OECD economies). Implementation is underway, and time-bound engagement targets on coal phase-out have been set for the next few years.

Our goal is the achievement of real-world emissions reductions, while we take an active approach to investing. Therefore we favour engagement with our investee companies to influence their business practices, and seek to select managers that align with our climate priorities. Any engagement

strategy will have defined target outcomes and appropriate escalation mechanisms, as per UN Principles for Responsible Investment guidelines.

Our Real Estate portfolio represents an opportunity to enact the real-world emissions reduction that we wish to see globally. We will work with our Real Estate asset managers to ensure we meet our targets in an orderly fashion.

How will progress be reported?

The Asset Owner will report progress against its targets annually, both directly to the NZAOA (to be aggregated to Alliance level progress reports), and publicly as an update in 2023. Any changes in baselines, coverage, methodologies or targets will be transparently communicated and explained, to maintain trust in our decarbonisation journey and long term stewardship of capital.