

M&G Investments Corporate ESG Scorecard



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The Corporate 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 Corporate ESG Scorecard for every investment made.

On certain funds, fund managers are obliged to use the Corporate 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 at the date of this disclosure, the only funds making such commitments were funds investing in Private markets.

Overview of the rating methodology

The M&G Investments Corporate ESG scorecard is used to evaluate a company's performance in terms of environmental, social, and governance (ESG) factors.

The objective of the scorecard is to assess how well companies manage financially relevant ESG risks and opportunities. This score serves as a structured, comparable and consistent input for inclusion of material ESG issues into investment-decision making.

The scorecard assesses risks and opportunities across 23 ESG factors. For each company, we use the scorecard as a framework to analyse a sub-set of these factors that are material to its industry.

Each company 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. Companies are also classified as Leader / Positive / Neutral / Negative / Laggard within their peer group.

While the scorecard as a whole is not based on specific scientific studies, some elements of it use scientific evidence and recognised frameworks such as science-based targets and international agreements. Our ESG scorecard methodology is carefully reviewed by analysts and compared to other ESG rating systems to ensure it is robust. Underlying data is sourced from 3rd party vendors that apply specific standards and systematic methods in the data collection process.

Table 1. Key features of ESG scorecard

Factors	23 factors covering Environmental, Social and Governance topics
Rated items	Companies
Industry classification used	The Global Industry Classification Standard (GICS®) developed by MSCI and S&P Dow Jones Indices (the version effective from 17 March 2023).
Score values	0 - 100
Score type	Hybrid of absolute and industry-relative Leader / Positive / Neutral Industry-relative / Negative / Laggard
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	September 2024
Last methodology review	November 2025

Topics covered by the rating

Table 2. Factors covered by the ESG scorecard

Environmental	Social	Governance
Greenhouse Gas (GHG) Emissions*	Occupational Health & Safety	Board Quality and Effectiveness *
Air Emissions & Quality	Human Rights & Community Relations	Ownership
Waste & Hazardous Materials Management	Labour Practices and Human Capital	Remuneration *
Water & Wastewater Management	Supply Chain Management	Accounting & Transparency *
Energy Management	Data Security & Privacy	Risk Management & Business Continuity
Ecological & Biodiversity Impacts	Access & Affordability	Business Ethics & Transparency
Physical Risk	Product Governance & Safety	Competitive Behaviour
Materials Sourcing	Customer Welfare	
Relevant international agreements taken into account in the scorecard		
Alignment with targets and objectives of Paris Agreement	UN Global Compact (UNGC) Principles OECD Guidelines for Multinational Enterprises	
Taskforce on Nature-related Financial Disclosures (TNFD)	International Labour Organization (ILO) Standards	
Carbon Disclosure Project (CDP)	UN Guiding Principles on Business and Human Rights, and the World Health Organization (WHO) Taskforce on Nature-related Financial Disclosures (TNFD)	

* These factors are material for every company

The table above shows 23 ESG factors covered by the scorecard. Each of these factors consists of several metrics used to assess it. For example, see the metrics for a few factors:

- Environmental: GHG Emissions factor consists of assessment GHG emissions (Scope 1,2 and 3), implied temperature alignment, net zero targets and transition risks;
- Social: Data Security & Privacy factor covers assessment of processes to protect customer privacy and data security, audits of data security policies and systems, scope of employee training on data security and privacy, fines for data breaches and cybersecurity risk management policy;
- Governance: Accounting & Transparency factor considers auditor's opinion, non-cooperative tax jurisdictions, auditor independence, accounting investigations, material weaknesses in internal control systems, late filings, indications of present or past accounting issues.

The scorecard takes into account relevant international agreements which are outlined above. The scorecard takes into account targets and objectives of the Paris Agreement directly through the inclusion of temperature alignment and science-based target metrics to assess a company's alignment with these goals. For other agreements, the scorecard uses metrics and factor definitions that are aligned with these agreements to assess company policies, practices, and performance in the relevant E, S and G domains but does not assess detailed alignment.

ESG factors covered by the scorecard correspond closely to the topics from the European Sustainability Reporting Standards developed pursuant to the Article 29b of Directive 2013/34/EU. While the scorecard does not map one-to-one to these standards, its coverage is broad and consistent with them.

How the rating is calculated

The scorecard is based on M&G's proprietary materiality map that shows which ESG factors are financially material for a typical company within an industry.

The map is based on SASB Sustainability Standards Materiality Map. It defines materialities at the GICS Level 4 sub-industry level. For each company, the scorecard assesses a sub-set of 23 ESG factors that are material to its industry.

Overall ESG score is on a scale of 0 to 100. A score of 100 is the highest ESG score and 0 is the lowest. This score is not absolute and is explicitly intended to be interpreted relative to a company's industry peers. The score is calculated as a weighted average of E, S and G pillar scores, with weights determined by materiality of E, S and G factors to the industry. Exact E, S and G weights can therefore vary significantly between companies in different industries. E weights range from 6% to 61%, S weights range from 5% to 62% and G weights range from 18% to 87%.

Individual E,S and G pillar scores are on a scale of 0 to 100. E, S and G pillar scores are calculated as weighted average of E, S and G factor scores, with weights determined by materiality of E, S and G factors to the industry. E, S and G factors are also scored on a scale from 0 to 100, with each score based on weighted average value of several metrics. If the company is subject to a controversy that meets certain thresholds, the factor score is adjusted downward by the multiplier. The scores evaluate the company's exposure to ESG risks and opportunities and its ability to manage that exposure. A score of 0 represents strongly negative ESG performance (eg poor governance, significant environmental harm), while a score of 100 signifies strongly positive performance (eg excellent governance, substantial environmental benefits).

The scorecard also classifies the companies as **Leader / Positive / Neutral / Negative / Laggard** relative to their peer group. Companies with top 20% of ESG scores within their peer group are Leaders, 20-40% Positive, 40-60% Neutral, 60-80% Negative and 80-100% Laggards. The peer group is typically GICS Level 2 sector.

The scorecard also surfaces rating of individual factors, thus it allows for assessment of specific issues, such as transition risks and other material ESG topics.

Data sources

Data is obtained from a range of third party data vendors, with key sources including:

- MSCI
- Bloomberg
- Science-Based Targets initiative
- Carbon Disclosure Project
- Aladdin Climate
- Findox

Data is primarily sourced via vendors mentioned above and fed automatically to the scorecard. Manually completed scorecard scores can also be based on information received from the companies directly either as public reports, such as annual or sustainability reports, or through a request for information. Thus, data sources include public and non-public information. Since the scorecard factors do not map exactly to 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.

Majority of scores are auto-calculated based on automatically ingested data. The scorecard is updated continuously as new data becomes available. In some cases, the scorecard is completed manually. This is typically necessary when certain factors or important information about a company are missing or outdated in the data provided by external sources, or for private companies not covered by external data sources. Manual scorecards are updated annually. 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. If automated data is missing or deemed inaccurate, analysts can manually input scores, but must provide evidence and rationale.

The scorecard uses estimated data for greenhouse gas emissions when companies do not disclose information. These estimates are sourced from third party data vendors. M&G typically seeks to also ingest and understand data quality scores. Over time, these methodologies have improved so where they have been assessed as reliable, such external estimations are utilised.

The scorecard does not use AI for data collection or in the rating process, data is sourced from third party data vendors or sourced from proprietary research and analysis.

Limitations

Data limitations

The methodology 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. Being a quantitatively driven model, the scorecard relies on available, at scale data. Some nuances that an analyst might make about the company are missed. Errors made in the reporting or third party vendors can affect data accuracy. Further, GICS sector classification determines material factors but may not fully reflect the company activities, especially where they are diverse.

Use of estimates and proxies also introduces limitations. Different vendors apply varied modelling approaches, creating inconsistencies. Estimated values are not as reliable as disclosed ones but are treated equally. Proxies (such as parent company data for a subsidiary) can misrepresent actual activity and simplified Yes/No metrics or controversy multipliers can compress nuance. Peer rankings may be skewed by unequal disclosure levels.

To mitigate the above, data processes incorporate various quality checks which are explained in 'Data Sources' above. Further, the methodology is subject to rigorous annual review by the analysts to determine and correct any deficiencies.

Methodology limitations

The scores are in part industry-relative. This means best-in-class firm in high impact/dirty sector may perform on ESG score well when its absolute footprint may be negative/fundamentally still has high ESG risk. To mitigate this, the final score is based on a mix of relative and absolute metrics.

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

- Every manual scorecard undergoes a rigorous review involving two analysts who must agree on the score. Disputes or disagreements in scoring are escalated to the relevant decision-making body, ensuring that no single individual or team can unduly influence the outcome.
- All manual changes to scores, commentary, and evidence attachments, 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.
- The methodology, metrics, 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.

