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Financial Market Participant: M&G Luxembourg S.A.
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Statement on principal adverse impacts of investment decisions on sustainability factors

Contents

Summary

M&G Luxembourg S.A. (M&G Luxembourg) is a management company incorporated in Luxembourg and authorised under Chapters 15 and 16 of the Luxembourg Law of 17 December 2010 to act as an Undertakings for Collective Investment in Transferable Securities Directive (UCITS) Manager, as well as an Alternative Investment Fund Manager (AIFM) of Alternative Investment Funds in accordance with the law of 12 July 2013 (AIFM Law). M&G Luxembourg is further authorised to provide discretionary portfolio management and investment advisory services under its top-up Markets in Financial Instruments Directive (MiFID) license. M&G Luxembourg is a subsidiary of M&G FA Limited, which is in turn a subsidiary of M&G Group Limited. M&G Group Limited is parent to a number of subsidiaries that undertake asset management activities, including M&G Investment Management Limited (MAGIM), M&G Real Estate and its subsidiary M&G Real Estate Asia Pte. Ltd. The ultimate parent for M&G Luxembourg is M&G plc.

The statement reports on 22 principal adverse impacts (PAIs) across the following thematic areas of focus: climate and environmental factors, social and employee matters, respect for human rights and anti-corruption and anti-bribery. M&G Luxembourg considers PAIs of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of M&G Luxembourg covering holdings within funds managed by it for the reference period from 1 January to 31 December 2023.

Reference to ‘funds’ in this statement means funds for which M&G Luxembourg act as the fund management company. Given M&G Luxembourg has delegated portfolio management activities to MAGIM and M&G Real Estate Asia Pte. Ltd., M&G Luxembourg is supported in the consideration of PAIs of investment decisions made on behalf of these funds by these delegated group entities within M&G Investments. In many cases, the actions taken or actions planned refer to activities or commitments being made by MAGIM or M&G Real Estate Asia Pte. Ltd (collectively referred to in this statement as ‘M&G Investments’) which are made clear within this statement.

Users of the statement should be aware that sustainability-related disclosures are subject to higher degrees of uncertainty and inconsistency than other disclosures given significant challenges with availability and reliability of sustainability data, nascent and evolving nature of relevant sustainability methodologies, and other factors such as the developing regulatory landscape. As such, in order to improve clarity for users of the statement, the disclosures included in this statement may be amended and updated in line with evolving market practice, improvements in the availability and quality of data, and changes to underlying judgements, assumptions and estimates.

Description of the principal adverse impacts on sustainability factors

Principal adverse impacts (PAIs) are 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 PAIs of the funds managed by M&G Luxembourg present the aggregated negative impact on sustainability factors of the funds' investments under management. Across these funds, the reported PAI indicators are considered as set out in the M&G Investments ESG Investment Policy and as detailed in the sections below. Other investment activities undertaken by M&G Investments on M&G Luxembourg's behalf that consider sustainability factors include engagement, proxy voting, attending annual general meetings and are described in more detail in the Engagement section on page 24.

The mandatory indicators defined under the EU Sustainable Finance Disclosure Regulation (SFDR) are set out in Table 1 below, covering investments in investee companies, sovereign and supranational debt, and real estate. The additional indicators selected via the methodology described on page 20, are set out in Tables 2 and 3.

Information on the impact of investments under M&G Luxembourg's management on these indicators will be published each year by 30 June. In this year's report, historical comparison of the data from the previous PAI statement for 2022 has been provided, earlier data is not available as it pre-dates SFDR. For subsequent annual PAI statements, additional annual PAI data will be added up to a maximum of five years. PAI data is calculated based on the average of impact data available for holdings within M&G Luxembourg managed funds at each quarter end, namely 31 March, 30 June, 30 September and 31 December.

Interpretation guidance

This section of the statement seeks to assist the reader in understanding how PAIs are prepared and presented. It is key to understand that there are significant limitations with data used in the calculation of the PAIs, and the explanations provided for some of the factors that should be considered when reviewing changes in PAIs over time.

Scope of PAI indicators

The PAIs in this statement are presented by asset class as outlined in the regulations. The asset classes included in each category are:

- Investee companies includes equity (listed equity, open- and closed-ended funds, private equity) and debt (public corporate debt and private finance).
- Sovereigns and supranationals includes supranational and government bonds, as well as quasi-governmental agency bonds (for clarity, municipal bonds are included in 'investee companies').
- Real estate includes directly held free-hold and long-lease property.

For other asset classes, such as derivatives and cash, PAIs are not currently calculated due to either a lack of generally accepted calculation methodologies or poor data availability and ability to look through to the underlying holdings. As such, the inclusion of data for these assets classes in this statement is not possible. This approach will be reconsidered if ability to assess these types of investments improves.

As the composition of the funds change, the value of assets in each category can vary. The value of assets in scope of each category has been presented below:

Asset category	2023 value	2023% of total	2022 value	2022% of total
Investee companies	€61.4bn	59%	€57.5bn	57.5%
Sovereigns and supranationals	€13.0bn	12.5%	€8.2bn	8.3%
Real estate	€13.0bn	12.5%	€16.7bn	16.7%
Other asset classes (not reported)	€16.5bn	16%	€17.5bn	17.5%

Alongside the PAIs presented in this statement, 'coverage' has been included in brackets under the value for each indicator. Coverage is the value of investments where all relevant data is available and included in the indicator, divided by the total value of the relevant asset category, presented as a percentage. For example, if new assets are added to a relevant indicator, but the investments where all relevant data is available remain the same, the coverage would fall.

Limitations of PAI indicators

The maturing ESG data landscape means there are a number of limitations on PAI indicators related to their production, primarily driven by issues around availability, accuracy and timeliness of source data, including:

1. Data availability

The production of certain PAI indicators is subject to limited availability of relevant impact data, which by its nature is inherently harder to measure and source due to inconsistent disclosure by issuers. This limited availability of data restricts coverage and impacts the ability to meaningfully interpret the PAIs reported, particularly where coverage levels are very low.

2. Third-party data

M&G Investments source data from third-party data providers and are reliant on the quality of this data when calculating PAI indicators. Even when relevant data is disclosed by issuers and collected by third-party data providers, it may be incorrect, incomplete or follow varying methodologies. Third-party information provided by our external data providers has not been independently verified. Where significant issues with input data are identified this may lead to exclusion of the data from the PAI calculations.

3. Timeliness of data

Overall, M&G Investments' approach to PAI indicator calculations is to base them on the latest available impact information, however a significant proportion is based on historical data given timing of disclosure by investee companies and delays in capture by third-party data providers.

4. PAI Indicator definition

Some PAI indicators have no standardised definition and therefore may not be comparable across asset classes and the market as a whole. The use of different measurement techniques may therefore result in materially different results.

Explanations for movements in PAI indicators

There are a number of elements that can impact the movement of PAI indicators over time, and in many cases they are not reflective of changes in portfolio composition or real-world changes on the impacts of our investee companies. Some examples of these are presented below and may be referenced in the 'Explanation' column of the tables in the subsequent sections:

- Data from third-party vendors is updated on a periodic basis, often to reflect more up-to-date estimates or data relating to investee companies, but there are situations where data is removed due to it being identified as incorrect or inaccurate. For indicators on topics where impact data is more nascent, these updates can result in significant variances in the impact data for a given company.
- Some indicators require apportionment of investee company's total adverse impact through the calculation of the portion of the company's total enterprise value that is funded by M&G Investments. For these indicators (eg, PAI 1 – GHG Emissions), fluctuations in the company's enterprise value can also cause the share of the PAI to vary even when investment in the company has not changed.
- Variation in coverage available for a PAI indicator can impact the reported value as data becomes available or falls away for a given investment. Coverage can also be impacted by changes in availability of data from third-party data vendors or changes in portfolio. Where coverage is low these changes are likely to have a more noticeable impact on the reported value of the indicator.
- Changes in portfolio composition (ie, when an investment is bought or sold) will impact the value of an indicator, although it should be noted that such changes may or may not be as a result of the actions taken to address a given impact.

Users of this Statement are advised to take the above limitations and factors into account when assessing the data presented in the report. Notice should also be given to the actions taken and planned which are presented alongside each PAI.

Indicators applicable to investments in investee companies

Table 1: Climate and other environment-related indicators

Adverse sustainability indicator	Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
Greenhouse gas emissions					
1. GHG emissions	Scope 1 GHG emissions (tCO_2e)	**2,966,493** **Coverage: 72%**	3,254,092 Coverage: 75%	Total GHG emissions have increased, driven by the larger impact from higher Scope 3 emissions. Scope 3 emissions data has proven difficult for many companies to accurately source, and efforts to improve quality and accuracy have impacted the absolute increase observed. Carbon footprint exposure has increased as a result of the increase in total emissions. In 2023 coverage for all emission metrics has dropped as data was not collected for some private company investments where data was able to be sourced last year, although this impact was partly offset by an increase in coverage in public assets. The drop in coverage has contributed to the drop in scope 1 and 2 emissions.	**General approach:** As an active investor, investment strategy and engagement are key levers to help us to decarbonise our portfolios. As members of the Net Zero Asset Manager Initiative, M&G Investments have committed to a 2050 net zero carbon emissions target across total AUM. This target includes M&G Luxembourg funds where portfolio management is delegated to M&G Investments. The portfolio management activity for M&G Luxembourg funds is delegated to M&G Investments. M&G Investments' revised net zero investment framework places issuers in one of six categories, which include 'net zero aligned', net zero aligning' and 'not aligned'. This framework provides a clearer differentiation of issuers' net zero commitments and maturity, helping direct engagement, and providing a more accurate view of the transition alignment of the portfolios managed. M&G Investments have also introduced a separate and complementary climate solutions investment framework, aligned with existing and emerging taxonomies to provide consistency in categorisation of issuers' exposure, climate mitigation and adaptation. The **M&G Investments Thermal Coal Investment Policy** applies to all listed equities and public fixed income investments actively managed on behalf of M&G Luxembourg by MAGIM, unless a client has requested to opt out. The full Policy is available online.
	Scope 2 GHG emissions (tCO_2e)	**680,189** **Coverage: 72%**	776,605 Coverage: 75%		
	Scope 3 GHG emissions (tCO_2e)	**23,280,740** **Coverage: 67%**	18,180,794 Coverage: 71%		
	Total GHG emissions (tCO_2e)	**26,698,980** **Coverage: 67%**	22,211,491 Coverage: 71%		
2. Carbon footprint	Carbon footprint (tCO_2e per €M invested)	**650** **Coverage: 67%**	542 Coverage: 71%	Higher reported Scope 3 emissions have contributed to an increased footprint, as portfolio values have stayed broadly stable year on year.	
3. GHG intensity of investee companies	GHG intensity of investee companies (tCO_2e per €M revenue)	**885** **Coverage: 74%**	925 Coverage: 75%	The GHG intensity has fallen year on year. As this PAI is intensity based, it is impacted by the changes in revenue of investee companies each year, and so may not be indicative of reduced real world emissions.	

Adverse sustainability indicator	Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	**9%** **Coverage: 78%**	9% Coverage: 83%	There has been little movement in this PAI, although coverage for this metric has dropped as data was not collected for some private company investments where data was able to be sourced last year.	(continuation from previous page) **Engagements:** In 2023, M&G Investments undertook a review of the first three years of the Hot 100 Engagement Programme, which covers the 100 companies that account for a majority of its financed emissions in listed equity and corporate fixed income (excluding MGSA). The Hot 100 programme covers 67% of M&G Luxembourg's Scope 1 and 2 GHG emissions as at December 2023, however it is worth noting this is concentrated in a small portion of AUM (5%). By the end of the year, M&G Investments had either engaged with, or assessed, 70 of the Hot 100 companies identified in January 2023. M&G Investments engages with high emitters within its portfolios both bilaterally and collectively. They are active members of the **Climate Action 100+** (CA100+) engagement group, and in 2023 joined a broader initiative, the Institutional Investor Group on Climate Change (IIGCC) Net Zero Engagement Initiative, to ratchet up engagement with the highest emitters M&G Investments manage that do not feature on the CA100+ list. For further details of this engagement programme please see the **M&G Investments Stewardship Report**.
5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as percentage of total energy sources	**68%** **Coverage: 50%**	71% Coverage: 58%	There has been a small decrease in this PAI, although this may have been impacted by the drop in coverage as data was not collected for some private company investments where data was able to be sourced last year.	
6. Energy consumption intensity per high impact climate sector	Agriculture, forestry and fishing (GWh per €M revenue)	**<0.1** **Coverage: 0.8%**	<0.1 Coverage: 0.5%	Coverage is very low for these metrics and therefore they are vulnerable to changes in coverage (movements both in terms of portfolio change and availability of data) as well as changes in underlying data from individual issuers. We consider the data availability through our third-party data providers to be particularly immature for this indicator and comparisons between 2022 and 2023 should not be made. For the 'Mining and quarrying' sector, we believe the 2023 result is a more accurate reflection of the outcome of the PAI following enhanced data quality checks performed in the period. The increase in the result for the 'water supply, sewerage, waste management and remediation activities' sector is partly due to a high energy consuming company being brought into scope.	
	Mining and quarrying (GWh per €M revenue)	**0.6** **Coverage: 1.7%**	6.9 Coverage: 1.3%		
	Manufacturing (GWh per €M revenue)	**1.8** **Coverage: 16%**	2.3 Coverage: 19%		
	Electricity, gas, steam and air conditioning supply (GWh per €M revenue)	**6.5** **Coverage: 4%**	5.0 Coverage: 4%		
	Water supply, sewerage, waste management and remediation activities (GWh per €M revenue)	**11.2** **Coverage: 1.0%**	0.4 Coverage: 0.8%		
	Construction (GWh per €M revenue)	**0.1** **Coverage: 1.2%**	0.1 Coverage: 1.0%		

Adverse sustainability indicator	Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
	Wholesale and retail Trade, repair of motor vehicles and motorcycle (GWh per €M revenue)	0.5 Coverage: 4%	0.6 Coverage: 4%	(see previous page)	(see previous page)
	Transportation and storage (GWh per €M revenue)	1.6 Coverage: 2.4%	1.9 Coverage: 2.5%		
	Real estate activities (GWh per €M revenue)	0.3 Coverage: 2.5%	0.3 Coverage: 2.2%		
Biodiversity					
7. Activities negatively affecting biodiversity sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	0.2% Coverage: 65%	0.1% Coverage: 66%	The share of investments with activities negatively affecting biodiversity sensitive areas have remained small. While overall coverage has decreased, the increase seen in the year is partly driven by one investee company we hold for which data has become available, and so has been included within our reporting for the first time this year.	General approach: M&G plc are focused on developing their knowledge on impacts, dependencies, risks and opportunities around natural capital in an investment context. In 2023 M&G plc started to conduct due diligence on emerging data providers to further develop the framework for engagement and have rolled out initial investment team training, building on the existing approach to climate change, given the link between the two impacts. In 2023 M&G Investments became members of Nature Action 100 (NA100), which is modelled on CA100+, but targets companies with high exposure to biodiversity and nature loss. Biodiversity metrics, including PAI 7, is a factor within the M&G Investments ESG scorecard, a proprietary tool designed to enable measurement and comparison of ESG risk exposure and management across time or holdings. This provides a measure of the potential negative effects on biodiversity by a company, where it is considered material for a company or a sector so these can be taken into account in investment decision making and/or to prioritise engagement. Engagement: Biodiversity is now a thematic area of engagement for M&G Investments. A summary of M&G Investments' approach to engagement on Biodiversity is detailed on page 27. For further details of engagements undertaken on biodiversity please see the **M&G Investments Stewardship Report**. If M&G Investments has evidence that a company has caused or is causing a significant negative impact on biodiversity, which is also a breach of UN Global Compact principle 7, a company may be excluded from the investment universe as per consideration of PAIs and also identified and assessed via the M&G Investments' Global Norms process as outlined on page 28.

Adverse sustainability indicator	Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
Water					
8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average.	Data under review		The result for emissions to water included in the 2022 PAI Statement was deemed to be appropriate at the time of publication. However, following enhanced data quality checks in the period we no longer consider the data available for this PAI to be reliable. There will continue to be an assessment of the data quality and availability with a view to publishing a result for this PAI in the future.	General approach: Data sourcing, quality and coverage for this PAI remains challenging (for the whole investment industry), but external ratings on water use are utilised to inform investment decision making where possible. M&G Investments' ESG scorecard enables an understanding of potential negative effects on water, including PAI 8, where material for that sector so these can be considered in investment decisions and/or to prioritise engagement. M&G Investments will continue to factor water considerations where data is available and impacts are material for a sector, into the investment process through research analysis and via further engagements with investee companies. Engagement: If M&G Investments has evidence that a company has caused or is causing a significant negative impact on water, which is also a breach of UN Global Compact principle 7, a company may be excluded from the investment universe as per consideration of PAIs, and also identified and assessed via the M&G Investments' Global Norms process as outlined on page 28.
Waste					
9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million € invested, expressed as a weighted average	3 Coverage: 28%	5 Coverage: 33%	Tonnes of hazardous waste and radioactive waste have decreased, in part due to reduced availability of data for a high impact issuer throughout the year. As a result the decrease may not reflect a true reduction in exposure to waste generated.	General approach: Data sourcing, quality and coverage for this PAI remains challenging (for the whole investment industry), making it difficult to undertake meaningful analysis across all sectors. For relevant sectors, M&G Investments have sought to consider waste as part of research analysis and/or due diligence, where considered material. The M&G Investments ESG scorecard enables an understanding of the potential negative effects on waste management, where data is available and impacts are material for a sector, so these can be considered as part of investment decision making and/or to prioritise engagement. Engagement: If M&G Investments has evidence that a company has caused or is causing a significant negative impact relating to hazardous or radioactive waste, which is also a breach of UN Global Compact principle 7, a company may be excluded from the investment universe as per consideration of PAIs, and also identified and assessed via the M&G Investments' Global Norms process as outlined on page 28.

Table 1: Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

Adverse sustainability indicator	Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
Social and employee matters					
10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0.1% Coverage: 100%	0.3% Coverage: 66%	This indicator has improved in 2023, with two quarters having 0% exposure. As a snapshot is taken at the end of a quarter, temporary exposures can be captured in the data.	**General approach:** M&G Investments supports and encourages adherence to global norms on environmental, social and employee matters, human rights, labour standards, anti-bribery and anti-corruption. These norms are codified in various sources, such as the United Nations Global Compact (UNGC), OECD Guidelines for Multinational Enterprises, as well as the International Labour Organisation (ILO) Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and the Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework. These norms represent best practices supporting a sustainable society, and M&G Investments believes adherence to these will result in the best outcomes for customers in the long term. **Engagement:** Engagement with companies deemed to be in breach of these norms is undertaken to positively influence company behaviour and encourage the remediation of issues and the prevention of reoccurrences. In all funds that M&G Investments has classified as promoting environmental and/or social characteristics (SFDR Article 8 funds) or having sustainable investment objectives (SFDR Article 9 funds), issuers deemed to be in breach of global norms are excluded from the investment universe. Breaches are identified and assessed via the M&G Investments Global Norms process as outlined on page 28.
11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance / complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	37% Coverage: 78%	40% Coverage: 81%	Reporting of data for this PAI by third-party data providers has dropped in 2023, impacting the coverage and overall result.	

Adverse sustainability indicator	Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	17% Coverage: 25%	17% Coverage: 27%	There is little movement on the PAIs measuring gender pay gap and board gender diversity. We expect to see more positive movement in this metric as we progress towards the 2027 ambition for investee companies (described under 'General approach').	**General approach:** M&G Investments believe that over the long term diverse organisations perform better financially, are better at managing risks, and are more representative of society. M&G Investments has set an ambition for public investee companies, which make up a large portion of this metric's coverage, to have board gender equality by 2027. Expectations on pathways to get there differ between large and small companies and across geographies, but if companies fail to meet the minimum expectations on board gender diversity M&G Investments may vote against proposals of the nomination committee. **Engagement:** Diversity and inclusion is one of M&G Investments' sustainability priorities. In 2022, M&G Investments published their expectations on diversity at board level for investee companies. Since then, there has been discernible improvement in a list of investee companies that were initially identified as not meeting the diversity requirements as set out in the **M&G Investments Voting Policy**. During 2023, M&G Investments engaged with 73 companies on diversity. Details on a proportion of these engagements is available in the **M&G Investments 2023 Stewardship Report**. While M&G Investments' focus has been on gender diversity, this will be broadened to include ethnic diversity in 2024. To fully utilise their stewardship tools M&G Investments regularly vote against board elections where they believe insufficient progress has been made. During the year M&G Investments opposed the appointment of directors at 46 investee companies where insufficient progress was being made on diversity and inclusion.
13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	34% Coverage: 72%	33% Coverage: 75%		
14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	0% Coverage: 78%	0% Coverage: 82%	M&G Luxembourg maintained a 0% exposure to controversial weapons in line with the M&G Investments Controversial Weapons Policy.	**General approach, actions taken and actions planned:** The **M&G Investments Controversial Weapons Policy** sets out M&G Investments' approach to the exclusion of companies involved in controversial weapons. The full policy, including scope and application, is published on M&G Investments' website. **Exclusions:** Exclusions relating to controversial weapons are set out in the M&G Investments Controversial Weapons Policy. This Policy applies to public listed companies only, as private companies are not assessed against the exclusions due to the lack of coverage within currently available data used for screening.

Indicators applicable to investments in sovereigns and supranationals

Adverse sustainability indicator	Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
Environmental					
15. GHG intensity	GHG intensity of investee countries (tCO_2e per €M GDP)	555 Coverage: 98%	708 Coverage: 69%	During 2023 new investments have been captured in scope, and data availability has increased significantly. A lower average intensity for the new assets covered has resulted in an overall reduction in this indicator.	General approach: M&G Investments monitors country data on climate performance. These include GHG emissions, renewable energy, energy use and climate policy, via the use of the Climate Change Performance Index (CCPI). This data has been incorporated in the M&G Investments Sovereign Bond Framework, which is used for the sustainability analysis of government bonds and enables proprietary assessment of sovereign bonds for consideration as sustainable investments, as per the SFDR. Exclusions: In all funds that M&G Luxembourg has classified as promoting environmental and/or social characteristics (SFDR Article 8 funds) or having sustainable investment objectives (SFDR Article 9 funds), we exclude sovereigns with a 'very low' rating by the CCPI. We reserve the ability to utilise proprietary analysis to override this rating, should there be evidence to warrant such action.
Social					
16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	Absolute: 5 (Count of unique countries) Relative: 4% (Percentage of unique countries with social violations) Coverage: 100%	Absolute: 5 (Count of unique countries) Relative: 4% (Percentage of unique countries with social violations) Coverage: 100%	Exposure to investee countries subject to social violations has remained stable.	General approach: M&G Investments monitors country data on social impacts including data evidenced through this PAI alongside the use of the social progress index outputs which consider and enable an understanding of various contributing factors to a sovereign's overall risk profile. These include sanctions against states, non-cooperative tax jurisdictions, political instability and social progress factors. This data has been incorporated in the Sovereign Bond Framework, which is used for the sustainability analysis of government bonds and enables the assessment of sovereigns for consideration as sustainable investments, as per the SFDR. Exclusions: For Article 8 and 9 SFDR funds, sovereigns assessed as non-cooperative tax jurisdictions or which have EU or UN sanctions are excluded. This assessment is separate and in addition to any sanctions which legally prohibit investment.

Indicators applicable to investments in real estate assets

Adverse sustainability indicator	Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
Fossil fuels					
17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels[1]	0% Coverage: 100%	0% Coverage: 100%	Exposure to fossil fuels from real estate assets has remained nil.	**General approach:** M&G Real Estate applies the M&G Investments' ESG Principles, as set out in the M&G Investments ESG Investment Policy, where appropriate. M&G Investments considers exposure to fossil fuels across real estate assets at the point of acquisition. M&G Investments' real estate funds invest in core real estate (offices, retail, residential, healthcare). Investments are not made in non-core assets such as oil refineries, mining sites etc. so exclusions for fossil fuels are not considered.
Energy efficiency					
18. Exposure to energy-inefficient real estate assets	Share of investments in energy inefficient real estate assets[1]	22% Coverage: 98%	24% Coverage: 100%	There is little movement on this PAI. We continue to monitor exposure to energy inefficient real estate assets across our portfolios.	**General approach:** M&G Investments considers exposure to energy inefficient assets at acquisition, reviewing energy performance certificates (EPC) as part of the due diligence process, ensuring the cost of any upgrades are factored into the purchase price. Directly managed real estate assets are required to provide a Sustainable Asset Plan which lists energy efficiency opportunities. In particular, for new developments in our directly managed portfolio, we seek green building certifications such as BREEAM, NABERS and LEED to validate our sustainability efforts. Additionally, M&G Investments have embarked on a program to conduct onsite net zero surveys of all assets to identify interventions needed to decarbonise each asset and the costs associated with each. This information is used to create asset level score cards which investment teams take into account when deciding whether to buy/sell/hold assets. This is undertaken on a fund by fund basis as no exclusions are applied.

[1]Instead of calculating the metric as the average of the PAI data on 31 March, 30 June, 30 September and 31 December, the real estate asset metrics are reported as at 31 December due to data collection limitations.

Other indicators for principal adverse impacts on sustainability factors

Indicators applicable to investments in investee companies

Table 2: Additional climate and other environmental-related indicators

Adverse impact on sustainability factors	Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
Emissions					
4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	27% Coverage: 78%	33% Coverage: 82%	This indicator has improved since last year which is consistent with the increase in the number of companies and financial institutions worldwide that have set greenhouse gas (GHG) reduction targets and had them validated by the Science Based Targets initiative (SBTi) in 2023.	**General approach:** See general approach outlined under emissions section in Table 1. This metric supports an understanding of company-level exposure to transition risk where an issuer does not have carbon emission reduction initiatives aimed at aligning with the Paris Agreement. **Engagement/voting:** See approach outlined under emissions section on pages 8 and 9 of this statement.

Table 3: Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

Adverse impact on sustainability factors	Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
Social and employee matters					
1. Investments in companies without workplace accident prevention policies	Share of investments in investee companies without a workplace accident prevention policy	10% Coverage: 77%	12% Coverage: 79%	This indicator has improved since last year. It is expected that due to the increased focus on sustainability, and as non-financial reporting improves market-wide, more companies will develop and publish policies relating to sustainability topics, such as workplace accident prevention.	**General approach:** This metric is used to support assessment of company exposure to health and safety risk. Failure to manage health and safety risks can result in significant fines and penalties, as well as reputational damage. M&G Investments' company analysis, due diligence, and ESG scorecard enables monitoring of compliance and performance of companies in relation to health and safety risk, so this can be considered in investment decisions and/or to prioritise engagement. Consideration of this topic also supports the Fundamental Principles and Rights at Work of the ILO, as well as the need to protect and respect human rights outlined in the United Nations Guiding Principles for Business and Human Rights (UNGP). **Engagement:** See approach to social and employee issues outlined in Table 1 above.
Human rights					
9. Lack of a human rights policy	Share of investments in entities without a human rights policy	8% Coverage: 79%	11% Coverage: 83%	This indicator has improved since last year. It is expected that as non-financial reporting develops, more and more companies are publishing policies in relation to significant sustainability issues, therefore the downward trajectory is in line with expectations. The decrease in coverage is primarily driven by availability of data for private assets.	**General approach:** This metric is used to support assessment of company exposure to human rights risk. Failure to manage human rights can result in significant fines and penalties, as well as reputational damage. M&G Investments' company analysis, due diligence, and ESG scorecard enables monitoring of companies in relation to human rights and specifically risks associated with modern slavery (which is an umbrella term that can describe slavery, human trafficking, forced labour, debt bondage, forced marriage and the sale and exploitation of children). Modern slavery is counter to value creation and is illegal. Investee companies are expected to create safeguarding mechanisms and systems to enable identification and avoidance and in doing all they can to reduce its prevalence. It is in the interests of clients that these factors are considered in investment decisions and/or to prioritise engagement. Consideration of this metric also supports the broader consideration of global norms which are codified in various international frameworks and principles, such as the OECD Guidelines for Multinational Enterprises, the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, the United Nations Global Compact and the Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework. **Engagement/voting and exclusions:** In all Article 8 and 9 Funds, issuers deemed to be in breach of global norms are excluded from the investment universe. Breaches are identified and assessed via the M&G Investments Global Norms process as outlined on page 28.

Adverse impact on sustainability factors	Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
Anti-corruption and anti-bribery					
15. Lack of anti-corruption and anti-bribery policies	Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption	4% Coverage: 79%	5% Coverage: 83%	Lack of anti-corruption and anti-bribery policies has remained low. The decrease in coverage is primarily driven by availability of data for private assets.	General approach: This metric is used to support assessment of company-level exposure to corruption and bribery risk. Failure to manage these risks can result in significant fines and penalties, as well as reputational damage. M&G plc is subject to and must comply with all relevant legislation and regulation related to money laundering, terrorist financing, sanctions, fraud, bribery, corruption and tax evasion ('Financial Crime') in the countries in which it operates, plans to operate or conducts any business-related activity. M&G plc actively supports the global fight against Financial Crime and is committed to preventing, detecting and, where necessary, reporting instances of such criminal conduct to appropriate authorities and regulators. M&G Investments' ESG scorecard enables us to understand compliance of companies in relation to broad governance issues including consideration of corruption and bribery risk, so this can be used to inform investment decisions and/or to prioritise engagement. Exclusions: M&G plc is compliant with applicable financial sanctions regimes, as set out in their **Sanctions Declaration**. Any company sanctioned by any of these regimes is automatically excluded from the investment universe. If M&G Investments has evidence that a company, which is not subject to the aforementioned sanctions, has significant issues associated with bribery and corruption, it may be excluded from the universe as per the M&G Investments Global Norms process and principles. Breaches are identified and assessed via the M&G Investments Global Norms process as outlined on page 28.

Description of policies to identify and prioritise principal adverse impacts on sustainability factors

Identifying principal adverse impacts

The SFDR defines PAI as the negative impact, caused by an investment decision or investment advice, on sustainability factors, namely:

- climate and environmental factors
- social and employee matters
- respect for human rights
- anti-corruption and anti-bribery.

PAIs are measured through a series of regulatory defined 'indicators' which seek to measure these impacts in a comparable and systematic way.

The M&G Investments ESG Investment Policy (ESG Investment Policy), which is applied to all funds managed by M&G Investments, including M&G Luxembourg, describes the ESG investment principles which are used to inform and guide all investments made. The ESG Investment Policy was most recently updated in March 2024. Consideration of PAI indicators and sustainability risks are reflected in the ESG Investment Policy, and particularly in principles A and B:

- Principle A: Consideration within investment processes of Environmental, Social and Governance ('ESG') factors that have the potential to have a material financial impact. In addition, for funds/mandates that promote specific ESG, sustainability or impact characteristics and/or objectives (and as such categorised as Article 8 or Article 9 under SFDR), these funds will be managed according to the commitments made in the fund documentation / investment mandate.
- Principle B: Consideration of the implications for society and the environment is a fundamental part of investment stewardship and in line with M&G Investments' fiduciary duty to customers.

Principle A focuses on the implications of sustainability risks for investments (outside-in), whereas Principle B focuses on the impact of the sustainability implications of investments on the outside world (inside-out).

Identification and consideration of PAIs is undertaken in the following ways, in line with the ESG Investment Policy:

- ESG factors are considered as part of pre-investment/due diligence which enables M&G Investments to identify exposure to PAIs and other material sustainability risks. For funds categorised as Article 8 and 9 SFDR funds, this may preclude investment, depending on the environmental/social characteristics or objectives of the fund made in the fund documentation / investment mandate.
- M&G Investments has fund exclusions limiting exposure to most harmful impacts or where activities are prohibited by regulation (eg, sanctions, Thermal Coal Policy, controversial weapons). For the 'Planet+' range of strategies and for Article 8 and 9 funds, additional exclusions are detailed in the fund documentation / investment mandate, prohibiting a wider set of harmful activities and enable M&G Investments to limit exposure to harmful environmental/social behaviour (this is described in more detail in Table 1 and 3 for the relevant PAIs).

- M&G Investments undertakes regular monitoring and screening of portfolios under management against ESG factors. Where M&G Investments identifies companies with a significantly negative impact on environmental and social factors this may result in further analysis and may be a driver for active ownership activities, including voting and engagement, as a means to mitigate that impact. Ongoing negative impact on sustainability factors which cannot or is not being remediated by a company may ultimately lead to divestment. Monitoring of PAIs is subject to data availability and quality.

M&G Investments considers PAIs at an entity level by measuring the aggregated negative impact on sustainability indicators of funds under M&G Luxembourg's management.

Governance in relation to policies

The ESG Investment Policy is owned by the Chief Executive Officer (CEO) of M&G plc's Asset Management business (M&G Investments). The ESG Investment Policy is refreshed at least annually; the version in place at the end of the reporting period was published in May 2023. Any changes require approval at the M&G Group Limited (MGG) Executive Committee, which has delegated authority for ESG matters from the MGG Board. Responsibility for ESG across all of MGG's activities (including M&G Luxembourg) lies with the MGG Executive Committee and their delegated committees.

Methodologies to select indicators

The M&G Investments ESG Investment Policy describes the framework governing the approach to ESG and sustainability, as well as in relation to specific requirements set out within SFDR. The ESG Investment Policy identifies several key issues of focus across all investments, namely:

- climate
- diversity
- adherence to global norms on environmental, social and employee matters, human rights, labour standards, anti-bribery and anti-corruption
- good corporate governance.

These core areas of focus have been identified due to their importance across all sectors and markets, their potential materiality either on financial performance and/or the implications for society and the environment of negative performance on these issues by the investments. Materiality also accounts for the probability of occurrence and the severity of each PAI.

In addition to the eighteen mandatory PAI indicators (fourteen corporate indicators, two sovereign indicators and two real estate indicators) outlined within this statement (in Table 1 above), the SFDR requires that at least two additional opt-in indicators are identified and reported (as per Table 2 and 3 above), with at least one related to environmental factors and the other to a social factor.

The selection of additional PAI indicators will be reviewed annually by M&G Investments alongside any updates to the M&G Investments ESG Investment Policy. For 2023, the PAI indicators have been kept the same as those reported for 2022.

M&G Investments has used the following principles to select the additional indicators applicable to M&G Luxembourg:

Table 4: Additional PAI Indicators selected by M&G Investments as applicable to M&G Luxembourg and methodology used to select these

Adverse sustainability impact	Indicators applicable to investments in investee companies	Metric	Methodology/justification for selection as additional indicator
Additional climate and other environment-related indicators (As selected from Table 2 of SFDR RTS)			
Emissions	Investments in companies without carbon emission reduction initiatives (additional indicator No.4)	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	1. Material in our understanding of company exposure to transition risk 2. Widely relevant across all sectors 3. Data availability – high
Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters (As selected from Table 3 of SFDR RTS)			
Social and employee matters	Investments in companies without workplace accident prevention policies (additional indicator No.1)	Share of investments in investee companies without a workplace accident prevention policy	1. Material in our understanding of company exposure to health and safety and accident risk 2. Widely relevant across all sectors 3. Data availability – high
Human rights	Lack of a human rights policy (additional indicator No.9)	Share of investments in entities without a human rights policy	1. Material data point in understanding more granular risk associated with human rights and UNGC/OECD/global norms compliance 2. Widely relevant across all sectors, particularly useful for sectors/companies with high human rights risk 3. Data availability – high
Anti-corruption and anti-bribery	Lack of anti-corruption and anti-bribery policies (additional indicator No.15)	Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption	1. Material data point in understanding more granular risk associated with bribery and corruption risk and UNGC/OECD/global norms compliance 2. Widely relevant across all sectors, particularly useful for sectors/companies with high human rights risk 3. Data availability – high

Margin of error

The calculation of PAIs is based on the average of the adverse impacts of M&G Luxembourg's investments at the end of each quarter (31 March, 30 June, 30 September and 31 December). The intention behind the use of all four data points is to capture the change in investments across a given financial year, as some investments may not be held from beginning to end of the period in consideration, and their relative weights may change across time. Even with this approach there is still a limitation that investments held only between two of these dates will not be captured in the impact values provided.

The PAI indicator values provided are not an aggregation of the entire adverse impact of the entity, but the aggregation of the impacts caused by exposures to different types of asset classes (investee companies, sovereigns and supranational or real estate assets) in the relevant indicators. To provide greater transparency when assessing the adverse impacts, 'Coverage' is provided against each indicator. Coverage is calculated as follows:

Coverage % = Value of investments where data is available / Value of eligible assets (eligibility is calculated by adding the value of all underlying holdings that are corporate holdings for investee company metrics, all sovereign holdings for sovereign metrics, all direct real estate holdings for real estate metrics)

The methodology to identify PAIs is always subject to data availability and quality. M&G Investments, who produce PAIs on behalf of M&G Luxembourg, are reliant on the quality of data received from eg, investee companies via third-party data providers, though continuously strive to improve data coverage and data quality. To the extent possible, data reported by investee companies is prioritised. This is done in order to minimise the reliance on third-party estimations, contributing to improving the overall quality of the data M&G Investments uses as input in its investment and active ownership processes. Where reported data is not available or of adequate quality, M&G Investments may choose to use proxy data provided by third-party data providers if it believes this is of a robust and meaningful quality. A limitation in terms of data availability is that M&G Investments may not be able to gather the same level of information about the impact of indirect investments (eg, fund-of-fund investments) or private companies, although best efforts is made to gather this information. Additional context on limitations in the calculation of PAIs can be found in the 'Interpretation Guidance' section of this statement.

Data sources

M&G Investments' Investment Data Platform provides a central sustainability database and generates entity PAI reporting sourced from several sources, primarily this is from third-party data providers, but also includes M&G Investments' own proprietary ESG systems and exclusion lists. For a given indicator, multiple data sources may be used and may include:

i. Third-party data vendors who undertake ESG data (including PAI data) collection on M&G Investments' behalf (which may include direct compilation or assessment or calculation against PAIs)

ii. Direct sourcing from portfolio companies or assets

iii. Research or on desk assessment (qualitative or quantitative)

Our selection of third-party data vendors for PAIs considers the following factors:

i. Data quality and accuracy: Whether the vendor's product delivers accurate information

ii. Data availability: Level of coverage for the range of asset classes

iii. Data Methodology: whether methodologies and proprietary tools or estimates deployed are in line with the regulatory and/or M&G Investments' requirements

iv. Market position: There continues to be evolution in the ESG data vendor market and therefore our selection considers current breadth of clients and market position, on-going development, market consolidation

v. Implementation and Integration: Is the vendor already used across M&G Investments for data provision and are their standards of data sharing optimised for ingestion and transformation ie, in respect of mapping, transparency of methodologies and downstream aggregation for sustainability or non-sustainability purposes

vi. Flexibility: Ensuring no single data vendor or aggregator has overall control and the group can source data and information as required

M&G Investments' PAI methodology applies a range of data, including values, scores and weights sourced from investee companies and several third-party data providers. For a given indicator, multiple data sources may be used. The following reflects the data hierarchy built to manage PAI data in M&G Investments' Investment Data Platform:

i. For public companies: primary source is MSCI. If there is no data available from MSCI, then seek to source data from Bloomberg.

ii. For private companies: data hierarchy for public companies applies first. For leveraged loans, source via Findox. For other private companies and funds, source via Apex or via on desk data collection processes.

iii. If data sources above are insufficient, the SFDR regulations allow for proxy or estimated data to be used. At the moment, this is only used if provided via a data vendor and no proprietary M&G tools are currently used for estimation.

iv. For PAI 10 (Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises) the proprietary M&G Global Norms Exclusion list is used as the source of this reporting.

v. For PAI 14 (Exposure to controversial weapons), we use third-party data providers supplemented by proprietary research to identify companies flagged for involvement in controversial weapons.

M&G Investments' approach to PAI calculations is that they should be based on the latest available information on the impacts of investee companies. Therefore, the provision of data by undertakings on a quarterly basis is not a prerequisite to perform at least four quarterly calculations, and data relating to previous reporting periods may be used in the calculation of PAIs.

Engagement policies

M&G Investments believes that the long-term success of companies is supported by effective investor stewardship and high standards of corporate governance, and that if a company is run well, and sustainably, it is more likely to be successful in the long run. M&G Investments are focused on active management across public and private markets. The business is underpinned by deep and broad investment expertise across both fund management and extensive in-house research capabilities. Within public markets, M&G Investments focus on value-add equity and multi-strategy investment and within fixed income. Its private markets business encompasses capabilities across private and structured credit, private equity, impact, infrastructure and real estate.

M&G Investments are committed to being transparent about how investment stewardship activities are conducted in support of long-term sustainable performance. The principles of how engagement is undertaken is set out in the **M&G Investments Engagement Policy**, which is available publicly and covers all funds and portfolios managed, whether directly or via a delegation, by M&G Luxembourg.

M&G Investments follow and are supportive of the UK Stewardship Code, the benchmark in the UK for institutional investors to meet ownership responsibilities in respect of their holdings. The code is voluntary and operates on a comply-or-explain basis. The Financial Reporting Council, the independent regulator overseeing financial reporting, accounting and auditing and corporate governance in the UK, monitors compliance with the code. For more information on M&G Investments and the UK Stewardship Code, please see the appendix of the **M&G Investments Annual Stewardship report** on the M&G website.

M&G Investments' engagements form an integral part of how environmental, social and governance (ESG) considerations are integrated into the investment process. M&G Investments subscribes to the definition of engagement, endorsed by the United Nations Principles of Responsible Investing (UN PRI), as interactions between the investor and current or potential investees to influence ESG practices and/or improve ESG disclosure.

M&G Investments engage with companies to add value to the investment process or provide feedback to the company, focussing on achieving positive real-world outcomes. M&G Investments' 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. As such, the M&G Investments' Engagement Policy is consistent with, and closely linked to, the M&G Investments ESG Investment Policy.

Active voting is an integral part of M&G Investments' investment approach, which is why M&G Investments believe exercising shareholder votes adds value and protects its client's interests as shareholders. For more information on M&G Investments' voting, please see the **M&G Investments' Voting Policy.**

Of the 14 mandatory PAIs applicable to investee companies and 4 optional PAIs established by SFDR, M&G Investments' current top-down, thematic engagement programmes systematically address 10 of these, as described in Table 5 below. PAIs that fall outside of these 10 will be considered on a bottom-up basis as described in Tables 1, 2 and 3 above.

Table 5: Engagement on PAI Indicators

Adverse sustainability indicator	Metric	Engagement
1. GHG emissions	Scope 1, 2 and 3 emissions and Total GHG emissions	Climate is a key focus of M&G Investments' engagement priorities. It has run a top-down climate engagement programme since 2020 for investee companies in both developed and developing markets, focusing on strategy, disclosure, goals and targets to achieve decarbonisation. M&G Investments mapped holdings to determine a targeted climate engagement list, based on the top 100 highest emitters and largest M&G Investments-wide exposure in listed equities and fixed income. This is where engagement activity is focused. The Hot 100 programme covers 67% of M&G Luxembourg's scope 1 and 2 GHG emissions as at December 2023. However it is worth noting this is concentrated in a small portion of AUM (5%).
2. Carbon footprint	Carbon footprint	
3. GHG intensity of investee companies	GHG intensity of investee companies	
4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	
5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage	
6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	
4 (Table 2). Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	
10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises.	Global Norms violators are excluded from the 'Planet+' range of strategies, and all funds which are classified as Article 8 and 9. For other strategies, Global Norms violations are a key engagement trigger, and our portfolios are monitored for such violations, or potential violations, using a variety of data providers and ongoing controversy monitoring. For funds without an exclusion, we seek to positively influence company behaviour and encourage the remediation of issues and the prevention of reoccurrence.
13. Board gender diversity	Average ratio of female to male board members in investee companies	M&G Investments engages on board diversity where companies are failing to meet their minimum expectations, as laid out in the M&G Investments Voting Policy. For those boards, where improvement is not forthcoming, escalation includes voting against relevant directors at annual general meetings.

Adverse sustainability indicator	Metric	Engagement
7. Activities negatively affecting biodiversity sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	Biodiversity is a topic that is gaining momentum for investors. M&G Investments started engaging on this important area in 2022, and in 2023 developed an engagement approach to natural capital, which included identifying 19 companies that are seen as priorities for engagement. This was done using data from the Taskforce on Nature-related Financial Disclosures priority sectors, Forest 500 assessment of most influential companies in forest-risk supply chains and NA100, to identify the most material sectors and companies exposed to biodiversity risk. The companies that form part of the NA100 list make up a very small amount of M&G Luxembourg's AUMA, at 7% of market value. M&G Investments then undertook company assessments, leveraging tools such as ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) to identify material impacts and dependencies, and started to engage bilaterally on the outcomes of these assessments. This approach is a widening of M&G Investments' focus on climate to incorporate natural capital and biodiversity.

References to international standards

M&G Luxembourg, along with other M&G plc entities, adhere to the following responsible business conduct codes and internationally recognised standards for due diligence and reporting.

Global norms (eg, UN Global Compact, OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights)

As an asset manager, M&G Investments supports and encourages adherence to global norms on environmental, social and employee matters, human rights, labour standards, anti-bribery and anti-corruption. These norms are codified in various sources and represent best practices supporting a sustainable society, and M&G Investments believe adherence will result in the best outcomes for clients in the long term. M&G plc has signed the United Nations Global Compact (UNGC) and endorses the OECD Guidelines for Multinational Enterprises. Overall, the United Nations Universal Declaration of Human Rights, the International Labour Organization's (ILO) labour standards, the UN Guiding Principles on Business and Human Rights (UNGPs), the UNGC and the OECD Guidelines for Multinational Enterprises outline minimal behavioural standards. These requirements apply to all parts of M&G plc including M&G Luxembourg.

In all Article 8 and 9 Funds, issuers deemed to be in breach of global norms are excluded from the investment universe. To identify potential breaches within publicly traded investments, M&G Investments utilises internal expertise, supported by norms-based screening data from several vendors, including specialist advisors, to identify companies that violate global norms in the areas of human rights, labour standards, environmental standards and anti-corruption. These cases are assessed via M&G Investments' Global Norms process, and are voted on by the Global Norms Committee, using a principles- and evidence-based approach to create the final exclusion list in alignment with recognised global norms frameworks, eg, UNGP, ILO. For private assets, assessment of adherence to global norms would be considered on the same principles and processes, and assessed as part of due diligence processes and ongoing monitoring.

M&G Investments' Stewardship & Sustainability team monitors, on an ongoing basis, for new cases or potential breaches with the ability to add new names to the list at any point. For privately traded investments, M&G Investments uses internally conducted analysis as part of due diligence to determine whether a company is in breach of the global norms. If they are considered in breach, they would be considered for exclusion using the same guidelines and governance process described above and an outcome would be decided through voting of the Global Norms Committee.

Data sources used to assess PAIs and compliance with M&G Investments exclusions (eg, Thermal Coal) or fund-specific exclusions (as set out in the fund documentation) include: Bloomberg, MSCI, Findox, analyst due diligence and ongoing assessment of controversy.

M&G Investments continues to factor Global Norms considerations into the investment process, through research analysis and via the use of exclusion and engagement at the discretion of the Global Norms Committee.

Link to sustainability indicators

The PAIs detailed below are used to measure adherence to the respective standards:

UN Global Compact:

- Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises (PAI 10: Table 1)
- Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises (PAI 11: Table 1)
- Investments in companies without workplace accident prevention policies (PAI 1: Table 3)
- Lack of a human rights policy (PAI 9: Table 3)
- Lack of anti-corruption and anti-bribery policies (PAI 15: Table 3)

UN Guiding Principles on Business and Human Rights:

- Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises (PAI 10: Table 1)
- Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises (PAI 11: Table 1)
- Investments in companies without workplace accident prevention policies (PAI 1: Table 3)
- Lack of a human rights policy (PAI 9: Table 3)
- Lack of anti-corruption and anti-bribery policies (PAI 15: Table 3)

OECD Guidelines for Multinational Enterprises:

- Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises (PAI 10: Table 1)
- Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises (PAI 11: Table 1)
- Investments in companies without workplace accident prevention policies (PAI 1: Table 3)
- Lack of a human rights policy (PAI 9: Table 3)
- Lack of anti-corruption and anti-bribery policies (PAI 15: Table 3)

ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy:

- Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises (PAI 10: Table 1)
- Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises (PAI 11: Table 1)
- Investments in companies without workplace accident prevention policies (PAI 1: Table 3)
- Lack of a human rights policy (PAI 9: Table 3)
- Lack of anti-corruption and anti-bribery policies (PAI 15: Table 3)

Convention on cluster munitions:

- Controversial weapons (PAI 14: Table 1)

Paris Agreement

M&G Investments is a signatory to the Net Zero Asset Managers Initiative and committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C. M&G Investments has published interim targets and report on progress against these. Initially confined to assets managed on behalf of the M&G plc Group's internal asset owner, M&G Investments is seeking to gradually increase assets in scope to include third-party client mandates. The transition to carbon net zero is about reshaping the whole economy to operate within planetary boundaries. This includes communicating clear transition expectations to investees and stakeholders, as well as financing and enabling solutions to support our clients on their climate journey. M&G Investments uses Net Zero Asset Managers Initiative requirements as a framework to measure and report progress in relation to net zero commitments. More detailed information can be found within the **M&G plc Annual Report and Accounts**.

M&G Investments' Net Zero Investment Framework (NZIF) has evolved over 2023, in line with guidance from the Institutional Investors Group on Climate Change (IIGCC), to better track and manage two key pillars of the investment transition approach: decarbonisation of the assets we manage, and increasing investments in climate solutions. The new NZIF provides clearer differentiation of issuers' net zero commitments and maturity, helping our engagement efforts, and providing a more accurate view of the transition alignment of the portfolios managed. M&G Investments have also introduced a separate and complementary climate solutions investment framework, aligned with existing and emerging taxonomies. The framework will provide consistency in measurement and allows for better categorisation and monitoring of issuers' exposure to the structural growth themes of climate mitigation and adaption.

Data sources used to assess PAIs and compliance with M&G Investments' broader climate commitments and targets include: Bloomberg, MSCI, Findox, Science-Based Targets Initiative, CA100+, Carbon Disclosure Project, as well as proprietary tools and research assessments (eg, Net Zero Investment Framework, ESG Scorecard).

Link to sustainability indicators

Climate indicators:

- Greenhouse gas emissions (PAI 1-6, Table 1, plus additional indicator 4. Investments in companies without carbon emission reduction initiatives, Table 2)

In addition to the PAI climate indicators, a range of other climate indicators are captured for use as part of investment decision making as well as for other reporting across M&G plc. M&G Investments also undertake climate scenario analysis on public asset portfolios, which acts as a useful tool for interrogating and understanding how climate-related developments could impact the assets they manage. The scenarios used are based on Network for Greening the Financial System (NGFS) scenarios. Further details on these metrics and outputs of the scenario analysis are disclosed in the 'Climate-related disclosures' section of the 2023 **M&G plc Annual Report and Accounts**.