

# Sustainability-related disclosures

M&G Structured Credit Funds SCSp SICAV-RAIF - M&G Specialty Finance Fund 3 (EUR)

254900R4G7CG0YDXN556



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 how the environmental and social characteristics have been met can be found in the Annual Report of the Fund.

## Summary

The Fund will gain economic exposure to a variety of different types of loans, including but not limited to residential mortgages, auto loans and leases, unsecured consumer loans, student loans, credit card receivables, and SME loans.

The Fund invests in asset-backed transactions 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.

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.

A minimum of 70% of the Fund's Net Asset Value are investments aligned to the environmental or social characteristics promoted. None of the assets that are committed to qualify as sustainable.

Investment selection, due diligence, ongoing portfolio monitoring and data collection follow a structured process. Fund's methodology to assess attainment of promoted environmental and social characteristics includes analysis of Sustainability Indicators, Principal Adverse Impact (PAI) indicators, adherence to the Fund's binding elements and use of scores on in-house ESG scorecard. Engagement with the counterparties is part of the Fund's strategy.

## No sustainable investment objective

This Fund promotes environmental or social characteristics but does not have as its objective sustainable investment. The Fund intends to partially invest in sustainable investments as defined by Sustainable Finance Disclosure Regulation (SFDR).

## Environmental or social characteristics of the financial product

### Positive ESG risk and opportunity characteristics

The Fund invests in asset-backed transactions 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.

### 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.

## Investment strategy

The Fund will gain economic exposure to a variety of different types of loans, including residential and commercial mortgage loans, credit card receivables, auto loans, student loans, commercial loans and corporate loans (and such loans may be secured or unsecured), as well as portfolios of equipment or auto leases and other receivables.

The Fund incorporates consideration of ESG factors into its investment process, aiming to invest in asset-backed transactions with positive ESG risk and opportunity characteristics. The AIFM's ESG criteria is evaluated through proprietary analysis with use of ESG information sourced from third parties and/or the counterparties. ABS ESG scorecard expresses risk management and value-creation characteristics of the asset-backed transaction in qualitative terms within the context of a structured and disciplined framework. Each asset is assigned a score from 1 to 100 (1 representing the highest ESG risk and 100 the lowest), which consolidates ESG assessment of transaction, asset and counterparty across core ESG factors relevant to all securitisations supplemented by key material bespoke issues.

Good governance of the key counterparty and ABS transaction documentation 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, where relevant. The Fund does not invest in ABS assets 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 counterparties.

## Proportion of investments

A minimum of 70% of the Fund's Net Asset Value are investments aligned to the environmental or social characteristics promoted. None of the assets that are committed to qualify as sustainable. 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.

Typically, Fund's assets provide indirect exposure to a variety of different types of loans, including but not limited to residential mortgages, auto loans and leases, unsecured consumer loans, student loans, credit card receivables, and SME loans.

## Monitoring of environmental or social characteristics

Investment selection follows a structured process that includes systematic consideration of ESG factors. The analysts are responsible for the initial analysis of investments. They assess the assets against a set of excluded activities, and, for most types of investments, they assess ESG characteristics using an in-house ESG rating system (ABS ESG scorecard). Outcomes of the ESG analysis are coded and monitored on a pre and post trade basis as investment restrictions to prevent and detect investments that would not be compliant with the promoted characteristics. Fund Managers must ensure as part of their investment selection that the acquisitions align with the environmental and social characteristics promoted by the Fund. Incidents are recorded, and resolved through an incident investigation process, and are reported as part of the SFDR reporting.

Progress is monitored against the Fund's promoted environmental and social characteristics with use of an in-house ABS ESG scorecard, Sustainability Indicators and PAI indicators. At least annually, ABS ESG Scorecard assessment is reviewed to reflect updated view of ESG factors and assets in the portfolio are checked against Fund's exclusions. 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 environmental and social characteristics promoted are being attained.

## Methodologies

Sustainability Indicators, PAI indicators and adherence to the binding elements of the Fund are used as metrics to measure attainment of environmental or social characteristics promoted by the Fund.

The Fund employs an in-house ESG scorecard to assess securitisation transactions using a structured and consistent methodology. This scorecard evaluates three key aspects, or lenses: Transaction Design and Structure, Assets Being Financed, and Counterparty Assessment. Each lens addresses specific ESG risks and opportunities:

- Transaction Design: Focuses on governance risks, including the quality of legal structures, documentation, and protections such as bankruptcy remoteness.
- Assets Being Financed: Examines environmental and social risks related to the financed assets, including their carbon emissions, environmental footprint, and impact on underserved communities.
- Counterparty Assessment: Evaluates the ESG practices of key counterparties, such as originators, or sponsors, considering aspects like diversity, governance standards, and cybersecurity.

Each ESG factor within each lens is scored on a scale from -10 to +10. A score of -10 represents strongly negative ESG performance (e.g., poor governance, significant environmental harm), while a score of +10 signifies strongly positive performance (e.g., excellent governance, substantial environmental benefits).

These scores are aggregated according to certain lens' weightings to produce separate scores for Environmental (E), Social (S), and Governance (G) factors. The overall ESG score is then calculated by averaging the E, S, and G scores, which is calibrated on a 0 to 100 scale. 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. ESG data is collected from third party vendors, counterparties or public sources before each investment and periodically for existing investments to measure the attainment of the promoted environmental or social characteristics.

M&G has access to external ESG data providers, such as MSCI, which supply data to inform ESG research performed by the analysts. Due to the private nature of many counterparties and structure of ABS assets, data coverage by third-party providers may be limited. Data is initially sourced from the third-party provider and supplemented by data requested directly from counterparties and accessed via public sources.

ESG analysis is supplemented with a proprietary carbon estimates (for asset types where carbon estimation methodology is in place), which is used for monitoring and encouraging reduction in direct and indirect carbon emissions within underlying asset pools where there is no disclosure.

### Data Quality and Processing

Data received from third-party vendors and the counterparties typically comes from reputable and, in some cases, audited sources, such as annual reports or sustainability reports. Upon receipt, the data is checked by the analysts. To ensure that interpretation of the data is consistent, benchmarking exercises are performed where appropriate. Collected ESG data is evaluated via use of a proprietary ABS ESG scorecard, which is populated by the analysts.

### Estimated Data

Estimated data is utilised where actual data is not available. If there is no reported greenhouse gas emissions data, an estimation may be made using the Investment Manager's proprietary estimate of portfolio companies' carbon intensity levels.

## 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 positive ESG risk and opportunity characteristics). Where identified, the AIFM will seek to mitigate this risk through its own assessment.

## 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. For securitised assets, it is typically performed with use of a standard checklist that covers checks against excluded activities and evaluation of PAIs, as well as, an in-house ABS ESG scorecard. ABS ESG scorecard includes ESG considerations such as:

- Transaction: Structural Features, Documentation/Legal Risks, Counterparty Risks
- Assets: Disclosure on Assets, Environmental Data, Environmental Footprint, Access & Affordability
- Counterparty: Sponsor/Originator Environmental Intent and Targets, Ownership & Control, Employee Engagement, Diversity & Inclusion, Management of the Legal & Regulatory Environment, Data Protection & Security
- Key Material Bespoke issues selected by the analyst as relevant to the transaction, counterparty or asset. Examples of such issues include Energy Management, Product Quality & Safety, Business Resilience.

Controls associated with the components of due diligence listed above are outlined in the 'Monitoring of environmental or social characteristics' section above.

## Engagement policies

Where applicable, as an active fund manager, M&G engages with counterparties to add value to the investment process, to increase our understanding, or provide feedback to a counterparty. 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. Please refer to the M&G ESG Investment Policy for further information on engagement policies at M&G: [https://www.mandg.com/~/\\_media/Files/M/MandG-Plc/documents/mandg-investments-policies/2023/mginv-engagement-policy-06-23.pdf](https://www.mandg.com/~/_media/Files/M/MandG-Plc/documents/mandg-investments-policies/2023/mginv-engagement-policy-06-23.pdf)

## Designated reference benchmark

No reference benchmark has been designated to determine whether this Fund is aligned with the environmental and social characteristics that it promotes.

## 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.

## 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
	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
Real Estate Mandatory	Exposure to fossil fuels through real estate assets	17	Share of investments in real estate assets involved in the extraction, storage, transport, or manufacture of fossil fuels
	Exposure to energy-inefficient real estate assets	18	Share of investments in energy-inefficient real estate assets
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 key counterparties and underlying assets that are in breach of international standards and/or are operating in sectors deemed not complying with ESG principles.

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

Exclusion Criteria	Threshold
<b>Global Norms</b> Companies assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment protection and anti-corruption.	See Note 1 below
<b>Controversial Weapons</b> 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.	See Note 1 below
<b>Fossil Fuels</b> 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.	See Note 1 below
<b>Adult Entertainment</b> Companies involved in the production and / or distribution of adult entertainment.	See Note 1 below
<b>Gambling</b> Companies involved in the provision of gambling-related services.	See Note 1 below
<b>Tobacco</b> Companies involved in the production and / or distribution of tobacco.	See Note 1 below
<b>Defence and Other Weapons</b> Companies that derive revenues from the production or sale of weapons systems, components, and/or support systems and services or the manufacture and retail of civilian firearms and ammunition. For the avoidance of doubt, this does not include the provision of generic systems and services that are not weapons-specific.	See Note 1 below

### Note 1

Screening of the exclusions listed above is performed based on sector classification of the security supported by the qualitative analysis, where the data is available. If sector classification of key counterparty (being counterparty considered most relevant to the transaction, typically entity such as sponsor, originator, servicer etc.) represents excluded activity, such counterparty is excluded from investment. If market value of underlying assets with sector classification representing excluded activities exceeds 10% of market value of asset-backed security, that security is excluded from investment.