August 16, 2022

VIA E-MAIL
Ms. Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
rule-comments@sec.gov

Re: *Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices* (File No. S7–17–22)

Dear Ms. Countryman:

PGIM submits this letter in response to the request by the Securities and Exchange Commission (the "Commission") with respect to the U.S. Securities and Exchange Commission's ("Commission") proposed rule and form amendments to the disclosure framework for Environmental, Social, and Governance ("ESG") investment practices (the "Proposal").[1] PGIM is the investment management business of Prudential Financial, Inc. ("PFI").[2] The PGIM investment management businesses include PGIM Investments, PGIM Fixed Income, PGIM Real Estate, PGIM Private Capital, Jennison Associates, PGIM Quantitative Solutions and PGIM Portfolio Advisory.[3] PGIM assets under management as of June 30, 2022 were approximately $1.4 trillion.

We appreciate the opportunity to comment on the Proposal, and we support the Commission's efforts to ensure investors understand their investments by requiring enhanced disclosures associated with ESG investment products. While we support this overarching goal, we have several concerns and related recommendations regarding certain aspects of the Proposal, specifically:

- PGIM is concerned with the broad designation of ESG-Integration Funds given that funds that merely incorporate ESG factors as a consideration in a fund's investment process would fall into

[1] *Enhanced Disclosures by Certain Investment Advisers and Investment Companies About Environmental, Social, and Governance Investment Practices*, Investment Company Act Release No. 34594. 87 Fed. Reg. 36654 (June 17, 2022) ("Proposing Release").
[2] The views expressed herein are PGIM's views and not necessarily reflective of PFI's views.
[3] The PGIM investment advisers through which the PGIM Businesses operate include: PGIM Inc.; PGIM Quantitative Solutions LLC; Jennison Associates LLC; PGIM Portfolio Advisory; PGIM Private Placement Investors, L.P.; PGIM Investments LLC; PGIM Custom Harvest LLC; PGIM DC Solutions; PGIM Limited; PGIM Real Estate (UK) Limited; PGIM Real Estate Luxembourg S.A.; L.P. PGIM Private Capital (Ireland) Limited; and PGIM Wadhwani LLP.

the ESG-Integration Fund category. Requiring all such funds to provide the enhanced disclosures required of an ESG-Integration Fund in offering materials and shareholder reporting could mislead investors by overstating the role ESG factors play in a fund's investment decisions versus other factors. PGIM therefore recommends that the Commission remove the ESG Integration Fund category.

- The proposed definition of ESG-Focused Fund is unclear and too broad given that any fund that utilizes any screen that focuses on one or more ESG factors would result in the fund being classified as an ESG-Focused Fund. PGIM recommends that the Commission instead introduce a requirement that the fund only be considered an ESG-Focused Fund to the extent that ESG is part of the principal investment strategy of the fund. Classification as an ESG-Focused Fund should also be on an opt-in basis, i.e., the fund must elect to become an ESG-Focused Fund.
- PGIM recommends that, for ESG-Focused Funds, the Commission require an explicit disclosure as to whether the "primary ESG focus" of the fund is to "reduce and mitigate exposure to ESG risks that are financially material at the issuer level" or "to promote environmental and social sustainability and good governance". Conflation of these two different concepts is widespread and has led to many greenwashing concerns. PGIM believes that that this distinction between the management/mitigation of financially-material ESG risks specific to each particular holding, and promotion of broader environmental and social sustainability and good governance, will help enable investors make choices aligned with their views and preferences.
- The definition between ESG-Focused Fund and Impact Fund is unclear and could potentially cause an ESG-Focused Fund to be incorrectly classified as an Impact Fund. PGIM suggests that the Commission's standards specify that an Impact Fund should have specific environmental and/or social objectives, all of which are clearly aimed at generating or contributing to positive environmental and/or social impact. Classification as an Impact Fund should also be on an opt-in basis.
- PGIM supports the inclusion of an "ESG Strategy Overview" table for ESG-Focused Funds and Impact Funds but recommends several changes for the Commission's consideration including:
    - The addition of a separate category for "Thematic Approach" to appropriately capture those funds that invest in line with an ESG theme;
    - Providing a concise description of the focus of the fund's ESG strategy instead of providing a description of "the ESG factor or factors";
    - A summary approach to the description of factors considered in ESG analysis rather than inclusion of all factors;
    - A description of the fund's proxy voting approach with a cross-reference to the adviser's proxy voting disclosures rather than the proposed more granular descriptions of how a fund votes proxies and/or engages with companies on ESG issues; and
    - Addition of a specification as to whether the "primary ESG focus" of the fund is to "reduce and mitigate exposure to financially material ESG risks" or "to promote environmental and social sustainability and good governance" as described in the point above.
- As it relates to the Proposal's Annual Report requirements, PGIM is concerned that it would be extremely challenging for funds to comply with the requirement to disclose the percentage of ESG voting matters for which the fund voted in furtherance of the initiative given that proxy voting decisions reflect both investment and ESG considerations. Instead, PGIM recommends that the

Commission require disclosure of proxy voting statistics for the fund accompanied with the manager's summary comments.
- PGIM notes that the proposed definition of ESG Engagement Meetings is not consistent with industry understanding and practice and that, rather than re-define "engagement", the Commission require a fund to describe its overall engagement activity as well as the manager's commentary as to how the fund's engagement activity contributed to the implementation of its ESG strategy. This approach would focus on quality rather than the format and quantity of engagements.
- As it relates to disclosure of GHG emissions:
    - PGIM's view is that only those funds that have climate and carbon emissions as a primary focus of their ESG strategy should be required to provide such data;
    - PGIM is concerned that there are many outstanding issues as related to emissions calculations for many types of asset classes;
    - PGIM recommends that instead of requiring funds to use specific data sources for emissions and thus disrupting existing data sourcing processes, the Commission require that funds provide quality assessment of the emissions data (e.g., a breakdown of the percentages of emissions data that were reported or estimated) based on information received from third-party data providers; and
    - PGIM urges the Commission to refrain from requiring that advisers make in-house estimates of GHG emissions where these are not available from other sources.
- PGIM's comments related to an adviser's disclosure in Form ADV are similar in nature to those noted for fund-level disclosures including the preference for a comprehensive overview of an adviser's approach to ESG rather than listing all ESG-related factors. Overall, PGIM is concerned that the Proposal's disclosure requirements, particularly as it relates to integration strategies, may cause advisers to give more prominence to ESG-related components of the investment process relative to other components, which may be confusing or misleading to investors.

I. The Proposed Classifications Are Overbroad

A. Background

The Commission correctly notes the lack of prescribed specific disclosures for ESG strategies, and the Proposal seeks to establish a disclosure framework to provide comparable, consistent and reliable information for all funds that are managed with ESG investment strategies. The hallmark of the Proposal is the classification framework, broadly defining three types of ESG funds—ESG Integration Funds, ESG-Focused Funds, and Impact Funds.[4] An ESG Integration Fund is a fund that considers ESG factors alongside other non-ESG factors when selecting investments, but ESG factors do not generally carry more weight than non-ESG factors in the investment decision process such that ESG factors may not be determinative in deciding to include or exclude any particular investment in the portfolio.[5] An ESG-Focused Fund incorporates ESG factors as "significant" or "main" considerations during the investment process (which would include the application of an inclusionary or exclusionary ESG screen), or while engaging with portfolio companies on ESG issues. An Impact Fund seeks to achieve a stated ESG-related goal or impact, or to promote one or more ESG-related benefits.

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[4] *Proposing Release* at 36660.
[5] Id.

Each classification would be subject to new, and increasingly granular disclosure requirements. An ESG Integration Fund would be required to include ESG disclosure in their registration statements and permitted to include ESG disclosure in marketing materials, but such funds would be required to present disclosure in a way that is intended to prevent "greenwashing" or overemphasizing the ESG characteristics of the strategy. ESG-Focused Funds would be subject to greater disclosure requirements, such as including detailed disclosures regarding their ESG strategies in tabular format and providing detailed metrics and information in annual reports. Impact Funds would be subject to similar disclosure requirements with additional disclosure required with respect to the implementation and effectiveness of their impact goals.

B. ESG Integration Funds

1. ESG Integration Fund Classification Should be Eliminated

PGIM recommends that the Commission remove the ESG Integration Fund category in the final rule given that the category is too broad and is likely to lead to disclosures that cause confusion among investors. PGIM does not believe it reflects how ESG factors are implemented in the investment process. Integration of ESG factors in the investment process typically means that investment analysts review a number of potentially material factors arising from ESG issues and assess their materiality and potential financial impact on the investment. The nature and materiality of ESG factors considered in relation to each investment is typically based on its industry and the nature of its business activities and geography of operations. For identified material risks, investment analysts will consider mitigating factors as well as whether they believe they are being sufficiently compensated for taking on this risk. Sometimes, ESG factors may be determinative in the investment decision.

PGIM is concerned that the proposed definition would capture a majority of actively managed funds in the market. Both investors and fund managers are increasingly recognizing that ESG factors can be financially material to an investment, and financially material ESG factors are highly likely to be considered in the process of active management, even for funds and strategies that are not marketed on the basis of their ESG characteristics. Generally, portfolio managers and investment analysts will research and review their proposed investments for any risks or potential opportunities that could indicate that the proposed investment should (or should not) be expected to be profitable, and these analysts can (and should) consider ESG factors when performing their investment diligence. For example, a utilities analyst will almost certainly assess a utility company's power generation mix to determine their exposure to potential regulatory actions that would limit (or tax) their carbon emissions; a banking analyst would examine business conduct issues that could indicate lax overall risk management or potential human resources legal risk; and an oil & gas analyst would be interested in health & safety practices of investee companies, if only to assess the companies' exposure to operational risks. Further, investment analysts typically are expected to assess corporate governance and quality of management regarding potential investments. Research into these types of factors can reveal critical risks (or opportunities) that are relevant inputs into any investment process, whether or not the overall investment has an ESG focus or objective. While the above examples may be illustrations of where ESG factors are "considered alongside" traditional factors – or even where ESG factors are a "significant" or "main" consideration - these examples are also illustrations of traditional (i.e., non-ESG) investment analysis, where material factors are considered when assessing a potential investment.

Under the Proposal, ESG Integration Funds will include any fund that "considers one or more ESG factors alongside other, non-ESG factors in investment decisions." As described above, almost any actively managed fund would meet this definition. While passive funds or some algorithm-based strategies may not integrate ESG factors in their investment decisions, we nevertheless question the value-add of the "Integration Fund" label and associated fund-level disclosures especially given the low barrier to entry into this category for active funds.

2. ESG Integration Fund Disclosure Requirements May Mislead Investors

PGIM is also concerned that additional disclosures required for ESG Integration Funds may inadvertently over-emphasize the role these factors play in the overall investment management of a fund. As noted above, an ESG Integration Fund would be required to include specific disclosures relating to which ESG factors are considered and how those factors are considered. We note that, in the case of ESG Integration Funds, financially material ESG factors will be among many other factors considered in the investment analysis (e.g., valuation, liquidity, market risks, geopolitical risks, etc.) but, under the Proposal, the ESG factors will be given significantly more attention in the prospectus. This disclosure format could create a false impression of ESG carrying a disproportionate weight in investment decisions, which would be inaccurate and potentially misleading.

3. The ESG Integration Classification is Unnecessary

PGIM recommends that the Commission eliminate the ESG Integration Fund classification from any final rulemaking. As noted above, we believe this classification is too broad and may be potentially misleading to fund investors. Instead, we propose that a fund whose investment strategy includes consideration of ESG factors be permitted to include such disclosure in its prospectus if financially material ESG factors are considered as part of the investment process, particularly where such considerations are "principal investment strategies" as that term is used in Form N-1A.[6]

C. ESG-Focused Funds

1. The Proposed ESG-Focused Fund Definition is Unclear and Too Broad

PGIM is concerned that the proposed ESG-Focused Fund definition is not sufficiently clear, and specifically that the distinction between an ESG Integration Fund and an ESG-Focused Fund can be very vague. For example, the Proposal seems to suggest that any screen that focuses on one or more ESG factors would result in the fund being classified as an ESG-Focused Fund.[7] A fund could implement a binding exclusion

[6] See Instruction 2 to Item 9(b)(1) of Form N-1A. ("Whether a particular strategy, including a strategy to invest in a particular type of security, is a principal investment strategy depends on the strategy's anticipated importance in achieving the Fund's investment objectives, and how the strategy affects the Fund's potential risks and returns. In determining what is a principal investment strategy, consider, among other things, the amount of the Fund's assets expected to be committed to the strategy, the amount of the Fund's assets expected to be placed at risk by the strategy, and the likelihood of the Fund's losing some or all of those assets from implementing the strategy.")

[7] *See Proposing Release* at 36662 ("ESG-Focused Funds under this proposed definition would include, for example, funds that … apply a screen to include or exclude investments in particular industries based on ESG factors.")

requirement based on an ESG factor or consideration that was implemented to address reputational or investment risk considerations (as opposed to furthering ESG objectives). Under the proposal, this fund could be deemed to be an ESG-Focused Fund even though the screen was not applied for ESG-related purposes and even where the screen leads to a very limited number of exclusions from the investment universe. Classifying such a fund with minimal ESG considerations and no primary focus on ESG as an ESG-Focused Fund could also increase the risk of greenwashing, will be misleading to fund investors and may have an opposite effect to the one intended by the Commission by creating confusion instead of offering clarity.[8]

While we acknowledge the challenges associated with setting a regulatory minimum screen or other type of requirements for ESG-Focused Funds, given the great variety of strategies and investment approaches in the market, we note that the classification framework should have very clear and substantive distinctions between funds that do not have a specific investment focus on ESG, and ESG-Focused Funds, which, as the label suggests, have ESG considerations as their focus. Indeed, we have observed that a lack of such clarity under the European Union's Sustainable Finance Disclosure Regulation has led a greater number of funds than might have been expected to be classified under the regulation's "Article 8" category.

2. ESG-Focused Funds should be based on Primary Focus, there should be a differentiation between Funds focused on mitigating ESG risks and Funds promoting environmental and social sustainability, and Funds should be required to "Opt-In" to the ESG-Focused Fund Classification

To address these concerns, PGIM recommends that the Commission introduce a requirement for ESG to be "a primary focus" of the investment strategy alongside its investment objective for it to be labelled an ESG-Focused Fund. This means that ESG focus should be intentional, important and stated as part of the fund's principal investment strategy. This would create a higher standard versus the Proposal. Our proposed approach would avoid funds with some minor exclusion screens implemented for hygiene reasons but with no primary focus on ESG in their investment process be labelled as ESG-Focused Funds and thus overstating their ESG credentials.

Many ESG investment products in the market today are based on ESG methodologies that seek to identify and reduce financially-material investment risks arising from ESG factors as they relate to individual holdings. Despite the ESG labelling, these funds are not focused on promoting environmental and social sustainability or good governance. This disconnect between some funds' ESG methodology being narrowly focused on reducing financially-material ESG investment risks, and end investors' ESG expectations being focused on promoting environmental/ social sustainability and good governance more broadly has led to greenwashing concerns.[9] PGIM recommends that the Commission require an explicit disclosure in the

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[8] We note that the Article 8 designation under SFDR has created a real uncertainty among advisers and investors alike and has led to a proliferation of Article 8 funds.

[9] *See, e.g.*, Cam Simpson, Akshat Rathi, and Saijel Kishan, *The ESG Mirage*, BLOOMBERG (Dec. 10, 2021) https://www.bloomberg.com/graphics/2021-what-is-esg-investing-msci-ratings-focus-on-corporate-bottom-line/; Jamie Hicks, *From Win-win to Net Zero: Would the Real Sustainability Please Stand Up?*, RESPONSIBLE INVESTOR (MAY 18, 2021) https://www.responsible-investor.com/from-win-win-to-net-zero-would-the-real-sustainability-please-stand-up-report/; Kenneth Pucker and Andrew King, *ESG Investing Isn't Designed to Save the Planet,* Harvard Business Review (August 1, 2022) ESG Investing Isn't Designed to Save the Planet (hbr.org).

summary table for ESG-Focused Fund of whether the "primary ESG focus" of the fund is to "reduce and mitigate exposure to financially material ESG risks" or "to promote environmental and social sustainability and good governance." We believe that this distinction will go a long way to enable investors make right choices aligned with their views and preferences.

In addition, PGIM strongly believes that ESG-Focused (or Impact) labels should be applied on an opt-in basis – i.e., the fund must elect to become ESG-Focused and that absent such opting-in, funds would not be permitted to market/advertise their ESG credentials beyond a statement on ESG integration. This structure would ensure that only those funds that are intended to be marketed or sold as ESG-Focused Funds would be subject to the enhanced disclosure requirements which would help eliminate the possibility that a fund that merely accepted the designation as a matter of regulatory conservativism could also market itself as ESG-Focused. Thus, "opting in" would help eliminate the potential for confusion arising from the potential for "inadvertent ESG Focused-Funds". In addition, an opt-in regime would make clear that the responsibility for the designation as an ESG-Focus Fund is at the discretion of the fund and not at the discretion of a third party – such as a rating agency or subadviser to the fund.

In response to the Commission's specific inquiry,[10] we also note that designation as an ESG-Focused Fund should be determined by the fund, and not be a determination by a third-party marketer or a third-party rating agency. PGIM believes that classification of any fund as an ESG-Focused or Impact Fund is most appropriately made by the fund, as part of the established and robust framework under which funds currently operate, especially considering the regulatory impact such a designation has on the fund's disclosure and, potentially, on the fund's investment strategy. To the extent the Commission is concerned with the misapplication of ESG fund ratings and providers of such ratings, PGIM recommends that the Commission explore regulation of such ratings and rating agencies directly, rather than through the consequences of the application of their ratings.

D. Potential Clarifications with Respect to Impact Fund Definition and ESG Impact Objective

The Proposal defines an Impact Fund as "an ESG-Focused Fund that seeks to achieve a specific ESG impact or impacts."[11] We agree that Impact Funds should be a small subset of ESG-focused funds. We also generally agree that, at a high-level, the provided definition is largely aligned with existing industry understanding of impact strategies. That said, there are some key points where the Impact Fund classification could be more clearly defined.

First, from an implementation perspective, the distinction between an ESG-Focused Fund and an Impact Fund is not clear. PGIM believes that Impact fund should represent a significant step-up from an ESG Focused Fund. It should focus on generating positive and measurable environmental or social benefits either by investing directly in impact-generating assets, or by investing in companies that generate such impacts. Specifically, it is unclear what "specific ESG impact or impacts" would qualify for a fund to be designated as an Impact Fund. For example, a diversified equity fund that is seeking capital growth while delivering a 50% reduction in financed emissions compared to the benchmark would in our view be an ESG-Focused Fund as this is often achievable simply be excluding some of the most carbon-intensive issuers in the

[10] See Proposing Release, Question 16 at 36664.
[11] Proposed Item 4(a)(2)(i)(C) of Form N-1A.

benchmark, without needing to invest in any specific emissions mitigation solutions. However, because it has a very specific ESG goal, we are concerned that such a fund could be classified as an Impact Fund under the Proposal. To reduce uncertainty and mislabeling, PGIM recommends that the Commission provide more clarity regarding the impact Fund definition and examples of impact strategies across different asset classes. We also reiterate our recommendation that the Impact Fund label should be applied on an "opt in" basis, which would permit the funds to market and promote their ESG impact objectives. As above, we believe that "opting-in" would ensure that only funds that were intended to be managed as Impact Funds would be subject to the new disclosure requirements that would otherwise be inappropriate (i.e., non-Impact Funds should not be required to make the Impact Fund disclosures).

Second, examples of Impact Funds noted in the Proposal refer to investments in real assets. We agree that this is an area where specific tangible impacts are easier to evidence. However, if the Commission envisions Impact Funds in other asset classes, such as equities or the fixed income space, such funds will be investing in securities of companies that will be generating certain positive impacts on the environment and society. For a diversified Impact Fund there can be many different positive impacts generated by the fund's holdings. Disclosure of ESG impact objectives of such funds is usually provided by reference to sustainability themes or sustainable development goals that the fund is seeking to contribute to, as it is very cumbersome to provide impact objectives for each individual holding. PGIM recommends that for Impact Funds that seek many different positive environmental and social impacts, fund-level disclosures of such impacts can be made by reference to sustainable development goals or sustainability themes or can be summarized at a higher level without requiring disclosures of such ex-ante impact objectives and expectations for each holding.

II. Disclosure Requirements

A. Summary

The Proposal would require a fund engaging in ESG investing to provide disclosure in the fund's prospectus. Overall, the Proposal calls for a "layered" disclosure approach in which summary information would be included in a fund's summary prospectus with more detailed information included in the statutory prospectus and annual report. The level of detail required by the enhanced disclosures and the location of the disclosure would vary based on the fund's classification in the proposed ESG categories.[12] While we generally support the concept of disclosure improvements, we are concerned that these proposed requirements may create confusion and may inadvertently create disclosures that are misleading to (or misunderstood by) fund investors.

B. Integration Funds

Under the Proposal, an ESG Integration Fund would include a short narrative summarizing how the fund integrates ESG factors into its investment strategy. This information could include a description of what ESG factors a fund considers and a statement that ESG factors are considered alongside other factors in evaluating a potential investment. An ESG Integration fund would also be required to include a more detailed description of how ESG factors are incorporated into the fund's investment strategy; this would

[12] *Proposing Release* at 36659.

appear in the non-summary section of an open-end fund's statutory prospectus (e.g., item 9) and later in a closed-end fund's prospectus. Additionally, if an ESG Integration fund considered Greenhouse Gas ("GHG") emissions of its portfolio holdings, this additional detail would describe how GHG emissions are considered and describe any relevant methodologies surrounding GHG emissions. [13]

As noted above, PGIM believes that the Commission should eliminate the ESG Integration Fund category from any final rulemaking given that this category is too broad and could create investor confusion. However, to the extent the ESG Integration Fund category is included in the final rule, PGIM is concerned that the disclosure requirements may have unintentional adverse consequences on how funds are managed. Specifically, PGIM notes that a robust ESG integration process requires consideration of many different ESG factors that can have material impact on investee companies or assets. These factors will differ by industry and business activities and may also differ by the geography of operations. As such, there should not be a general expectation that the same "one or more ESG factors" will be consistently and systematically applied to all investments. Further, the relevance of these factors may change over time, and they will have a different impact on investment decisions. As a result, it would be impractical for funds to include a limited list of factors and note how these factors are considered in such a way that the disclosure may remain evergreen. Therefore, ESG Integration related disclosures should focus on how consideration of ESG factors is integrated into the investment process, rather than which specific factors are considered. We believe that disclosure of specific ESG factors should only be required if the adviser incorporates only certain selected ESG factors in its research/investment process instead of pursuing a comprehensive ESG integration approach.

GHG emissions information will be relevant and potentially material for companies in many different industries; hence, it is likely to be considered in the ESG integration processes for at least some industries and companies alongside other material ESG factors. PGIM believes that requiring disclosure of how the adviser considers GHG emissions is unnecessary and may inadvertently lead to an impression of a more significant emphasis on this issue than is the case in practice. Further, such a requirement could result in practically all funds becoming ESG Integration Funds, as GHG emissions becomes more widely recognized as a material factor in the investment process. Conversely, this requirement could result in funds avoiding consideration of GHG emission because they have not included sufficient disclosure, even where GHG emissions would be a relevant consideration. Given the prominence of climate issues for investors, we believe that advisers are naturally incentivised to highlight their approach to assessing climate risks and opportunities in their ESG integration process without a specific requirement for them to do so. We, therefore, recommend that the Commission remove this requirement.

C. ESG-Focused Funds

1. ESG Strategy Overview Table

a) General

ESG-Focused Funds are subject to enhanced disclosure requirements under the Proposal. The Proposal outlines an "ESG Strategy Overview" table that would require an ESG-Focused Fund to disclose certain

[13] Proposing Release at 36661.

information in its summary prospectus.[14] This table would be located before the principal investment strategies discussion in an open-end fund's risk/return summary and at the beginning of the discussion of a closed-end fund's organization and operation. More detailed information would then be included in a fund's statutory prospectus, with hyperlinks in the table that link directly to such information.

b) Include Disclosure of Thematic Approaches

PGIM is supportive of the proposed tabular format of disclosures in the summary prospectus for ESG-Focused Funds; however, PGIM recommends adding "Thematic Approach" to the list of ESG strategies under the Overview of the Fund's ESG strategy section of the ESG Strategy Overview Table. Many ESG-Focused and Impact strategies identify one of more investment themes that they believe will generate attractive investment opportunities while delivering environmental and social benefits (e.g., Energy Transition, Health & Well-being, Sustainable Agriculture, etc.). None of the proposed ESG strategies would adequately capture such thematic investment approaches. We believe that this information provides relevant context that is necessary for such disclosure to be fully understood.

c) Concerns with "Concise Description of ESG Factor or Factors" Requirement

The ESG Strategy Overview Table would also require a "concise description in a few sentences of the ESG factor or factors that are the focus of the Fund's strategy".[15] Consistent with our recommendations above related to the definition of ESG-Focused Funds, PGIM recommends that instead of providing a description of "the ESG factor or factors" such funds instead provide a "concise description in a few sentences of the focus of their ESG strategy".

Many ESG-Focused Fund strategies are underpinned by proprietary or third-party ESG analysis and/or ratings. These analyses or ratings are typically based on consideration of multiple environmental, social and governance factors that vary by industry and may focus on company operations or products and services or both. In such cases, disclosure of ESG factors that are the focus of the Fund's strategy cannot be concise while still remaining clear and useful. For example, disclosure that a fund seeks to assess and score companies' performance on a variety of environmental, social and governance factors, and limit the investable universe to companies meeting certain ESG requirements or achieving a certain ESG score would be reasonable; however, disclosure requiring that funds list each individual factor considered in the analysis or ratings process would not be achievable in a concise format as relevant and material ESG factors differ by sector, industry and company, which, for a diversified fund, would mean providing a laundry list of dozens of factors. Furthermore, as different ESG factors will be considered differently for different investments due to different relevance and materiality, there can be no general expectation that the same "one or more ESG factors" can be consistently and systematically applied to all investments in a Focused Fund. PGIM recommends that the Commission clarify in any final rule that this concise disclosure requirement can be met by including a brief description of the fund's approach to ESG analysis without having to describe all the underlying factors.

[14] *Proposing Release* at 36663.
[15] *Proposing Release* at 36664.

PGIM also recommends that, for ESG-Focused Funds, the Commission require an explicit disclosure in the summary table as to whether the "primary focus" of the fund is to "reduce and mitigate exposure to financially-material ESG risks" or "to promote environmental and social sustainability and good governance". We believe that the conflation of the two different concepts – i.e., management/ mitigation of financially-material ESG risks specific to individual holdings and promoting environmental and social sustainability and good governance more broadly – are at the root of many greenwashing concerns and that this distinction will enable investors make choices aligned with their views and preferences. Therefore, the Commission should make clear that these are distinct concepts, meaning that the former (managing /reducing risks) should not be assumed to be the same as the latter (promoting environmental/social sustainability and good governance).

d) Exclusionary and Inclusionary Screens

PGIM supports the proposed disclosure requirements for exclusionary screens. Regarding inclusionary screens, however, we are concerned about the requirement to provide a "brief explanation of the factors the screen applies."[16] This is because inclusionary screens are often based on proprietary or third-party ESG ratings, which can be built upon dozens of ESG factors, which would vary by industry and business activity. We note the Proposal states that "a fund applying an inclusionary screen to select investments based on company's performance on certain ESG factors relative to peers in its sector might disclose an overview of this process and the primary ESG factors it considers to select investments"; however, it can be difficult to identify "primary" factors as their application and weighting will vary significantly from industry to industry.[17] We suggest that instead of disclosure of "primary ESG factors", the Commission requires a description of the ESG factors used to select investments. This would help illustrate the process used by the manager without the need to separate ESG factors used into primary and secondary.

e) Engagement and Proxy Voting

PGIM recommends that the Commission combine "Engagement with Issuers" and "Proxy Voting" items in the ESG Strategy Overview's checklist of ESG strategies. We agree that engagement with issuers can be a core mechanism of implementing a fund's ESG strategy. In such cases proxy voting would typically support the engagement strategy in listed equity funds. Given that proxy voting is unlikely to be a core mechanism of implementing ESG strategy, and it applies to one asset class only (equities), we recommend that it is grouped with engagement.

The final row of the ESG-Strategy Overview table would require a fund to describe how the Fund votes proxies and/or engages with companies about ESG issues.[18] An ESG-Focused Fund would be required to identify whether the fund has specific or supplemental policies and procedures that include one or more ESG considerations in voting proxies and, if so, to state which considerations those policies and procedures address.[19] This will be extremely challenging for funds to implement and will add no value for fund investors given that proxy voting policies are largely focused on governance issues (e.g. board composition,

[16] *Proposing Release* at 36748.
[17] *Proposing Release* at 36665.
[18] *Proposing Release* at 36663.
[19] *Proposing Release* at 36670.

executive remuneration, audit, capital-related authorities, shareholder rights, etc) reflecting voting items normally included on proxy ballots, so all voting policies will cover at least G component of ESG. Furthermore, given the wide variety of shareholder proposals on environmental and social issues, these are typically reviewed and voted on a case-by-case basis, and, therefore, are not included in voting guidelines.

We are therefore concerned that this requirement is too granular and detailed for a prospectus. Instead, PGIM believes proxy voting information would be more accessible through a reference to the adviser's voting policies and voting record. A cross-reference to a fund's voting record and a summary commentary on their voting activity on the adviser's website would give investors a better idea of the adviser's approach than a statement in the prospectus. PGIM recommends that the Commission require a "description of the fund's proxy voting approach, including whether it votes proxy in-house or outsources to a third-party provider, and whether it applies an in-house proxy voting policy or follows third-party voting recommendations." The Commission should also permit a cross-reference to the adviser's website to the adviser's proxy voting guidelines or the third-party's proxy voting guidelines it uses.

2. Third-Party Frameworks

The Proposal would require ESG-Focused Funds to provide an overview of any third-party ESG frameworks that the Fund follows as part of its investment process, such as the United Nations Sustainable Development Goals ("UN SDG"), United Nations Principles for Responsible Investing ("UN PRI") or any other ESG framework. The Commission further provides an example of how a UN SDG framework is used as part of the fund's ESG strategy.[20] We agree with the Proposal with respect to the example provided where Sustainable Development Goals are part of the adviser's ESG strategy for the fund. However, many other frameworks, such as UN PRI for example, are implemented at the entity-level and indirectly apply to all adviser's investments. PGIM requests that the Commission clarify whether such entity-level frameworks and commitments should be included in the fund's prospectus. PGIM believes it is unnecessary and will clutter the prospectus without adding value to the end investor. We believe that sufficient transparency around entity-level frameworks and commitments can be achieved through publishing this information in a Fund's Statement of Additional Information.

3. Index Methodology and Third-Party Data Providers

Under the Proposal, an ESG-Focused Fund would be required to include disclosure describing "the index methodology for any index the fund tracks, including any criteria or methodologies for selecting or excluding components of the index that are based on ESG factors," "any internal methodology used and how that methodology incorporates ESG factors", and "the scoring or ratings system of any third-party data provider, such as a scoring or ratings provider, used by the Fund."[21]

PGIM is concerned that the implementation of the above requirements related to third-party index/data providers may lead to licensing issues and additional costs for advisers and fund investors. PGIM recommends that funds tracking indices or using scoring/ratings systems of third-party providers should be

[20] *Proposing Release* at 36666.
[21] *Proposing Release* at 36749.

required to describe how such index or scoring/rating methodologies are aligned with and contribute to the delivery of the investment objectives and/or the ESG focus of the fund.

PGIM is also concerned about disclosing the scoring or rating system of "other third-party provider of ESG-related data about companies, including how the Fund evaluates the quality of such data."[22] Asset managers buy ESG data from many different providers, which is used as input into proprietary methodologies and ratings. This includes raw data (e.g., carbon emissions, water consumption, lost time injury rate, workforce composition, etc) rather than ratings or scores based on the provider's methodology. PGIM believes that where the fund uses data, and not scoring or ratings, from third-party providers it should not have to disclose the third-party provider's methodology since it is not dispositive of an investment decision. Regarding disclosing "how the fund evaluates the quality of such data," we propose that the Commission clarify that this requirement refers to the description of the due diligence and monitoring process undertaken by the adviser, rather than evaluation of individual data points.

4. Statutory Prospectus Engagement and Proxy Voting

With respect to engagement, the Proposal would require funds to provide "a description of specific objectives of such engagement, including the fund's time horizon for progressing on such objectives and any Key Performance Indicators ("KPIs") that the Fund uses to analyse or measure of the effectiveness of such engagement."[23] PGIM notes that depending on the primary focus and ESG strategy of the fund, it is possible that each fund holding has individual engagement objectives, time horizon for progressing on such objectives and KPIs. The potential varied objectives by holding will make the proposed required disclosure obligations, in some cases, difficult to produce. As such, PGIM requests that the Commission clarify how a fund focused on company-specific engagement rather than a thematic engagement approach should approach such a disclosure.

D. Impact Funds

An Impact Fund would be subject to the same requirements as ESG-Focused Funds, but with additional disclosure requirements associated with their impact objectives. These would include addressing how the fund measures progress towards the stated impact; the time horizon used to measure that progress; and the relationship between the impact the fund is seeking to achieve and the fund's financial returns.[24]

Regarding disclosures in the ESG-Strategy Overview table as well as annual report disclosures (addressed below), where impact funds invest in securities of companies that generate certain positive impacts on the environment and society, there may be many different positive impacts that these companies will pursue, there may be several KPIs attached to each holding and different timelines for achieving these impacts. For instance, an Impact Fund may have climate change mitigation as its objective. For utilities, it may measure progress towards this objective in terms of reduction in carbon intensity and increase in renewable power produced. But it could also invest in technology companies that develop digitalization software that enables critical energy saving opportunities. In this case, carbon intensity and renewable power production would

[22] *Proposing Release* at 36749.
[23] *Proposing Release* at 36749.
[24] *Proposing Release* at 36663.

not be useful metrics. Instead, the fund may measure progress based on the percent of revenues coming from such activities. PGIM requests clarification from the Commission regarding disclosures it expects in such cases and recommends that any disclosures for Impact Funds of the nature described above should be done on a thematic basis.

PGIM does not agree with the proposal to "require an Impact Fund disclose the relationship between the impact the Fund is seeking to achieve and financial return(s)" as fund advisers would struggle to quantify this and it can create false expectations in the marketplace. Furthermore, we note that this information can already be communicated through existing risk-based disclosures.

III. Annual Report Requirements

A. Summary of Proposed Annual Report Requirements

The Proposal includes annual report disclosure requirements that would be included in the management's discussion of fund performance section.[25] Some of these disclosure requirements are specific to Impact Funds while others would apply to all ESG-Focused Funds regarding proxy voting, engagement, and GHG emissions information. An Impact Fund would be required to cite both qualitative and quantitative information in support of its progress in achieving its stated impact objective during the reporting period.

All ESG-Focused Funds that include proxy voting as a significant component of their ESG strategies would be required to disclose information about how they voted ESG-related proxies. The disclosure would include the percentage of ESG-related voting matters that the fund voted in furtherance of during the reporting period. The disclosure would include a cross-reference to the fund's full voting record on Form N-PX, as well as a hyperlink in the electronic version of the annual report to the fund's most recently filed Form N-PX.

All ESG-Focused Funds that include engagement as a significant component of their ESG strategies would be required to disclose prescriptive information about progress on KPIs of the fund's engagement. The Proposal calls for quantitative information about the number and percentage of issuers a fund engaged with on ESG issues and the total number of ESG engagement meetings. The Proposal explains that an "ESG engagement meeting" means a substantive discussion with management of an issuer advocating for one or more specific ESG goals to be accomplished over a given time-period, where progress that is made toward meeting such goal is measurable, that is part of an ongoing dialogue with management regarding this goal.[26]

The Proposal includes a requirement for ESG-Focused Funds that consider environmental factors as part of their investment strategies to report two different metrics relating to the GHG emissions of the portfolio companies they hold.[27] Specifically, the requirement calls for reporting of the carbon footprint and the weighted average carbon intensity (WACI) of a fund's portfolio. If an ESG-Focused Fund does not

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[25] *Proposing Release* at 36672.
[26] *Proposing Release* at 36675.
[27] Proposed Item 27(b)(7)(i)(E) of Form N-1A; proposed Instruction 4.(g)(1)(E) to Item 24 of Form N-2.

consider GHG emissions in its investment strategy, it would not be required to report this information provided it includes an affirmative statement that it does not consider such factors in its prospectus.[28]

B. Concerns about Proposed Annual Report Requirements

1. Proxy Voting

PGIM is concerned that it would be extremely challenging for funds to comply with the requirement to disclose the percentage of ESG voting matters for which the fund voted in furtherance of the initiative given that proxy voting decisions reflect both investment and ESG considerations, which may be expressed in different ways depending on which resolutions are included on the proxy ballot, as well as the fund's engagement activity. For example, governance is a significant factor in investment decisions and is also often central to the engagement activity on environmental and social issues. Given that most resolutions on a proxy ballot are related to governance, the fund might need to resort to disclosing its proxy voting statistics to fulfil this requirement. In addition, there may be valid reasons to reject an initiative on an ESG matter, particularly a case where an investor determines that a voting matter that nominally supports an ESG initiative is lacking in ambition and/or possibly amounts to "greenwashing." PGIM recommends that instead of disclosing "the percentage of ESG voting matters for which the fund voted in furtherance of the initiative", the Commission require disclosure of proxy voting statistics for the fund accompanied with the manager's summary comments as to how the fund's proxy voting activity contributed to the implementation of its ESG strategy.

2. Engagement

We agree that additional disclosure on engagement in the Annual Report should only apply to funds that use engagement as a significant means of implementing its ESG strategy. However, PGIM is concerned that the proposed definition of ESG Engagement Meetings is not consistent with industry practice and may be misleading to investors.

PGIM notes that there is an established view in the industry of what engagement means, that includes a much broader scope than the definition proposed by the Commission.[29] The common use definition of "engagement" involves different formats and approaches to a productive dialogue between investors and investee companies. PGIM proposes that the Commission does not try to re-define engagement and require disclosure of what would inevitably be only a sub-set of engagement activities of the fund. Instead, PGIM recommends that the fund should describe its overall engagement activity over the reporting period accompanied with the manager's commentary as to how the fund's engagement activity contributed to the implementation of its ESG strategy. This approach would focus on quality rather than the format and quantity of engagements.

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[28] *Proposing Release* at 36676.

[29] See, e.g., fn 91 of the Proposing Release and accompanying text, which describes funds that intend to run a proxy campaign to elect board members to promote its ESG objectives. See also Proposing Release at proxy campaign to elect board members to promote its ESG objectives. See also Proposing Release at 36675, describing examples of "ESG engagement meetings" that are specifically targeted towards ESG objectives versus providing general commentary and/or encouragement.

3. *GHG Emissions*

Regarding GHG emissions disclosure requirements, PGIM recommends that this disclosure be required only for funds that have climate and carbon emissions as a primary focus of their ESG strategy. This should not be required for funds that have a broader environmental focus or that consider environmental issues as part of a comprehensive ESG ratings process, as this can provide an impression of carbon and climate playing a bigger role in the methodology and focus of the fund than other factors, thus potentially misleading fund investors.

We note that the Proposal would require a fund to use three sources of portfolio company emissions data: regulatory reporting, publicly provided (but not regulatory) reports and good faith estimates. While we agree that these would be the usual sources of emissions data, it is important to point out that a fund would not typically be collecting this data directly but will be purchasing this data from third-party data providers. This is logical as it creates meaningful economies of scale. Collecting this data can be very time-consuming and requires considerable work to adjust it to make it comparable across issuers (especially as currently there are few standards requiring companies to report emissions data in a consistent manner). This would detract from the time and resources available to advisers to analyze the data. It is therefore much more efficient for a handful of data providers to do this, rather than every individual adviser. Thus, the fund would be relying on the providers' data collection processes. To the extent that the fund's data provider makes this information available, the fund may be able to disclose what proportion of data used in GHG emissions calculations was reported or estimated (or missing as discussed below). Eventually funds may be able to report on whether reported data was verified/part of regulatory reporting, versus not, however at present, few if any data providers offer this level of granularity. PGIM recommends that the Commission take this approach where possible instead of requiring the fund to use specific data sources, but urges the Commission to be aware that not all providers are able to provide such a data quality assessment yet.

PGIM is concerned that the Commission seems to require that GHG emissions should be estimated for all portfolio companies where GHG emissions data is not publicly available. As noted above, investment advisers tend to purchase GHG emissions data from third-party data providers, which comprises both reported and estimated emissions. Advisers are very cautious about estimating emissions in-house as producing reasonably accurate estimates requires a large amount of industry (and geography) specific emissions data, which many advisers may not possess. Developing capacity to produce high quality emissions estimates would also require considerable time and resources, which would put smaller advisers at a disadvantage and could incentivize some advisers to produce estimates of lower quality to save costs. Third-party providers' broad coverage puts these entities in the best position of producing GHG emissions estimates; hence advisers tend to rely on their data. It also reduces inconsistencies of methodologies applied by advisers and thus increases comparability of fund emissions disclosures. However, not all portfolio companies will be covered by third-party providers, thus leaving a gap where emissions data or estimates are not available to funds. Thus, PGIM recommends that where no emissions data or estimates are available to funds from their usual data sources, the funds should declare the percentage market value of holdings in the portfolio without emissions data. PGIM urges the Commission to refrain from requiring that advisers make in-house estimates as the quality will vary greatly depending on the data available to advisers; it will also likely disadvantage smaller investment management firms compared to larger ones.

PGIM observes that all GHG disclosure requirements in the Proposal refer to portfolio companies. In this context, PGIM requests that the Commission clarify whether GHG emission reporting is required for other assets held by funds that have climate and carbon emissions as a primary focus of their ESG strategy (e.g., real estate investments). If the Commission decides that GHG emissions should be disclosed for assets other than corporate equity and debt, the Commission should also indicate which metrics should be used to report such emissions as well as the respective calculation methodologies.

PGIM notes that there are many outstanding issues regarding the emissions calculation methodologies for many types of assets. For example, it is not clear what methodology should be applied to calculate emissions for the use of proceeds bonds. It is also unclear how investors should be handling short positions; while the Commission suggests that these shouldn't be netted out, this may not always work as intended (e.g., long derivative positions may be closed out by entering a short (and vice versa) in which case it may make more sense to net), and it is not clear whether they should be excluded or reported in a different way. Furthermore, the Commission proposes that calculations for derivatives should be included based on notional value; however, for carbon footprint, which is based on market value held or enterprise value of company, this means the notional value will be in the numerator but not the denominator, thus leading to inaccurate depiction. Also, it's unclear how advisers should be handling CDX, or other derivatives based on a basket of underlying securities, as these could be more technically challenging and often are used for hedging instead of gaining direct exposure. These are just some of the examples of clarifications that investors would need to produce accurate reports, others being repos/reverse repos, structured products, sovereign bonds, municipal bonds, hybrid securities, money market instruments, etc.

Regarding Scope 3 disclosure requirements, funds can disclose these to the extent the data is available from its data providers, and report on the data quality as per our comment above. Requiring Scope 3 disclosures only when this information is publicly available will make such disclosures meaningless in the foreseeable future due to the low number of companies globally providing disclosures of all categories of Scope 3 emissions. At present, there are no clear standards for how companies should report on Scope 3 emissions. As a result, it appears that many companies do not report on all their sources of Scope 3 emissions and/or use differing methodologies to do this reporting. We strongly encourage the Commission to implement standards to address these shortcomings. However, unless and until such standards are in place, we recommend that funds be allowed to base their Scope 3 reporting on estimated values, even where company reported values are available, if advisers to such funds reasonably believe that such estimated values will lead to greater consistency and accuracy.

We believe that the requirement to "disclose the Scope 3 emissions separately for each industry sector in which the fund invests" may be too onerous for funds and are unclear as regards the purpose of such granular disclosures.[30] Furthermore, to ensure comparability of disclosures, clarification is needed as to which industry classification system should be used.

The Commission proposes to require a fund to narratively explain on Form N-CSR the methodologies and assumptions it applied when calculating estimates of a portfolio company's GHG emissions. As noted above, most investment advisers will be acquiring GHG emissions data, including estimates, from third-

[30] *Proposing Release* at 37650.

party providers. PGIM believes that the requirement to describe underlying methodologies and assumptions by these service providers will lead to lengthy disclosures and may lead to some licensing issues and additional costs. Instead, PGIM recommends that funds include a link to the provider's methodology.

PGIM recommends that the Commission provide a safe harbor from liability for fund disclosure of GHG emission data because it is based either on third-party information or on in-house estimation methodology. We recommend that this applies to all emission disclosures and not just to Scope 3 and estimate-based disclosures.

IV. Form ADV Amendments

A. Summary

The Commission proposes new disclosure requirements in items 8, 10, and 17 of Form ADV Part 2A, the investment adviser brochure. The Proposal would add a new sub-item Item 8.D. requiring disclosure describing the ESG factor(s) an adviser considers for each investment strategy or the method of analysis for which the adviser considers ESG factors. [31] The Proposal also would amend Item 17 to require disclosure surrounding an adviser's ESG considerations when voting client securities. An adviser's brochure would include a description of ESG factors considered, how such factors are considered when voting client securities, and a description of the difference, if any, between different clients or different ESG-related strategies.[32]

The Proposal also would amend Form ADV Part 1A. The proposed amendment would collect ESG information about an adviser's advisory services provided to separately managed accounts ("SMAs") and reported private funds. The information proposed to be collected from private fund advisers would be applicable to each private fund individually and would be similar to the information proposed to be collected on Form N-CEN, including information about whether an adviser considers ESG factors and disclosure of the types of strategies it employs in SMA strategies.[33] Advisers would also be required to report whether they follow any third-party ESG frameworks in connection with advisory services provided. The Proposal also includes a requirement for advisers to disclose whether they, or any related persons, conduct business as ESG providers, and associated information.

B. Concerns on amendments to Item 8 of Part 2A.

Under the Proposal, Item 8.D of Form ADV Part 2A would be amended to require new and specific disclosure regarding ESG-related investment strategies that is similar to the new disclosure requirements for funds, discussed above. Please see our comments with respect to the fund disclosure requirements set forth in Section II above.

Overall, PGIM is concerned new Form ADV disclosures, especially in the context of ESG integration strategies, may mislead investors about the prominence of ESG factors in advisers' investment decisions

[31] *Proposing Release* at 36687.
[32] *Proposing Release* at 36688.
[33] *Proposing Release* at 36693.

and thus could potentially exacerbate, rather than combat, greenwashing. Advisers will likely be incentivized to disclose significantly more information about the role of ESG factors in their investment strategies than they do about other factors, where instead Form ADV requires a discussion only of "material, significant, or unusual risks" a strategy or investment in a particular type of security represents.[34] Funds that employ ESG integration strategies often consider a wide range of ESG factors across all their products. These advisers would therefore likely need to devote significantly more space and time to discussing the role of ESG factors in their investment processes than other concerns of similar importance, presenting a misleading picture of the important of ESG factors in those processes.

As an alternative to the requirements set forth in the Proposal, PGIM recommends that an adviser provide a comprehensive overview of their approach to ESG Integration and ESG-Focused/ Impact strategies, but without being required to list all the individual E, S or G factors (e.g., there may be dozens of factors considered for each industry, which will make such disclosures very lengthy and confusing). We believe that disclosure of specific ESG factors should only be required if the adviser incorporates only certain selected ESG factors in its research/investment process instead of pursuing a comprehensive ESG analysis.

PGIM also proposes that instead of applying disclosures to each significant strategy or strategies for which advisers consider ESG factors, as proposed, advisers should describe their main approach to ESG integration and ESG-Focused/ Impact strategies and comment on any material variations to this approach.

PGIM believes it is clear from the current brochure Item 4 that an adviser that offers advisory services that may be tailored to the ESG preferences of its clients is required to explain whether it tailors its advisory services and whether clients may impose restrictions on investing in certain securities or types of securities. However, if the Commission would like to see a specific reference to "ESG preferences" as compared to an adviser's general approach to tailoring their advisory services to incorporate client investment preferences, then a clarification of this point would be helpful.

PGIM agrees that Item 8.B, which currently requires advisers to explain material risks involved for each of its significant strategies, includes material risks associated with an adviser's ESG investing.

In the Proposal, the Commission inquired as to whether it should additionally require all advisers that consider ESG factors as part of their significant strategies to state that the consideration of ESG factors may lead to the adviser selecting or recommending an investment that may not generate the same level of returns as investments where the adviser does not consider ESG factors.[35] PGIM believes that this requirement is unnecessary as this information can already be communicated through existing risk-based disclosures.

C. Concerns amendments to with Item 17 of Part 2A

Under the Proposal, an adviser with authority to vote client securities and that has specific voting policies and procedures to include one or more ESG considerations, would be required to describe which ESG factors it considers in its proxy voting and whether clients can direct the adviser's vote in a particular solicitation.

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[34] Item 8.B. of Form ADV Part 2A.

[35] *Proposing Release*, Question 151 at 36690.

Similar to our comment on fund disclosures in Section II.C.4 above, PGIM notes that this requirement will be challenging to implement and will add no value given that, in general, proxy voting policies are largely focused on governance issues (e.g., board composition, executive remuneration, audit, capital-related authorities, shareholder rights, etc.). While we agree that investment advisory clients should have access to information regarding an investment adviser's approach to ESG issues (e.g., board diversity or say-on-pay) as they consider engaging the investment adviser, we do not believe that Form ADV is the appropriate location for this disclosure. We believe this information would be more accessible through a cross-reference to the adviser's voting guidelines on the adviser's website.

Furthermore, shareholder proposals on environmental and social issues may vary considerably from proposal to proposal, and therefore are typically reviewed and voted on a case-by-case basis. As a result, proxy voting guidelines do not generally provide specific details that would directly address these proposals. Instead of relying on generic discussion of proxy policies in the adviser's brochure we suggest that adviser provide voting record and a summary commentary on their voting activity on their website. This sort of dedicated disclosure would provide better information without diluting the disclosures currently in the adviser's brochure.

The Proposal would also require advisers who have different voting policies and procedures for strategies that address ESG-related matters, or for different clients or different ESG-related strategies, to generally describe those differences.[36] PGIM is concerned that these disclosures could be too lengthy and onerous for advisers with many separate account clients that require voting policy customization. PGIM, therefore, requests that the Commission clarify that this requirement is not intended to apply to individually customized proxy voting guidelines, but instead to alternative proxy voting policies. In lieu of the specific disclosure requirement, PGIM recommends that advisers be required to disclose their general approach to implementing customized voting guidelines for separate account clients, as well as applying customized voting policies to their funds.

D. Part 1A concerns

The proposed requirement to disclose ESG factors considered in investment strategies in Part 1A of forma ADV poses the same concerns raised with respect to the proposed Item 8 disclosures. Please see our comments in Section IV.B above.

Regarding the disclosure requirements concerning third-party frameworks, please see our comments with respect to ESG-Focused Fund requirements in Section II.C above.

V. Compliance Date

The Proposal establishes a compliance date of one year from the effective date for the following components: Prospectus disclosure requirements of Forms N-1A and N-2; disclosure requirements for unity investment trusts ("UITs") on Form N-8B2; regulatory reporting on Form N-CEN, and regulatory reporting

[36] *Proposing Release* at 36688.

on Form ADV Parts 1 and 2. The changes to Annual Reports and Form N-CSR would have a compliance date of 18 months following the effective date.[37]

PGIM proposes that 18 months or more following the effective date would be a more appropriate compliance date for prospectus disclosure requirements of Forms N-1A and N-2; disclosure requirements for UITs on Form N-8B2; regulatory reporting on Form N-CEN, and regulatory reporting on Form ADV Parts 1 and 2. The Proposal requires significant changes to many funds' disclosures for which advisers would need additional time to incorporate and develop policies and procedures for tracking and calculating the proposed metrics. Moreover, advisers would need sufficient time to implement and test the changes required by the Proposal which would require significant time, effort and expense.

PGIM proposes that compliance dates for Annual Reports and Form N-CSR would be 24 months following the effective date and, to the extent advisers will be required to estimate or collect emissions data beyond what is provided by an advisers' third-party provider, 36 months following the effective date.

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PGIM appreciates the opportunity to comment on the Proposal and hopes that the Commission finds these comments helpful and constructive. Please contact us if you wish to discuss these comments further or if we can provide any additional assistance.

Sincerely,

/s/ Eugenia Jackson

Eugenia Jackson

Global Head of ESG
PGIM

cc: The Honorable Gary Gensler
The Honorable Caroline A. Crenshaw
The Honorable Mark T. Uyeda
The Honorable Hester M. Peirce
The Honorable Jaime Lizárraga
William Birdthistle, Director, Division of Investment Management

[37] *Proposing Release* at 36697.