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: M&G Impact Financing Fund
Legal Entity Identifier: 549300NH4WFMLRUE1Z95

Sustainable investment objective

Did this financial product have a sustainable investment objective?

[x] **Yes** [ ] **No**

[x] It made **sustainable investments with an environmental objective**: 31.5%

- [ ] in economic activities that qualify as environmentally sustainable under the EU Taxonomy
- [x] in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

[x] It made **sustainable investments with a social objective**: 41.8%

[ ] 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 was the sustainable investment objective of this financial product met?

Sustainable Investment Objective

The sustainable investment objective of the Fund is to invest predominantly in debt and debt-like assets that aim to demonstrate a positive environmental and/or social impact.

In particular, all sustainable 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.

Meeting Sustainable Investment Objective

Impact Financing Fund is an impact fund which aims to invest at least 70% of its Net Asset Value in sustainable investments. As of 29th Sept 2023, 73.2% of the Net Asset Value was in sustainable investments, which target the impact themes listed above and contribute to achieving various Sustainable Development Goals (SDGs).

The Fund does not hold any investments that would be assessed to fail its screening of activities harmful to the society or the environment. Thus, sustainable objective of the Fund is being met.

Sustainability indicators measure how the sustainable objectives of this financial product are attained.

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

Overall, 31.5% of investments held in the Fund mapped to sustainable investments in the environmental category and map to various SDGs including: Affordable and Clean Energy (SDG7), Sustainable Cities and Communities (SDG 11), Responsible Consumption and Production (SDG12) and Climate Action (SDG 13).

A further 41.8% 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), Quality Education (SDG 4), and Decent Work and Economic Growth (SDG 8).

As an article 9 impact 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:

- 73.2% of the Fund's investments are classed as sustainable, contributing 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 (24.8%), Circular Economy Solutions (6.8%), Better Health (20.7%) and Social Inclusion (21.0%). The biggest difference over the year has been in the increase in Better Health related investments (11.8% in 2022), as the fund actively invested cash into this sub-category.
- As a private debt fund, the Fund further focuses on the betterment of five 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 primary or secondary positive impact on these five SDGs. As at the end of the reporting period, 16.2% of the Fund's investments had a positive impact on SDG1 (No Poverty). 23.9% of investments had a positive primary or secondary impact on SDG3 (Good Health and Wellbeing), and a further 6.5% of investments contributed to SDG4 (Quality Education). 13.9% of investments contributed positively to SDG7 (Affordable & Clean Energy) and 23.7% of investments contributed to SDG11 (Sustainable Cities and Communities).
- The Fund invests in several renewable energy, green building, energy efficiency and other climate related projects and companies. Therefore, the Fund has invested in issuers who have saved or avoided an estimated total of 12,390,000 tonnes of CO_2 equivalent emissions, which is 4,607 tCO_2e if prorating these emissions saved according to the size of the Fund's investment. Similarly, the Fund has invested in issuers who generated a total of 7,244,000 MWh of renewable energy, which is 6,077 MWh if prorating these emissions saved according to the size of the Fund's investment.
- 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 58.7 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.
- 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 - 30 September 2022	
%NAV in investments providing environmental solutions	25.9%
%NAV in investments providing circular economy solutions	7.5%
%NAV in investments providing better health	11.8%
%NAV in investments providing social inclusion	24.9%
%NAV in investments aligned to SDG1 No Poverty	19.7%
%NAV in investments aligned to SDG3 Good Health and Wellbeing	15.2%
%NAV in investments aligned to SDG4 Quality Education	10.8%
%NAV in investments aligned to SDG7 Affordable and Clean Energy	13.2%
%NAV in investments aligned to SDG11-Sustainable Cities and Communities	28.5%
Carbon-Aggregate-Absolute CO2eT Emissions Saved/Avoided	10,850,000 CO2eT
Energy-Aggregate-Renewable energy production (MWh)	6,500,000 MWh
ESG Scorecard-Governance Score	64.00
%NAV with UNGC Red Flag	0%

Sustainability indicator	Measured performance
As at - 29 September 2023	
%NAV in investments providing environmental solutions	24.8%
%NAV in investments providing circular economy solutions	6.8%
%NAV in investments providing better health	20.7%
%NAV in investments providing social inclusion	21.0%
%NAV in investments aligned to SDG1 No Poverty	16.2%
%NAV in investments aligned to SDG3 Good Health and Wellbeing	23.9%
%NAV in investments aligned to SDG4 Quality Education	6.5%
%NAV in investments aligned to SDG7 Affordable and Clean Energy	13.9%
%NAV in investments aligned to SDG11-Sustainable Cities and Communities	23.7%
Carbon-Aggregate-Absolute CO2eT Emissions Saved/Avoided	12,390,000 CO2eT
Energy-Aggregate-Renewable energy production (MWh)	7,244,000 MWh
ESG Scorecard-Governance Score	58.00
%NAV with UNGC Red Flag	0%

- **...and compared to previous periods?**

  Please see the tables above for this data.

  Overall, the portion of sustainable assets has increased in 2023 compared to 2022, which is the key data point to note which indicates the overall improvement of the portfolio. Other metrics can go up and down, as we get repayments or sell assets opportunistically, and invest instead into new, better opportunities that may have new characteristics compared to old ones. The increase in the % of sustainable investments is predominantly driven by the deployment of cash into healthcare opportunities, which has also resulted in an increase in the KSIs linked to this topic, namely: %NAV in investments providing better health outcomes and %NAV in investments aligned to SDG3 Good Health and Wellbeing. Conversely, there has been a slight reduction in KSIs such as % NAV in environmental solutions and circular economy, for reasons mentioned above.

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 not cause significant harm to any 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. However, any assets that have potential to improve in the area of diversity have been identified and flagged for further engagement with investee companies over the coming 12 months.

- **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.

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

For every sustainable investment held by the Fund, the fourteen mandatory and four optional PAIs were reviewed during the course of the year. 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.

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	Basic industry	3.27%	United Kingdom
Investment 2	Technology & electronics	3.02%	European Union (exposure across several countries)
Investment 3	Mortgage backed	2.98%	Netherlands
Investment 4 *	Utility	2.44%	United Kingdom
Investment 5	Transportation	2.43%	Norway
Investment 6	Asset backed	2.29%	Global (exposure across several countries)
Investment 7	Healthcare	2.20%	Spain
Investment 8	Commercial Mortgage Backed	2.17%	United Kingdom
Investment 9	Real Estate	2.00%	United Kingdom
Investment 10	Media	1.78%	Germany
Investment 11 *	Local-Authority	1.75%	United Kingdom
Investment 12	Commercial Mortgage Backed	1.75%	European Union (exposure across several countries)
Investment 13	Real Estate	1.66%	United Kingdom
Investment 14	Services	1.62%	Germany
Investment 15	Healthcare	1.61%	France

**Note that the analysis of the top 15 investments focuses on the invested impact portfolio, and excludes assets held in the liquid cash park.*

What was the proportion of sustainability-related investments?

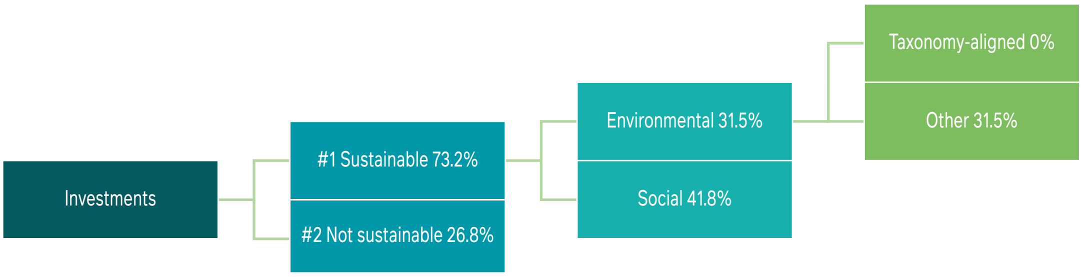
Asset allocation describes the share of investments in specific assets.

- ### What was the asset allocation?

  As at 29 Sept 2023, 73.2% of the Net Asset Value of the Fund was in sustainable investments, which is above minimum commitment to sustainable investments of 70%. These are investments that meet the impact criteria of the Fund and fall into two broad categories of environmental (31.5%) and social (41.8%) objectives. These allocations meet the commitments of a minimum of 15% of Net Asset Value to be aligned to the environmental objective and a minimum of 15% of Net Asset Value to be aligned to the social objective.

  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.

  26.8% of the Net Asset Value of the Fund is comprised of not sustainable investments, which are cash and cash equivalents, investments held for hedging or liquidity purposes and capital awaiting deployment in private or illiquid impact assets. These assets still meet minimum ESG-related criteria, which are described below.



#1 Sustainable covers sustainable investments with environmental or social objectives.
#2 Not sustainable includes investments which do not qualify as sustainable investments.

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

Economic sector	% Assets
Healthcare	20.58%
Real Estate	9.27%
Basic Industry	8.72%
Utility	8.60%
Commercial Mortgage Backed	7.45%
Mortgage Backed	6.81%
Services	6.45%
Asset Backed	5.95%
Derivatives	5.13%
Technology & Electronics	5.08%
Other	4.37%
Media	2.57%
Transportation	2.49%
Local-Authority	1.75%
Retail	1.26%
Telecommunications	1.13%
Consumer Goods	1.11%
Leisure	0.41%
Automotive	0.36%
Capital Goods	0.30%
Financial Services	0.14%
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

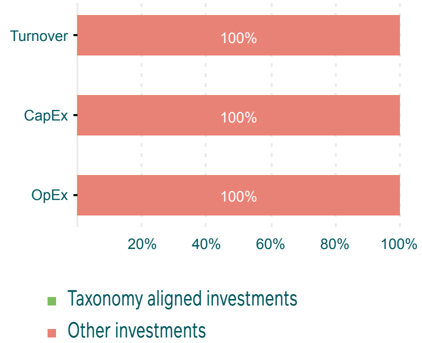
☒ No

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.

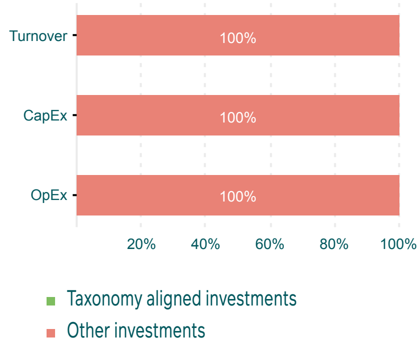
Taxonomy-aligned activities are expressed as a share of:
- **turnover** reflecting the share of revenue from green activities of investee companies.
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting 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***



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 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?**
  As above, the Fund did not take into account the EU criteria for environmentally sustainable economic activities as defined in the Taxonomy Regulation.

are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.

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

31.5% of Net Asset Value as at 29 September 2023. This is above the minimum commitment of 15% of sustainable investments with an environmental objective not aligned with the EU Taxonomy. 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?

41.8% of Net Asset Value as at 29 September 2023. This is above the minimum commitment of 15% of sustainable investments with a social objective.

What investments were included under “not sustainable”, what was their purpose and were there any minimum environmental or social safeguards?

“Not Sustainable” investments include cash and cash equivalents, investments held for hedging or liquidity purposes and capital awaiting deployment in private or illiquid impact assets. Investments held for liquidity purposes or awaiting deployment in private or illiquid impact assets meet Investment Manager's good governance requirements and one of the following criteria:

- Green bonds or loans, social bonds or loans and sustainability bonds or loans that have been reviewed and assessed by a reputable second-party opinion provider;
- Liquid debt instruments that are aligned with the Fund's Impact Themes, or;
- Liquid debt instruments have an ESG score from an ESG Ratings provider or the AIFM that is above a minimum threshold defined by the AIFM.

They also exclude companies that are assessed to be in breach of the UN Guiding Principles on Business and Human Rights or OECD Guidelines for Multinational Enterprises.

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 attain the sustainable investment objective during the reference period?

During the reference period, a total of £10.6m (principal amount) or 18.2% of NAV was invested into impact assets that contribute directly to the sustainable investment objective of the Fund. Specifically, £6.8m (11.7% of NAV) of this amount was in investments that further the Better Health objective of the Fund, for example in companies that provide important healthcare pharmaceutical products that improve access to healthcare and other healthcare services. The remaining £3.8m (6.5% of NAV) was invested in a range of companies and projects that further other environmental and social objectives of the fund.

The Fund has also conducted 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.

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 sustainable 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 sustainable investment objective.

- **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 sustainable investment objective?**

  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.