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: Specialist Investment Funds (3) - M&G Illiquid Credit Opportunities Fund VIII
Legal Entity Identifier: 254900KYCWD7VHMWL583

Environmental and/or social characteristics

Did this financial product have a sustainable investment objective?

☐ Yes

☒ 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 22.37% 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?

Sustainable Investment Objective

The Fund aims to invest predominantly in debt and debt-like assets that are aligned with E/S characteristics promoted by the fund in line with the client's net zero goal. A portion of the fund, typically 15% and, at a minimum, 5% of Fund's Total Commitments, will be invested in assets demonstrating a positive environmental or social impact once the fund is fully drawn. Impact assets are those that make a measurable, positive contribution to the environment or society.

All positive impact investments of the Fund demonstrate characteristics that align with one or more of the following Impact Themes and sub-themes:

- Climate & Nature: Biodiversity, Circular Economy & Waste Management, Green Buildings, Green Transport, Renewable Energy, Sustainable Agriculture & Forestry
- Better Health: Hospitals & Healthcare Facilities, Healthcare Products, Healthcare Services
- Social Equality: Education, Equal Opportunities, Housing Associations, Social & Affordable Housing

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

The Fund applies Norms based exclusions and also adheres to M&G Thermal Coal Policy.

Meeting Sustainable Investment Objective

As of 29th Sept 2023, 22.37% of the Net Asset Value was held in sustainable investments, of which 5.64% of the Net Asset Value was in positive impact investments, which target the impact themes listed below and contribute to achieving various Sustainable Development Goals (SDGs). These sustainable and impact investments would only be held if they passed screening of activities harmful to the society or the environment.

3.04% of the Fund's Total Commitments of £175 million was held in positive impact assets, however, the Fund remains in its ramp-up period with only £90 million of capital drawn from the Fund's clients and invested.

95.22% of investments held in the Fund aligned with E/S criteria that the fund promotes. Thus, sustainable objective of the Fund is being met.

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

- **How did the sustainability indicators perform?**

Overall, the KSIs performed well, demonstrating the Fund's commitment to achieving its Sustainable Investment Objective. 0.39% of investments held in the Fund mapped to sustainable investments in the environmental category and map to various SDGs including: Affordable and Clean Energy (SDG 7) and Sustainable Cities and Communities (SDG 11). A further 8.25% of investments held in the Fund mapped to sustainable investments in the social category and map to several SDGs such as: Good Health and Wellbeing (SDG 3) and Quality Education (SDG 4). Importantly, %NAV with UNGC red flags was 0.00%, in line with the fund's intention to invest in companies without UNGC breaches.

As an Article 8 fund, measurement of the selected sustainability indicators is an important aspect of the performance that the Manager monitors. Overarching impact aims have been met and are demonstrated through the following:

- 22.37% of the Net Asset Value is classed as sustainable. Of these, 5.64% of the Net Asset Value are impact investments. These contribute to a range of positive impact outcomes in the overall environmental and social categories that can be further classified as falling into four sub-categories: Environmental Solutions (0.16%), Circular Economy Solutions (0.23%), Better Health (7.22%) and Social Inclusion (1.03%). These categories are the first four sustainability indicators that the Fund reports on.
- As a private debt fund, the Fund further focuses on the betterment of four main SDGs where the Manager believes that private debt investing is most able to have a positive impact. Where applicable, investments in the Fund are classified as having a positive impact on these four SDGs. As at the end of the reporting period, 4.29% of investments had a positive impact on SDG3 (Good Health and Wellbeing), and a further 1.03% of investments contributed to SDG4 (Quality Education). 0.12% of investments contributed positively to SDG7 (Affordable & Clean Energy) and 0.00% of investments contributed to SDG11 (Sustainable Cities and Communities) at this time, but this is expected to change.
- The Manager also considers the M&G in-house analysis of the investment's governance which comprises analysis of eight main governance factors that is marked on a scale, leading to a score out of 1-100. Scores less than 30 are deemed to be potentially harmful, requiring further investigation or engagement. The average Governance Score for investments in the Fund is 54 and none of the investments have a score below 30. For the minority of assets without an ESG score, qualitative assessment of governance was performed and did not reveal any concerns.
- Scope 1 and 2 Greenhouse Gas Emissions data and Carbon intensity data is collected for the Fund's investments where available. This data is used as part of the assessment of the Fund's investments' alignment with the objective of achieving net zero by 2040. This emissions data is not always available given the private nature of the Fund's holdings, but there are other means of assessing the Fund's alignment with this objective. All the Fund's holdings, apart from those used for liquidity purposes, align with the objective.
- The Manager also assesses whether investments are in breach of United Nations Global Compact principles, as such investments are deemed to be potentially harmful and are not expected to be held by the Fund. There have been no red flags noted as part of this assessment.

Sustainability indicators are measured as of 29 September 2023 or, where data at that date is not available yet, based on the most recent available data.

Sustainability indicator	Measured performance
As at - 29 September 2023	
%NAV in investments providing environmental solutions	0.16%
%NAV in investments providing circular economy solutions	0.23%
%NAV in investments providing better health	7.22%
%NAV in investments providing social inclusion	1.03%
%NAV in investments aligned to SDG3 Good Health and Wellbeing	4.29%
%NAV in investments aligned to SDG4 Quality Education	1.03%
%NAV in investments aligned to SDG7 Affordable and Clean Energy	0.12%
%NAV in investments aligned to SDG11 Sustainable Cities and Communities	0.00%
ESG Scorecard KSI Governance	52.44
%NAV with UNGC Red Flag	0.00%
Weighted Average Carbon Intensity	53.59
Scope 1 Greenhouse Gas Emissions	188.73
Scope 2 Greenhouse Gas Emissions	283.75

- **...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 disclosure. 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?**
The Fund's sustainable investments had both environmental and social objectives. The Fund's sustainable investments with a social objective were principally related to the theme of "Better Health". As an example, one of these investments within this theme improved access to medicines for underserved conditions.

The Fund's sustainable investments with an environmental objective relate to themes of "Circular Economy" and "Green Buildings". As an example, one of the investments produces reusable crates which are used to transport goods.

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.

- **How did the sustainable investments that the financial product partially made not cause significant harm to any environmental or social sustainable investment objective?**
Sustainable investments exclude economic activities that are deemed to cause harm to people and/or the environment. Further, fourteen mandatory and four optional Principal Adverse Impact (PAI) indicators from the Annex I of EU Commission Delegated Regulation 2022/1288 were considered to establish materiality of the PAI indicator to the potential investment to ascertain that investment does not cause significant harm. The Fund uses the IMP Framework to assess the impact quality of assets, a key part of which is doing no harm. However, this does not map perfectly to the PAIs as defined by SFDR. Therefore, impact assessment has been supplemented by an analysis of PAIs for all sustainable investments held by the Fund. Analysts are also required to refresh ESG analysis annually on all assets held by the fund, including a review of M&G proprietary ESG scorecard which helps with elements such as 'good governance' and all PAIs.

Based on the analysis, it has been concluded that sustainable investments held by the Fund do not cause significant harm to any sustainable investment objective.

- **How were the indicators for adverse impacts on sustainability factors taken into account?**
All fourteen mandatory and four optional PAIs are reviewed annually on all sustainable investments held by the Fund in order to ascertain that investments do not cause significant harm. Currently, data availability for PAIs is limited. Where quantitative data was not available, a qualitative assessment was done using available information and Q&A with investee companies. Our manual analysis sought to locate information through analysing due diligence materials, company quarterly and annual reports, ESG policies and disclosures, and company reputation, as well as engaging with the company and encouraging them to provide relevant information, where possible.

The following PAIs have been analysed as part of the Do No Significant Harm test:

- Fossil fuel exposure, controversial weapons - analysis of economic activities of the company was performed to determine whether there is any exposure to fossil fuels or controversial weapons. No such exposures were noted within the Fund's sustainable investments.
- Carbon emissions, carbon intensity and carbon reduction initiatives - where available, data on carbon emissions were considered. Where data indicated high level of emissions or qualitative analysis of company activities suggested high emissions are likely, evaluation focused on assessment of carbon reduction initiatives and whether they are an appropriate response to mitigate any impacts. In the event of low/ moderate emissions, we still indicated if companies are implementing carbon reduction initiatives. Pleasingly, this was the case for most investments in the Fund. No indications of significant harm noted based on this criteria.
- Non-renewable energy production and consumption - for companies operating in high impact climate sectors, assessment of mitigants in place to prevent the harm arising from non-renewable energy consumption was performed. Information gathered during due diligence has also been assessed for any indications of significant harm arising from non-renewable energy production or consumption. No indications of significant harm were observed.
- Biodiversity, emissions to water, hazardous waste - materiality of these issues to the investments has been assessed based on the Sustainability Standard Accounting Board (SASB) Materiality Map. Where these issues have been deemed material for the sector that the investee company operates in, analysis of exposure and mitigants has been performed. No indications of significant harm noted.
- Compliance with United Nations Global Compact (UNGC) Principles and OECD Guidelines for Multinational Enterprises - see section below for coverage of this area.
- Policies on human rights, corruption and anti-bribery, workplace accident prevention - where data was available, existence of such policies has been checked, and the content of these policies has been reviewed. Lack of policy alone, in the absence of other concerns in that area, was not assessed to cause significant harm. This has been combined with analysis of whether there have been any significant issues in these areas that would indicate significant harm. No indications of significant harm noted.
- Unadjusted pay gap, board gender diversity - where data was available, size of gender pay gap and ratio of female board directors have been analysed, and the Manager has engaged with a number of holdings on the topic. This has been combined with analysis of whether there have been any significant issues in these areas that would indicate significant harm. Lack of policy alone, in the absence of other concerns in that area, was not assessed to cause significant harm. No indications of significant harm noted.

Analysis of PAIs did not indicate any instances of significant harm.

- **Were sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:**

  All sustainable investments held in the Fund have been analysed to identify assets that are in breach of the UN Guiding Principles on Business and Human Rights or OECD Guidelines for Multinational Enterprises. No breaches have been noted as part of this analysis.

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?

A manual analysis of fourteen mandatory and four optional PAIs was conducted on all sustainable investments held by the Fund. Outcomes of that analysis and details on how it was performed are outlined in the section above that describes the Do No Significant Harm test.

Additionally, as part of the fund's sustainable objective, every investment made also checks that the two PAIs linked to carbon emissions were passed.

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 29th September 2023.

Largest investments	Sector	% Assets	Country
Investment 1	Financial services	43.42%	United Kingdom
Investment 2	Mortgage backed	18.19%	United Kingdom
Investment 3	Local-Authority	3.65%	
Investment 4	Transportation	2.39%	United Kingdom
Investment 5	Financial services	1.87%	Italy
Investment 6	Healthcare	1.18%	United Kingdom
Investment 7	Healthcare	1.13%	Spain
Investment 8	Media	1.04%	United Kingdom
Investment 9	Media	1.03%	Germany
Investment 10	Healthcare	0.97%	Germany
Investment 11	Healthcare	0.96%	United States
Investment 12	Telecommunications	0.95%	United Kingdom
Investment 13	Media	0.92%	France
Investment 14	Healthcare	0.91%	Germany
Investment 15	Media	0.26%	United Kingdom

What was the proportion of sustainability-related investments?

Asset allocation describes the share of investments in specific assets.

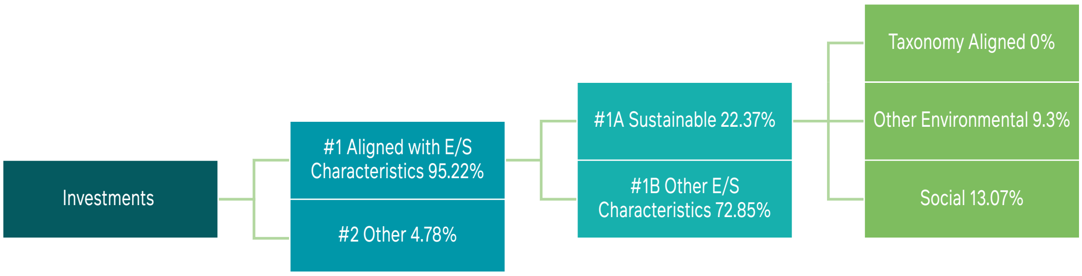
- ### What was the asset allocation?

  The Fund committed to a minimum of 70% of the Fund's Net Asset Value to be aligned to the promoted E/S characteristics and for a minimum of 5% of Net Asset Value to be in Sustainable Investments.

  Asset allocations below are expressed as a percentage of Net Asset Value (NAV). Actual % investments that were aligned to the environmental or social characteristic promoted was 95.22% of NAV as at 29th September 2023, which is above the 70% of NAV minimum commitment.

  22.37% of NAV are sustainable investments which is above the 5% of NAV minimum threshold. The remaining 72.85% NAV of E/S aligned assets relate to the Fund's objective of achieving net zero by 2040.

  Since the methodology for assessment of alignment of investments with EU Taxonomy has not been developed yet, none of the environmentally sustainable assets are classified as EU Taxonomy aligned.



#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 **#1A Sustainable** covers sustainable investments with environmental or social objectives.
- 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?

Economic sector	% Assets
Financial Services	45.36%
Mortgage Backed	18.19%
Other	8.91%
Healthcare	8.02%
Local-Authority	3.65%
Media	3.59%
Transportation	2.46%
Telecommunications	2.09%
Services	1.95%
Basic Industry	1.33%
Technology & Electronics	1.33%
Consumer Goods	1.15%
Retail	0.51%
Leisure	0.43%
Automotive	0.37%
Capital Goods	0.31%
Derivatives	0.17%
Real Estate	0.11%
Covered	0.07%

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 target investment in taxonomy-aligned assets as part of its investment policy and therefore recorded that 0% of the Fund's investments were aligned with the environmental objectives under the Taxonomy Regulation during the reference period.

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.

- **Did the financial product invest in fossil gas and/or nuclear energy related activities complying with the EU Taxonomy1?**

☐ Yes:

☐ In fossil gas ☐ In nuclear energy

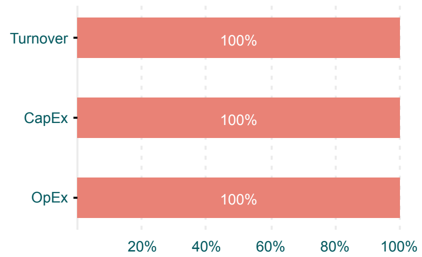
☒ No

[1] 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 -see explanatory note in the left hand margin. 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.

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.

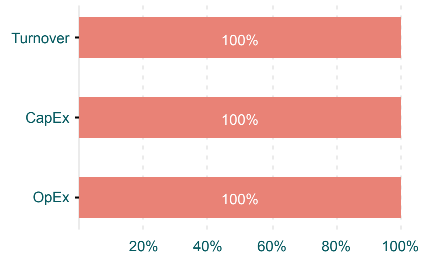
The graphs below show the percentage of investments that were aligned with the EU Taxonomy. As there is no appropriate methodology to determine the taxonomy-alignment of sovereign bonds*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including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



- Taxonomy aligned investments
- Other investments

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



- Taxonomy aligned investments
- Other investments

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 set a minimum share of investments in transitional and enabling activities and has not recorded any such activities in the reference period. Therefore, 0% of the Fund's investments were in transitional and enabling activities.

- **How did the percentage of investments that were aligned with the EU Taxonomy compare with previous reference 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 disclosure. The Fund will provide historic comparison in the next Periodic Report.

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?

9.30% of Net Asset Value as at 29 September 2023.

None of these investments were expected to be aligned to EU Taxonomy because the Fund does not currently take into account the EU criteria for environmentally sustainable economic activities as defined in the Taxonomy regulation.

What was the share of socially sustainable investments?

13.07% of Net Asset Value as at 29 September 2023.

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

"Not Sustainable" investments includes assets that meet exclusion criteria and are aligned with Fund's objective to be net zero by 2040, but do not meet sustainability criteria, as well as cash and cash equivalents, investments held for hedging or liquidity purposes.

For other ancillary assets (i.e. cash, cash equivalents and hedging instruments) no minimum environmental or social safeguards have been put in place.

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

At the end of the reference period, the value of impact assets was £5.3 million (5.64% of Net Asset Value). These contribute directly to the sustainable investment objective of the Fund. Specifically, around £0.3 million of this amount (0.32% of Net Asset Value) was in investments that further the environmental objective of the Fund, in areas promoting energy efficiency via greener buildings and circular economy. A further £5.0 million (5.32% of Net Asset Value) is invested in assets contributing to the social objectives of the Fund, in areas such as healthcare and education.

The Fund has been conducting engagements with the issuers during the reference period. As a private lender, the Fund takes advantage of being private side in a transaction to:

- Directly negotiate covenants and agree other investor protections upfront to buffer in sufficient downside protection.
- Develop close dialogue with borrowers to ensure that the expected impact is achieved over the life of the investment.
- Work with borrowers to ensure that useful impact metrics are tracked and reported.

Examples of engagements held during the period include engaging with an advertising related investment on its circular economy activities and with a medicine producer on the ESG factors linked to its executive remuneration.

The Fund has gathered ESG and impact data on investments through ESG questionnaire sent to investee companies. This information is being used in the internal ESG performance analysis and as part of investment process.

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

Not applicable. No reference benchmark has been designated for the purpose of attaining the sustainable investment objective.

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.