

# M&G Investments ABS ESG Scorecard



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The ABS ESG Scorecard is a way in which M&G Investments may present certain types of sustainability research. As it is research, it is available to the fund managers to inform their investment decision making, if they wish, but they are not obliged to use it, subject to the below. There is also no obligation to produce the ABS ESG Scorecard for every investment made.

On certain funds, fund managers are obliged to use the ABS ESG Scorecard as a result of commitments made in the fund materials. Where the fund makes such commitment, it is explicitly disclosed in the relevant Prospectus and/or other legal documentation as a binding part of the investment process. As of the date of this disclosure, the funds making such commitments were most of M&G funds classified as Article 8 or 9 under SFDR that invest in ABS assets.

## Overview of the rating methodology

The M&G Investments ABS ESG Scorecard is used to evaluate a performance for securitised assets in terms of environmental, social, and governance (ESG) factors. Securitised asset is tradable financial product created by pooling many loans and selling shares of the payments these loans generate.

The objective of the scorecard is to provide an opinion of financially material ESG risks and opportunities relating to a securitised asset. This opinion enables consistent and transparent integration of ESG considerations into the investment process.

The scorecard assesses risks and opportunities across a set of ESG factors that cover three lenses that provide holistic profile of securitised asset: the transaction design and structure ('transaction'), the assets being financed ('asset'), and the main counterparty ('counterparty').

Each transaction receives an overall ESG score from 0 to 100, as well as, individual Environmental (E), Social (S) and Governance (G) pillar scores. A score of 100 is the highest and 0 is the lowest.

While the methodology is not built on specific scientific evidence directly, it is based on evidence-informed metrics, drawing where relevant on commonly accepted frameworks and international standards. Underlying inputs are sourced from third-party data providers that apply defined standards and systematic methods in their data collection and processing.

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**Table 1. Key features of ESG scorecard**

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Factors	12 core factors covering Environmental, Social and Governance topics + key material bespoke issues
Rated items	Securitised Assets
Industry classification used	NACE adopted by the European Commission (version NACE Rev. 2.1)
Score values	0 - 100
Score type	Absolute
Materiality dimension(s)	Financial risk
Type of analysis	A mix of backward and forward-looking
Time horizon rating is based on	Past 12 months
Time horizon rating is valid for	12 months
Last methodology update	July 2021
Last methodology review	April 2026

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## Topics covered by the rating

Table 2. Core factors covered by the ABS ESG scorecard

Environmental	Social	Governance
		<b>Transaction:</b> Structural Features Documentation / Legal Risk Counterparty Risks
<b>Asset:</b> Environmental Data Environmental Footprint	<b>Asset:</b> Access & Affordability	<b>Asset:</b> Data Disclosure
<b>Counterparty:</b> Environmental Intent and Targets Employee Engagement, Diversity & Inclusion	<b>Counterparty:</b>	<b>Counterparty:</b> Ownership & Control Management of Legal & Regulatory Environment Data Protection & Cybersecurity

The table above shows 12 core ESG factors covered by the scorecard. Each of these factors is assessed with a set of guidelines. Core ESG factors are supplemented by key material bespoke issues. Key material bespoke issues are selected by the analyst as relevant to the transaction, counterparty or asset. Examples of such issues include Energy Management, Product Quality & Safety, Business Resilience. Each factor and issue gets assessed with use of guidelines as Strongly Negative, Slightly Negative, Little Impact, Slightly Positive or Strongly Positive. 'Strongly Negative' score represents significant concerns with transaction's ESG profile (eg poor governance of the counterparty, significant environmental harm caused by the asset), while a 'Strongly Positive' signifies strongly positive ESG performance (eg excellent governance of the counterparty, substantial environmental benefits generated by the asset).

The scorecard does not take into account Paris Agreement or other international agreements directly. However, it does cover topics relevant to climate change. As part of the counterparty assessment, the framework includes Environmental Intent and Targets factor, which are a forward looking measure that considers environmental credentials, including internal targets, goals and demonstrable actions. Additionally, as part of the asset assessment, the framework considers Environmental Footprint factor, which covers the impact of the underlying assets on the environment, including carbon emissions.

Due to the specialised nature of securitised asset class, ESG factors covered by the scorecard do not map directly to the topics within European Sustainability Reporting Standards developed pursuant to the Article 29b of Directive 2013/34/EU.

## How the rating is calculated

For each transaction, the scorecard assesses mandatory 12 core ESG factors. Additionally, analyst may select additional key bespoke issues that they consider as financially material to the transaction. Each bespoke issue is tagged as E, S or G and, together with core factors, forms part of the relevant pillar score.

**Overall ABS ESG score** is on a scale of 0 to 100. A score of 100 is the highest ESG score and 0 is the lowest. The score is calculated as a weighted average of E, S and G pillar scores. Each pillar has a weight of 33%. This score is absolute and transaction-specific.

**Individual E,S and G pillar scores** are on a scale of 0 to 100. E, S and G pillar where scores are calculated as a weighted average of the underlying factors attributable to a single lens (ie transaction, asset or counterparty) and then multiplied by the pre-determined weight associated with each of the three lenses. When underlying factors are assessed they are assigned scores ranging from Strongly Negative to Strongly Positive which then get converted into a numerical score.

## Data sources

ESG scorecard is completed manually by the analysts. ESG data is used by the analysts to inform their assessment. Key data sources include:

- MSCI
- Bloomberg
- Octus
- Institutional Shareholder Services (ISS)
- Partnership for Carbon Accounting Financials (PCAF)

Data is primarily sourced via vendors mentioned above, as well as, can be received from the counterparties directly either through public reports, such as annual or sustainability reports, or through a request for information as part of proprietary research. Thus, data sources include public and non-public information.

Since scorecard factors do not map directly to the topics within the European Sustainability Reporting Standards developed pursuant to the Article 29b of Directive 2013/34/EU, the data is not sourced from the sustainability statements required under Directive 2013/34/EU 2019/2088.

Scorecards are updated manually by analysts and reviewed for updates on annual basis. If an analyst becomes aware of new significant information that makes the scorecard inaccurate, they may update it on an ad hoc basis. Note that marketing materials that disclose ratings may have different frequency of publication.

Data received from third party vendors typically comes from reputable and, in some cases, audited sources, such as annual reports or sustainability reports. M&G's Investment Data Assurance team works to ensure data quality and monitors for changes in data provided from third party vendors. To ensure that interpretation of data is consistent, benchmarking exercises are performed where appropriate. Data is primarily processed through our Investment Data Systems (IDS) to initially check volatility and then to ensure data quality assurance processes are applied prior to onward distribution to downstream systems. External and internal proprietary systems and digital platform tools monitor individual data quality.

The scorecard does not use AI for data collection or in the rating process.

## Limitations

### Data limitations

To complete the scorecard, the analyst relies on data from multiple third-party vendors and proprietary research. Not all companies disclose all relevant ESG data, which can result in data gaps. Delays between disclosure by the company and third party vendor making it available can negatively impact timeliness of the data. Errors made in the reporting or third party vendors can affect data accuracy.

To mitigate the above, data processes incorporate various quality checks which are explained in 'Data Sources' above.

### Methodology limitations

The scores are absolute. This means that rating may not fully reflect sectoral context. Assets and counterparties in the industries with significant ESG risks will be penalised, even if they are leaders within their industry in terms of ESG risk management.

The scorecard considers financial risk only, ie it focuses on how ESG factors impact the transaction (financial materiality) while not considering systematically transaction's impact on ESG factors (impact materiality). This introduces a limitation as external impacts that do not cause financial risk for the transaction are not captured.

## Conflicts of interest

The main risk arising from conflicts of interest is a risk of bias in the scoring. This could be due to the same analysts having influence over both the investment decision and the ESG rating, insufficient independence of ESG scoring teams from investment or commercial teams because of organisational overlap or subjectivity in the manual score adjustments.

M&G takes the following steps to mitigate this risk:

- All manual changes to scores and commentary, are tracked with date, time stamp, and analyst name.
- There is a clear separation between the roles of fundamental analysts, sustainability analysts and governance committees.
- On annual basis, analysts, with oversight, from Sustainability Risk team perform the review of the trends and outliers in the scores to calibrate the assessments and ensure consistency of application of guidance and methodology.
- The methodology and guidance are subject to annual review and approval by the governance committee.

## Fees

The scorecard is part of the investment process, M&G does not charge a separate fee for it.