Sustainability-related disclosures

M&G Impact Financing Fund
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Website disclosure provided in accordance with Article 10 of the Regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial services sector. Information on the overall sustainability-related impact of the Fund can be found in the Annual Report of the Fund.

Summary

The Fund will invest predominantly in diversified portfolio of private or illiquid debt and debt-like assets that aim to demonstrate a positive environmental and/or social impact.

In particular, all sustainable investments of the Fund will demonstrate characteristics that align with the following Impact Themes:
• climate and nature:
• better health;
• social equality.

The Fund will 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.

A minimum of 70% of the Fund's Net Asset Value is in sustainable investments. A minimum of 15% of the Fund's Net Asset Value is aligned to the environmental objective and a minimum of 15% of the Fund's Net Asset Value is aligned to the social objective.

Investment selection, due diligence, ongoing portfolio monitoring and data collection follow a structured process. Fund’s methodology to assess attainment of sustainable investment objective includes analysis of Sustainability Indicators, Principal Adverse Impact (PAI) indicators, adherence to the Fund’s binding elements, application of the Impact Framework to impact assets and, for some types of investments, scores on in-house ESG scorecard and/or third party ratings.

No significant harm to the sustainable investment objective

Before investment and at least annually during the holding period, a check is performed to validate that sustainable investments exclude economic activities that are deemed to cause harm to people and/or the environment. Further, fourteen mandatory and four optional PAI indicators from the Annex I of EU Commission Delegated Regulation 2022/1288 are considered to establish materiality of the PAI indicator to the potential investment to ascertain that investment does not cause significant harm. Do No Significant Harm test is embedded in the initial due diligence and periodic monitoring process.

Assessment of PAI indicators is performed before each investment to determine suitability for the Fund and at least annually during the holding period to inform areas for engagement with the issuers and determine appropriateness of investment classification as sustainable. Where data is available, quantitative assessment is performed. For remainder of PAIs, qualitative analysis is used to evaluate the impact.

Due diligence performed before investment and annually during the holding period includes consideration of alignment with the UN Guiding Principles on Business and Human Rights. If potential investment is assessed to be in breach of the UN Guiding Principles on Business and Human Rights or OECD Guidelines for Multinational Enterprises, it will not be acquired. For existing investments, the Manager will engage with the issuer.

Sustainable investment objective of the financial product

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 will demonstrate characteristics that align with the following Impact Themes:

• climate and nature;
• better health;
• social equality.

The Fund will 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.

Investment strategy

The Fund will invest predominantly in a diversified portfolio of private or illiquid debt and debt-like assets that aim to demonstrate a positive environmental and/or social impact. The AIFM will use internal proprietary research to assess the overall credit risk of the asset and any corporate risk involved. The AIFM will also use internal analysis and, where deemed appropriate, external legal opinion to make a judgement as to the relative legal or structural risks associated with any asset.

Before investment, all assets are assessed against impact eligibility criteria specified in the Impact Framework. All sustainable investments of the Fund will demonstrate characteristics that align with the Fund's Impact Themes.

To avoid a delayed drawdown process, the AIFM will initially invest client subscriptions, directly or through Collective Investment Schemes, in more liquid instruments, which will include debt instruments, such as liquid bonds and loans, and asset-backed securities which will then be sold to acquire private or illiquid impact assets as they are sourced by the Investment Manager.

Good governance practices of investee companies are assessed prior to making an investment and monitored during the holding period as part of initial and periodic due diligence. Governance factors considered include, but are not limited to: sound management structures, employee relations, remuneration of staff and tax compliance. The Fund does not invest in issuers that do not pass good governance test performed as part of initial due diligence. Material governance issues arising from periodic due diligence are considered for engagement with issuers.

Proportion of investments

A minimum of 70% of the Fund's Net Asset Value is in sustainable investments. A minimum of 15% of the Fund's Net Asset Value is aligned to the environmental objective and a minimum of 15% of the Fund's Net Asset Value is aligned to the social objective. Fund's strategy assumes flexibility for the portfolio to have varying proportions of investments targeting environmental and social outcomes over time. A minimum of 0% (and a maximum of 30%) of the Fund's Net Asset Value are other investments not aligned to the environmental or social characteristics.

None of Fund's investments are 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.

The Fund can gain exposure through both, indirect investments in collective investment schemes or other pooled investment vehicles, and by investing directly. Typically, majority of Fund's investments comprise of direct investments.

Monitoring of sustainable investment objective

Investment selection follows a structured process that includes systematic consideration of ESG factors. The analysts are responsible for the initial analysis of investments. They verify compliance with Fund's exclusions and, for most types of investments, they assess ESG characteristics using an in-house ESG rating system together with inputs from third party ESG rating providers, where relevant. Specific ESG commentaries are incorporated in the credit papers, which is ratified at the Credit Committee, prior to investment. Impact investments are subject to an impact assessment against Fund's Impact Framework, which is summarized in the Impact Assessment Paper. Fund Manager must ensure that the acquisitions align with sustainable investment objective of the Fund.

For existing investments, progress is monitored against Fund's sustainable investment objective with Sustainability Indicators, PAI Indicators, impact metrics and, for most types of assets, in-house ESG Scorecard and/or third party ratings. At least annually, ESG Scorecard assessment is reviewed to reflect updated view of ESG factors. Performance of the Fund in relation to ESG is reviewed at least annually, which includes assessment of Sustainability Indicators and PAI indicators to determine if sustainable investment objective is being attained. At least annually, portfolio is checked against the Fund's exclusions.

Methodologies

Sustainability Indicators, PAI Indicators and adherence to the binding elements of the Fund are used as metrics to measure attainment of sustainable investment objective of the Fund.

The Fund's Impact Criteria is used to evaluate investments that are part of Fund's allocation to impact assets. The Fund's Impact Criteria sets out the requirements for an asset to qualify as an eligible impact investment for inclusion in the portfolio. The Impact Criteria contains three main thematic areas: Climate & Nature, Better Health and Social Equality. Each of these have 3-6 of their own sub-themes that outline and define the Fund's impact universe. To be considered as impact asset, an issuer must source the majority of its revenue from one or more of the impact areas (and sometimes we may look at alternative measures instead, such as capital expenditure or operational expenditure), thus contributing positively to these issues, as well as meeting various other conditions and exclusions outlined in the Fund's Impact criteria.

The Impact Framework is developed by M&G and is based on the Impact Management Project (IMP) framework, which sets out eligibility criteria that need to be met for an asset to qualify as an impact investment. The Impact Framework contains the Impact Themes that define the Fund's impact universe.

Further, impact metrics are provided by the issuers or derived by M&G from public sources. They are used to monitor if the investments meet its impact objectives.

The Fund uses a proprietary ESG scorecard to assess ESG credentials of potential and existing investments.

ESG scorecard is built based on M&G's proprietary materiality map that reflects which ESG factors are financially material for a typical company within an industry. It covers over 20 ESG factors across Environmental (E), Social (S) and Governance (G) pillars. For each company, factors material to their industry are evaluated as part of completion of the ESG Scorecard.

Material ESG factors are scored on a scale from 0 to 100. A score of 0 represents strongly negative ESG performance (e.g., poor governance, significant environmental harm), while a score of 100 signifies strongly positive performance (e.g., excellent governance, substantial environmental benefits).

Each of the material ESG factors is part of E, S, or G pillar. The aggregation of E factors generates an E pillar score, of S factors an S pillar score and of G factors a G pillar score. The combination of E, S, and G pillar scores generates the overall ESG score. Overall ESG scores is on a scale of 0 to 100. A score of 100 indicates high ESG performance, while a score of 0 reflects significant ESG concerns.

Data sources and processing

Data Sources

The Fund implements a systematic approach to ESG data collection and impact measurement. ESG and impact data on underlying investments is collected from issuers or derived from public sources by M&G before each investment and periodically for existing investments to measure the attainment of the sustainable investment objective.

Due to the private nature of most of the Fund's investments, data coverage by third party providers may be limited. Therefore, data is primarily requested directly from the issuers. Where investments are covered by third party providers, e.g. MSCI or FinDox, this data is used in the investment process.

Scope 3 emissions are included in the PAI analysis and the M&G ESG scorecard, but only if reported by the company. The availability of Scope 3 data is often limited due to the complexity of collecting data and resources required for sufficient data quality. This data is used but due to potential low coverage, the WACI KSI focuses only on Scope 1 and 2 emissions.

Data Quality

Data is received from public sources. Data received from the issuers typically comes from reputable and, in some cases, audited sources, such as annual reports or sustainability reports. Upon receipt, the analysts perform reasonableness checks of the data, considering factors such as whether datapoints are in line with their broader understanding of the company, reliability of the data sources etc. Collected ESG data is evaluated via use of a proprietary ESG scorecard.

Estimated Data

Estimated data is utilised where actual data is not available. Impact and other metrics may sometimes need to be estimated using the best available data from the borrower or public sources.

If a portfolio company does not disclose its greenhouse gas emissions, a third party estimate may be used.

Limitations to methodologies and data

ESG information from third party data providers and/or obtained directly from the issuers may be incomplete, inaccurate, stale or unavailable. As a result, there is a risk that the Fund may incorrectly assess an issuer. This in turn can result in the incorrect inclusion or exclusion of a company in the portfolio of the Fund. Incomplete or inaccurate or unavailable ESG data may also act as a methodological limitation to a non-financial investment strategy (such as the application of ESG risk and opportunity characteristics). Where identified, the AIFM will seek to mitigate this risk through its own assessment.

The varied quality of ESG information is a known issue in private markets where data coverage lags that of public markets. A significant part of our ESG Engagement activities on the private side are around encouraging improved disclosure (ideally public and verified by third parties) to help mitigate this risk. Analysts factor in an investee's levels of openness and disclosure into their ESG analysis as we believe broad disclosure is an important part of good governance. This ultimately feeds into our Sustainable Investment assessment. We are also encouraged by upcoming EU regulation such as the Corporate Sustainability Reporting Directive, which we hope will improve disclosure by private investees.

Due diligence

ESG due diligence is carried out before each investment and periodically for existing investments. Appropriate consideration of ESG factors is a mandatory objective in the due diligence process for analysts and fund managers.

Impact assessment is performed for all impact assets and includes consideration of:

- Baseline eligibility criteria, covering exclusion of issuers that are in breach of international standards and/or are operating in sectors deemed not complying with ESG principles.
- Thematic eligibility criteria, covering alignment with Fund's 12 impact themes.

For corporates, it is typically performed with use of a standard checklist that covers checks against excluded activities and evaluation of PAIs, as well as, an proprietary ESG scorecard. Proprietary ESG scorecard includes ESG considerations such as:

- Environmental: GHG emissions, air emissions & quality, energy management, water & wastewater management, waste & hazardous materials management, ecological & biodiversity impacts, physical risk, materials sourcing
- Social: occupational health & safety, human rights & community relations, labour practices and human capital, supply chain management, data security & privacy, product governance & safety, customer welfare, access & affordability
- Governance: board quality and effectiveness, ownership, remuneration, accounting & transparency, risk management and business continuity, business ethics and transparency, competitive behaviour.

Only factors material to the relevant industry are assessed for a particular company. Please, note that the list of factors above is indicative and is subject to change as regulatory expectations and market practices evolve.

Analysis can also be based on third party ESG ratings, where available.

Additionally, ESG considerations in credit analysis focus on material ESG risks that the issuer is exposed to and are incorporated into the credit paper.

Controls associated with the components of due diligence listed above are outlined in the 'Monitoring of sustainable investment objective' section above.

Engagement policies

Where applicable, as an active fund manager, M&G engages with issuers to add value to the investment process, to increase our understanding, or provide feedback to an issuer. Engagements are focused on achieving real world outcomes. M&G focuses on the underlying substance of engagement, delivery of engagement objectives and the relevance for the investment decision when assessing the quality and effectiveness of an engagement. If this is an ESG engagement, the aim is to influence company behaviour or disclosure. For further information on engagement policies, please refer to the M&G Investments Engagement Policy available on the M&G website.

Many transactions in private debt markets are either bilateral or club deals involving a small number of lenders. This means that individual private debt investors can be very important providers of capital to private debt borrowers, which creates an opportunity for highly effective engagement. The direct contractual nature of a private loan creates more frequent contact and often fosters a closer relationship between the lender and the borrower than is the case between, say, public bondholder and issuer. 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.

Attainment of sustainable investment objective

No reference benchmark has been designated for the purpose of attaining the sustainable investment objective.

Sustainable Investments

Sustainable investment test

A sustainable investment is 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. This can be summarised as three requirements (i) contribute to environmental or social objective; (ii) do no significant harm or "DNSH" and (iii) good governance. Firms such as the Investment Manager are required to devise their own method for identifying which investments they should treat as sustainable investments.

The potential sustainable investments that pass the first phase of DNSH and good governance tests are tested for whether they contribute to environmental and/or social objectives. This testing includes a combination of quantitative and qualitative tests based on available data, as well as the application of judgment and opinion by the Investment Manager. These tests may vary over time in response to the market environment and evolving practice. This is a complex topic that varies between investment management firms, and an example is provided below to assist investor understanding.

Additional Information

List of PAI indicators that the Fund considers at the product level is provided in Annex 1.
List of ESG exclusions that the Fund applies is provided in Annex 2.

Annex 1. Principal Adverse Impact indicators

PAI indicators that the Fund considers at the product level are shown in the table below.

Issuer	PAI	PAI Indicator	PAI Metric
Corporate Mandatory	GHG emissions	1a	Scope 1 GHG emissions
		1b	Scope 2 GHG emissions
		1c	Scope 3 GHG emissions
		1d	Total GHG Emissions
	Carbon footprint	2	Carbon footprint
	GHG intensity of investee companies	3	GHG intensity of investee companies
	Exposure to companies active in the fossil fuel sector	4	Share of investments in companies active in the fossil fuel sector
	Share of non-renewable energy consumption and production	5	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
	Energy consumption intensity per high impact climate sector	6a	Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE A
		6c	Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE C
		6d	Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE D
		6e	Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE E
		6f	Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE F
		6g	Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE G
		6h	Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE H
		6l	Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE L
	Activities negatively affecting biodiversity-sensitive areas	7	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
	Emissions to water	8	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
	Hazardous waste ratio	9	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average
	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	10	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	Lack of process and compliance mechanisms to monitor compliance with UNGC principles and OECD guidelines for multinational enterprises	11	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.
	Unadjusted gender pay gap	12	Average unadjusted gender pay gap for investee companies

	Board gender diversity	13	Average ratio of female to male board members in investee companies
	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons	14	Share of investments in investee companies involved in the manufacture or selling of controversial weapons
Corporate Optional	Investments in companies without carbon emissions reduction initiatives	Opt	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement
	Investments in companies without workplace accident prevention policies	Opt	Share of investments in investee companies without a workplace accident prevention policy
	Lack of a human rights policy	Opt	Share of investments in entities without a human rights policy
	Lack of anti-corruption and anti-bribery policies	Opt	Share of investments in entities without policies EN 22 EN on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption

Annex 2. 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 any issuers that are in breach of international standards and/or are operating in sectors deemed not complying with ESG principles. To achieve this the Fund applies ESG exclusions outlined below.

The AIFM, or its delegate, acting on behalf of the Fund, may not make an investment in any company or corporate which, at the time of purchasing an asset, is within scope of the following:

Exclusion Criteria	Threshold
Global Norms Companies assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment protection and anti-corruption.	Pass/Fail
Controversial Weapons Companies assessed to be involved in anti-personnel mines, cluster munitions,chemical and biological weapons, nuclear weapons outside the non-proliferation treaty, depleted uranium and white phosphorous munitions, blinding laser, non-detectable fragment weapons. A 0% revenue threshold for such companies is applied.	0%
Fossil Fuels Companies involved in exploration, mining, extraction, distribution (including transportation, storage, trade and retail) or refining of thermal coal, conventional and unconventional oil and gas and companies involved in fossil fuel power generation. A combined revenue threshold of 5% for such companies is applied.	5%
Adult Entertainment Companies involved in the production and / or distribution of adult entertainment. A 5% revenue threshold for such companies is applied.	5%
Gambling Companies involved in the provision of gambling-related services. A 5% revenue threshold for such companies is applied.	5%
Tobacco Companies involved in the production and / or distribution of tobacco. A 5% revenue threshold for such companies is applied.	5%
Defence and Other Weapons The Fund excludes companies that are involved in the production or sale of weapons systems, components, and support systems and services. A 5% revenue threshold for such companies is applied.	5%
Predatory lending Companies whose primary business activity is payday lending and/or coercive loan origination. A 5% revenue threshold for such companies is applied.	5%
Cannabis Companies or corporations which earned any revenue from producing or selling cannabis for non-medical or recreational purposes, which shall include production and sale of end products containing cannabis for the same purposes . A 5% revenue threshold for such companies is applied. Any revenue derived from medical cannabis must be explicitly permissible under applicable legislation.	5%
Alcohol Companies involved in the production and/or distribution of alcohol for consumption. A 5% revenue threshold for producers and a 10% revenue threshold for distributors (wholesale and retail) is applied.	5% P / 10% D

After the purchase of an investment, the Investment Manager will continue to monitor the limits listed above but they may be exceeded for reasons beyond the control of the Manager. If they are exceeded after purchase the Manager will record such matters and adopt as a priority objective to resolve that situation, but it will not be considered a breach. The Investment Manager shall be under no obligation to dispose of the assets in the event that limits are infringed after the acquisition of an asset and may disregard them where it believes that to do so is in the best interests of the Shareholders but no further acquisitions of such asset will be made while the limits are infringed.

The investment restrictions applying to thermal coal, as set out in The Investment Manager's Thermal Coal Investment Policy, apply to the Fund and may have an effect on the assets in which the Fund invests. The effect is limited to types of assets that are in scope of the Coal Policy.

M&G Investments