Strategic Enabler:

Responsible investment

65% target set to engage with companies responsible for 65% of the emissions in our investment portfolio

Group Responsible Investment Policy signficantly updated

82% of Eastspring's international funds (SICAV) received Article 8 status

97.4% Eastspring voted on 97.4 per cent of the total number of proxy votes in which it was eligible to vote

As a significant allocator of capital in financial markets, our commitment to responsible investment encompasses our role as both asset owner and asset manager. In that capacity, we can play a vital role in the just and inclusive transition to a low-carbon economy.

We seek to apply ESG considerations more broadly in our investment decisions and in our stewardship duties, including ensuring that our investment decisions are aligned with our diversity values and support our focus on making health and financial security accessible.

Responsible Investment Governance

We see responsible investment as the dual responsibility of both the asset owner and the asset manager. Our life insurance businesses (as asset owners) and Eastspring (as asset managers, including its advisory activities through Eastspring Portfolio Advisers) therefore work closely together on all aspects of responsible investment. This dual responsibility is reflected both in our governance and in our Group Responsible Investment Policy, which outlines our expectations as described further below in this section. The governance for ESG, which includes the governance for responsible investment, is set out in the *ESG governance* section on page 7 of this report.

Responsible investment activity is overseen by the Group ESG Committee. Operational responsibility for responsible investment activity is delegated to the Group Responsible Investment Advisory Committee (GRIAC), which provides a forum for the Group and local businesses to consider responsible investment approaches. The GRIAC is co-chaired by the Chief Investment Officer (CIO) of Prudential and Co-Chief Investment Officer of Eastspring, who are both senior executives within our main asset owner and asset management businesses. Other permanent members include the CIOs of the major life businesses, as well as representatives from the Group Finance and Group Risk functions.

The GRIAC meets at least monthly to monitor the implementation of current responsible investment activities, and considers and prioritises new initiatives. The GRIAC considers potential trade-offs between responsible investment initiatives and the risk/return profile of the investment portfolio. The new Group Responsible Investment Policy and the targets announced in May 2021 were both discussed by the GRIAC, prior to approval by the Group ESG Committee and the Responsibility and Sustainability Working Group (RSWG).

Responsible investment / continued

Our asset manager, Eastspring, has established its own governance structure for responsible investment, which is aligned with the Group governance, to ensure ESG considerations are taken into account in all investment activities, and also for assets managed for third-party clients. Additionally, Eastspring is responsible for the implementation of certain elements of the Group Responsible Investment Policy, for which an appropriate governance structure is needed. The Eastspring Investments Sustainability Steering Committee, chaired by the Eastspring's Chief Executive Officer, oversees all sustainability and responsible investment activities. The Eastspring Responsible Investment Working Group assists in implementation of the activities. Further information on Eastspring's governance can be found here.

Group Responsible Investment Policy

During 2021, we made significant updates to our Group Responsible Investment Policy. The purpose of the policy is to articulate the Group's expectations relating to responsible investment and guide our local businesses and asset managers, including Eastspring Portfolio Advisers (EPA), on how to consider ESG factors in investment activities. EPA is our investment centre of excellence for tactical asset allocation, model portfolio construction, manager selection, liability-driven investments and solutions and derivative expertise.

The policy aims to manage ESG risks and improve long-term returns on assets, producing better results for both clients and communities. The policy ensures that, as an asset owner and asset manager, Prudential can monitor and measure ESG considerations over time.

A summary of the policy can be found here including details on the scope of the policy. The updated Group Responsible Investment Policy is structured across six different implementation strategies as shown in the diagram below to support the investment portfolio targets we announced in May 2021, as set out in the *Climate-related metrics and targets* section on page 24. This implementation strategies approach was developed in 2021 as part of the policy update.

Screening the portfolio

Our local businesses are required to maintain an awareness of ESG risks in the investment portfolio and report on these, enabling us to take appropriate action if an investee company's products or conduct are not in line with our values.

This screening is integrated to internal reporting on responsible investment and is also carried out on an ad hoc basis. Screening is the starting point for any new policy on responsible investment and it informs our follow-up actions, such as engagement or shifting invested capital away from the company, with complete exclusion as a last resort. Examples of screening the investment portfolio include assessments of our exposure to violators of the UN Global Compact and other severe incidents relating to conduct.

Exclusion

We exclude companies from our investment portfolio if their products or conduct are considered to be unacceptable to Prudential. When considering a Group-wide exclusion, an assessment is made on the expected risk vs return impact of the investment portfolio. A proposal for an exclusion needs to be approved by the local business and follows our responsible investment governance process.

We have Group-wide exclusions on coal, tobacco and controversial weapons as defined below. Our local businesses may add additional companies to their exclusions if they see fit. The scope and nature of the Group-wide exclusions are reviewed regularly, both for appropriateness and impact on the investment portfolio.

Our six implementation strategies

Screening the portfolio
Maintaining an awareness of the potential risks to the Group's reputation arising from investment activities

Exclusion
Excluding a company from the investment portfolio if its products or conduct is considered to be unacceptable

ESG integration
Incorporation of ESG information into our parts of the investment process:
- Asset allocation
- Portfolio management
- Risk management
- Manager selection

Active ownership
Maintaining a dialogue with the companies in which we invest about ESG risks and opportunities

Voting policy that supports long-term performance by taking account of relevant ESG issues

Capital allocation
Shifting capital from harmful activites towards environment or social needs
- Portfolio decarbonisation
- ESG investments

Market influence
Influencing the market with regard to responsible investment by contributing to sustainable initiatives

Our Group-wide exclusions

Coal exclusion	
Description	Companies generating more than 30 per cent of their revenue from coal mining and/or electricity generated from coal.
Exceptions	Green bonds of coal companies with clear alignment to the Paris Agreement are exempted as Prudential will support these companies in contributing to the energy transition. The investment portfolio manager should also seek reasonable assurance that funding provided by the green bond is not freeing up additional financial capacity for that issuer or related companies in the market that will be used to fund non-sustainable alternatives.
Status	Divestment by the end of 2021 for equities has been completed, and by the end of 2022 for corporate bonds is on track.
Tobacco exclusion	
Description	Companies that produce tobacco, which are labelled as 'Tobacco' by GICS level 3 (or GICS Sub-Industry).
Exceptions	None
Status	Divestment by end 2021 has been completed.
Controversial weapons exclusion	
Description	Companies with verified involvement in cluster munitions, anti-personnel mines, biological weapons, chemical weapons and nuclear weapons outside of the UN Treaty on the Non-Proliferation of Nuclear Weapons.
Exceptions	None
Status	Divestment by end 2021 has been completed.

Responsible investment / continued

In 2021, Eastspring developed and implemented an exclusions policy for the large majority of its Collective Investment Schemes (CIS). While this exclusions policy currently addresses tobacco and controversial weapons exclusions, Eastspring is committed to an ongoing review of this policy. For example, Eastspring is assessing the potential implications related to the exclusion of companies generating revenue from coal, where it has direct control over mandate guidelines, and the potential for engagement with clients in relation to their own mandate guidelines. The definitions of Eastspring's exclusions align to the definitions of the Group-wide exclusions.

ESG integration

We seek to integrate ESG factors into our investment decisions alongside traditional financial analysis, to better manage risk and generate sustainable, long-term returns for our customers. ESG integration is relevant for the entire investment process, and all the relevant investment teams within the Group are expected to demonstrate how ESG considerations are integrated into investment decisions. Eastspring in Singapore has integrated the Sustainability Accounting Standards Board (SASB) framework into the majority of its investment processes to help systematically identify financially material ESG factors at the company level.

Eastspring also reports annually to the Principles of Responsible Investment (PRI), demonstrating how ESG is integrated into investment decisions. In 2020, Eastspring achieved A+ scores across two categories and A scores across four categories, well above the median scores for the PRI's asset management signatories. The PRI's next reporting cycle has been postponed until 2023, but we remain committed to providing transparency on our progress.

We operate in both developed and emerging markets in Asia and Africa and the responsible investment landscape differs significantly across these markets. Challenges relating to the emerging markets in which we operate include the availability of company-level ESG data. If data is not available in a certain market, local investment teams are required to set up their own framework to assess ESG risks. Eastspring Vietnam has set up such a framework, leveraging industry standards and combining this with company-level assessments, which are often obtained by speaking to companies directly.

We are supportive of further regulation around ESG integration in investments (see the Policy engagement and advocacy section on page 33). The European Union's Sustainable Finance Disclosure Regulation (SFDR) is one such development. In 2021, 82 per cent of Eastspring's international funds (SICAV) received Article 8 status, which means the fund 'promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices'.

Additionally, we have integrated climate risk into our investment process for our balance sheet assets, where relevant. We treat climate risk as a cross-cutting risk within our risk management and we continue developing our climate scenario testing approach. More information on how we take climate risk into account is covered in the *Stewarding the human impacts of climate change* section on page 26. We are also exploring methods to integrate climate change in our strategic asset allocation. Our asset manager, Eastspring, approaches climate risk at the company level and has engaged with the Singapore regulator, Monetary Authority of Singapore (MAS), on its Environmental Risk Management Guidelines.

Active ownership through engagement and voting

As custodians of our customers' assets, it is important that we act in ways consistent with our stewardship responsibilities. This means seeking to maximise the long-term capital growth of the assets entrusted to us, while remaining accountable to our customers for our actions and being aware of our duty to uphold their best interests when carrying out investment activities.

Eastspring is a member of the International Corporate Governance Network (ICGN) and its stewardship approach is aligned with the ICGN Global Stewardship Principles and ICGN Global Governance Principles. Eastspring is also a member of the Asian Corporate Governance Association, which seeks to promote high standards of corporate governance across the Asia-Pacific region.

We believe active ownership via engagement and voting is preferable to divestment and will seek to engage with investee companies where we have concerns, and use divestment only in circumstances where that is the appropriate response.

Engagement

Engagement is a core part of providing effective stewardship and we seek to encourage business and management practices that support sustainable financial performance through constructive interaction, based on our in-depth knowledge of the companies and their business environment. Our level of conviction to hold a particular investment can be impacted by the results of engagement.

Eastspring undertakes company engagements focused on both financial and non-financial matters on an annual basis. Engagement is traditionally carried out for equity holdings, but investing in companies' debt can also be used as a way to engage with companies on important matters. Engagement is therefore happening across different teams within Eastspring, with its Equity, Fixed Income and Sustainability teams engaging on different topics:

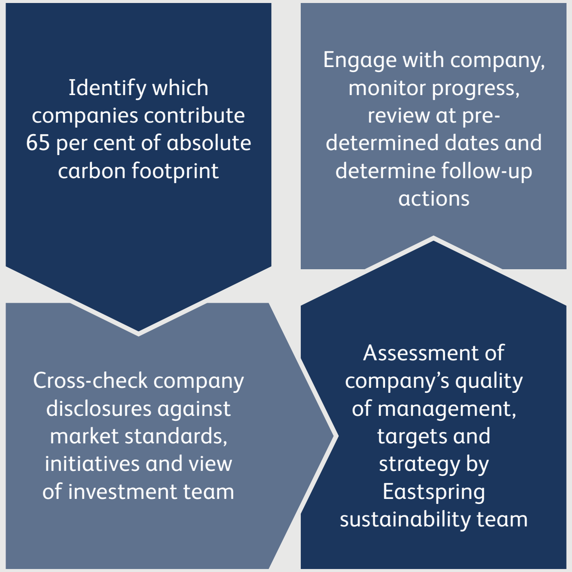
- Engagement with the companies responsible for 65 per cent of the absolute carbon emissions of Prudential's investment portfolio, as described in the box below;
- Engagement with companies on ESG risks that are financially material for the specific company to get a better understanding on how the company is handling these risks; and
- Collaborative engagement focusing on specific ESG topics.

With respect to specific engagements related to material ESG issues, Eastspring's Equity, Fixed Income and Sustainability teams have engaged with around 500 companies in 2021, in addition to engagement on financial issues with companies.

Responsible investment / continued

Engagement target on climate change

We have set a target to engage with the companies responsible for 65 per cent of the absolute carbon footprint of our investment portfolio. Eastspring has developed a process to meet this engagement target. Engagement is carried out by the portfolio manager and/or by the sustainability team. The sustainability team works closely with the investment teams to make sure the engagement is aligned and the relevant information is incorporated. Eastspring relies on multiple sources of input to inform engagement, including input from the portfolio manager, CDP, Climate Action 100+ and the company's sustainability reports.



For engagement relating to decarbonisation, the requests included in the engagement are aligned with the expectations of the Net Zero Asset Owner Alliance for companies to:

- commit to net-zero greenhouse gas (GHG) emissions across their value chains by no later than 2050 and be supportive of the transition to a net-zero greenhouse gas emission world by 2050;
- define interim GHG reduction targets that are in line with reaching net-zero emissions by 2050;
- develop and implement plans for their businesses to remain viable in a climate-neutral economy, with meaningful consideration of associated social impacts;
- support adoption and implementation of governmental policies facilitating the transition to net-zero emissions;
- prepare for and not disrupt price mechanisms on GHG emissions;
- take action and make progress on efforts to lower GHG emission intensity of their operations and products, and to disclose in line with the four core elements of TCFD recommendations: governance, strategy, risk management, and metrics and targets; and
- enter direct time-bound engagement dialogue with Alliance members and/or other investor initiatives to discuss efforts to decarbonise their business by 2050.

Eastspring has developed a process to meet this engagement target and has made progress in 2021 towards meeting the target by reviewing 44 per cent of these investee companies and engaging with 31 per cent of the same group. Eastspring will continue engagement until it is decided the company has implemented our requests satisfactorily.

Collaborative engagement
Eastspring participates actively in industry working groups on sustainability. On climate change, Eastspring is actively involved in the following:

- Asia and Japan engagement by Climate Action 100+;
- The ASEAN utilities engagement undertaken by the Asia Investor Group on Climate Change (AIGCC); and
- Engagement on disclosure on climate change, water and deforestation by the CDP.

The production of palm oil is linked to deforestation and biodiversity loss, with over 85 per cent of the global supply of palm oil produced in Indonesia and Malaysia. Prudential operates in both of these countries and, as an example of collaborative engagement, Eastspring has joined the PRI Sustainable Commodities Programme. Within this working group, Eastspring Indonesia and Eastspring Malaysia are engaging with companies to produce more RSPO-certified palm oil, which is an important step in making the sector more sustainable.

Another example of collaborative engagement is with a Malaysian utility company, where Eastspring combined direct and collaborative engagement. The equity team in Malaysia conducted four engagements with the company in 2021 to address its renewable energy ambitions, including technology applications, its overseas acquisitions, and its plans to reduce its reliance on coal via its energy transition. Eastspring was part of a collaborative engagement whereby the company's net zero ambitions were discussed. Eastspring, through the AIGCC Utilities Engagement Programme, followed this engagement with a written request for the company to specifically state its plan on how it will reach its net zero ambitions with short, medium, and longer-term targets. Currently, the company is signalling that target-setting is expected to take place in early 2023.

Responsible investment / continued

Engagement on financially material ESG impacts

In the case of Eastspring's Fundamental Equity and Fixed Income teams, company engagements assist in understanding how companies are using their capital and conducting their business. Engagements may take place on a variety of issues, including ESG matters that present a potential material risk to a company's financial performance.

Example 1
Eastspring's equity team has been actively engaging management of a Japan-based steel company since 2017 on three key issues: carbon emissions and energy usage (including disclosure policies), board governance and structure, and workplace safety. Starting from 2021, our topic of engagement expanded to include our monitoring of progress of the company's efforts to transition to a low-carbon economy, and raising the quality and diversity in the Board and senior management.

The team discussed the potential shift in the business model and strategies in the transition to a low-carbon economy and monitored the progress of transition. The team also challenged the management's decision to issue convertible bonds to fund transitioning projects as well as overseas acquisition. In addition, Eastspring advocated for further training, particularly on diversity, for Board directors and senior management, and suggested the adoption of disclosure standards by the Sustainable Accounting Standards Board (SASB) in the annual sustainability report.

Over the course of this long-term engagement, the team has observed good progress towards setting specific medium and long-term carbon emission reduction targets, with the ultimate goal of net zero by 2050. Certain progress was noted in transitioning technology, with a carbon-neutral technology project being rolled out at the specialty steel subsidiary in Europe. Management registered Eastspring's disagreement to the equity-dilutive bond issue and accepted its recommendation for training and adoption of SASB disclosure standards.

While the steel industry's commitment to transition toward a low-carbon economy is vital, we continue to actively engage on a range of material ESG issues.

Example 2
The equity team in Singapore engaged an Australian-based steel company on gender diversity. Progress has been made with a piloted talent acquisition strategy, which has driven an increase in female representation in operator and trade roles at the company.

The company has adopted a multi-faceted approach by changing work practices and modifying role designs to better accommodate more diverse talent pools: facilities were upgraded to cater for a greater proportion of women; hiring practices were changed to access wider candidate pools and shifting requirements to qualifications to attitudes and behaviours; and the company offered alternative work arrangements, inclusive leadership training for managers, and a rethink of job designs.

Eastspring engages companies around sustainable business practices, the structures that govern them and the company's commitment to improving the level of transparency.

Example 3
Eastspring's equity team in Indonesia has had an ongoing engagement with an agribusiness on governance, transparency and risks related to its capital structure. Over this time, the company has made commitments that translated into positive outcomes in their reporting, as well as progress on the Roundtable on Sustainable Palm Oil (RSPO) certification for South Sumatra. The company's focus on reducing greenhouse gas emissions and chemical fertiliser use has led to improved composting practices, which fulfil 50 per cent of fertiliser needs, and an improved yield, achieving 99.9 per cent traceability.

Eastspring engages on unsustainable practices that are likely to impact the longer-term enterprise value of a company.

Example 4
Eastspring's Fixed Income Team in Singapore engaged with a coal mining contractor around its longer-term business model and transition planning. As the company's existing customer base are coal miners, it suggested a higher revenue risk as the company is structurally unable to significantly diversify its revenues away from the customer base in the near term. The engagement led the team to conclude that the company does not have sufficient preparedness for dealing with the evolving financing landscape and lacks the intention of increasing transparency for bond investors. With an increased understanding and based on the apparent risks, the team reduced holdings in these bonds.

While these examples are not exhaustive of the topics Eastspring has raised in company engagements, they highlight the interlinked nature of environmental, social and governance impacts for companies. Good governance practices can support social and environmental impacts to business activities and in turn, the longer-term drivers of returns for a business.

Responsible investment / continued

Voting

Alongside engagement, voting is considered part of the investment process and a way to support long-term performance by investee companies. By exercising our votes, we seek both to add value and to protect our interests as shareholders. We consider the relevant issues, meet company management if necessary and vote accordingly. Where possible, we seek to discuss any contentious resolutions with investee companies before casting our votes, in order to ensure that our objectives are understood, and our votes will be cast in the best interests of our investors and clients. Where appropriate, we use third-party investment advisers to aid the process of making proxy voting decisions. Eastspring engages Institutional Shareholder Services (ISS), a fellow signatory to the United Nations-supported Principles for Responsible Investment (PRI), to provide administrative assistance in connection with voting proxies.

In 2021, Eastspring voted on 97.4 per cent of the total number of proxy votes in which it was eligible to vote. Eastspring voted with management recommendations 90.7 per cent of the time and voted against management recommendations 9.3 per cent of the time. Please refer to Eastspring's website for more information on its proxy voting record.

Capital allocation

Capital allocation refers to the allocation of our capital towards environmental or social needs appropriate to the markets in which we operate, while also securing the required financial returns from such investment opportunities that meet the long-term needs of our customers and investors. We will continue to refine our definitions for ESG investments in 2022 in line with best practice and industry standards, such as the Sustainable Finance Disclosure Regulation of the European Union.

Through shifting capital to companies that align more closely with our values, we believe we can incentivise companies to operate more sustainably, especially if combined with engagement. As described below, we do this for both our investment portfolio and our investment-linked products (ILP), where the investment risk associated with the product is usually borne by the policyholder.

Investment portfolio

In 2021, Prudential Hong Kong shifted a large part of its US equities core allocation to ESG factor Exchange-Traded Funds (ETFs). These ETFs reduce fossil fuel reserves by 30 per cent and reduce the carbon footprint by 30 per cent compared to the broad benchmark. As such, shifts to ETFs with a lower carbon footprint support us in achieving our investment portfolio decarbonisation target.

In 2021, Prudential Singapore reached its target of investing SGD200 million in sustainable investments mainly by investing in ETFs, despite reporting in 2020 that progress to meet the target was a challenge due to a lack of internal ESG fund strategies and shifting business priorities. At present, there are no plans to set a new investment target for ESG-related products, but Prudential Singapore anticipates integrating more investment strategies with an ESG focus in 2022.

ILP funds

Prudential Singapore launched two sustainable ILP funds in 2021. These offer clients in Singapore a way to invest more sustainably while aiming to provide long-term total returns. Singapore-based clients can now invest in:

- PRULink Global Impact ESG Equity Fund: Managed by Wellington Management Company LLC, the fund invests primarily in global equities and focuses on companies whose core business aims to generate positive social and/or environmental change alongside financial returns.
- PRULink Global Climate Change Equity Fund: Managed by GMO Investment Management Company (Ireland) Limited. The fund invests primarily in equities of companies that are positioned to directly or indirectly benefit from efforts to curb or mitigate the long-term effects of global climate change, to address the environmental challenges presented by global climate change, or to improve the efficiency of resource consumption.

Eastspring's collective investment schemes are often offered to clients as ILP funds. Eastspring has integrated ESG considerations in the investment decisions for its international fund range, in line with the Principles of Responsible Investment, of which Eastspring has been a signatory since 2018. This is evidenced by the fact that the majority of Eastspring's international fund range is managed under a regulatory classification that promotes ESG characteristics and Eastspring factsheets are progressively integrating ESG data and metrics.

Market influence

We recognise the role that we can play in our markets, both bilaterally and through industry partners, to support the development of sustainable finance. For over 100 years we have built long-term, trusted relationships with policymakers and regulators on important local issues such as capital market development, product design and innovation, capacity building and financial inclusion. We seek to engage with policy bodies and regulators in the markets in which we operate to both shape the debate and align our approach to evolving best practice. Further detail is provided in the *Supporting a just and inclusive transition* section on page 33].

We operate in both developed and emerging markets in Asia and Africa and the responsible investment landscape differs significantly across these markets. Challenges relating to the emerging markets in which we operate include the availability of ESG data, the size of the investment universe and a lack of funding to finance the energy transition. We leverage our experience within developed markets, including around risk management, financing the transition and ESG standards, to help support sustainable finance developments in emerging markets. In 2021, Prudential became a signatory to the PRI as an asset owner and joined the Net Zero Asset Owner Alliance. Since joining the NZAOA, we have sought to raise awareness of the challenges in transition finance, especially in emerging markets, such as the issue that certified green bonds have the same carbon footprint as conventional bonds from the same company, which could disincentivise investment in companies committed to the transition. Going forward, Prudential will remain active on signalling the challenges for emerging markets and, where possible, contributing to a solution. More information about Prudential's memberships, signatories and commitments is available on our website.

Eastspring collaborates closely with the Asia Investor Group on Climate Change (AIGCC). Eastspring has taken an active role in the low-carbon investment working group, the utilities engagement, the engagement and policy working group and the climate training working group.

In 2021, Eastspring contributed to several initiatives, including WWF's RESPOND tool, which aims to explore and compare how asset managers are implementing responsible investment, and WWF's Barriers to Impact report, which uncovers what driving tangible, real-world change entails for Asian financial institutions.