



**PGIM**  
FIXED INCOME

# Environmental, Social and Governance (ESG)

## Investment Policy Statement

Updated February 2020



## PGIM Fixed Income ESG Investment Policy Statement

At PGIM Fixed Income our mission is to provide consistent risk-adjusted returns and top-quality service to our clients. We strive to be a leading global fixed income manager with competencies across the entire fixed income spectrum. We are led by our core values—a strong moral compass, a clear vision, an external focus, the ability to take intelligent risks, the ability to seize opportunity, and the ability to transform strategy into action. We are committed to doing business the right way.

PGIM Fixed Income is a signatory of the United Nations Principles for Responsible Investment (UN PRI), as of February 2015. We recognize the importance of integrating Environmental, Social, and Governance (ESG) factors in our global investment research assessment and decision-making process. We consider relevant ESG factors in our investment process to work toward our ultimate fiduciary duty— searching for the highest risk adjusted returns for our clients.

In order to help our clients strive to achieve their financial objectives, our investment approach emphasizes and actively seeks to identify companies with sustainable, long-term competitive advantages. Within this context, it is essential that we take into consideration governance, ethics, and overall social and environmental impacts as part of our research process.

## ESG Factors in the Investment Process

### Investment Research

PGIM Fixed Income's Credit Research Team takes ESG issues into account as part of the analysis of the creditworthiness of the investments it makes on behalf of clients. These issues have become increasingly relevant to the long-term sustainability of profits for companies in businesses that produce products, extract resources, operate agri-business or provide services with a significant carbon footprint.

As part of the credit research process, PGIM Fixed Income analysts review publicly available ESG concerns, as well as those expressed by a third-party provider. To the extent an issue is considered by the analyst to have a material, adverse impact on the creditworthiness of the issuer, our analysts will comment on those issues in their internal credit reports, and our portfolio managers will take these issues into account when assessing the overall relative attractiveness of the (potential) investment.

The ESG issues considered during our research assessment will vary depending on the industry and/or individual company. These include, but are not limited to, environmental issues for energy, chemical, mining, and utility companies; corporate governance issues for companies with controlling shareholder stakes; and legal issues for tobacco companies and companies with asbestos exposure.

Our analysts are well versed with regard to the impact of sustainability issues on the companies they cover, and they stay current on these trends through participation in industry conferences and by subscribing to publications of various trade groups.



Governance has also been an increasingly important issue for investors. Although this issue will continue to evolve both on the regulatory front as well as through greater investor activism, it remains incumbent on our analysts to assess the quality of governance at the companies we cover. In particular, we are concerned with the quality of governance with respect to conflicts, executive compensation, board independence, risk management and audit functions.

These procedures have been evolving as more disclosure has become available, and we will continue to support efforts to increase adequate disclosure from companies on these important issues for investors.

An important focus of PGIM Fixed Income's sovereign research is on macroeconomic stability and debt sustainability. ESG issues feature prominently in this analysis and, in particular, the sovereign ratings process. In addition to a fundamental macroeconomic score that captures pertinent macroeconomic strengths and vulnerabilities, PGIM Fixed Income's sovereign ratings framework is also based upon a comprehensive assessment of qualitative aspects that guide policy making. These aspects include institutional strengths and weaknesses, potential governance issues, as well as social issues that could affect relevant macroeconomic variables. Nevertheless, while we carefully consider the relevant ESG issues, these factors are always considered within a broader macroeconomic context.

PGIM Fixed Income's internal credit research group utilizes third party ESG research models that are customized in nature in an effort to cover a broad range of applicable issuers. Our third-party research partner provides supplemental research including detailed reviews of local press, and comprehensive lists of outstanding company litigations. These are one of a number of inputs into our analysis of ESG issues. Our use of this service provider to date has also involved screening our investable universe in accordance with client specific requirements. We also continue to work with clients that request a customized ESG approach in their portfolio.

### Engagement

PGIM Fixed Income analysts will, when applicable, engage with senior management of companies on ESG issues. Credit analysts are encouraged to initiate discussions with senior management should an ESG issue surface during the research process. We use a qualitative approach of implementing ESG issues in our investment decisions. We do not think that formulaic methods with a scoring system will add value over a more qualitative approach.

Examples of engagement on relevant ESG issues include, but are not limited to: inadequate succession planning, unsafe labor conditions, supply chain risks for retailers, concerns of inadequate risk controls, and concerns regarding the nature of conducting business.

The ESG concerns, as well as management's response to the comments (when applicable), are then noted in our internal credit reports, which are provided to the appropriate portfolio managers.



## Experience Tailoring Client Portfolios for ESG Directives

PGIM Fixed Income's investment approach and decision-making processes are based on clearly defined performance objectives, investment guidelines and constraints and risk parameters as dictated by our clients. Upon a client's request, we will customize the management of client mandates for ESG directives to the extent practicable. We have been managing client directed ESG portfolios for a number of clients over several years.

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Source(s) of data (unless otherwise noted): PGIM Fixed Income, as of 2/18/2020.

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