

# M&G Investments ESG Integration and Sustainable Investing Policy



# 1 Introduction

## 1.1 Scope

This policy document sets out the ESG Integration and Sustainable Investing Policy (the 'Policy') relating to M&G Group Limited ('MGG') investment and asset management businesses and activities ('M&G Investments') excluding M&G Investments Southern Africa (MGSA) and responsAbility Investments AG. M&G Investments Southern Africa and responsAbility Investments AG maintain their own Policies, processes and governance with respect to ESG integration and Sustainable Investing. The policy generally applies to all investment activities directly managed by M&G Investments on behalf of its clients. Further details on scope and exceptions are provided in relation to the specific sections and requirements within this Policy. This Policy is intended to provide a general overview of how we approach ESG Integration and Sustainable Investing, for specific product-level sustainability commitments and approaches, please refer to product documentation.

## 1.2 Policy governance and Ownership

The Policy is owned by the MGG Chief Executive Officer (CEO) or their delegated deputy. This Policy was first approved by the MGG Board in October 2021. It was materially revised in December 2024. It will be reviewed at least annually. The annual review and any ad-hoc changes to the policy need to be approved by the MGG Executive Committee Policy, which has delegated authority for sustainability matters from the MGG Board.

## 1.3 Context

M&G Investments is a global asset manager with a long history of actively investing and innovating across public and private markets. M&G Investments ('we') offer access to a broad range of capabilities that span both public and private assets, including fixed income, equities, multi-asset, real estate, private credit, infrastructure and private equity. We provide a wide range of products and bespoke solutions to our clients, including segregated mandates, joint ventures and

co-investment opportunities, investing on behalf of individual and professional investors including banks, pension products, insurers, sovereign wealth products, family offices and advisors. We are part of M&G plc, an international savings and investment business.

Our sustainability approach is based upon three core principles:

- **Embed sustainability** – We consider sustainability factors to be financially important and can affect investment performance. We embed financially material Environmental, Social and Governance (ESG) factors into investment and risk management decisions as described in this policy.
- **Influence change** – The long-term success of a company is supported by effective investor stewardship, which in our view includes the integration of sustainability considerations into its strategy and high standards of corporate governance. We consider that if a company is run well, and sustainably, it is more likely to be successful in the long run. We actively collaborate with a range of selected stakeholders to advance sustainable investing outcomes.
- **Provide solutions** – We offer a diverse choice of products that align to our clients' sustainability preferences and financial returns. Our sustainable investing expertise supports a range of Impact and sustainable investing solutions.

The Policy sets out our overall approach to sustainable investing. It provides a summary of the framework by which M&G Investments:

- Integrates financially material Environmental, Social and Governance (ESG) factors into the investment process.
- Approaches sustainable investing for those products integrating sustainability considerations within their investment process.

This Policy also explains our governance structure for overseeing and delivering these activities that we undertake on behalf of our clients.

## 2 Our approach to ESG Integration and Sustainable Investing

### 2.1 ESG Integration

We consider ESG integration to be the explicit and systematic inclusion of financially material ESG factors (both risks and opportunities) into investment analysis and investment decisions. We believe ESG integration enables more informed investment decisions and in turn can contribute to risk mitigation and long-term performance.

ESG risks are an environmental, social or governance event or condition that, if it occurs, could cause, or has the potential to cause, a material negative impact on the value of the investment or portfolios. Examples of such risks include:

- **Environmental** – climate change physical risks; energy transition risk; deforestation and other types of natural resource destruction
- **Social** – supply chain disruption, health and safety violations, and human rights violations
- **Governance** – corruption, fraud, and tax evasion.

ESG risks can have a financially material impact on assets and investments in a range of ways, for example: increased operational costs, reduced or stranded asset values, unforeseen liabilities and penalties, loss of access to markets/customers, and reputational damage. The financial materiality of ESG risks will vary depending on sector/company, geography/operating model, financial instruments invested in and overall portfolio construction. Across asset classes, whilst ESG risks or opportunities might be a material factor in financial performance for some asset types or sectors (eg, corporates, real estate, infrastructure), they may be less relevant to the financial performance of other assets eg, cash and currency.

In some markets we operate in (eg, the European Union), our regulators refer to these risks as sustainability risks. For the purpose of this policy, we use the term ESG

risks, but in those markets we will use the language prescribed by the regulator (eg, sustainability risks) to refer to these.

ESG opportunities are events or conditions that could have a material positive impact on the value of the investment or portfolio for example: supporting business growth, enhancing access to customers, reduced operational costs or risk, and greater productivity.

Our general approach is to integrate ESG considerations into established investment processes rather than create separate processes. Given the breadth of asset classes we invest in, investment teams (product managers and fundamental analysts) tailor their approach to ESG integration taking into account the specific portfolio construction, research and investment processes used by each team.

We seek to integrate ESG across all investments as far as we are able and where it is financially material. For some investment strategies/financial instruments it is not currently feasible or appropriate to do so, eg, externally managed passive or ETF investment strategies or where requested by clients. The reasons for not applying the integration approach include (but may not be limited to) lack of an agreed methodology to assess sustainability risks, lack of data or poor data quality.

### 2.2 Sustainable Investing

In a growing part of our assets under management, we are also applying a sustainable investing lens to our portfolio construction. Sustainable investing involves making investment decisions incorporating ESG factors whilst trying to have a positive effect, or, reduce negative effects on the environment and society through active stewardship and/or portfolio construction. M&G Investments offers a diversified range of impact and sustainable investing strategies which enables us to offer products that align clients' financial objectives alongside their sustainability preferences. Sustainable investing approaches will always incorporate negative screening: avoiding certain activities sectors or behaviours (eg, involvement in tobacco or gambling) and/

or excluding laggards (eg, not achieving a minimum ESG score), as well as applying various positive selection approaches to portfolios (which may also be applied in combination), such as:

- **Targeting positive environmental and/or social outcomes** (eg, managing to a specified minimum allocation to sustainable investments, tilting the portfolio to achieve a better outcome vs benchmark or seeking to achieve a specific sustainability objective).

- **Impact investing** – products are targeting a measurable positive impact on environment and/or society through their investment activities.

This policy describes in more detail how we apply these principles and approaches to our investment activities.

Traditional Investing	Sustainable Investing				
	ESG Integration	Negative Screening	ESG Enhanced Products	Sustainable Products	Impact Investing
<ul style="list-style-type: none"> <li>• Limited or no consideration of ESG within investment approach</li> <li>• Exclusions required by legal or regulatory obligations, such as sanctions</li> </ul>	<b>ESG Integration – Integration of financially material ESG risks and opportunities</b>				
	<b>Mitigating selected negative impacts on the environment and society</b>				
	<b>Appropriate for investors with sustainability preferences and likely to have a minimum allocation to investments expected to have a positive environmental and/or social outcome</b>				
	<b>A meaningful percentage of investments are expected to generate a positive environmental/social contribution</b>				
	<b>Measurable positive impact on the environment or society</b>				
	<ul style="list-style-type: none"> <li>• Consideration of financially material ESG risks and opportunities within investment process</li> <li>• Active engagement and stewardship</li> <li>• Activities excluded by M&amp;G Investment Exclusion Policies eg, Thermal Coal</li> </ul>	<ul style="list-style-type: none"> <li>• Exclusion of certain sectors or controversial behaviour (eg, UN Global Compact breaches) based on specific ESG criteria and/or minimum standards</li> </ul>	<ul style="list-style-type: none"> <li>• Seek to mitigate negative social and environment impacts (eg, through exclusion)</li> <li>• Likely to have a minimum allocation to Investments that are expected to have a positive contribution to environmental and/or social objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Significant allocation to investments which are expected to have a positive contribution to environmental and/or social objectives</li> <li>• Mitigate negative social or environmental impacts (eg, through exclusions)</li> </ul>	<ul style="list-style-type: none"> <li>• Address environmental and/or social challenges alongside financial returns</li> </ul>
<b>Targeting financial returns</b>					
<b>Targeting sustainability/impact objective</b>					

The following sections describe in more detail how sustainability is integrated across our investment businesses. Products may invest across a range of asset types (eg, private products may have holdings where they provide private debt to public companies, we may hold securitised assets in public and private products etc.), where this is the case, the product will be run according to the investment processes outlined below, but the security level analysis will follow the processes where the investment was sourced (eg, a securitised asset held in a private credit product will follow the sustainability integration process set out in the securitised asset section).

## 2.3 Stewardship

The long-term success of a company is supported by effective investor stewardship, which in our view includes the integration of sustainability considerations into its strategy and high standards of corporate governance. We consider that if a company is run well, and sustainably, it is more likely to be successful in the long run. Our preference is to engage rather than divest in order to support and, where possible, accelerate the transition for an issuer on key ESG risks, or on improving their approach to meet customer and stakeholder expectations. M&G Investments Engagement Policy details how we approach engagement and meet the requirements of the Shareholder Rights Directive.

As signatories to UNPRI and the UK Stewardship Code 2020 we see growing regulatory and client expectations as stewards of client assets. **M&G Investments' Annual Stewardship Report** explains how we adhere to the UK Stewardship Code, and highlights our engagement, voting and other responsible investment activities.

Active voting is an integral part of our investment approach, which is why we believe exercising our votes adds value and protects our clients' interests as shareholders. For more information on M&G Investments' voting, please see our **voting policy**.

## 2.4 Approach to Exclusions

As an active investor, we have a preference to engage with companies rather than exclude without analysis. However, there are circumstances in which we believe an activity is deemed to be significantly harmful and in conflict with regulation and/or corporate sustainability commitments and we have established specific policies to exclude these from products. The most widely implemented exclusions are:

- a. **Controversial weapons**
- b. **Thermal Coal Investment Policy.**

Details of the above exclusions are set out in separate policy statements including their scope and governance.

We may apply additional exclusions at a product level, for example:

- i. Products classified under Article 8 and 9 of the EU Sustainable Finance Disclosure Regulation (SFDR) and/or marketed as ESG Enhanced, Sustainable and Impact have additional exclusions applied. For example, all of these products exclude investing in companies that we deem to be in breach of 'Global Norms'. M&G Investments definition of Global Norms considers widely recognised principles such as the UN Global Compact (UNGC) principles, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the International Labour Organization's (ILO) Fundamental Conventions. Sector exclusions such as tobacco, gambling and adult entertainment may also be applied.
- ii. In response to regulatory requirements within certain jurisdictions.
- iii. In response to specific client preferences.
- iv. Details of such exclusions are set out within product documentation.

### 3 ESG integration and sustainable investing in public markets

Across our listed market assets (equities, fixed income and multi-asset) we use fundamental research, quantitative analysis, portfolio management and stewardship to integrate financially material ESG factors into the investment process. Our standard process for integrating ESG within the investment process is summarised below. For strategies that commit to specific sustainability or impact outcomes, we also overlay additional considerations within our investment process to ensure we are managing to those commitments.

Investment Due Diligence	Investment Decision	Portfolio Management
<p>Fundamental analysis considering material ESG risks, informed by both qualitative and quantitative research.</p> <p>For funds that have sustainability promotions and investment restrictions additional research may also be undertaken including:</p> <ul style="list-style-type: none"> <li>• Portfolio modelling (if applicable)</li> <li>• Sustainable Investment assessment (if applicable)</li> <li>• Impact assessment (if applicable)</li> <li>• Climate modelling (if applicable).</li> </ul>	<p>Consideration of material ESG risks/ opportunities by relevant decision-makers.</p> <p>Ensure alignment of investment with fund sustainability promotions and investment restrictions (if applicable).</p> <p>Fund exclusions</p> <ul style="list-style-type: none"> <li>• House-level (if applicable)</li> <li>• Fund-level (if applicable).</li> </ul>	<p>Ongoing monitoring of fund sustainability promotions and investment restrictions (if applicable)</p> <p>Active Stewardship (if applicable)</p> <ul style="list-style-type: none"> <li>• Bilateral and collective engagement</li> <li>• Voting.</li> </ul> <p>Portfolio Review and Analytics (if applicable)</p>

Our investment teams are able to use the fundamental sustainability research and the quantitative analysis tools to incorporate the assessment of material sustainability risks and opportunities into investment decision-making processes. Further details on the quantitative and qualitative research and tools available to the investment teams is provided in the sections below.

The nature of this will be dependent on the specific investment philosophy, asset class, and time horizon of a given strategy or product. For products with sustainability promotions, our products apply a variety of investment approaches to support these commitments including but not limited to:

- exclusionary screens (eg, sector/ norms-based/ sovereign/ environmental/ social controversies etc.)
- minimum ESG criteria for inclusion (eg, MSCI ESG rating)
- utilizing proprietary quantitative and qualitative assessment processes to select investments and/or tilt the portfolio (eg, Sovereign Framework, ESG Themed Bond Assessments, Net Zero Investment Framework)
- intentional tilts towards certain sustainability factors or outcomes (eg, portfolio WACI below benchmark)
- impact investing.

Where such commitments are made in the product materials, portfolios will be managed to these commitments using a combination of qualitative research, quantitative analysis and subject to independent oversight. The Stewardship and Sustainability team develops and leverages sustainability frameworks to ensure consistent ESG integration and enable sustainable investment approaches across the suite of product categories offered across listed markets. Through the combination of both fundamental and quantitative analysis, investment teams are equipped with both in-depth, stock-specific insights relating to financial material ESG factors and data-driven ESG performance indicators to enable better investment decision-making and ensure execution

against both financial and sustainability commitments. For strategies that commit to specific sustainability or impact outcomes, additional considerations within our investment process are overlayed to ensure we are managing to such commitments.

### 3.1 Fundamental sustainability research

Fundamental sustainability research is analyst driven research. It is generally qualitative research that allows an in-depth analysis of specific companies. The Sustainable Investment Research team ('SIR') provides fundamental sustainability research to our investment teams. Investment teams have access to a range of sustainability research both in-house and external. They are responsible for integrating sustainability considerations into their own research and investment decisions where such considerations are financially material to the investment or the strategy considering factors such as investment philosophy, time horizon, asset class.

A range of external research and data is used alongside internal research to enable integration of sustainability considerations within investment decisions. All in-house proprietary as well as external research is available through our research platform and dashboards accessible by all our investment teams. The following (non-exhaustive) fundamental sustainability research content is available to all investment teams (including private markets) to support ESG integration:

#### a. Sustainable Investment Profiles

Sustainable Investment Profiles, written by the SIR sector specialist, provide an independent assessment of both a company's operational sustainability performance and the sustainability impact of any products or services. Sustainable Investment Profiles provide insights into potential sustainability risks and opportunities, as informed by M&G Investments' proprietary materiality approach.

**b. Sustainability Eligibility Assessments**

Sustainability Eligibility Assessments provide data-driven insights using the quantitative analysis described below to provide insights into a company or issuance's sustainability performance as it relates to business involvement, product-alignment, regulatory frameworks, sustainable investment categorisation and other outcomes from proprietary M&G frameworks. The benefit of this research is to aid investment teams with quick-reference information to inform investment decision eligibility, while also providing a summary of risks or opportunities from a product or services perspective and an overall sentiment towards the sustainability performance of the issuer or issuance.

**c. Thematic research**

The SIR team author thematic research on a range of topics, either covering a multitude of industries for which such a topic is material, or within industries looking at a material issue. These aid investment professionals in identifying areas of risk or best practice, and are often useful when looking at sustainability issues at portfolio-level, in addition to informing individual company assessments.

**d. Global Norms Assessments**

Global Norms Research is produced by the SIR team and enables investment teams to understand the contributing factors to a company flagged as having – or potentially having – a breach of Global Norms. This research is also used to support the Global Norms Committee to assess whether, on the basis of the assessment's findings, an issuer should be placed on M&G's Global Norms Exclusion List, or on the Engagement/Monitoring List. The research covers the views of external providers, the details of any related controversy and a forward-looking view on a company's performance in managing or resolving such issues.

**e. ESG Themed Bond Assessments**

M&G's ESG Themed Bond Assessments are in place to assess the quality and validity of themed bond issuances. The outcome of this research is a RAG (Red, Amber, Green) rating which is based on both the ESG framework of the bond as well as the corporate's overall sustainability strategy, including its alignment with the use of proceeds from the bond. This assessment allows investment teams to identify themed bonds which are credible and sustainability quality-checked for investment.

**f. Sovereign Framework**

Framework to assess the sustainability of Sovereign Issuers as evaluated against criteria including non-cooperative tax jurisdictions, sanctions, climate change, as well as broader social progress.

**g. Impact Research (Triple I ('III') Assessments)**

For impact holdings in listed markets, M&G undertakes its own 'III' (Investment, Intention, Impact) Impact Research – providing a detailed analysis of the intentionality, measurability and additionality of the impacts of companies. The analysis includes an evaluation of the company's (or a bond's) contribution to Sustainable Development Goal (SDG) targets (% revenues) and sets out the KPIs to be used for the measurement and management of the impact generated. Such research is required for a company to be included within our public market Impact products, but also benefits the wider investment teams.



## 3.2 Quantitative analysis

Our quantitative data driven analysis enables us to provide scalable dynamic data and outputs to investment teams. The degree to which these tools are used in the investment process and influence investment decision-making also depend on the tools' relevance for a specific asset and the sustainability related characteristics or objectives of the product/fund (as specified in the documentation of the product/fund). The use of these tools is not mandatory and as such the below may not be part of the investment process eg, some tools will only be used by products applying a sustainable investing approach. The most widely used tools used are:

### h. Corporate ESG Scorecard

The Corporate ESG Scorecard enables consideration of material ESG factors and comparison of management and performance by companies. The scorecard has been designed to provide a quantitative assessment of a company's overall ESG performance as well as performance against the separate environmental, social or governance factors that have been assessed.

### i. Securitised Asset ESG Scorecard

Follows the approach of the Corporate ESG Scorecard in taking a structured approach to ESG considerations and assesses securitised products in the context of Transactions, Assets and Counterparties (TAC).

### j. Engagement Tool

Our Engagement Tool enables investment teams and analysts to access a range of information relating to the Stewardship Team and broader stakeholders' engagement with companies, for example, what topics have been engaged on, what the objective for such engagements was and what the outcome from this was.

### k. ESG Portfolio Analytics Tool

Our proprietary Portfolio Analytics Tool is a platform which enables investment teams and analysts to assess sustainability credentials at portfolio and security level in real-time. This tool is designed with different modules, and enables targeted analysis for portfolios and companies in relation to a range of sustainability metrics, SFDR principle adverse impact indicators (SFDR PAIs), product key sustainability indicators, and net-zero analysis.

### l. E-Luminate

E-Luminate is a tool surfacing issuer-level data including SFDR PAIs as well as other ESG metrics in order to aid research and assess potential harm.

### m. ESG IQ

ESG IQ is a platform designed to assist investment teams with security and portfolio screening and modelling. It enables pre-trade modelling to understand alignment or misalignment with product sustainability exclusions.

### n. Net Zero Investment Framework

M&G Investments' Net Zero Investment Framework ('NZIF') has been designed to assess corporate issuer alignment to Net Zero. Aligned with the Institutional Investors Group on Climate Change's approach to NZIF, the framework is comprised of three elements: Net Zero Level, Transition Plan Rating and Transition Plan Credibility. The output from this framework is categorisation for corporate issuers as either 'Not Aligned', 'Committed', 'Aligning', 'Aligned' or 'Net Zero'.

### o. Climate scenario analysis

Climate scenario analysis provide a forward looking assessment of the impacts of different climate scenarios on portfolios.

## 4 Private markets

Across our various private market teams (which span a wide variety of asset classes, including private credit, private equity, real estate, infrastructure and securitised assets), we seek to integrate material ESG issues into our investment process. Our standard process for integrating ESG within the investment process is summarised below. For strategies that commit to specific sustainability or impact outcomes, we also overlay additional considerations within our investment process to ensure we are managing to those commitments.

Asset sourcing / due diligence	Investment decision	Portfolio management
<ul style="list-style-type: none"><li>• Financially material ESG risks to be reviewed</li><li>• ESG scorecard completed (if applicable)</li><li>• Engagement with company/borrower (if applicable)</li><li>• Screening for involvement in excluded sectors (if applicable)</li><li>• Assessment of whether investment meets 'Sustainable Investment' standard (if applicable)</li><li>• Impact assessment undertaken (if applicable)</li></ul>	<ul style="list-style-type: none"><li>• Consideration of material ESG risks/opportunities by relevant decision-making bodies (eg, investment committee, credit committee)</li><li>• Ensure alignment of investment with fund sustainability promotions and investment restrictions (if applicable)</li></ul>	<ul style="list-style-type: none"><li>• Annual update of ESG scorecard (if applicable)</li><li>• Engagement (if applicable)</li><li>• Sustainability data collection (if applicable)</li><li>• Annual sustainability review (if applicable)</li><li>• Annual impact review (if applicable)</li></ul>

## 4.1 Private credit

M&G Investments is a significant private credit investor, investing across a broad range of private liquid and illiquid assets, from corporate loans to infrastructure debt.

### Asset sourcing / due diligence

**ESG Integration:** As part of our due diligence we consider material ESG risks, supported by the completion of an ESG Scorecard for every new investment. This enables us to consider an issuer's material ESG risks and opportunities based on their sector, within a structured and comparable framework. At this stage, we would also identify if an asset has characteristics which might enable its inclusion in a product with specific sustainability or impact commitments.

Due to the illiquid nature of some of the assets in which we invest, we can exert most influence in the pre-investment stage, while terms and structure are being negotiated. In this stage, we will discuss and address any identified ESG issues with the borrower and will consider how the transaction structure looks to minimise these risks. It would be at this stage that we may seek to get commitments to provide regular ESG reporting.

In addition, for products with sustainability promotions: During the asset sourcing and due diligence stage, we screen for involvement in excluded activities. We will also assess investments against sustainability promotions (for example, whether investments can be considered sustainable investments for SFDR Article 8/9 products or whether an investment meets minimum ESG score criteria). If an asset is being considered for inclusion in an impact product or sleeve, we will undertake a separate impact assessment.

### Investment decision-making – credit committee and other governance

**ESG Integration:** Credit committees consider, alongside the relevant credit rating, ESG related conclusions and ESG Scorecard summary information is presented. For products with Investment Advisory Committees, any pertinent product-related ESG risks or obligations will be considered.

In addition, for products with sustainability promotions, the Investment Advisory Committees will receive additional sustainability information to enable assessment of the alignment of the investment with any sustainability promotions or investment restrictions prior to product managers making a commitment. For products without Investment Advisory Committees, it is the responsibility of the product manager to review this information and assess fit with the sustainability strategy of the product.

### Portfolio management

**ESG Integration:** We undertake on-going monitoring and review post investment, including asking borrowers for provision of ESG data. As a private lender, closer interaction with our borrowers allows us to meaningfully engage to address material ESG issues and influence positive change. We undertake engagement with companies following the M&G Investment wide principles and approach detailed in section 2.3. Where we engage with companies/assets, these engagements are tracked and can be reported to investors. Examples are also included in the Annual Stewardship report.

In addition, for products with sustainability promotions: Any sustainability information used to support product promotions or used as part of the investment process must be reviewed at least annually, which includes updating the ESG scorecard, reviewing companies involvement in excluded activities, sustainability data collection, sustainable investment attribution and, where applicable, impact rating.

## 4.2 Private equity

M&G Investments' Impact and Private Equity team gains exposure to a range of investment strategies in private markets through both direct investments, as well as through commitments to externally managed products, namely through primary and secondary product commitments alongside co-investments.

### Asset sourcing and due diligence

For direct investments:

**ESG Integration:** ESG analysis is undertaken which focuses on identifying risks and opportunities covering policy and practice, both in the company operations as well as in supply chains. Such analysis will typically cover governance, climate, social, specifically considering modern slavery, bribery and corruption, and diversity and inclusion. We also identify material ESG issues by industry, informed and undertake in depth analysis of company management and performance in relation to three to five of the most material industry risks.

In addition, for products with sustainability promotions: During the asset sourcing and due diligence stage, we screen for involvement in excluded activities (M&G Investment wide restrictions or product specific). We will also assess investments against sustainability promotions (for example, whether investments can be considered sustainable investments for SFDR Article 8/9 products). If an asset is being considered for inclusion in an impact product or sleeve, we will undertake a separate Impact assessment.

For investments in externally managed products:

**ESG Integration:** As part of our due diligence we consider material ESG risks that may apply to the investment strategy which is supported by the completion of an ESG Due Diligence Questionnaire by the manager of the investee product. This is done for each new product commitment. Responses received from the ESG Questionnaire are evaluated alongside desk based research. Through due diligence sessions with fund managers we evaluate potential ESG risks and how these are mitigated. We also evaluate the fund manager's approach to ESG integration through their investment activity more broadly. ESG is considered

as part of both investment due diligence (IDD) and operational due diligence (ODD) processes.

In addition, for products with sustainability promotions: During the asset sourcing and due diligence stage, we screen for involvement in excluded activities (M&G Investment-wide restrictions or product specific). We will also assess investments against sustainability promotions (for example, whether investments can be considered sustainable investments for SFDR Article 8/9 products). If an asset is being considered for inclusion in an impact product or sleeve, we will undertake a separate impact assessment.

### Investment decision making – investment committee

For direct and fund investments:

**ESG Integration:** Findings from ESG due diligence are presented to the Investment Committee as part of the Investment Committee paper. The Investment Committee will consider any ESG risks and opportunities presented and any relevant mitigants.

In addition, for products with sustainability promotions: The Investment Committee will receive additional sustainability information and impact assessment (Impact products only) to enable them to assess alignment of the investment with any sustainability promotions or investment restrictions prior to making a commitment. It would also be at this stage that relevant ESG clauses are included side letter negotiations alongside other terms. As far as possible, we request reporting of KPIs, and continued adherence to the exclusion list for all investments.

### Portfolio management

For direct and fund investments:

**ESG Integration:** We undertake on-going monitoring and review post investment including engaging for provision of ESG data. For some investments, engagement plans may be agreed during the execution phase. These cover: objectives of the engagement, who will be undertaking the engagement, how much time it is expected to take, and the approach that will be taken to engage the investee. The engagement plan may also be updated post-execution with new objectives and activities if issues arise during the life of the investment.

In addition, for products with sustainability promotions: Any sustainability information used to support product promotions or used as part of the investment process must be reviewed at least annually. Investments categorised as impact holdings assess at least annually how the product or company is performing in relation to the impact objectives, and if there have been any developments that would change our current assessment, as well as how the company is progressing in relation to any engagement plan. For impact products, an Impact report is prepared on an annual basis to update investors on ESG and Impact characteristics of the product, giving a qualitative overview of the portfolio.

## 4.3 Real estate

M&G Real Estate is the property investment manager for M&G Investments. We manage both real estate equity and real estate debt mandates.

### 4.3.1 Real estate equity

Our global real estate equity portfolio comprises a wide range of uses including hotels, offices, retail, logistics and residential. Our experienced investment teams buy, sell and manage properties across Europe, the UK and Asia. The majority of our investments are direct real estate holdings, with some limited exposure to externally managed products who hold real estate.

#### Asset sourcing and due diligence

**ESG Integration:** Prior to purchasing a building or asset, due diligence is carried out to assess the ESG risk. Minimum requirements form part of the asset acquisition checklist, which is subject to scrutiny during the pre-acquisition due diligence process. Assessments are undertaken by third-party specialists reporting to the acquisition team. The ESG checks vary by sector and location, but typically include items such as energy performance (eg, Energy Performance Certificates) flood risk, building sustainability ratings (eg, certifications such as BREEAM and LEED) and land contamination risk.

For investments in externally managed products, we undertake ESG due diligence pre-investment including an assessment of historical and current ESG performance measured through multiple metrics. The potential product is also required to complete a customised due diligence checklist.

In addition, for products with sustainability promotions: we screen for tenant or product involvement in excluded activities (M&G Investment wide restrictions or product specific). For investments in externally managed products we will seek to apply exclusion requirements in relation to controversial activities, which are typically captured in a side letter agreement.

We will also assess investments against sustainability promotions (for example, whether investments can be considered sustainable investments for SFDR Article 8/9 products). If an asset is being considered for inclusion in an impact product or sleeve, we will undertake a separate impact assessment.

#### Investment decision making – investment committee

**ESG Integration:** The outcomes of the due diligence assessments are reported to the Property Investment Committee (PIC). This feeds into the decision as to whether an investment can proceed, what price should be paid, and what mitigants need to be put in place.

In addition, for products with sustainability promotions: The Investment Committee will receive additional sustainability information and impact assessment (impact products only) to enable them to assess alignment of the investment with any sustainability promotions or investment restrictions prior to making a commitment.

#### Portfolio management

**ESG Integration:** Post investment, directly managed assets are mobilised under our ESG data management and performance monitoring system, supplied and maintained by a third-party provider. This system records key ESG performance indicators including energy, greenhouse gas emission, water and waste consumption data for underlying assets. This enables us to review, measure and monitor environmental

performance of the assets over time. Asset managers also put in place a Sustainable Asset Plan which identifies asset level initiatives to be implemented.

When investing directly in real estate assets, engagement typically occurs with the tenants to encourage consideration of responsible management and maintenance as it relates to their occupation and use of the property. Where feasible, we incorporate relevant clauses into lease contracts and use these as a means to access tenant utility data and/or improve environmental performance. Expectations around aspects such as sharing utility data and upgrades to the building are included in the lease agreements where possible.

For our fund of fund mandates, we monitor investee performance on ESG through a quarterly ESG checklist which is issued for completion by investees. The investment team will monitor the results and engage to drive any corrective actions, where needed.

In addition, for products with sustainability promotions: Any sustainability information used to support product promotions or used as part of the investment process must be reviewed at least annually.

#### **4.3.2 Real estate debt**

M&G's real estate finance team is one of the largest alternative lenders in Europe. The team provides senior, junior and whole loans secured against core assets through to speculative developments across the UK and Europe. Investments in real estate debt do not confer on M&G Investments the same level of control and influence over real estate as ownership of real estate. Consequently, there will be differences in the level of ESG-related analysis and reporting between real estate debt and real estate equity.

#### **Asset sourcing and due diligence**

**ESG Integration:** Prior to financing a building or asset, due diligence is carried out to assess the ESG risk. We generally instruct specialist third parties to undertake building survey and environmental risk assessments in relation to properties that will provide loan security. The ESG issues covered vary by

sector and location, but typically include items such as energy performance (eg, Energy Performance Certificates), flood risk, building sustainability ratings (eg, certifications such as BREEAM and LEED) and land contamination risk. We also screen for tenant involvement in excluded activities (M&G Investment wide restrictions).

In addition, for funds with sustainability promotions: We screen for ultimate beneficiary owner and/or tenant involvement in excluded activities (M&G Investment wide restrictions or fund specific). We will also assess investments against sustainability promotions. We use a bespoke Green Building criteria guide to identify buildings with sufficient environmental performance to qualify for Green Loans. If not eligible, we consider whether the investment may be suitable to be structured as a Sustainability-Linked Loan. We will also typically structure our loan agreements to include additional contractual obligations on borrowers during the loan term such as requirements to improve EPC ratings, increase green building certification coverage, and/or to achieve a certain level of green building certification for the properties that we are financing.

Due to the nature of the assets in which we invest, our ability to exert the most influence is generally limited to the pre-investment stage, while terms and structure are being negotiated. In this stage, we will discuss and address any identified ESG issues with the counterparty and will consider how the transaction structure looks to minimise these risks. We also endeavour to get commitments to provide regular ESG reporting.

#### **Investment decision making – investment committee**

All investment proposals must be approved by the Real Estate Finance Investment Committee before a formal financing offer is made to a prospective borrower. The Investment Committee considers any ESG risks associated with investment, alongside consideration of alignment of the investment with any sustainability promotions or investment restrictions prior to making a commitment.



Credit committees consider, alongside the relevant credit rating, ESG-related conclusions presented within the credit submissions. Decisions taken at credit committees on ESG matters are included within the minutes.

#### **Portfolio management**

**ESG Integration:** We undertake on-going monitoring and reviews post investment which might include receipt of ESG data from borrowers.

For funds with sustainability promotions: Any sustainability information used to support fund promotions or used as part of the investment process must be reviewed at least annually, which includes review of involvement in excluded activities, sustainability data collection, and sustainable investment attribution. Any breaches that occur after closing are the subject of engagement with the sponsor to seek to resolve these.

### **4.4 Infrastructure equity**

Infracapital is the private infrastructure equity arm of M&G plc, investing in essential infrastructure in Europe across a diverse range of sectors including energy transition and utilities, telecommunications and digital, transport and mobility and social.

#### **Asset sourcing and due diligence**

**ESG Integration:** We seek to invest in line with sustainability trends, backed by macro tailwinds and supported by strong infrastructure characteristics. Such investments often have ample scope to deliver environmental and/or social outcomes, responding to 21st century challenges.

We aim to ensure our investment process takes a responsible approach to investing by reviewing potential investments for material ESG opportunities and risks. As part of our due diligence we consider material ESG risks and opportunities for all investments. Such analysis will typically cover governance, climate, social factors with materiality informed by internationally-recognised best practice standards.

In addition, for products with sustainability promotions: During the asset sourcing and due diligence stage, we screen for involvement in excluded activities (M&G Investment-wide restrictions or product specific). We will also assess investments against sustainability promotions (for example, whether investments can be considered sustainable investments for SFDR Article 8/9 products). If an asset is being considered for inclusion in an impact product or sleeve, we will undertake a separate impact assessment.

#### **Investment decision making – investment committee**

Findings from ESG due diligence form a mandatory part of all investment screening papers and Infracapital's Investment Committee consider material ESG risks/opportunities as part of the investment decision-making process. Infracapital has a Responsible Investment Committee that meet quarterly to oversee adherence to Infracapital's ESG Management System. Representative members of the Responsible Investment Committee sit on the Investment Committee to ensure that ESG considerations are aligned to the investment decision-making process.

In addition, for products with sustainability promotions: The Investment Committee will receive additional sustainability information to enable them to assess alignment of the investment with any sustainability promotions or investment restrictions prior to making a commitment.

#### **Portfolio management**

**ESG Integration:** We seek controlling or significant minority stakes in our investee companies so that we can deliver an active asset management approach. This supports our ability to manage ESG risks and issues effectively, improve ESG standards and performance across our investee companies to ultimately drive value. We undertake direct engagement with our investee companies, taking board seats and encourage ESG to be a board agenda item.

We ensure strong governance and oversight of our business through regular reporting on relevant KPIs and ESG metrics. ESG metrics are collected and analysed on a quarterly and annual basis. An ESG rating is assigned to each investee company on an annual basis to track progress and set priorities for the year ahead.

An annual ESG report is made available to investors.

In addition, for products with sustainability promotions: Any sustainability information used to support product promotions or used as part of the investment process must be reviewed at least annually.

#### **4.5 Structured credit**

M&G Investments' structured credit business spans the full Investment Grade and High Yield and Private Structured Credit universe (eg, Senior ABS, High Grade ABS, Investment Grade Mezz ABS, Significant Risk Transfer (SRT), Specialty Finance). As one of Europe's leading investors in structured credit, we have sought to actively develop proprietary approaches that are tailored to the nature of this asset class and its increased complexity. We are also working with the industry to improve and standardise practices.

##### **Asset sourcing / due diligence**

**ESG Integration:** During the due diligence stage we consider material ESG risks in relation to the transaction (deal structure), assets and counterparty. At this stage, for securitised assets we would also complete a Securitised Asset ESG Scorecard, where applicable. This enables us to consider material ESG risks and opportunities associated with the transaction, counterparty and assets, within in a structured and comparable framework. Due to the nature of the assets in which we invest, we can exert the most influence in the pre-investment stage, while terms and structure are being negotiated. In this stage, we will discuss and address any identified ESG issues with the counterparty and will consider how the transaction structure looks to minimise these risks.

In addition, for products with sustainability promotions: For products with ESG exclusions, we also screen for involvement in excluded activities at this stage. We will also assess investments against sustainability promotions (for example, whether investment meets minimum ESG score criteria).

##### **Investment decision-making – credit committee**

For investments in scope of a credit committee: the committees consider, alongside the relevant credit rating, ESG related conclusions and the ESG Scorecard (where applicable) summary information presented within the credit submissions.

For products with investment committees, the committee considers any ESG risks associated with investment, alongside consideration of alignment of the investment with any sustainability promotions or investment restrictions prior to making a commitment. For products without investment committees, it is the responsibility of the product manager to review this information and adhere to product restrictions.

##### **Portfolio management**

We undertake engagement with companies following the M&G Investment wide principles and approach detailed in section 2.3. Where we engage with companies/assets, these engagements are tracked and can be reported to investors.

In addition, for products with sustainability promotions: Any sustainability information used to support product promotions or used as part of the investment process must be reviewed at least annually, which includes updating the ESG scorecard, review of involvement in excluded activities, sustainability data collection, sustainable investment attribution, and where applicable impact rating.



## 5 Governance

### 5.1 Governance

We have governance systems, risk management processes and controls that seek to support the incorporation of sustainability considerations within our business activities. Ultimate responsibility for sustainability across all of MGG activities lies with the MGG Executive Committee. The MGG Executive Committee delegates responsibility for sustainability to the following sub-committees.

#### **Sustainability Steering Committee**

The Sustainability Steering Committee has delegated responsibility from the MGG Executive Committee to define and drive the sustainability strategy and implementation across the business. The Committee is chaired by the Executive Committee member for Sustainability. The committee consists of senior representatives from across the business including the MGG CEO, the Heads of investment desks, Head of Distribution and Product, Chief Operating Officer, Chief Risk Officer, Chief Compliance Officer, and the Head of Sustainability. Key topics overseen by this committee includes: sustainability strategy, commitments and delivery of these, sustainability change programmes, product pipeline.

#### **Sustainable Investing Standards Committee**

The Sustainable Investing Standards Committee ('SISCo'), is a sub-committee of the Sustainability Steering Committee and was established to maintain standards in Sustainable Investing through the oversight of day-to-day investment matters pertaining to the application of sustainability regulations, frameworks, policies and restrictions. The SISCo is chaired by the Head of Sustainability, and has representatives from the stewardship and sustainability team, public and private investment desks, product, operations, compliance and risk.

The SISCo delegates a number of decisions to sub-committees with a specialised focus:

The Global Norms Committee which has delegated authority on behalf of M&G Investments to consider if companies are in violation of Global Norms and should be excluded, monitored or engaged with.

The Impact, SDG and Solutions Committee (ISSC) which has delegated authority to provide independent oversight of M&G's Impact, SDG and Sustainability Solution Provider lists, utilised by products holding public securities.

The Climate Committee which has delegated authority to decide outcomes to appeals relating to the M&G Thermal Coal Policy.

## Definitions

**Active Ownership** The use of influence by investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend.

**ESG integration** The explicit and systematic inclusion of financially material Environmental, Social and Governance ('ESG') risks and opportunities into the investment process.

**ESG risk** An environmental, social or governance event or condition that, if it occurs, could cause a potential material negative impact on the value of the investment. In some markets we operate in (eg, the European Union), our regulators refer to these risks as sustainability risks. For the purpose of this policy, we use the term ESG risks, but in those markets we will use the language prescribed by the regulator (eg, sustainability risks) to refer to these.

**ESG risk integration** Explicit and systematic consideration of financially material ESG risks into the investment process. This is different from 'ESG integration' in that it is considering only risks, rather than risks and opportunities.

**Principal Adverse Impact (PAI)** Principle Adverse Impact (PAI) is defined by the SFDR regulation as the most significant negative impacts of investment decisions on sustainability factors relating to (i) climate and the environment and (ii) social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. The SFDR Delegated Regulation requires financial market participants and financial advisers to publish a Principal Adverse Impact (PAI) statement on their website and describe PAI in pre-contractual information.

**Sustainable Development Goals** The 17 Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

### **Sustainable Finance Disclosure Regulation (SFDR)**

The SFDR is an European Union Regulation that came into force on 10 March 2021 and is designed help investors by providing more transparency on the degree to which financial products consider environmental and/or social characteristics, invest in sustainable investments or have sustainable objectives.

**Sustainable investing** Sustainable investing involves making investment decisions incorporating ESG factors whilst trying to have a positive effect, or, reduce negative effects on the environment and society through active ownership and/or portfolio construction.

**Sustainable Investment** Sustainable investment means an investment in an economic activity that contributes to an environmental objective or social objective, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices.

## External frameworks

This policy and our approach are informed by globally recognised standards and frameworks including:

- i. Principles for Responsible Investment (PRI)
- ii. UK Stewardship Code
- iii. UK Corporate Governance Code
- iv. Net Zero Investment Framework (NZIF)  
published by the Institutional Investors  
Group on Climate Change (IIGCC)
- v. Task Force on Climate-Related  
Financial Disclosures (TCFD)
- vi. UN Global Compact Principles
- vii. UN Guiding Principles on Business  
and Human Rights
- viii. Universal Declaration of Human Rights
- ix. UN Sustainable Development Goals
- x. OECD Guidelines for Multinational Enterprises.

