

Sustainability-related disclosures

Specialist Investment Funds (2) ICAV - M&G Real Impact Fund
254900OGL05XRCWP7V68



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 investment strategy of the Fund is to invest predominantly as an equity investor (or as an investor in instruments which produce equity-like returns) in Real Assets focused on, or related to, infrastructure, food, agriculture and natural capital.

The Fund aims to deliver positive environmental and/or social outcomes that are closely aligned with the UN Sustainable Development Goals (SDGs) through direct and indirect investments in infrastructure, agriculture-related and natural capital Real Assets aligned to three core themes (Fund's Impact Themes): energy transition, responsible consumption, inclusion.

A minimum of 70% of the Fund's Adjusted Gross Asset Value is invested in investments aligned to the environmental or social characteristics promoted. This includes a minimum of 51% of the Fund's Adjusted Gross Asset Value in Sustainable Investments. A minimum of 30% of the Fund's Adjusted Gross Asset Value is aligned to environmental objectives and a minimum of 5% of the Fund's Adjusted Gross Asset Value is aligned to social objectives. All sustainable investments make a positive contribution to environmental or social objective and pass Do No Significant Harm and Good Governance tests.

Investment selection, due diligence, ongoing portfolio monitoring and data collection follow a structured process. The 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 binding elements, application of M&G Alternatives' Impact Framework, alignment with UN SDGs and impact metrics. Engagement with the managers of the underlying funds (Underlying Fund Managers) 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).

Before the Fund's commitment to an underlying fund and at least annually during the holding period, a check is performed to validate that investment should not do significant harm.

For Fund Investments in Article 8 or 9 funds where Investment Manager is satisfied that the investment process of the Underlying Fund Manager can be relied upon, it is concluded investment should not do significant harm based on the test performed by the Underlying Fund Manager.

In cases where Underlying Fund Manager's processes cannot be relied upon, the fund is not classified under SFDR, for a Co-Investment or a Direct Investment, an assessment of underlying investments is performed. This involves a check 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 Annex I of EU Commission Delegated Regulation 2022/1288, are considered to establish materiality of the PAI indicator to the potential investments and ascertain they do not cause significant harm.

If at the time of Fund's commitment to an underlying fund there are no underlying investments, the Underlying Fund Manager's approach to determining if underlying investments do not cause significant harm is assessed.

Due diligence is performed before Fund's commitment to an underlying fund and at least annually during the holding period. Due diligence includes consideration of alignment with the UN Guiding Principles on Business and Human Rights. For Fund Investments, attestation is sought from the Underlying Fund Manager to ascertain alignment. If a 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 Fund will engage with the Underlying Fund Manager. As such all investments that the Investment Manager invests in are expected to be aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

Environmental or social characteristics of the financial product

The Fund aims to deliver positive environmental and/or social outcomes that are closely aligned with the UN SDGs through direct and indirect investments in infrastructure, agriculture-related and natural capital Real Assets aligned to three core themes (Fund's Impact Themes): energy transition, responsible consumption, inclusion.

Investment strategy

The investment strategy of the Fund is to invest predominantly as an equity investor (or as an investor in instruments which produce equity-like returns) in Real Assets focused on, or related to, infrastructure, food, agriculture and natural capital. The Fund will seek to predominantly target Real Assets in the aforementioned sectors that can assist it in delivering a positive environmental and/or social impact. The Fund will gain exposure to these Real Assets by way of primary investments into funds, secondary purchases of funds, co-investments and direct investments.

All Investments are evaluated against M&G Alternatives' Impact Framework prior to commitment to ensure a clear and consistent social or environmental impact objective can be established across all investments. The M&G Alternatives Impact Framework utilises the Impact Management Project (IMP) ABC classifications, and draws from industry guidelines such as the United Nations Development Programme (UNDP) standards for Private Equity. It outlines a multi-step process in identifying, screening and reviewing investment opportunities.

Good governance practices are assessed before Fund's commitment to an underlying fund or before making Co-investment or a Direct Investment and monitored during the holding period. For Fund Investments, assessment covers governance policies that the Underlying Fund Manager implements for its investments and reporting from the Underlying Fund Manager on governance issues within underlying investee companies. For Co-Investments and Direct Investments, governance factors of investee company are assessed. 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 when good governance test performed as part of initial due diligence is not passed. Material governance issues arising from periodic due diligence are considered for engagement with the Underlying Fund Manager.

Proportion of investments

A minimum of 70% of the Fund's Adjusted Gross Asset Value is invested in investments aligned to the environmental or social characteristics promoted. This includes a minimum of 51% of the Fund's Adjusted Gross Asset Value in Sustainable Investments. A minimum of 30% of the Fund's Adjusted Gross Asset Value is aligned to environmental objectives and a minimum of 5% of the Fund's Adjusted Gross Asset Value is aligned to social objectives. The 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 Adjusted Gross Asset Value is invested in other investments not aligned to the environmental or social characteristics.

None of the 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, direct investments and indirectly through pooled undertakings for collective investment. Typically, majority of the Fund's investments comprise of indirect investments.

Monitoring of environmental or social characteristics

Investment Selection

Investment selection follows a structured process that includes systematic consideration of promoted environmental and social characteristics:

- Initial Screening - The investment teams log impact opportunities and triage by considering high level investment and impact attributes, the Underlying Fund Manager's team quality and portfolio fit.
- Preliminary Investment Review - During this review, the preliminary view on fit within the impact strategy of the Fund is formed.
- Final Investment Review - As part of this review, in-depth ESG and impact assessment of the Underlying Fund Manager is performed. It is supported by a proprietary ESG questionnaire, a review of ESG policies and processes, a discussion of impact track record and implementation. Output of the ESG due diligence is documented as part of investment proposal and approved by the relevant Investment Committee prior to the investment.

Ongoing Portfolio Monitoring

The Fund engages in ongoing discussions on ESG and impact with the Underlying Fund Manager. This applies to Fund Investments, as well as, Direct Investments and Co-Investments in cases where the investment opportunity is sourced and managed by the Underlying Fund Manager. The engagement will encompass a dedicated impact interaction, at least annually, and ongoing tracking and adoption of a plan for impact engagement, if relevant. Each portfolio company's impact score is reviewed on an annual basis. The Fund also engages in ad-hoc meetings with Underlying Fund Manager's investment personnel to holistically assess the portfolio.

At least annually, Sustainability Indicators and PAI Indicators are assessed to determine if environmental and social characteristics promoted are being attained.

The process is subject to continuous improvement and is expected to evolve over time.

Methodologies

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

M&G Alternatives' Impact Framework is used to evaluate all investments prior to commitment to ensure a clear and consistent social or environmental impact objective can be established across all investments. The M&G Alternatives Impact Framework utilises the Impact Management Project (IMP) ABC classifications and draws from industry guidelines such as the United Nations Development Programme (UNDP) standards for Private Equity. It outlines a multi-step process in identifying, screening and reviewing investment opportunities. ABC classification allocates each investment to category from A1 to C4 based on the combination of impact of the underlying asset and the contribution that the Fund, as an investor, makes to enable the company to achieve the impact.

Alignment of investments with UN SDGs is used to assess whether investments contribute to promoted environmental or social characteristics. Each Fund Investment, Co-Investment and Direct Investment is assessed for alignment with UN SDGs.

Further, impact metrics are provided by the Underlying Fund Managers. They are used to monitor if the investments meet their impact goals.

Data sources and processing

Data Sources

The Fund implements a systematic approach to ESG data collation and impact measurement. ESG and impact data on underlying investments is collected at least annually from the Underlying Fund Managers through the completion of a standardised ESG data template.

The level and quality of information collected will vary depending on the nature of investments and the level of sophistication of Underlying Fund Managers' measurement and reporting architecture. The regulatory environment and norms around non-financial information are likely to evolve, particularly whilst impact investing, as a sector, is developing rapidly. As a result, the Fund's approach emphasises constructive engagement with the Underlying Fund Managers to strengthen measurement and reporting over time rather than prescribe onerous requirements. Where there is a regulatory requirement to provide standardised or bespoke information, the Fund will work with Underlying Fund Managers towards meeting such requirements.

Data Quality

While it is the Underlying Fund Managers' responsibility to assess the accuracy and integrity of provided data, the Fund will engage with the Underlying Fund Managers on matters of best practice. The Fund's approach is to focus on constructive engagement with the Underlying Fund Managers to strengthen quality, measurement and reporting over time. Received data is reviewed by M&G Alternatives Sustainability team and the relevant investment team.

Estimated Data

Where the Underlying Fund Manager cannot access actual information from investee company, they may provide estimated figures. Given data availability challenges in private markets, it is expected that a significant portion of data could be estimated.

Limitations to methodologies and data

The Fund is primarily reliant on the relevant Underlying Fund Manager gathering the data. Although the team will try to secure contractually binding obligations on the Underlying Fund Manager to provide such data, in practice it may not be possible to secure such obligations and,

even if secured, the Underlying Fund Manager or underlying investee company may not (or may not be able to) comply with them at all times. It is expected that, due to the nature of fund investing, there will be some significant time lags between a commitment being made and data on an underlying investment being collected. Time lags will arise from the time taken for capital to be deployed into underlying investments, onboarding of new investments by the Underlying Fund Manager, implementation of data collection processes, systems and allocation of the necessary resources within underlying investments in addition to the time taken for data collection itself. As a result, ESG and impact information from Underlying Fund Managers or investee companies may be incomplete, inaccurate or unavailable, creating the risk that the Investment Manager may incorrectly assess a company, resulting in the incorrect inclusion or exclusion of a company in the Fund. Incomplete, inaccurate or unavailable ESG and impact data may also act as a methodological limitation to a non-financial investment strategy (such as the application of ESG criteria or similar). Where identified, the Investment Manager will seek to mitigate this risk through its own assessment.

Further, certain investments made by the Fund will be into “blind pools” of collective investment schemes or other pooled investment vehicles, and as such, it will not be possible for the Investment Manager to confirm all investments to be made by those underlying vehicles when committing to investments therein. Such Fund Investments will remain under ongoing monitoring by the Investment Manager, with at least annual meetings to be held with the relevant Fund Investment’s management team, in order to ensure that each Fund Investment still aligns with the Fund’s environmental or social characteristics. In case this is no longer the case, the Investment Manager initially seeks to establish a roadmap to support the Fund Investment in returning to alignment and ultimately may consider divestment, while noting that due to the illiquid nature of the investments, divestment may be difficult.

These limitations do not have a significant bearing on the measurement of whether environmental or social characteristics being promoted by the Fund are met, as the Investment Manager gains an understanding of the ESG and impact profile of the investments through extensive due diligence and engagement with Underlying Fund Managers. In the case that particular data points are not available, it is expected that the Investment Manager’s own assessment will be sufficient to ensure that the environmental and social characteristics promoted are not materially affected.

Due diligence

ESG Assessment

ESG assessment is carried out using tools such as an ESG questionnaire, Sustainability Accounting Standards Board (SASB) Materiality Maps and further discussion with the Underlying Fund Manager as necessary. The ESG questionnaire covers areas such as philosophy and intentionality, ESG integration and process, governance, climate disclosure and social standards. The follow-on discussions with Underlying Fund Managers aid in assessing validity of information provided by Underlying Fund Managers and adding clarity to the answers.

Impact Assessment

A proprietary M&G Impact score based on Impact Management Project’s Impact Asset Classification Tool is assigned and investment assessed against sustainable investment definition based on a standard template. As part of due diligence analysis, the following areas are also considered: expected contribution to the target UN SDGs, adherence to the exclusion policy, the Underlying Fund Manager’s commitment to measuring and reporting against relevant impact metrics, Sustainability Indicators and PAI indicators.

ESG and Impact Due Diligence Reporting

A summary of findings from the ESG and impact due diligence is presented to the investment committee as part of the Final Investment Review. The relevant Investment Committee’s approval of each investment is required prior to the investment.

For Co-Investments and Direct Investments, the steps of the due diligence process are similar, but the focus is on the investee company’s activities rather than the Underlying Fund Manager process.

Engagement policies

Where applicable, as an active fund manager, M&G engages with investees to add value to the investment process, to increase our understanding, or provide feedback to a company. 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 investee behavior or disclosure.

The Fund uses its expertise, networks and influence to improve the environmental and societal performance of underlying investments through engagement with Underlying Fund Managers for Fund Investments or investee companies for Direct Investments or Co-Investments. When investing in funds there are two levels of possible engagement: the Fund’s engagement with the Underlying Fund Manager and the Underlying Fund Manager’s engagement with the underlying investee companies. Engagement of Underlying Fund

Managers with underlying investee companies can include a wide spectrum of approaches – from dialogue with companies, to creation of industry standards, to investors taking board seats and using their own team or consultants to provide hands-on management support. This involves, at a minimum, significant proactive efforts to improve ESG and impact by the Underlying Fund Manager through active engagement and leadership demonstrated at the investee company level.

Where diligence process highlights development areas, the Fund seeks to engage actively to help Underlying Fund Managers develop and refine their approach. Commitments from Underlying Fund Managers to provide notification of materially negative incidents will be sought. While the onus is on Underlying Fund Managers to resolve such issues, as an active and engaged investor, the Fund will spend time discussing remediation paths with the Underlying Fund Manager and providing input. In the rare instance that the Underlying Fund Manager's approach is unsatisfactory, the Investment Manager will explore other options including seeking support from other investors in the investment, legal protections or consideration of divestment.

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.

