Sustainability-related disclosures

M&G Sustainable Loan 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 how the environmental and social characteristics have been met can be found in the Annual Report of the Fund.

Summary

The Fund principally invests in a diversified portfolio of loans, bonds and notes in any Freely-Transferable Currency.

The Fund invests in loans and securities of companies exhibiting strong ESG risk and opportunity characteristics, as expressed by proprietary ESG score or third party ESG score. ESG score considers a broad range of environmental, social and governance factors, such as climate, diversity and inclusion, board composition, disclosure. Each investment made by the Fund meets a minimum score on the Manager's proprietary ESG rating system or third party ESG rating.

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 80% of the Fund's Net Asset Value are investments aligned to the environmental or social characteristics promoted. This includes a minimum of 51% of Net Asset Value in sustainable investments. A minimum of 10% of the Fund's Net Asset Value is aligned to the environmental objective and a minimum of 10% 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 promoted environmental and social characteristics includes analysis of Sustainability Indicators, Principal Adverse Impact (PAI) indicators, adherence to the Fund's binding elements, scores on in-house ESG scorecard and/or third party ratings. Engagement with the issuers 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 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.

Environmental or social characteristics of the financial product

The Fund invests in securities of companies exhibiting strong ESG risk and opportunity characteristics, as expressed by proprietary ESG score or third party ESG score. ESG score considers a broad range of environmental, social and governance factors, such as climate, diversity and inclusion, board composition, disclosure. Each investment made by the Fund meets a minimum score on Manager's proprietary ESG rating system or third party ESG rating.

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 principally invests in a diversified portfolio of loans, bonds and notes in any Freely-Transferable Currency. The Fund may also invest, to a limited extent, in other debt and equity-related securities. The investment approach is based on the fundamental analysis of each transaction. All investments are rated according to an internal rating system reflecting current opinion of the creditworthiness of an obligor with respect to the asset on offer. At the time of purchase, each asset needs to meet a minimum public, or if not available, private credit rating.

The Fund may invest in ESG loans, ESG notes and ESG bonds which meet the AIFM's ESG criteria. In addition, the Fund may invest in securities of companies which exhibit strong ESG risk and opportunity characteristics. The AIFM's ESG criteria is achieved through proprietary analysis and/ or the use of third party ESG information.

Qualitative and quantitative analysis is combined to assess a company's ESG risk management and value-creation abilities. An in-house ESG rating system is used, leaning on the Sustainability Accounting Standards Board's risk-mapping framework and supplemented by the leveraged finance team's investment experience to identify material ESG risks to investigate. Climate-related risks are also assessed and the state of a company's target-setting will be an input to assessment. In addition, the leveraged finance team conducts an engagement program with borrowers and sponsors to attest to their governance models, their environmental and social operating guidelines and where appropriate, to engage on key issues such as climate, diversity and inclusion, single use plastic and lobby for greater disclosure of ESG issues. Specific ESG commentaries are incorporated in all credit papers prior to initial investment and are revisited regularly, including at each six-monthly review of the entire portfolio.

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 80% of the Fund's Net Asset Value are investments aligned to the environmental or social characteristics promoted. This includes a minimum of 51% of Net Asset Value in sustainable investments. A minimum of 10% of the Fund's Net Asset Value is aligned to the environmental objective and a minimum of 10% 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 20%) 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.

Monitoring of environmental or social characteristics

Investment selection follows a structured process that includes systematic consideration of ESG factors. The Investment Manager's Private Credit analysts are responsible for the initial analysis of investments. They verify compliance with Fund's exclusions and 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. Fund Managers must ensure that the acquisitions align with the environmental and social characteristics promoted by the Fund.

For existing investments, progress is monitored against the Fund's promoted environmental and social characteristics with use of an in-house ESG Scorecard, Sustainability Indicators and PAI indicators. At least annually, ESG Scorecard assessment is reviewed to reflect an updated view of ESG factors. Performance of the Fund in relation to ESG is reviewed during annual reviews of the entire portfolio, which includes assessment of Sustainability Indicators and PAI Indicators to determine if environmental and social characteristics promoted are being attained and checks of the portfolio 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 environmental or social characteristics promoted by the Fund.

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.

The fund uses MSCI ESG Risk Ratings where there is no proprietary ESG score available. This is an external ratings systems that evaluate company's management of and exposure to financially relevant ESG risks and opportunities. MSCI ratings range from CCC to AAA, with ratings below BB (i.e. B, CCC) indicating laggards.

Data sources and processing

Data Sources
The Fund implements a systematic approach to ESG data collection. ESG data is gathered before each investment and periodically for existing investments to measure the attainment of promoted environmental or social characteristics.

M&G has access to external ESG data providers which supply data to inform ESG research performed by the analysts. The Private Credit team utilises third party ESG data providers to source ESG data required to meet Sustainable Finance Disclosure Regulation requirements. Where loans are covered by third party providers, e.g. MSCI, this data is used in the screening process. Due to the private nature of some investments, data coverage by third party providers may be limited. It is initially sourced from the third party provider and supplemented by data requested directly from issuers.

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 and Processing
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. 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 ESG scorecard.

Estimated Data
Use of estimated data is limited. 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 and use of its internal tools. The Portfolio Manager also undertakes an active engagement programme with issuers to improve data collection.

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 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 environmental or social characteristics' section above.

Engagement policies

Where applicable, as an active fund manager, M&G engages with companies 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 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.

The Private Credit team conducts an engagement program with borrowers and sponsors to attest to their governance models, their environmental and social operating guidelines and to address key relevant issues such as climate, biodiversity, diversity and inclusion and to lobby for greater disclosure. Engagements are planned in accordance with the Principles for Responsible Investment (PRI) definition, meaning purposeful dialogue with an objective. They will also have an investment outcome expressed. This activity is undertaken jointly by fund managers and analysts and in consultation with M&G's Sustainability & Stewardship team. All formal engagement notes include ESG objectives, engagement key takeaways, outcomes as well as envisaged next steps are recorded.

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, 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
	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 violation of the United Nations Global Compact principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises. Companies assessed to be in violation mean companies that are found to be in severe, repeated and/ or systemic breach of these rules.	Breach
Controversial Weapons Companies involved in any activities related to controversial weapons (meaning controversial weapons as referred to in international treaties and conventions, United Nations principles and, where applicable, national legislation). This includes 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. There is also a 1% revenue threshold for exploration, mining, extraction, distribution or refining of hard coal and lignite. Companies that derive 50% or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh are excluded.	5% Combined, 1% Thermal Coal, 50% GHG intensity
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, cultivation and / or distribution of tobacco. A 0% revenue threshold for production and cultivation of tobacco is applied and a 5% revenue threshold for the distribution of tobacco is applied.	0% P / 5% D
Defence and Other Weapons 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. 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
Nuclear Companies involved in the production of nuclear power. A 5% revenue threshold for nuclear power activities is applied.	5%
Genetically modified crops Companies that derive more than 5% of their revenue from the genetic modification of plants/crops intended for agriculture or human consumption.	5%

[1]Due to data limitations, screening for GHG intensity directly may not be practical, therefore the Manager may monitor revenues from the sources of power generation that are known to have GHG intensity exceeding 100g CO2 e/kWh (typically power generation from combustion, e.g. fossil fuels) as a proxy. Where for a particular company it can be evidenced that emissions are below 100g CO2 e/kWh it is allowed as an investment even if it falls under one of monitored sources of power generation.

Furthermore, 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:(i) undertakes business with, or provides support services to, a company engaged in any activity described above (including, without limitation, payment platforms, web hosting services, transport services and/or general retail), and (ii) which derives the majority of its income from such business or support services. 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: (i) is engaged in the production and/or sale of computer technology, communications equipment, software, medical supplies, vaccines or similar items or any other product or component, that is potentially suitable for use by a company or corporate engaged in any activity described above, and (ii) which derives the majority of its income from such business or support services.

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.

EU Paris-aligned Benchmark (PAB) Exclusions
The Fund applies PAB exclusions defined in Article 12(1)(a)-(g) of Commission Delegated Regulation (EU) 2020/1818). These exclusions are incorporated into the exclusions list above.

European Green Bonds that have been issued under the European Green Bonds Regulation (Regulation (EU) 2023/2631) do not need to be assessed under the exclusions outlined in this Annex. In respect of investments in other use of proceeds instruments, the exclusions outlined in this Annex will be applied to the bond proceeds, with the exception of the Global Norms exclusion, which will be applied to the bond issuer.

M&G Investments