

Financing the Transition

A just and inclusive approach with regards to emerging markets

Endorsed by the Climate Bonds Initiative



About Prudential

Broad footprint across Asia & Africa



4 billion

combined population

c.\$1 trillion

growth opportunity in our markets next 10 years¹

Trusted household brand



18 million

customers

176 years

of history

Large asset owner



\$289 billion

funds under management

Eastspring

Prudential's asset management business



Responsible Investment

As an ASSET OWNER, we can deploy our investments and stewardship power to enable a just and inclusive transition to Net Zero for every future

- Committed to decarbonize our portfolio and become Net Zero asset owner by 2050, targeting a 55% WACI reduction by 2030
- Financing a just and inclusive transition with emerging markets considerations at the forefront
- Leverage our influences as asset owner to mainstream responsible investments in emerging markets

Focus on our markets

Significant portion of our assets invested in countries in which we operate:

- Liabilities in local currencies
- Regulatory requirements

Prudential is both a global and a local asset owner, which influences our approach on Responsible Investment

¹ Source: Swiss Re forecast (July 2023). Forecast incremental annual gross written premium in 2033 compared with 2022.

Flexibility with regards to emerging markets

Integrating emerging markets considerations into our approach to finance the energy transition, recognizing that they:



Have **historically contributed less to the cumulative greenhouse gas emissions.**¹

Today contribute around **70 percent to the current flow of emissions.**²



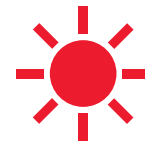
Are more **dependent on fossil fuels** for ongoing development (affordability and access)



Have **fewer resources to fund the transition** to a low-carbon economy. 2023 recorded **USD 200 billion outflow** from emerging markets.³



Have the **greatest unfinanced basic development needs** as reflected by the Sustainable Development Goals



Are typically **the most vulnerable** to the physical impacts of **climate change**



Every dollar invested in clean energy in emerging markets reduces emissions by 30% more than in developed markets⁴

¹ Developed countries emitted 70 percent of the stock of greenhouse gases in the environment today

² EDGAR - The Emissions Database for Global Atmospheric Research ([europa.eu](https://edgar.jrc.ec.europa.eu))

³ https://edgar.jrc.ec.europa.eu/report_2023#emissions_table;

⁴ p.75, Scaling up Private Finance for Clean Energy in EMDEs (iea.blob.core.windows.net); Swimming against the tide on financing for development | Brookings

Prudential's Financing the Transition Approach

Our approach aims to address two challenges...

Lack of a standardised definition for brown-to-green

The lack of a standardised definition of 'brown-to-green' leads to ongoing debates about what constitutes transition finance

The need for flexibility with regards to emerging markets

In line with the 'common but differentiated responsibilities' principles of the Paris Agreement

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This Agreement will be implemented to reflect equity and the principle of **common but differentiated responsibilities and respective capabilities**, in the light of **different national circumstances**.

This Agreement [...] aims to strengthen the global response to the threat of climate change, in the context of **sustainable development** and **efforts to eradicate poverty**.

Parties aim to reach global peaking of greenhouse gas emissions as soon as possible, recognizing that **peaking will take longer for developing country Parties**.

– Paris Agreement, United Nations 2015

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...not to maintain the status quo but because we believe this is both the realistic and the just and inclusive way forward.

Financing the Transition categories

We define Financing the Transition as directing investment into enablers, industry leaders, or high-impact sectors with the explicit goal of enabling and accelerating the net-zero transition

Climate solutions	Aligned	Aligning	Transitioning amidst growth	Managed Phaseout
Companies, projects, or business units dedicated to producing climate solutions that significantly contribute to climate mitigation, climate adaptation, and climate resilience	Companies/projects already aligned with a 1.5-degree or below-2-degree pathway	Companies/projects committed to align with a 1.5-degree or below 2-degrees pathway	Companies in carbon-intensive sectors in emerging markets that are significantly reducing emissions intensity	Carbon-intensive assets that need to be phased out before the end of their economic lives to converge to an 'aligned' or 'aligning' pathway
Solar panel producer	Companies with robust transition plan	Carbon-intensive company with net zero commitment but dependent on technological breakthrough	Utility company in India with net zero target by 2060	Decommissioning of coal power plants

These categories will not exist indefinitely
Sunset dates will be explored as frameworks evolve

Climate solutions	Aligned	Aligning	Transitioning amidst growth	Managed Phaseout
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Transitioning amidst growth

Description: Companies in carbon-intensive sectors in emerging markets that are significantly reducing emissions intensity.

Two key differences with the ‘aligning’ category:

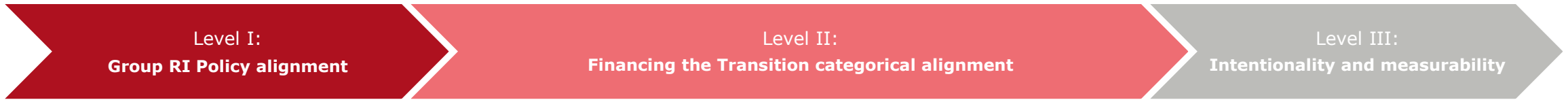
- 1 Companies may not be aligned to a 2050 or earlier net zero target
 - Their countries do not align to net zero by 2050
 - We request our asset managers to assess transition plans and/or activities. Key criteria include long-term net zero targets backed by interim targets and near-term commitments, leadership governance, and accountability.
- 2 Applicability to emerging markets only
 - Regional context for EM may not be well captured under a global decarbonization pathway
 - This category is not expected to exist indefinitely, as our goal is to support these companies towards the “aligning” and “aligned” categories



- We propose this category, not to maintain the status quo, but because we believe it presents a **realistic and just and inclusive way forward** and want to be **explicit** about our intentions
- We remain committed to **net zero by 2050**
- This approach is aligned to ‘common but differentiated principle’ of the **Paris agreement** and article 4.1 recognizing that peaking of GHG emissions will take longer for developing countries
- **Stewardship** is an important lever

Our evaluation process

All our FTT investments meet our fiduciary duty requirements and follow our regular investment process



Prerequisites:

Hard requirement to comply with the RI policy (e.g., exclusion, ESG integration, stewardship)

If Level I passed, proceed to Level II to assess categorical alignment:

Financing the Transition categories:

Climate solutions	Aligned	Aligning	Transitioning amidst growth	Managed Phaseout
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Depending on Level II categorization, track the respective indicators, including:

Intentional: funds should showcase the intentionality of its allocation into green and brown-to-green assets.

Measurable: funds should have clearly defined data points that measure the baseline and ongoing improvement of the underlying assets.

Investment example

Investment of US\$200 million as a **founding investor in Brookfield Catalytic Transition Fund, the first dedicated fund introduced for transition investing in emerging markets.** The fund is a **blended finance** transaction focused on directing capital into clean energy and transition assets in emerging economies.

Prudential's Financing the Transition framework is available on the website

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Prudential's Financing the
Transition Framework – paper



Prudential's Financing the
Transition Framework – factsheet



Eastspring-Prudential: Framework
for investing in climate transition
in the capital markets



Forward-looking statements

This presentation contains 'forward-looking statements' with respect to certain of Prudential's (and its wholly and jointly owned businesses') plans and its goals and expectations relating to future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's (and its wholly and jointly owned businesses') beliefs and expectations and including, without limitation, commitments, ambitions and targets, including those related to sustainability (including ESG and climate-related matters), and statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty.

A number of important factors could cause actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to:

- Current and future market conditions, including fluctuations in interest rates and exchange rates, inflation (including resulting interest rate rises), sustained high or low interest rate environments, the performance of financial and credit markets generally and the impact of economic uncertainty, slowdown or contraction (including as a result of the Russia-Ukraine conflict, conflict in the Middle East, and related or other geopolitical tensions and conflicts), which may also impact policyholder behaviour and reduce product affordability;
- Asset valuation impacts from the transition to a lower carbon economy;
- Derivative instruments not effectively mitigating any exposures;
- Global political uncertainties, including the potential for increased friction in cross-border trade and the exercise of laws, regulations and executive powers to restrict trade, financial transactions, capital movements and/or investment;
- The longer-term impacts of Covid-19, including macro-economic impacts on financial market volatility and global economic activity and impacts on sales, claims (including those related to treatments deferred during the pandemic), assumptions and increased product lapses;
- The policies and actions of regulatory authorities, including, in particular, the policies and actions of the Hong Kong Insurance Authority, as Prudential's Group-wide supervisor, as well as the degree and pace of regulatory changes and new government initiatives generally;
- The impact on Prudential of systemic risk and other group supervision policy standards adopted by the International Association of Insurance Supervisors, given Prudential's designation as an Internationally Active Insurance Group;
- The physical, social, morbidity/health and financial impacts of climate change and global health crises, which may impact Prudential's business, investments, operations and its duties owed to customers;
- Legal, policy and regulatory developments in response to climate change and broader sustainability-related issues, including the development of regulations and standards and interpretations such as those relating to sustainability (including ESG and climate-related reporting), disclosures and product labelling and their interpretations (which may conflict and create misrepresentation risks);
- The collective ability of governments, policymakers, the Group, industry and other stakeholders to implement and adhere to commitments on mitigation of climate change and broader sustainability-related issues effectively (including not appropriately considering the interests of all Prudential's stakeholders or failing to maintain high standards of corporate governance and responsible business practices);
- The impact of competition and fast-paced technological change;
- The effect on Prudential's business and results from mortality and morbidity trends, lapse rates and policy renewal rates;

- The timing, impact and other uncertainties of future acquisitions or combinations within relevant industries;
- The impact of internal transformation projects and other strategic actions failing to meet their objectives or adversely impacting the Group's operations or employees;
- The availability and effectiveness of reinsurance for Prudential's businesses;
- The risk that Prudential's operational resilience (or that of its suppliers and partners) may prove to be inadequate, including in relation to operational disruption due to external events;
- Disruption to the availability, confidentiality or integrity of Prudential's information technology, digital systems and data (or those of its suppliers and partners);
- The increased non-financial and financial risks and uncertainties associated with operating joint ventures with independent partners, particularly where joint ventures are not controlled by Prudential;
- The impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and
- The impact of legal and regulatory actions, investigations and disputes.

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