

M&G Investments Transition Assessment Framework



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

On certain funds, fund managers are obliged to use the Transition Assessment Framework as a result of commitments made in the fund materials. Where the fund makes such commitment, it is explicitly disclosed in the relevant Prospectus and/or other legal documentation as a binding part of the investment process. As of the date of this disclosure, there are only several M&G funds making such commitments.

Overview of the rating methodology

The M&G Investments Transition Assessment Framework is used to evaluate the quality of companies' climate transition plans.

The objective is to provide an opinion of whether companies are on a credible path to decarbonise at a pace consistent with the goals of the Paris Agreement. This opinion serves as a structured, comparable and consistent input into investment-decision making for the funds and mandates that have promotions related to transition to a low carbon economy. It is also used to inform engagement with companies held in the portfolios.

The assessment evaluates companies against 8 environmental climate-specific criteria, which are grouped into two modules, Net Zero Level and Transition Plan. The Net Zero Level module is applicable to all companies, while the Transition Plan module is applicable only to companies in sectors that have high impact on climate change (ie are carbon intensive) or are exposed to elevated climate risks.

Based on these criteria, each company is classified into one of the following five Alignment Levels: Not Aligned, Committed to Net Zero, Aligning to Net Zero, Aligned to Net Zero and Achieving Net Zero. Not Aligned is the lowest rating, while Achieving Net Zero is the highest.

There is also a separate evaluation whether the company supplies products or services that constitute critical technologies or solutions enabling the energy transition. Such companies are labelled Critical Enablers.

The Transition Assessment Framework is based on scientific evidence that limiting the temperature increase to well below 2°C, and preferably to below 1.5°C, above pre-industrial levels is critical to avoid the most severe climate impacts, which is the threshold that Paris Agreement goal is based on. The Transition Assessment Framework is built upon Net Zero Investment Framework 2.0. developed by the Institutional Investor Group on Climate Change (IIGCC) to provide investors with evidence-based guidance for setting portfolio climate alignment targets. It incorporates validated scientific standards for assessing Net Zero commitments and targets, such as Science-Based Targets initiative (SBTi) or the Transition Pathway Initiative (TPI).

Table 1. Key features of Transition Assessment Framework

Factors	8 environmental criteria across two modules: <ul style="list-style-type: none">• Net Zero Level (3 criteria)• Transition Plan (5 criteria)
Rated items	Companies
Industry classification used	NACE adopted by the European Commission (version NACE Rev. 2.1)
Rating values (Alignment Levels)	Not Aligned / Committed to Net Zero / Aligning to Net Zero / Aligned to Net Zero / Achieving Net Zero Critical Enabler: Yes / No
Rating type	Absolute
Materiality dimension(s)	Impact
Type of analysis	A mix of backward and forward-looking
Time horizon rating is based on	Latest available data per source or vendor
Time horizon rating is valid for	No fixed horizon – until new data becomes available
Last methodology update	June 2026
Last methodology review	June 2026

Topics covered by the rating

Table 2. Criteria covered by the Transition Assessment Framework

Environmental	
Net Zero Level For all companies	Transition Plan * For companies in material high impact sectors only
1. Climate Commitment Does the company have a long term goal to achieve Net Zero that is consistent with a global net zero goal of the Paris Agreement?	4. Emissions Disclosure Does the company disclose publicly how much carbon emissions they generate across Scopes 1, 2 and material Scope 3 categories?
2. Near-Term Emissions Reduction Target Has the company set a target to reduce emissions by specific amount over the next few years (the latest by 2035) that is consistent with a global net zero goal of the Paris Agreement?	5. Transition Plan Disclosure Does the company publish a plan outlining what actions it will take to reduce its carbon emissions?
3. Emissions Performance Has the company reduced their emissions in the past few years at a rate that is consistent with a global net zero goal of the Paris Agreement?	6. Transition Plan Quantification Does this plan specify and quantify the actions or activities used to achieving its stated commitments and targets?
	7. Capital Allocation to Transition Plan Has the company set aside the funds to complete the actions outlined in the plan?
	8. Long-Term Emissions Reduction Target Does the company have a long-term target to achieve Net zero that is consistent with a global net zero goal of the Paris Agreement, covering all material emissions categories, and consistent with best practice guidelines eg the SBTi?

+ Critical Enabler evaluation

Relevant international agreements taken into account in the framework

- Alignment with targets and objectives of the Paris Agreement

* Due to low data availability, this module may not be used when Transition Assessment Framework is applied to products that invest in private companies (refer to fund prospectus for details).

The Transition Assessment Framework focuses on environmental factors that are climate change specific. The 8 assessment criteria are outlined in the table above. Each of these criteria is either determined as 'Met' or 'Not Met'.

Criteria in the Net Zero Level module are assessed for all companies. That module focuses on assessment of a company's net zero commitment, near term (ie by 2035) targets to deliver on their commitment, and current emissions reduction performance.

Criteria in the Transition Plan module are assessed only for companies in material high impact sectors. Material high impact sectors are the ones that have high impact on climate change (ie are carbon intensive) or are exposed to elevated levels of climate risk as a result of transition to low carbon economy. This module assesses whether the company has made sufficient disclosures of its carbon emissions and activities to decarbonise to give investors confidence that its targets are feasible and credible.

Separately, evaluation is made of whether a company is a Critical Enabler. Critical Enablers are companies that supply products or services that constitute critical technologies or solutions enabling the energy transition.

This evaluation is qualitative and its only used for specific funds and mandates (refer to fund prospectus for details).

The assessment takes into account relevant international agreements which are outlined above. It takes into account targets and objectives of the Paris Agreement directly through the inclusion of temperature alignment and science-based targets to assess a company's alignment with these goals.

The topics covered by the Transition Assessment Framework correspond closely to the climate change topics from the European Sustainability Reporting Standards developed pursuant to the Article 29b of Directive 2013/34/EU. Specifically, ESRS E1-1 Transition plan for climate change mitigation applies. While the Transition Assessment Framework does not map one-to-one to this standard, its coverage is informed by and consistent with it.

How the rating is calculated

Table 3. How the rating is calculated

Module	Criteria	Not Aligned	Committed to Net Zero	Aligning to Net Zero	Aligned to Net Zero	Achieving Net Zero
NET ZERO LEVEL All companies	1. Climate Commitment		✓	✓	✓	
	2. Near-Term Emissions Reduction Target			On track	Achieved	
	3. Emissions Performance				✓	✓
TRANSITION PLAN Companies in material high impact sectors only	4. Emissions Disclosure		✓	✓	✓	
	5. Transition Plan Disclosure			✓	✓	
	6. Transition Plan Quantification				✓	
	7. Capital Allocation to Transition Plan				✓	
	8. Long-Term Emissions Reduction Target				✓	
Critical Enablers	Qualitative assessment to determine if a company supplies products or services that constitute critical technologies or solutions enabling the energy transition.					

As part of assessment, each of the applicable environmental criteria is determined as 'Met' or 'Not Met'. For them to be 'Met', a company needs to meet specific conditions supported by evidence. The more criteria a company meets, the higher the Alignment Level it achieves, as illustrated in the table above. For example, a company in a material high impact sector that meets criterion '1. Net Zero Commitment' and '4. Emissions Disclosure' is classified as 'Committed to Net Zero'. If, in addition to these 2 criteria, it also meets '2. Near-Term Emissions Reduction Target' and '5. Transition Plan Disclosure', it moves up to be classified as 'Aligning to Net Zero'. Note that a company that is not in material high impact sector is only assessed against criteria in Net Zero Level module.

Alignment Levels (Not Aligned / Committed to Net Zero / Aligning to Net Zero / Aligned to Net Zero / Achieving Net Zero) are absolute rather than relative. The rating of each company is made independently of ratings granted to its peers.

Critical Enabler evaluation is a separate qualitative assessment. If the company meets the definition of Critical Enabler, they are classified as one. Examples of factors considered as part of assessment include % of EU Taxonomy aligned revenues or whether fundamental research shows that the company is providing a product or service that is critical for supporting the economy's transition to Net Zero.

Data sources

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

- Science-Based Targets initiative (SBTi)
- Transition Pathway Initiative (TPI)
- The Net-Zero Banking Alliance (NZBA)
- The Net-Zero Asset Owner Alliance (NZAOA)
- The Net Zero Asset Managers initiative (NZAMI)
- Carbon Disclosure Project (CDP)
- Findox
- Aladdin Climate
- MSCI
- Bloomberg

Data is primarily sourced via vendors mentioned above and fed into the system that auto-calculates the categorisation of the company. Manually completed assessments can also be based on information sourced manually, for example from public reports and websites. Thus, data sources are comprised primarily of public information. In limited cases, non-public information obtained directly from the companies may be used. Since the criteria do not map exactly to the European Sustainability Reporting Standards developed pursuant to the Article 29b of Directive 2013/34/EU, the data is not sourced from the sustainability statements required under Directive 2013/34/EU 2019/2088.

Majority of assessments are auto-calculated based on automatically ingested data. The Alignment Level is updated continuously as new data becomes available. In some cases, the assessment is completed manually. This is typically necessary when certain factors or important information about a company are missing or outdated in the data provided by external sources, or for private companies not covered by external data sources. Manual assessments are reviewed annually. If an analyst becomes aware of new significant information that makes the assessment inaccurate, they may update it on an ad hoc basis. Note that marketing materials that disclose ratings may have different frequency of publication.

Data received from third party vendors typically comes from reputable and, in some cases, audited sources, such as annual reports or sustainability reports. M&G's Investment Data Assurance team works to ensure data quality and monitors for changes in data provided from third party vendors. To ensure that interpretation of data is consistent, benchmarking exercises are performed where appropriate. Data is primarily processed through our Investment Data Systems (IDS) to initially check volatility and then to ensure data quality assurance processes are applied prior to onward distribution to downstream systems. In some cases, where there is a direct data feed from the vendor, these checks are performed prior to the distribution of data to the clients. External and internal proprietary systems and digital platform tools monitor individual data quality. If automated data is missing or deemed inaccurate, analysts can manually input ratings, but must provide evidence and rationale.

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

Limitations

Data limitations

The methodology relies on data from multiple third-party vendors and proprietary research. Not all companies disclose all relevant ESG data, which can result in data gaps. Delays between disclosure by the company and third party vendor making it available can negatively impact timeliness of the data. Being a quantitatively driven model, the Transition Assessment Framework relies on available, at scale data. Some nuances that an analyst might make about the company are missed. Errors made in the reporting or third party vendors can affect data accuracy. Further, NACE sector classification determines if company is in the material high impact sector but may not fully reflect the company activities, especially where they are diverse.

Scope 3 emissions are part of the methodology. Due to the data gaps, inconsistencies in what is included in the figure and companies changing their scope 3 reporting practices over time, there is a risk that scope 3 emissions data is volatile and distorts overall data accuracy. For example, scope 3 emissions may appear to increase for a company as a result of improved data collection or the inclusion of additional emissions categories rather than a real increase in emissions compared to the previous year. To mitigate the above, data processes incorporate various quality checks which are explained in 'Data Sources' above. Further, methodology is subject to rigorous annual review by the analysts to determine and correct any deficiencies.

Methodology limitations

The Alignment Levels are absolute. This means that companies in hard-to-abate industries may be penalised and rating may not fully reflect sectoral context. However, considering that Alignment Levels focus on assessing progress towards a real world outcome (Net Zero), absolute assessment is more suitable to this objective than relative measures.

The Transition Assessment Framework focuses on a firm's impact on the environment (impact materiality) while not directly considering how the factors impact the firm for investment decision-making (financial materiality). This introduces a limitation as the degree to which factors are financially material is not captured.

Conflicts of interest

The main risk arising from conflicts of interest is a risk of bias in the scoring. This could be due to the same analysts having influence over both the investment decision and the Alignment Level, insufficient independence of teams making assessments with use of Transition Assessment Framework from investment or commercial teams because of organisational overlap or subjectivity in the manual rating adjustments.

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

- Every manual assessment undergoes a rigorous review involving at least two analysts who must agree on the rating across the investment and sustainability functions. Disputes or disagreements in rating are escalated to the relevant decision-making body, ensuring that no single individual or team can unduly influence the outcome.
- All manual changes to ratings, commentary, and evidence attachments, are tracked with date, time stamp, and analyst name.
- The methodology and guidance are subject to annual review and approval by the governance committee.

Fees

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