

M&G's approach to investment in carbon-intensive businesses

This statement sets out M&G's approach to high carbon-intensive businesses, in particular, and to broader environmental factors, in general, highlighting how M&G's fund management teams integrate these issues into their investment thinking.

Assessing a company's value over the long run requires investors to understand all factors – both financial and extra-financial – that can affect its business and operations. At M&G, as long-term investors, we believe ESG (Environmental, Social & Governance) considerations can have a major impact on corporate performance and investor returns over time. As such, we expect investee companies to address these issues appropriately. With regards to environmental issues, in particular, we look for companies to manage concerns such as climate risk, pollution and water/resource scarcity where they are material to their businesses. For companies in sectors more exposed to such issues (e.g. oil & gas, mining, electric utilities), an assessment of the company's preparedness for these risks can play an important part in our analysis.

M&G fund managers have a fiduciary duty to act in the best interests of their clients. Within this, they are also required to adhere to the investment mandate set out in their individual fund's foundation documents. M&G's fund management model is one whereby individual fund managers are empowered to determine their own decisions on asset allocation and stock selection in their respective funds. A cluster munitions exclusion policy is the only exclusion policy applied across the group.

We do not believe that wholesale divestment from high carbon-intensive sectors is the appropriate approach to take, nor necessarily that it is in the interests of our clients or the environment, in general. Rather, as a responsible owner, M&G has a long-established approach of engaging

with the companies we invest in on a broad range of subjects. We are firm believers in involving company management in a dialogue on relevant environmental issues where this can lead to positive outcomes.

We have a proactive policy across asset classes to invest in businesses that are positively exposed to developing trends in sustainability. For example, our bond and equities funds hold investments in providers of environmental solutions and technologies that aim to enable clean energy to be generated economically. In addition, M&G has numerous investments in companies adopting more efficient practices to improve sustainability via optimising business processes. Our real estate business has set specific targets to reduce carbon emissions in its direct property portfolio, while M&G Infracapital, one of Europe's leading infrastructure investors, provides significant support to clean energy businesses in the unlisted arena. Importantly, we can provide this support over 10-year horizons or longer, allowing for meaningful development. M&G has also provided debt financing for solar energy generation, including financing the largest single site in the UK at the time in 2014 and, in 2015, debt refinancing the UK's two largest solar portfolios. It is also investing in such investments outside of the UK.

More broadly, M&G believes that a robust and stable government policy framework – realised via a transparent pricing mechanism, for example – is necessary to provide the right basis for long-term investment in a well-diversified and sustainable energy future.