IMPACT & RESPONSIBLE INVESTMENTS (I&RI)

Impact Management Policies (IMP)

Operating Principles Disclosure Statement
We make lives better by solving the financial challenges of our changing world.

Prudential was founded on the belief that financial security should be within reach for everyone. It’s a challenge we’ve embraced for more than one hundred and forty years. A strong sense of social responsibility remains embedded in the company, guiding our efforts to help people now and in future generations achieve peace of mind and a more secure future.

Prudential Financial, Inc.’s Impact and Responsible Investing unit is an original signatory to the Operating Principles for Impact Management. These are a set of 9 best practices for the management of impact investments sponsored by the International Finance Corporation, one of the largest impact investing organizations. More than 100 institutional investors have signed on to the Principles. Prudential is one of the few signatories with a dedicated impact investing team exclusively focused on investing its own corporate capital.

We signed on to the Principles based on our values and the belief that we need to be accountable not only to financial standards, but also to standards that guide our mission orientation.

Impact Framework
The Impact Investments portfolio is managed by a dedicated team of investing professionals who work exclusively on these investments referred to herein as the Impact and Responsible Investments (“IRI”) team. The IRI team is part of the Inclusive Solutions function within the company that includes management of the Prudential Foundation. The IRI team is guided by an Impact Framework that translates Prudential’s Corporate Purpose into strategies designed to support the needs of underserved communities in the U.S. and globally.

The Impact Framework (the “Framework”) consists of three key elements:

- **Impact Themes & Goals** – The overarching themes and social goals for the program. Impact themes are reviewed regularly but typically are intended to be consistent and maintained across multiple years.
- **Impact Management Policies** – These are key policies regarding the day-to-day operationalizing of impact management.
- **Permissible Impact Considerations** – These are factors above and beyond financial considerations that may be taken into considerations when making investment decisions and reflect the overarching goals of the program to drive both Impact and Financial objectives and where needed take on additional risk and permit additional flexibility to drive impact.

The Framework applies to all investments made by IRI.
Disclosure Statement

The following Disclosure Statement applies to these business units:

Impact & Responsible Investments.

The total Assets under Management in alignment with the Principles is US $962 million as of March 31, 2020.

Ommeed Sathe

Ommeed Sathe
Vice President, Impact & Responsible Investments
Prudential Financial, Inc.
July 10, 2020
Investor Policy Statement (IPS)

The Impact Investments portfolio is managed to drive impact and is the only portfolio within the Prudential general account exclusively focused on purpose-driven investments. Consistent with that mandate, the Impact Investments program is explicitly permitted to take impact factors into consideration and those factors are integrated into its Investment Policy Statement. It also manages all investments to promote and enhance their impact. Our existing framework for managing for impact is summarized in graphic below.

The Prudential framework above is compatible with the IFC-sponsored Operating Principles and can be found online here.

Future Enhancement: The IRI team has engaged Tideline to provide a third-party verification and will use the recommendations to guide and inform enhancement steps. One primary enhancement objective will be the development of internal monitoring and reporting templates for each of the core Impact Themes. This level of enhanced reporting will be used to drive monitoring of progress against impact objectives as well as continuous improvement of investment strategies.

A second objective will be to continue the iterative process of refining impact KPIs for scope and depth and strengthen alignment with the Impact Management Project’s framework as well as Iris+. As part of this work, the team will enhance templates for monitoring progress against expected impact as well as the presentation of impact metrics to key internal bodies.
The IRI team will also explore aligning ESG risk assessment with industry standards, such as the IFC’s Performance Standards Framework, GRI or SASB, as well as sector-specific standards.

**Permitted investment types:** The II portfolio may invest in a broader range of stage, geography and size of investment than is typically invested in by the general account so long as the portfolio is consistent with the requirements set forth in the IPS. This includes, but is not limited to:

- Early-stage and start-up entities with a limited track record of past performance where such investments deliver novel solutions addressing key impact objectives and themes;
- Smaller transactions that may be inefficient to manage;
- Small businesses and smaller real estate development firms that may have less robust liquidity and access to capital;
- First and second-time fund managers;
- Non-profits, social enterprises and benefit corporations.

To assist in risk management related to its investments, II has designated certain investments as part of a “Catalytic Portfolio”. Catalytic investments will include those investments where (1) there may be a significant trade-off between financial performance and impact; (2) the stage or size of the investment is innately high risk, (3) there is less data to make an evaluation on the anticipated performance of investment, or (4) where the company may want greater latitude to forgive or adjust terms (e.g., nonprofit borrowers).
Covered Portfolio: Size and Asset Mix

Covered Portfolio - Assets Under Management

- The portfolio is highly diversified across asset classes and balanced between debt and equity.
- Approximately 70% of investments are made directly and 30% through third-party managers.

* AUM data is as of 3/31/2020 and excludes unfunded commitments

Prudential Inclusive Solutions

1 Unaudited internal accounting
Operating Principles Disclosures
**PRINCIPLE 1:**

*Define strategic impact objective(s), consistent with the investment strategy.*

The Manager shall define strategic impact objectives\(^3\) for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

**Approach:** Impact objectives are designated *ex ante* rather than *ex post* and reflect an intentional approach to finding and creating impact as opposed to measuring the impact of pre-existing investments.

**Implementation:** Explicit impact objectives are stated for all investments alongside overarching Impact Themes. These Impact Themes are research driven, reviewed by the governance body for the program and indexed in the Investor Policy Statement. Investment memos have a specific section generally titled “Impact Thesis” in which the impact objectives are stated, aligned with the Impact Theme and further defined by KPIs. The memo indicates how KPIs will be assessed and what data and reporting the investee must provide to facilitate that evaluation and/or if third party or other external sources will be used. If a proposed investment is not being made in one of the designated Impact Themes, the authorization process provides additional detail regarding the rationale for the transaction, impact objectives and relevant KPIs. These metrics are aligned with *Iris+* and other third-party standards.

<table>
<thead>
<tr>
<th>Impact Theme</th>
<th>Key Impact Objectives</th>
<th>Illustrative KPIs</th>
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| Financial Inclusion               | Increase access to affordable banking, credit and wealth-building solutions for individuals and micro, small and medium enterprises | - Number of customers provided new access to financial services on an annual basis  
- Percent of customers who are low to moderate income as defined in the context  
- Percent of customers retained, disaggregated by income                                      |
| Education and Future of Work      | Improve programs and systems in the preK-12, postsecondary, and workforce sectors to drive improved career outcomes for underserved students and employees. | - Number of students or program participants enrolled on an annual basis  
- Percent of students and program participants graduating or receiving a marketable certificate  
- Percent of graduating students or program participants who are low to moderate income as defined in the context |

\(^3\) Impact objectives should be measurable and aligned with the program’s goals and strategies.
<table>
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<tr>
<th>Impact</th>
<th>Description</th>
<th>Impact Objectives</th>
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| Moderate Income | Solutions to address affordable housing challenges, including bringing additional services and opportunities to residents. | - No. of affordable units created or renovated  
- No. of individuals housed  
- Resident satisfaction score |
| Transformative Development | Promote real estate developments that intentionally create quality places to live, work, learn and play in areas that have experienced distress or relative underinvestment. | - Public or private dollars allocated  
- No. of jobs created or maintained, annual  
- Social mobility score |
| Resiliency | Promote equitable access and preservation of Natural Capital by developing more effective agricultural, water and waste management systems. | - Water-reduction in produce-production  
- Number of direct beneficiaries of funded projects  
- Percent of direct beneficiaries who are low to moderate income as defined in the context |

3 Impact objectives can be defined as the intended impact that contributes to financial, institutional, social, environmental, or other benefits to a society, community, or group of people via one or more investment. Adapted from OECD-DAC (www.oecd.org/dac/).
PRINCIPLE 2:

Manage strategic impact on a portfolio basis.

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

Implementation: Impact returns are managed at the level of the Impact Themes in alignment with explicit impact objectives and KPIs. Performance is reported regularly to internal stakeholders as specified in the reporting requirements with standardized templates to ensure consistency in reporting. Staff performance review and incentive systems are conducted on a holistic basis and includes impact outcomes as a core component.

- Impact Objectives are evidence-based and established based upon depth of experience, historical lessons learned and current and compelling definitions of the challenge. These objectives guide the development of thematic investment strategies and the selection of underlying assets.
- Investees are generally selected for field leadership in the sector as well as commitment to mission and a vision in alignment with our Impact Framework.
- Investments are assigned a lead investment manager who meets regularly with investees and reviews quarterly and annual reporting
- A Portfolio Review Committee comprised of subject matter experts in investments, legal, compliance and valuation draw enterprise-wide monitors performance on a quarterly basis with special attention paid to investments that are failing to meet expectations
**PRINCIPLE 3:**

*Establish the Manager’s contribution to the achievement of impact.*

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

**Approach:** Investor’s contribution is one of the main drivers of asset selection and is assessed on an investment specific basis according to the Impact Management Project framework sponsored by The GIIN. The concept refers to positive impact contributed by the investor in addition to the impact of the project or enterprise.

Examples of investor contribution include: (i) engage actively through the use of investor expertise, network or operational resources to improve impact, (ii) providing capital to untested or less well served markets, and (iii) providing capital on terms that are concessionary.

**Implementation:** All investments are scored along two scales that assess the level of Investor Contribution. The scores are reviewed by the IRI team, documented in investment and monitoring memos and supporting documentation is saved in a dedicated folder alongside other key transactional documents. The first measure evaluates the level of active participation (“Active Engagement”) of the investment team. The second measure determines what if any financial accommodations have been made to support the investment (“Financial Flexibility”).

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4 For example, this may include: improving the cost of capital, active shareholder engagement, specific financial structuring, offering innovative financing instruments, assisting with further resource mobilization, creating long-term trusted partnerships, providing technical/market advice or capacity building to the investee, and/or helping the investee to meet higher operational standards.
**PRINCIPLE 4:**

**Assess the expected impact of each investment, based on a systematic approach.**

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact\(^5\) potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact?\(^6\) The Manager shall also seek to assess the likelihood of achieving the investment’s expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.

In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager’s strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards\(^7\) and follow best practice.\(^8\)

**Approach:** Expected impact refers to investor expectations of impact at origination and provides a useful baseline for measuring actual impact over the lifecycle of an investment. The I&RI team deploys scoring rubrics customized by impact theme and asset class that weight the variables underlying the investment thesis.

**Implementation:** The expected impact scores are scored during the diligence process, integrated into investment memo reviewed as part of the portfolio review process.

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5 Impact is considered the material effect/s on people and the environment resulting from the investment, as outlined in Principle 1. Impacts assessed under Principle 4 may also include positive ESG effects derived from the investment.
6 Adapted from the Impact Management Project ([www.impactmanagementproject.com](http://www.impactmanagementproject.com)).
7 Industry indicator standards include HIPSO ([https://indicators.ifipartnership.org/about/](https://indicators.ifipartnership.org/about/)); IRIS ([iris.thegiin.org](https://iris.thegiin.org)); GIIRS ([http://b-analytics.net/giirs-funds](http://b-analytics.net/giirs-funds)); GRI ([www.globalreporting.org/Pages/default.aspx](http://www.globalreporting.org/Pages/default.aspx)); and SASB ([www.sasb.org](http://www.sasb.org)), among others.
8 International best practice indicators include SMART (Specific, Measurable, Attainable, Relevant, and Timely), and SPICED (Subjective, Participatory, Interpreted & communicable, Cross-checked, Empowering, and Diverse & disaggregated), among others.
PRINCIPLE 5:
Assess, address, monitor, and manage potential negative impacts of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees’ ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

Approach: The IRI portfolio is exclusively focused on impact investments and will actively screen out sectors and companies that do not meet those objectives or have heightened potential for negative impact. Impact risks can also occur from shifts in markets conditions or investee behavior and need active management throughout the investment lifecycle.

Implementation: IRI will use the following practices to minimize the risk of negative effects:

- **Sourcing & Diligence:** Carefully focus investments in areas and partners with strong alignment between impact and financial motivations. Formal analysis of how the company delivers impact and how well designed the products and services to reduce the likelihood of stakeholder misalignment. Mission safeguards can be baked into legal agreements to provide additional mitigation.

- **Active management:** Throughout the investment lifecycle it is critical to engage with management and identify impact risks and ensure these are addressed in a timely manner and identify need for course correction. Where needed structuring impact covenants and reporting to ensure that impact considerations are appropriately disclosed and managed.

- **Responsible exits:** Careful structuring including requiring mission safeguards as well as specified criteria for acquirers to mitigate risk of a drop-off in impact after exit.

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9 The application of good ESG management will potentially have positive impacts that may or may not be the principal targeted impacts of the Manager. Positive impacts resulting from ESG matters shall be measured and managed alongside with, or directly embedded in, the impact management system referenced in Principles 4 and 6.

PRINCIPLE 6:

Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

Implementation: Progress is monitored based upon expected impact and, if appropriate, impact KPIs aligned with Impact Themes. Quarterly and annual reporting is collected and reviewed by the investment leads for each transaction. Where possible, surveys, independent evaluations and third-party certifications are utilized to provide a credible, independent view. In situations where there is a significant gap between expectation and progress, the situation is documented and reported by the II team, including steps taken to mitigate the situation.

11 Actions could include active engagement with the investee; early divestment; adjusting indicators/expectations due to significant, unforeseen, and changing circumstances; or other appropriate measures to improve the portfolio’s expected impact performance.
12 Outcomes are the short-term and medium-term effects of an investment’s outputs, while the outputs are the products, capital goods, and services resulting from the investment. Adopted from OECD-DAC (www.oecd.org/dac/).
**PRINCIPLE 7:**

*Conduct exits considering the effect on sustained impact.*

When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

**Background/Policy:** Impact Investors objectives extend beyond financial results to include the continued success and positive impact of the investment after formal exit. II should take the necessary steps to safeguard the continuity of impact after exit and the interests of stakeholders, inclusive of shareholders, employees and the community the company serves and operates within. The Exit Policy is based upon lessons learned at I&RI and informed by recent research *Lasting Impact: The Need for Responsible Exits* collected by the GIIN.

**Implementation:** On an investment-specific basis safeguard steps may include the following:

- **Pre-investment:** Select investees based on the degree to which impact is embedded in the business model as well leadership commitment to mission.
- **Structuring:** Structure the investment to support sustainable growth, ensure alignment with co-investors, and include legal protections in LPAs, debt covenants and side letters as appropriate.
- **Monitoring:** Work closely with investees to strengthen ESG policies and practices governing supply chains, environmental impact, employment, and governance.
- **Exit timing:** Timing of exit needs to take into consideration the company’s continued access to sufficient resources and expertise to maintain growth and impact.
- **Criteria for acquirers:** Acquirers should be selected based upon commitment to mission, access to resources and expertise and a time horizon supportive of growth and continued impact.

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13 This may include debt, equity, or bond sales, and excludes self-liquidating or maturing instruments.
PRINCIPLE 8:
Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

Implementation: The IRI team maintains a regular rhythm of internal and external communications for continuous improvement and sharing lessons learned.

Recent Publications
- How Investors Can Integrate Social Impact with Financial Performance to Improve Both (Tony Berkley)
- Impact Investing: A Look Back to Pave a Path Forward (Lata Reddy)
- Active Capital: Implementing a Billion Dollar Mandate (Ommeed Sathe)
- Diversity and Inclusion: Turning Shared Value into Shared Success (Lata Reddy)
PRINCIPLE 9:

Publicly disclose alignment with the Principles and provide regular independent verification of the alignment.

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

Policy/Background: Annually, I&RI will verify and publicly disclose the degree of alignment of the impact management of the covered assets with each of the 9 Operating Principles.

Implementation: Public disclosure should take the form of a signed and completed disclosure statement and an independent verification in alignment with IFC guidance. Verification may be performed by an external third party or by an internal unit of the Signatory. If the verification is performed by an internal unit, the Signatory must provide a description of the verification process and how it is separate from the operational units.

Independent Verifier

Tideline Advisors, LLC is a certified women-owned advisory firm in impact investing. Since its founding in 2014, Tideline has become a recognized leader in impact measurement and management, focused on the design and verification of IM systems with leading asset owners and managers. In 2020, Tideline established a subsidiary with a separate, dedicated team focused on impact management verification.

Tideline has offices in New York, NY and San Francisco, CA and is headquartered at 915 Battery St, San Francisco, CA 94111, USA.

Verification Date: 19 July 2020

Next verification date: July 2022

Verification Link: TBD

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14 The independent verification may be conducted in different ways, i.e., as part of a financial audit, by an independent internal impact assessment committee, or through a portfolio/fund performance evaluation. The frequency and complexity of the verification process should consider its cost, relative to the size of the fund or institution concerned, and appropriate confidentiality.