Implementing TCFD recommendations at Prudential

Metrics and targets

14 March 2024



1 PRI Climate Risk Series Session 3: Metrics & Targets

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Our Sustainability strategy

Ambition	Sustainability for Real-world Impact and Long-term Resilience For every Life For every Future		
Purpose			
Pillars		(H)	888
	Simple and Accessible Health & Financial Protection As an insurer, we are in a unique position to increase access to health and financial protection for every life across our markets	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	Sustainable Business As a sustainable business, we want to embed sustainability into our business and value chain to amplify the pace and scale of our impact
Priorities	Delivering partnerships & digital innovation for health outcomes Developing sustainable & inclusive offerings Building resilient communities	Decarbonising our portfolio Financing a just & inclusive transition Mainstreaming responsible investments in emerging markets	Empowering our people Establishing sustainable operations & value chain Harnessing thought leadership to shape the agenda
Foundation	Good governance and responsible business practices Corporate governance, conduct and ethics, risk management, external reporting and benchmarking		
Success metrics	Net Zero by 2050, 55% WACI reduction by 2030 All		nagers with sustainability linked KPIs by 2026



Most important TCFD milestones

2018

Endorsed the TCFD recommendations

Established ESG Governance

2020

Undertook scenario analysis and stress testing across three climate scenarios

Disclosed material climate risks and response

2022

Launched the <u>'Just and Inclusive</u> <u>Transition' paper</u> articulating our view on the climate transition for our markets

Formulated sectoral climate views

Further enhanced disclosure on metrics, including absolute financed emissions

2019

First TCFD-aligned disclosure (investments not included)

2021

Committed to net zero by 2050:

- 25% emissions reduction of assets by 2025
- engage with companies responsible for 65% of emissions in portfolio
- Joined the Net Zero Asset Owner Alliance

Disclosed WACI & impact of climate scenario across geographies

2023

Launched <u>Climate Transition plan</u>

Updated target: 55% emissions reduction of assets by 2030

Formulated Financing Transition strategy

More updates in 2023 Sustainability report (launch date: 26 March)

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Our process on metrics and targets

Review metrics

- Which metrics make sense for Prudential?
- What are the benefits and drawbacks of these metrics?
- What are the unintended consequences of using this metric?

Monitoring internally

- Select external data provider
- Set up monitoring
- Review the outcomes:
 - Do the numbers make sense?
 - How have they been moving over time?
 - How do they compare to peers?

Reporting externally

- Are we comfortable reporting the metric externally?
- Can the metric be assured?

Target setting

- Do we feel comfortable setting a target?
- Can we manage the unintended consequences of the metric?
- Can the metric be integrated in other processes (remuneration, stress testing, etc)?



Reported metrics and targets (investments only)

Metrics	Externally reported?	Targets
Weighted Average Carbon Intensity (WACI) of the investment portfolio	Yes and assured	-55% by 2030Linked to remuneration
Coverage of the WACI for the investment portfolio	Yes and assured	
Financed emissions (scope 3, category 15)	Yes and assured	
Engagement on climate change with companies	Yes	Engagement with the companies responsible for 65% of the financed emissions in our investment portfolio
Climate Value at Risk	No	
Implied Temperature Rise	No	



Case study: WACI

REVIEW METRIC

- Recommended by TCFD and market standard
- Benefits of intensity metric:
 - Comparison of companies on intensitybasis most relevant
 - Works best for low coverage Prudential and growth of AUM

- Unintended consequences:
 - Companies with high absolute emissions might not have a high WACI

MONITORING INTERNALLY

- Selected external data provider based on methodology, data quality, coverage
- Internal methodology document
 - Determine scope
 - Determine which data points to use
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- Continuous monitoring of metric and engagement with data provider
- WACI of Prudential higher than peers, but comfortable with explanation



Case study: WACI

REPORTING EXTERNALLY

- Auditor assurance:
 - Baseline 2019
 - First reporting: 2021

SETTING TARGET

- Internal assessment of feasibility reduction target in line with Paris
- Internal education on the risks and benefits of setting a target
- Communication about target: transparency about scope, methodology, etc

Managing unintended consequences:

Formulate narrative for reporting

- Disincentive for investment in carbonintensive companies → formulated Financing Transition strategy
- Engagement target on absolute (financed) emissions
- Managing the bias against investing in emerging markets



Lessons learned

- Monitor market standards but choose metrics and targets that work for your organization
- Be aware of unintended consequences: what gets measured, gets managed
- Work on an external narrative around the metrics and targets you have chosen
- Target setting: raise awareness the world is not on track to meet the goals of the Paris Agreement

But most importantly:

Get started.

Harnessing experience empowers you to meaningfully exert influence on stakeholders



Appendix – references



References



Sustainability reports

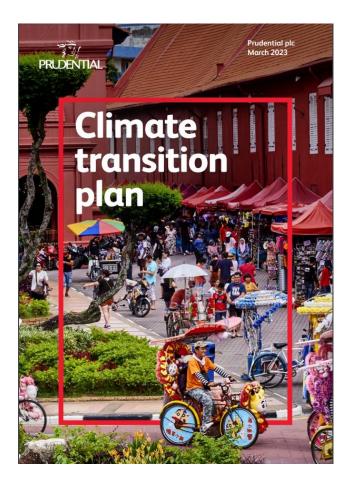
Website: Responsible Investment

PROENTIAL

Supporting a just and inclusive transition

Prudential plc October 2022

Just & Inclusive Transition white paper



Climate Transition Plan

