Pru
part of M&G plc

PAC Shareholder Rights Directive II

April 2024

The Shareholder Rights Directive II has the objective of improving corporate governance in companies whose securities are traded on EU regulated markets by requiring certain disclosures from asset managers and asset owners, thereby improving transparency regarding their investment strategy, voting processes during general meetings, and director's remuneration.

Below we have summarised the key findings of the 2023 engagement review, and detailed how PAC meets its Shareholder Rights Directive requirements, and implements its PAC Shareholder Engagement Policy.

2023 Engagement Review

The 2023 review is the fourth annual review process through which PAC With Profits funds plus PAC, PPL and PIA unit linked funds were reviewed. The review included 130 funds with direct equity holdings that are managed by 28 different fund managers, including segregated mandates and collectives managed by M&G Investments (the internal asset manager) alongside a number of collectives managed by external companies.

A questionnaire was sent to all the managers which covered both company and fund-specific disclosures required under Shareholder Rights Directive II. The questionnaires looked to assess the following key areas:

- **Company Specific Disclosures** – Policies, Climate Voting Policy, Voting Record, Engagement, Incentivisation
- **Fund Specific Disclosures** – Investment Strategy of the fund, Key Risks, Fund Composition, Portfolio Turnover, Transaction Costs

Key Findings

In general, the responses were aligned with our expectations of the managers. The following points cover the key areas assessed as part of this annual review.

Company Specific Disclosures

1. **Policies** – there was a large variance in the level of detail provided regarding the ESG and Shareholder Engagement Policies of the firms plus the frequency of updates and the age of published policies.

2. **Climate Voting Policy –** most managers had a suitable policy on climate voting, but one manager was rated negatively due to a lack of a formal approach on climate voting, and they do not incorporate climate considerations into voting decisions. However, the manager does have a net zero commitment and does prioritise engagements on climate issues if any issues are flagged on their ESG scorecards and as such no further action is required.

3. **Voting Record –** voting engagement tended to be very high, with few managers falling below a threshold of 90% participation of eligible votes. As a result, most managers scored very highly in this area, although one manager voted in noticeably fewer votes.
   a. One manager votes on all UK holdings and overseas holdings where they hold a sufficiently material amount of the company stock to impact the overall vote outcome. Whilst this approach is not considered to be best practise, the only asset owner exposure is to a UK equity fund and for this fund the manager voted on 100% of the eligible votes. As a result, there is no impact upon our business and so no further action is required.
4. **Engagement** – We note that active ownership through voting tended to focus on governance issues. Non-voting engagement was often broader in its scope, encompassing governance and environmental issues (mostly climate change/ carbon emissions); we note that Social issues tended to feature less frequently on managers' engagement agendas. Two of our managers do not engage with other shareholders with their preference of direct engagement with company management, but they may consider collaborative engagement in the future, and the remaining managers confirmed that they do collaborate with other investors when required. Some issues were also highlighted on stock monitoring (lack of firm wide policy) and stock lending (concerns over the ability to recall stock when required on important votes) but the impact was small and offset by other positive factors.
5. **Incentivisation** – In general the remuneration of managers was in line with expectations, with incentives linked to performance and therefore aligned with the best interests of policyholders. However, one investment manager had a renumeration policy that was not aligned with the medium to long term performance of their funds and instead used other metrics to determine fund manager renumeration.

Firm Specific Disclosures

1. **Investment Strategy of the Fund** – We note that all strategies were appropriately implemented in line with the objectives as outlined in the relevant documents, with consideration of the appropriate investment time horizon.
2. **Key Risks** – In general managers demonstrated a strong awareness of the risks associated with the funds in question, including ESG risks, although the approach towards managing ESG risks varied across the managers.
3. **Fund Composition** – Managers tended to have appropriate levels of diversification within their funds, which were aligned with the objectives of their investment strategies. We are satisfied that all funds in scope were diversified by region, sector, market cap, largest holdings and top over- and underweights.
4. **Portfolio Turnover** – Turnover was assessed in the context of expectations given the nature of the strategy and asset class and was generally in line with expectations.
5. **Transaction Costs** – Transaction costs were assessed in the context of expectations given the nature of the asset class and were generally in line with expectations.

Please find below the link to the voting record of MAGIM, the largest in scope manager:

Voting history – M&G plc (mandg.com)

GENM958802 04/2024_WEB