

European ESG Template (EET)

An update for clients

5 December 2022



Introduction

The purpose of this document, which accompanies M&G's first 'full' EET, is to assist clients by providing some general background on the EET itself and to explain M&G's approach to populating it in a number of key areas. Clients may direct any questions that are not addressed in this document to their usual client relationship contact.

MiFID Suitability Assessment

On 2 August 2022, the 'MiFID II ESG Amendments' regulation came into force in the EU. Providers of investment advisory and discretionary portfolio management services are now required to consider whether their clients have any preferences for sustainable investments when conducting the suitability assessment and before making a product recommendation. This amended regulation sets out that clients may express their sustainability preferences in one or more of the following ways:

- A. A minimum percentage of a product's investments that are aligned to the EU Taxonomy (as defined in the EU Taxonomy Regulation).
- B. A minimum percentage of a product's allocation to sustainable investments (as defined in the Sustainable Finance Disclosures Regulation - SFDR)
- C. Qualitative and quantitative consideration of the Principal Adverse Impacts (PAIs) set out in the SFDR, such as greenhouse gas emissions, gender diversity, exposure to controversial weapons.

In order to be able to match clients' sustainability preferences with suitable products, product manufacturers need to make this data available across their products; and distributors are expected to filter investment products on this data and a range of related sustainability/ESG metrics and information.

The European ESG Template (EET)

The EET has been developed by FinDatEx as an industry-standard Excel template in machine-readable format to harmonise and simplify the way sustainability and ESG-related information on investment firms and their products is collected from product manufacturers. The EET allows information to be exchanged with distributors, advisers and other market participants, to support compliance with these regulatory requirements and the requirements of the Insurance Distribution Directive (IDD), an associated sustainability regulation applicable to insurers. FinDatEx specifications of the template may be viewed [here](#) and a commentary [here](#).

The EET allows funds to report on up to 580 pre-defined data fields at a share class ISIN level; ISIN is used because there is no common identifier at the fund level. However, other than the share class's ISIN, its name and its currency, the information in the EET doesn't differ between share classes at fund level.

Which of the 580 data fields will apply to a given fund will depend chiefly on the sustainability approach of the firm, the fund's design (particularly whether or not it is Article 8 or 9), the availability of measured data and other variables.

The EET has been rolled out to the marketplace in two stages to reflect the phased introduction of the regulations:

- A reduced version of the EET template (the EET 'Light') was required ahead of the 2 August 2022 deadline with a cut-down scope of data fields, required by distributors to meet the requirements of the MiFID II ESG Amendments and IDD sustainability preferences. M&G's EET Light focused on a sub-set of 63 data fields.
- Firms are now required to publish their full EET ahead of the 1 January 2023 deadline for the wider-ranging product disclosure requirements of SFDR & Taxonomy 'Level 2' regulations. Manufacturers now need to consider whether they need to communicate information for potentially all 580 data fields in the EET to the extent that they apply to their products, their approach to sustainability, and the availability of data. M&G's first full EET is focused on 286 data fields;

mainly because M&G's sustainability approach considers just 4 of the 46 optional (voluntary) PAIs. Over time we expect more data fields will be populated as data availability improves and the funds' reported information becomes available.

As well as publishing our EET on the [M&G website](#), M&G uses various data service providers such as Morningstar and FE fundinfo to manage the dissemination of our EET to the marketplace, including to the range of platforms and tools used by fund analysts and distributors that invest in M&G's funds. Over time our EET will be updated in response to material changes/new products and updates to reported data.

M&G's EET is published using the original template version EET v1. FinDatEx are releasing an updated version EET v1.1 in December 2022, which incorporates a small number of amendments and several additional fields, mainly in relation to structured products. M&G shall maintain version EET v1 up to the 30 April 2023 FinDatEx deadline, and shall release version EET v1.1 ahead of that date.

Breakdown of the EET

At a high level, the EET is populated according to the following schematic (based on EET v1). Note that for funds which have no sustainability characteristics such as Article 6 funds, only the basic information applies (top section).

Basic Information: Populated For All Funds (28 data points)					
Section	EET File Information		Manufacturer Information		Basic Product Data
Data range	00010 - 00100		10000 - 13000		20000 - 20050
# Fields	10		12		6
Key contents / data examples	General file identification information		M&G entity, commitment to UNPRI, Stewardship code		Name, ISIN, currency, SFDR classification (0,6,8,9)

Detailed ESG Information: Populated For Article 8 & 9 Funds Only (552 data points)					
Section	Product Detailed ESG Data	Mandatory PAIs	Optional PAIs	Screening Criteria	Country Specific Info
Data range	20060-27900	30000 - 31360	31370 - 33440	40000 - 54070	60400 - 60440
# Fields	74	138	220	115	5
Key contents / data examples	SFDR level 2 precontractual related disclosures	18 Mandatory PAIs considered	46 Voluntary (Optional) PAIs considered	Exclusions, thresholds and parts of the value chain	For French and German distribution markets

Scope of Funds covered in M&G's EET

The funds published in our EET correspond with those published in our European MiFID Template (EMT) and are made up of:

- Luxembourg domiciled funds for which M&G Luxembourg S.A. is the Management Company
- UK domiciled funds for which M&G Securities Limited is the Authorised Corporate Director
- A UK investment trust for which M&G Alternatives Investment Management Limited is the Investment Manager

Our EET is limited to public fund offerings (none of our private funds are included in our EET). Groupings of these funds may be filtered in the EET on field *10000_Manufacturer_Name*.

Our UK Domiciled Funds

With the exception of the M&G Global Themes Fund, we have categorised all our UK domiciled funds and our UK investment trust as SFDR category '0' in field '20040_Financial_Instrument_SFDR_Product_Type' (not in SFDR scope). The M&G Global Themes Fund is registered for sale in Germany and is categorised as Article 6.

For this majority of our UK funds that fall outside the scope of SFDR, we have decided not to make use of the EET field '20050_Financial_Instrument_SFDR_Product_Type_Eligible'. This field is intended to allow firms to indicate those funds outside the scope of SFDR as 'Art. 8 like' or 'Art. 9 like'. However, we consider there is presently a lack of clarity and regulatory traceability of what constitutes 'Art. 8 like' or 'Art. 9 like' in a non-EU jurisdiction. In time, more clarity may emerge across the industry and we will continue to monitor how this evolves over the coming months.

SFDR Level 2 Disclosure Status

For our Luxembourg-domiciled Article 8 and Article 9 funds, we have populated the detailed ESG information in the EET with level 2 disclosure data which, at the date of this document, is currently passing through the fast-track approval process with the Luxembourg regulator ahead of the 1 January 2023 deadline.

In all cases, level 2 data in our EET aligns with the way that our funds are already managed and, where such data constitutes a threshold, compliance is monitored by the Investment Manager on a pre and post trade basis using limits coded into our portfolio management systems. Whilst we do not anticipate that the regulatory approval process will require any changes to this data, in the event it does, we will update and republish the EET as soon as is practically possible.

EU Taxonomy Alignment

For all our Article 8 and Article 9 funds, the minimum mandatory allocation to Taxonomy-aligned sustainable investments is 0%.

As an industry phenomenon, EU Taxonomy (environmental) eligibility and actual alignment is low across all markets and securities, reflecting the robustness of the EU Taxonomy technical screening criteria and the freshness of the EU Taxonomy data covered for both public and private assets. Furthermore, Taxonomy screening criteria has been ratified for just two of the six environmental objectives; climate adaptation and climate mitigation.

Over time, as technical screening criteria for the remaining environmental objectives are published and data availability improves, as it will across the industry, we expect to introduce minimum Taxonomy aligned commitments into some of our funds, where appropriate to their strategies.

Principal Adverse Impacts (PAIs)

To comply with the requirements of SFDR Level 2, from 1 January 2023, Financial Market Participants (FMPs) in the EU are required to report at an entity-aggregate level a 'Statement on principal adverse impacts of investment decisions on sustainability factors'. This entity-level reporting applies to M&G Luxembourg S.A., the Manager of the M&G's Luxembourg-domiciled fund range.

The regulation requires entities to report against 18 mandatory PAIs (14 for investments in corporates, 2 for sovereign/supranational bonds and 2 for direct real estate assets). They also require FMPs to select at least another 2 voluntary (optional) indicators in relation to investments in corporates.

PAIs considered by M&G are identified below:

Corporates: Climate and other environmental indicators		Sovereigns and supranationals	
GHG emissions	<ol style="list-style-type: none"> 1. GHG emissions (Scope 1, 2 and 3) 2. Carbon footprint 3. GHG intensity 4. Fossil fuel sector exposure 5. Non-renewable energy consumption and production 6. Energy consumption intensity per high impact climate sector 		<ol style="list-style-type: none"> 15. Country GHG intensity 16. Countries subject to social violations
Biodiversity	<ol style="list-style-type: none"> 7. Activities negatively impacting biodiversity 		
Water	<ol style="list-style-type: none"> 8. Water emissions 		
Waste	<ol style="list-style-type: none"> 9. Hazardous waste 		
Corporates: Social and employee, respect for human rights, anti-corruption and anti-bribery matters		Real estate assets	
	<ol style="list-style-type: none"> 10. UNGC or OECD guidelines violations 11. UNGC or OECD guidelines process and compliance mechanisms 12. Unadjusted gender pay gap 13. Board gender diversity 14. Exposure to controversial weapons 		<ol style="list-style-type: none"> 17. Fossil fuel exposure 18. Energy efficiency
		Corporates: Climate and other environmental indicators	
		Emissions	<ol style="list-style-type: none"> 4. Companies without carbon emissions reduction initiatives
		Corporates: Social and employee, respect for human rights, anti-corruption and anti-bribery matters	
		Social & employee matters	<ol style="list-style-type: none"> 1. Companies without workplace accident prevention policies
		Human rights	<ol style="list-style-type: none"> 9. Lack of a human rights policy
		Anti-corruption and anti-bribery	<ol style="list-style-type: none"> 15. Lack of anti-corruption and anti-bribery policies

■ Mandatory PAIs
 ■ Voluntary (Optional) PAIs

PAIs at Product Level

At an individual product (sub-fund) level, M&G adopts a global approach reflected in our populated EET: That each of our Article 8 and 9 funds considers the full suite of M&G's selected PAIs according to the asset classes invested by the fund. This action complies with the third sustainability preference under the MiFID II ESG Amendments (consideration of PAIs).

All the Article 8 and 9 funds included in our EET invest in corporates, so all 14 mandatory and 4 optional PAIs that apply to corporates are considered. The other PAIs are considered according to whether the investment strategy of the relevant fund includes investments in sovereign bonds and/or real estate assets. Currently none of the Article 8 or 9 funds included in our EET permit investments in real estate assets.

PAIs are considered by M&G at a product level in 2 ways:

1. Where M&G's funds make a commitment to invest a minimum proportion in sustainable investments, they will be considering PAIs to a 'do no significant harm' standard as part of that assessment. All Article 8 and 9 funds included in our EET have a commitment to invest a minimum proportion in sustainable investments.
2. More generally, the Investment Manager's research process includes consideration of PAI indicators for all investments where data is available, which allows the Investment Manager to make informed investment decisions.

Information on how the PAIs have been taken into account will be provided in the relevant fund annual report.

As of 5 December 2022 the following mandatory PAI quantification data points (metrics) are not included. They are being recalibrated and will be included in the next issuance of the EET:

- 3. GHG intensity
- 8. Water emissions
- 9. Hazardous waste
- 12. Unadjusted gender pay gap
- 13. Board gender diversity
- 15. Country GHG Intensity

Screening Criteria

This section of the EET sets out M&G's screening criteria for our funds' investments. Investments may be screened by our funds based on the industry sector in which companies operate, norms-based exclusions such as where companies are deemed to be in breach of the United Nations Global Compact principles, and country exclusions (for sovereign bonds). Industry sector screens consider the part of a company's value chain (upstream, production and downstream).

Note that for many of our funds, specifically in relation to tobacco and alcohol industry sectors' screens, we often have a tighter threshold percentage for the 'production' than for the 'downstream' part of the value chain; typically production will have a threshold value of 0% or 5%, and downstream will have a threshold value of 5% or 10%. The EET only includes a single threshold percentage data point for each industry sector, so in such cases we have populated this field with the higher threshold value to be conservative.

Investors should check the relevant 'ESG Criteria' document for the relevant fund which can be found in the funds section of the [M&G website](#).

Plans for Transitions

M&G is committed to evolving as many of its fund strategies as possible towards ESG, sustainable or impact outcomes to meet existing and rapidly increasing investor demand for funds with clearly defined environmental and/or social characteristics.

Information on our progress can be obtained from your usual client relationship contact. Alternatively, members of the media and journalism professions can view our press releases section [here](#).

Disclaimer

The ESG information, methodologies, data and opinions contained or reflected herein are derived from M&G Plc and/or third party data vendors. Furthermore, ESG data (including ratings) provided by external data providers and referenced for the present purpose is produced based on the data providers' proprietary methodologies.

It should be noted that no universally accepted framework (legal, regulatory, or otherwise) currently exists, nor is there a market consensus in terms of what constitutes a 'sustainable', 'responsible', 'traditional', or equivalent 'ESG' investment, product, or offering. Although there have been regulatory efforts in certain jurisdictions and regions (in particular, in the European Economic Area) to define such concepts, the legal and regulatory framework governing sustainable finance is still under development. Accordingly, no assurance can be given to investors that an investment, product, or offering will meet any or all investor expectations regarding 'ESG', 'sustainable', 'responsible', or other equivalently labelled objectives or that no adverse environmental, social, and/or other impacts will occur.

Moreover, it should be noted that an investment, product, or offering that pursues a sustainability-, responsibility-, or ESG-related investment strategy or uses any such expression in its name does not automatically guarantee a higher financial return than traditional investing, nor does it prevent the investor from bearing a financial loss. Depending on the specific ESG-related characteristics of that investment, product, or offering, the investor may even consent to a lower expected financial return and/or a significantly reduced range of potentially eligible investments.

Even though M&G Plc has an ESG methodology in place, the methodology or ESG data (including ratings) provided by external data providers based on information made available by the subject companies, third parties, and M&G proprietary data, are subject to continuous change and therefore are not warranted, expressed or implied, as to their merchantability, completeness, adequacy, accuracy, or fitness for a particular purpose. The information and data are provided "as is" and reflect M&G's/the data vendors' opinion at the date of their elaboration and publication. M&G Plc does not accept any liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner.

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