

**Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

**Product Name:** Credit Opportunities Fund IV  
**Legal Entity Identifier:** 54930031OGL49ZXY706

Environmental and/or social characteristics

Did this financial product have a sustainable investment objective?

Yes

X

No

☐ It made **sustainable investments with an environmental objective:**

☐ in economic activities that qualify as environmentally sustainable under the EU Taxonomy

☐ in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

☐ It made **sustainable investments with a social objective:**

☐ It **promoted Environmental/Social (E/S) characteristics** and while it did not have as its objective a sustainable investment, it had a proportion of % of sustainable investments

☐ with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy

☐ with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

☐ with a social objective

☒ It promoted E/S characteristics, but **did not make any sustainable investments**



To what extent were the environmental and/or social characteristics promoted by this financial product met?

The Fund promotes:

Positive ESG risk and opportunity characteristics.

The Fund invests in asset-backed securities (ABS) with positive ESG risk and opportunity characteristics that meet a minimum threshold based on proprietary ABS ESG score. The ABS ESG score considers a broad range of environmental, social and governance factors, such as environmental footprint and data, access and affordability, disclosure, legal, regulatory and structural features, as appropriate. Assessment is performed from three relevant perspectives, including transaction, assets and a key counterparty.

At the end of the reference period, the Fund does not have any holdings in assets which have an ABS ESG score on M&G's proprietary ABS ESG scorecard lower than 45 out of 100.

ESG exclusions.

The Fund will not invest in activities that are considered to be harmful to the society or the environment. The Fund screens out key counterparties and underlying assets that are in breach of international standards and/or are operating in sectors deemed not complying with ESG principles.

At the end of the reference period, the Fund does not have any holdings in excluded activities.

No reference benchmark was designated for the purpose of attaining the Fund's promoted environmental and/or social characteristics.

#### Sustainability indicators

measure how the environmental or social characteristics promoted by the financial product are attained.

#### ● How did the sustainability indicators perform?

The sustainability indicators for this fund were as follows:

##### Positive ESG risk and opportunity characteristics

- Average ABS ESG score
- % NAV below minimum ABS ESG score

The average ABS ESG score was 50.79. % NAV below the minimum ABS ESG score was 0%, in line with fund's promotion.

##### ESG exclusions

- % NAV held in investments excluded by the Fund's exclusions

% NAV held in investment excluded by Fund's exclusions was 0%, in line with fund's promotion.

Sustainability indicator	Measured performance
As at -29 December 2023	
Average ABS ESG score	50.8%
% NAV below minimum ABS ESG score	0.0%
% NAV held in investments excluded by the Fund's exclusion	0.0%

#### ● ...and compared to previous periods?

The Fund is not yet able to provide comparison to a previous reporting period as this is the Fund's first SFDR Level 2 Periodic Report. The Fund will provide historic comparison in the next Periodic Report.

#### ● What were the objectives of the sustainable investments that the financial product partially made and how did the sustainable investment contribute to such objectives?

Not applicable. The Fund does not commit to make sustainable investments.

#### ● How did the sustainable investments that the financial product partially made not cause significant harm to any environmental or social sustainable investment objective?

Not applicable. The Fund does not commit to make sustainable investments.

#### ● How were the indicators for adverse impacts on sustainability factors taken into account?

Due to limited availability of ESG data in the market for Securitised Assets, data may not be available for all PAIs. Where quantitative data is not available but there is some qualitative information related to the PAI, PAI consideration is performed based on that information (for example, if there is no information on exact split of board gender diversity but there is information on whether corporate has Diversity & Inclusion policies and initiatives in place).

**- Greenhouse gas (GHG) emissions, Carbon footprint, GHG intensity of investee companies and Investments in companies without carbon emission reduction initiatives:** The ABS market is still behind other asset classes in terms of reporting and very few issuers report on carbon emissions related PAIs at underlying level. Despite the increasing willingness from issuers to enhance their reporting, there isn't yet a market consensus on methodology to estimate carbon emissions. However, we have been assessing whether data is being collected and reported by the issuers and when data was available we have increased the ESG Score Asset Section to reflect the better disclosure. Similarly, we have considered whether the ABS counterparty reports on these PAIs for its own operations or investments and whether it has set targets to reduce carbon footprint. All of these considerations have had a positive or negative impact on the ESG Score Counterparty Section.

**Principal adverse impacts** are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

- **Exposure to companies active in the fossil fuel sector and exposure to controversial weapons:** analysis on the main economic activity business of the key counterparty and reported industry classification of underlying assets was performed to determine whether there is any exposure to fossil fuel or controversial weapons. No such exposures were noted within the Fund's investments.

- **Violations of UNGC principles and OECD Guidelines for Multinational Enterprises and Lack of processes and compliance mechanisms to monitor compliance with UNGC principles and OECD:** We assess whether the key counterparty is in breach of any of these principles and guidelines by analysing information from either market vendors, public sources or made available to us directly from the issuer. For private Key Counterparties, due to lack of available data against issuers from market vendors and other public sources the ability to allow assessment of these very specific variables for OECD and UNGC is limited and the approach is based on qualitative analysis performed on a best endeavours basis to meet this requirement. No signs of breach of any principles were noted within Fund's investments.

- **Unadjusted gender pay gap, Board gender diversity, Investments in companies without workplace accident prevention policies, Lack of human rights policy and Lack of anti-corruption and anti-bribery policies:** As part of the ESG analysis we ask the key counterparty about these PAIs and whether relevant policies are in place and assess the quality of them. In general, public counterparties tend to report more of these PAIs than private ones and similarly to prior PAIs, these considerations have a positive or negative impact on the ESG Score Counterparty section.

- **Real estate mandatory indicators: Exposure to fossil fuels through real estate assets and Exposure to energy-inefficient real estate assets:** Following a similar approach to prior PAIs and exclusively for CMBS assets, analyst performed an assessment on the nature and energy-efficiency of the assets and economic activity of the key counterparty of the ABS and tenants. As a results, analysts hadn't found indication of any exposure to these PAIs.

- **Were sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:**  
Not applicable. The Fund does not commit to make sustainable investments.

The EU Taxonomy sets out a "do no significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

*Any other sustainable investments must also not significantly harm any environmental or social objectives.*



#### **How did this financial product consider principal adverse impacts on sustainability factors?**

Potential adverse impacts were evaluated as part of investment selection process and, where appropriate, considered for engagement with the counterparty. PAI indicators are collected from third parties and/or counterparties with use of a systematised process on a best efforts basis. Note that due to limited data availability for ABS as an asset class, it may happen that for a particular asset only a small proportion of PAIs can be analysed.



## What were the top investments of this financial product?

The list includes the investments constituting **the greatest proportion of investments** of the financial product during the reference period which is: to

Largest investments	Sector	% Assets	Country
Investment 1	Mortgage backed	2.63%	United Kingdom
Investment 2	Asset backed	2.41%	European Union
Investment 3	Commercial Mortgage Backed	1.81%	United Kingdom
Investment 4	Mortgage backed	1.80%	United Kingdom
Investment 5	Asset backed	1.54%	European Union
Investment 6	Mortgage backed	1.48%	United Kingdom
Investment 7	Asset backed	1.38%	European Union
Investment 8	Mortgage backed	1.36%	United Kingdom
Investment 9	Asset backed	1.32%	European Union
Investment 10	Asset backed	1.29%	European Union
Investment 11	Asset backed	1.29%	European Union
Investment 12	Asset backed	1.25%	European Union
Investment 13	Asset backed	1.25%	European Union
Investment 14	Mortgage backed	1.23%	United Kingdom
Investment 15	Asset backed	1.23%	European Union



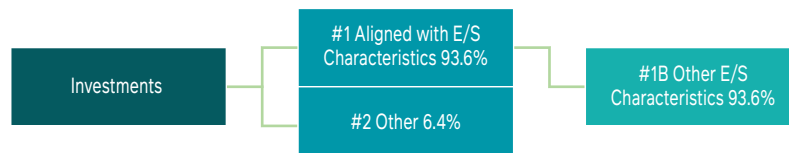
## What was the proportion of sustainability-related investments?

**Asset allocation** describes the share of investments in specific assets.

### • What was the asset allocation?

At the end of reference period, 93.6% of the Fund's Net Asset Value are investments aligned to the environmental or social characteristics promoted. This is in line with Fund's commitment to have minimum of 70% of NAV aligned to the environmental or social characteristics promoted. None of the assets are committed to qualify as sustainable.

6.4% of assets classified as 'Other' consist of cash and cash equivalents, investments held for hedging or liquidity purposes, investments for diversification purposes or investments for which there is insufficient data.



**#1 Aligned with E/S characteristics** includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

**#2 Other** includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:

- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

- **In which economic sectors were the investments made?**

The investment breakdown uses NACE (Nomenclature of Economic Activities) and is expressed as a % of Net Asset Value (NAV).

Note that "Other" consists of ABS assets, cash and cash equivalents.

Economic sector	% Assets
Other	82.05%
Financial and insurance activities	14.87%
Administrative and support service activities	2.74%
Transportation and storage	0.34%



### To what extent were sustainable investments with an environmental objective aligned with the EU Taxonomy?

The Fund did not take into account the EU criteria for environmentally sustainable economic activities as defined in the Taxonomy Regulation. The Fund did not actively targeted investments in taxonomy- aligned assets as part of its investment policy and, therefore, the Manager expected that 0% of the Funds' investments will be aligned with the environmental objectives under the Taxonomy Regulation.

**Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.

**Transitional activities** are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

Taxonomy-aligned activities are expressed as a share of:

- **turnover** reflects the "greenness" of investee companies today.
- **capital expenditure** (CapEx) shows the green investments made by investee companies, relevant for a transition to a green economy.
- **operational expenditure** (OpEx) reflects the green operational activities of investee companies.

- **Did the financial product invest in fossil gas and/or nuclear energy related activities complying with the EU Taxonomy<sup>1</sup>?**

☐ Yes:

☐ In fossil gas

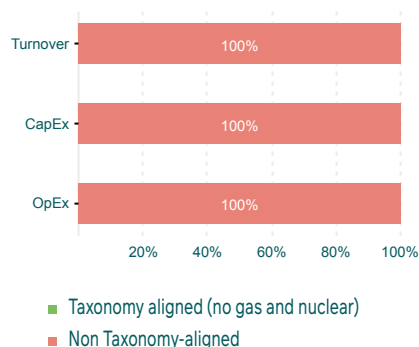
☐ In nuclear energy

☒ No

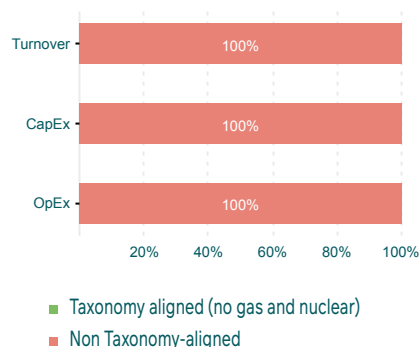
<sup>1</sup> Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do not significantly harm any EU Taxonomy objectives. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

The graphs below show the percentage of investments that were aligned with the EU Taxonomy. As there is no appropriate methodology to determine the taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.

1. Taxonomy-alignment of investments including sovereign bonds\*



2. Taxonomy-alignment of investments excluding sovereign bonds\*



This graph represents 100% of the total investments.

\*For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures

- **What was the share of investments made in transitional and enabling activities?**

The Fund did not take into account the EU criteria for environmentally sustainable economic activities as defined in the Taxonomy Regulation. The Fund did not actively target investments in taxonomy- aligned assets as part of its investment policy and, therefore, the Manager expected that 0% of the Funds' investments will be aligned with the environmental objectives under the Taxonomy Regulation.

- **How did the percentage of investments that were aligned with the EU Taxonomy compare with previous reference periods?**

Not applicable.

 are sustainable investments with an environmental objective that **do not take into account** the criteria for environmentally sustainable economic activities under Regulation (EU) 2020/852.



- **What was the share of sustainable investments with an environmental objective that were not aligned with the EU Taxonomy?**

Not applicable. The Fund does not commit to make sustainable investments.



- **What was the share of socially sustainable investments?**

Not applicable. The Fund does not commit to make sustainable investments.



- **What investments were included under “other”, what was their purpose and were there any minimum environmental or social safeguards?**

Investments included in “#2 Other” consisted of cash and cash equivalents, investments held for hedging or liquidity purposes, investments for diversification purposes or investments for which there was insufficient data.



- **What actions have been taken to meet the environmental and/or social characteristics during the reference period?**

To meet environmental or social characteristics promoted, the fund did not invest in deals with an M&G ESG score of less than 45 or excluded activities.

In terms of ESG Engagements, M&G follows the PRI definition – “engagements as defined by a specific objective, action and outcome that is measurable and tracked to influence a company's behaviour or disclosures and not merely to increase understanding”. The Structured Credit Research Team carries out ESG engagements with the help of our in-house Sustainability and Stewardship team. Engagements carried out with issuers during the reference period covered, among others, the topics of enhancing emissions disclosures and improving governance practices in areas of business oversight and risk management. M&G continues to work with peers and industry trade bodies to influence better ESG behaviour and outcomes.



- **How did this financial product perform compared to the reference benchmark?**

Not applicable.

**Reference benchmarks** are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.

- **How did the reference benchmark differ from a broad market index?**

Not applicable.

- **How did this financial product perform with regard to the sustainability indicators to determine the alignment of the reference benchmark with the environmental or social characteristics promoted?**

Not applicable.

- **How did this financial product perform compared with the reference benchmark?**

Not applicable.

- **How did this financial product perform compared with the broad market index?**  
Not applicable.