CLIMATE TRANSPARENCY REPORT 2020

PGIM Fixed Income

About the Climate-related Disclosure Indicators

Climate has been identified as a top priority for PRI signatories, with over 70% of asset owners reporting this as the most important long-term trend they are acting on.

The FSB Task Force's guidance on climate-related financial disclosure aim to create a single framework for disclosure on assessment and management of climate-related risk. The recommendations, supported by investors representing US$22 trillion, identify four main disclosures, Governance, Strategy, Risk Management, Metrics and Targets, and include specific guidance for asset owners and managers.

As a result, the PRI introduced climate-related disclosure indicators that can be used to align with the TCFD recommendations in the 2020 PRI Reporting Framework.

About this report

This report is an export of only the climate-related indicators from the 2020 Reporting Framework response. The full Public Transparency Report is available here (https://reporting.unpri.org/surveys/PRI-reporting-framework-2020/-250A4E8D-CDE3-46E4-A6EB-C23A69B8603D/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1). It shows the responses to all the completed climate indicators, even those you chose to keep private. It is designed for your internal review or – if you wish - to share with your stakeholders.

The PRI will not publish this report on its website if you have designated your 2020 climate reporting as "private". Otherwise, you will be able to access the Climate Transparency Report of your organisation and that of other signatories on the PRI website and on the Data Portal.

To easily locate information, there is a **Recommendation index** which summarises the indicators that signatories complete and disclose. The report presents information exactly as it was reported as per signatory preference. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory are presented in this report.

Principles for Responsible Investment

TCFD Recommendations Index

Strategy and Governance - CC			TCFD Recommendation			
Indicator	Reported	Disclosure	Governance	Strategy	Risk Management	Metrics & Targets
SG 01.6 CC	✓	Private				
SG 01.7 CC	✓	Private				
SG 01.8 CC	✓	Private				
SG 01.9 CC	✓	Private				
SG 01.10 CC	✓	Private				
SG 07.5 CC	✓	Public				
SG 07.6 CC	-	Public				
SG 07.7 CC	-	Public				
SG 07.8 CC	-	Public				
SG 13.1	✓	Public				
SG 13.2	-	Public				
SG 13.4 CC	-					
SG 13.5 CC	-					
SG 13.6 CC	-					
SG 13.7 CC	-					
SG 13.8 CC	-					
SG 14.1	✓	Public				
SG 14.2	✓	Public				
SG 14.3	✓	Public				
SG 14.6 CC	✓	Private				
SG 14.7 CC	✓	Private				
SG 14.8 CC	✓	Private				
SG 14.9 CC	✓	Private				
SG 15.1	✓	Private				
SG 15.2	-	Private				
SG 15.3	-	Private				

Symbol	Status
✓	The signatory has completed this sub-indicator
-	The signatory did not complete this sub-indicator.
	This indicator is relevant to the named TCFD recommendation

Within the first column "Indicator", indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.

Principles for Responsible Investment

ORGANISATIONAL OVERVIEW

This section provides an overview of your organisation. These characteristics are used to define your peer groups.

MAIN CHARACTERISTICS	
Name	PGIM Fixed Income
Signatory Category	Fund Management - Majority
Signatory Type	Investment Manager
Size	US$ > 50 billion AUM
Main Asset Class	Multi-Asset
Signed PRI Initiative	2015
Region	North America
Country	United States
Disclosure of Voluntary Indicators	45% from 38 Voluntary indicators

PGIM Fixed Income

Reported Information

Public version

Strategy and Governance

PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

Investment policy

SG 01	Mandatory	Public	Core Assessed	General

New selection options have been added to this indicator. Please review your prefilled responses carefully.

SG 01.1	Indicate if you have an investment policy that covers your responsible investment approach.

SG 01.6	Additional information [Optional].

Our investment policy is not asset class specific. It was originally adopted in 2014, last modified in January 2020 and is reviewed / updated annually. It covers all of the fixed income asset classes that we invest in.

Governance and human resources

SG 07 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General

SG 07.5 CC	Indicate the roles in the organisation that have oversight, accountability and/or management responsibilities for climate-related issues.

Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Risk Officer (CRO), Investment Committee

☑ Oversight/accountability for climate-related issues

☐ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

Other Chief-level staff or heads of departments

☑ Oversight/accountability for climate-related issues

☐ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

Portfolio managers

☐ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

Investment analysts

☐ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	Dedicated responsible investment staff

☐ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	External managers or service providers

☐ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	Other role, specify (1)

ESG Dedicated Analyst

☐ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

ESG issues in asset allocation

SG 13	Mandatory	Public	Descriptive	PRI 1

SG 13.1	Indicate whether the organisation carries out scenario analysis and/or modelling, and if it does, provide a description of the scenario analysis (by asset class, sector, strategic asset allocation, etc.).

☐ Yes, in order to assess future ESG factors

☐ Yes, in order to assess future climate-related risks and opportunities

☑ No, our organisation does not currently carry out scenario analysis and/or modelling

SG 13.3	Additional information. [OPTIONAL]

Stress testing is an important component of our risk management. It measures the impact of extreme events on a portfolio's overall positioning. We do stress-testing at three levels: at the overall portfolio level, within each sector, and at the individual security level. At the overall portfolio level, five specific historical scenarios are currently stress-tested including: 1) recession, 2) terrorist attacks of Sept 11, 2001, 3) Long-Term Capital Management (in 1998), 4) emerging markets shock, and 5) "credit crunch" shock. The "credit crunch" shock scenario was recent added to reflect the extreme volatility experienced by the fixed income markets in 2008.

SG 14	Mandatory to Report Voluntary to Disclose	Public	Additional Assessed	PRI 1

SG 14.1	Some investment risks and opportunities arise as a result of long term trends. Indicate which of the following are considered.

☑ Changing demographics

☑ Climate change

☑ Resource scarcity

☑ Technological developments

☐ Other, specify(1)

☐ Other, specify(2)

☐ None of the above

SG 14.2	Indicate which of the following activities you have undertaken to respond to climate change risk and opportunity

☐ Established a climate change sensitive or climate change integrated asset allocation strategy

☐ Targeted low carbon or climate resilient investments

☐ Phase out your investments in your fossil fuel holdings

☑ Reduced portfolio exposure to emissions intensive or fossil fuel holdings

☑ Used emissions data or analysis to inform investment decision making

☐ Sought climate change integration by companies

☐ Sought climate supportive policy from governments

☐ Other, specify

☐ None of the above

SG 14.3	Indicate which of the following tools the organisation uses to manage climate-related risks and opportunities.

☐ Scenario analysis

☐ Disclosures on emissions risks to clients/trustees/management/beneficiaries

☑ Climate-related targets

☑ Encouraging internal and/or external portfolio managers to monitor emissions risks

☐ Emissions-risk monitoring and reporting are formalised into contracts when appointing managers

☑ Weighted average carbon intensity

☑ Carbon footprint (scope 1 and 2)

☑ Portfolio carbon footprint

☑ Total carbon emissions

☑ Carbon intensity

☑ Exposure to carbon-related assets

☑ Other emissions metrics

☑ Other, specify

	other description

Our research teams view information from providers such as Sustainalytics, MSCI and Bloomberg. We also review emissions data disclosed by the issuers.

☐ None of the above

SG 14.5	Additional information [Optional]

Our approach to climate risks in our credit assessment largely relates to the commercial viability of businesses or sovereign economic models as low carbon transition evolves at a different pace by industry and region according to stakeholder demand trends and development stage. Our security selection process is aligned with the concept of identifying issuers with lower carbon footprint (or future prospect for such), but with similar yields as others as a form of insurance if / when the market starts to demand more compensation for relatively large carbon footprints. For issuers with larger footprints, we require sufficient spread premium for the risk bearing carbon tax costs or future stranded costs (e.g. due to potential regulatory action). We evaluate the magnitude of a spread premium based on an issuers current business model, the effectiveness and feasibility of its future operational goals, and management's commitment to those goals.

At PGIM Fixed Income our analysts perform in-depth bottom up fundamental research with a view towards long term sustainability. The Principles of the UN Global Compact and the UN Sustainable Development Goals are a part of the lens through which we analyse all issuers and industries. We measure all our companies (especially those who operate with higher carbon footprints) in terms of their long run business plans and we try to determine if those plans are credible and achievable. We measure their progress against their plans to determine if management is reliable. When we think about long run sustainability, we take into consideration the carbon footprint and whether or not a company's plans will ensure that they are a viable enterprise for the long run.

Climate risks and opportunities are one of the topics we address during engagements. For example, engagement on climate related issues is often discussed within our electric utilities and energy sectors. Our utilities analysts monitor carbon emissions, fuel mix, power generation, carbon targets, renewable targets among other metrics disclosed by the companies as well as third party research from MSCI or Sustainalytics. To the extent they have questions or need updates they engage with the issuers directly.

Most of the European power generating companies we cover invest in renewable power and therefore have growth targets for their renewable units and CO2 reduction targets. These are topics of discussion every time we meet. We also discuss their green bond frameworks and issuance plans since many issue green bonds to fund these renewable development plans.

For the energy sector, we discuss their migration to cleaner fuel like gas instead of oil, processes they have in place to reduce gas flaring, as well as their recycling water policy in the fracking process since it is water intensive. We also engage with pipeline issuers regarding their integrity spending on pipelines to reduce Methane leakage.

We look at a range of environmental metrics when analysing auto suppliers and manufacturers. We engage regularly on electric vehicle strategies and carbon reduction programmes. We have modelled in detail European OEMs progress towards their fleet CO2 targets and use these models to challenge management assumptions on electric vehicle uptake, diesel vs petrol fuel mix and improvements in conventional engines. We have also engaged in the past on responsible procurement of minerals used in EV batteries, specifically cobalt which is often mined in the Congo with little to no regard for workers' rights or environmental standards. We closely track the scope 1 and 2 emissions of all firms under our coverage and engage with firms on this, especially when their numbers are substantially different to peers.

Companies and countries adjust to climate risk based on the typically extended development pace within their specific environment by way of employing new energy sources, changing their product mix, adjusting their supply chains etc. As such a long-term quantitative assessment of these risks based on information we know today is not as valuable to us as our bottom up industry and issuer risk assessment and associated engagement.