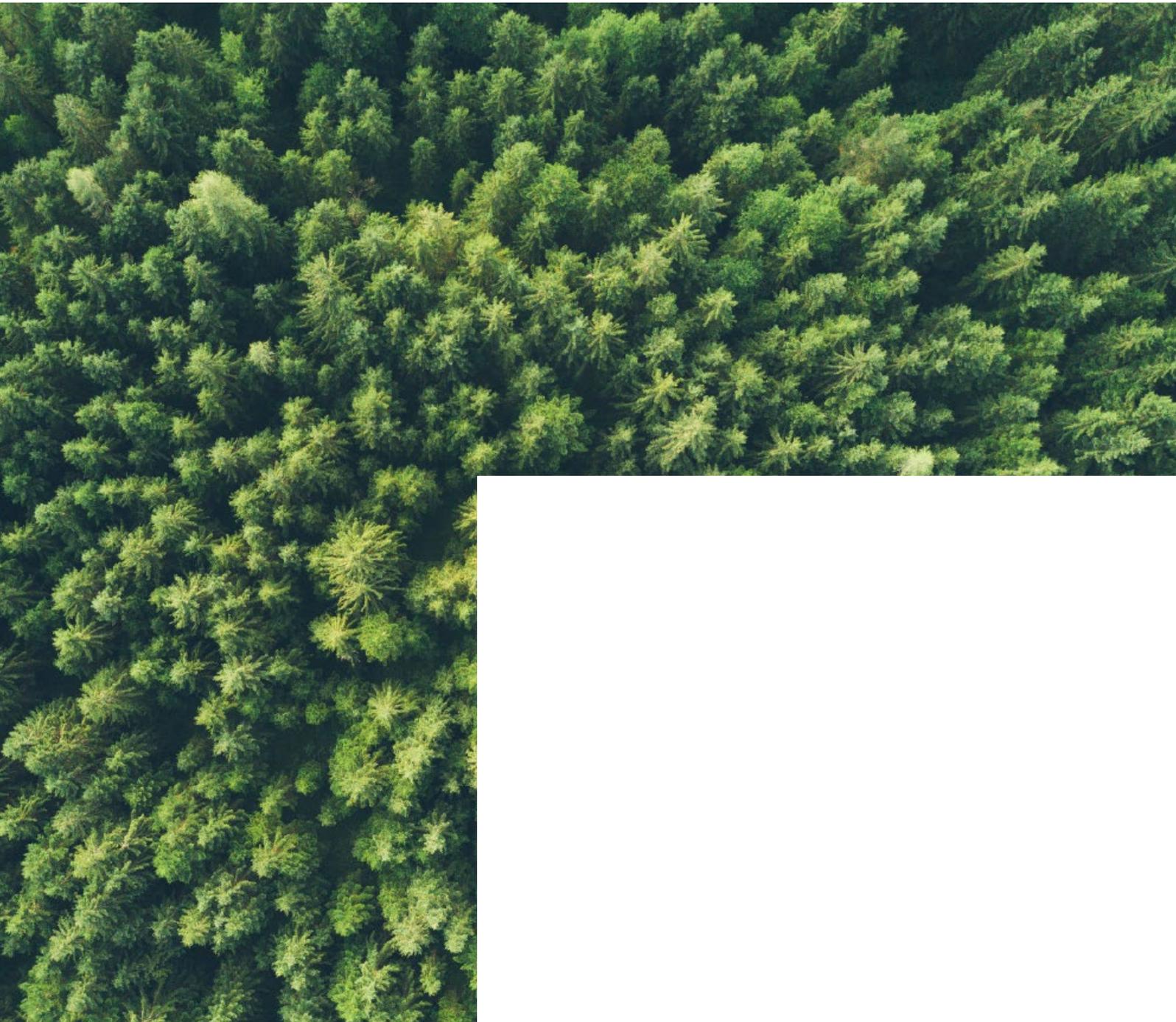


**M&G Climate Solutions Fund**  
**Climate Measurement Report**  
**June 2021**



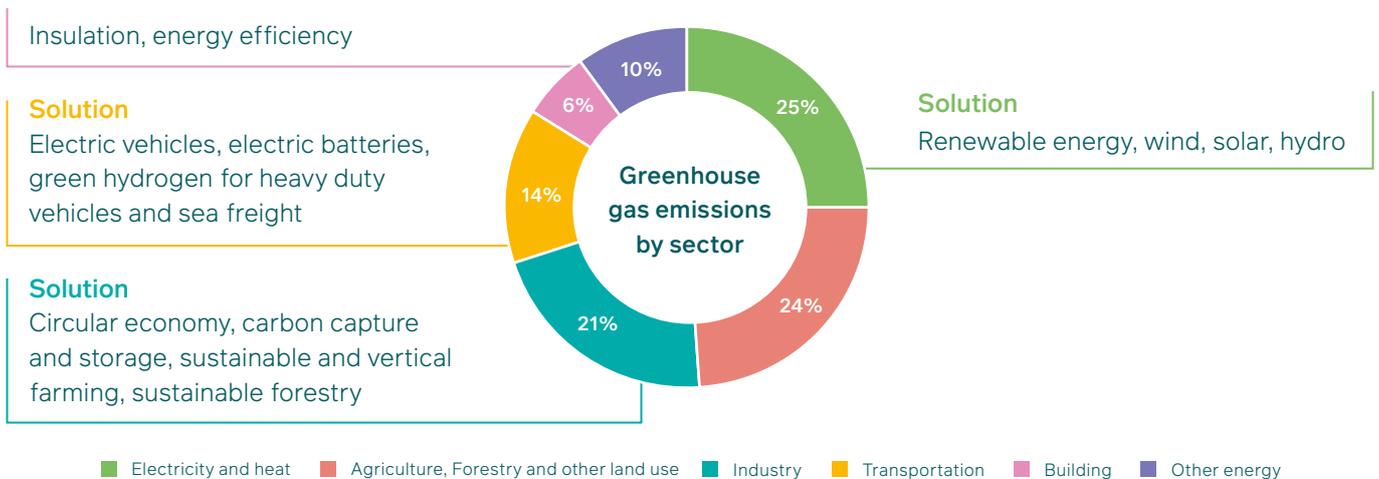
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# How we think about climate solutions

Global greenhouse gas emissions continue to rise at a time when they need to be rapidly falling. To limit global warming to 1.5°C, the Intergovernmental Panel on Climate Change (IPCC) has called for a 'rapid and far-reaching transition in energy, land, urban and

infrastructure (including transport and buildings), and industrial systems'. The good news is that solutions to the challenge of climate do exist, but significant investment is required to increase their scope, scale and reach.



The M&G Climate Solutions Fund has a dual objective:

1. Provide a combination of capital growth and income to deliver a return net of the Ongoing Charges Figure that is higher than the MSCI World Index over any five-year period
2. Invest in companies that aim to deliver solutions to the challenge of climate change

While it is relatively easy to see whether or not the fund has achieved its financial objective, assessing the non-financial objective is less straightforward. As an investor selecting stocks based on the fundamental characteristics of companies, we focus on measuring the climate impact of each individual company that we hold. We do this by using a net emissions approach; ie we will only invest in companies whose products or services avoid / save more carbon dioxide than the company emits. We have a company-specific, fundamentals-focused approach to investment analysis, and feel it is appropriate to take a similar approach when it comes to managing and measuring the impact of our investments. Rather than attempting to aggregate our companies' impacts at a portfolio level, we have decided to focus on each company's given impact, assessing how its business activities are aligned to delivering climate solutions.

The value and income from the fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.

# How we evaluate suitable companies

We make long-term investments in companies that aim to deliver solutions to the challenge of climate change, alongside a financial return. We do this through a concentrated portfolio, usually holding around 30 stocks from anywhere in the world where we can find investable opportunities.

Selection begins with a global universe of over 4,000 stocks. We screen out any companies deemed to be in breach of the UN Global Compact Principles, as well as those involved in the production of tobacco, alcohol, adult entertainment, controversial weapons, oil sands, nuclear power or coal-fired power, or the provision of gambling services. We also exclude companies that test their products on animals for non-medical services.

From this remaining pool of stocks, the team 'screens in' a watch-list of some 120 climate solution companies that can be purchased if the investment team believes the timing and price are right. These are analysed under the team's III approach, examining the Investment case, Intentionality and Impact of a company to assess its suitability for the fund. As part of this analysis, we score each company on its Investment, Intention and Impact credentials on a scale of zero to 10. Each company needs to score above five in each of the three pillars to be eligible for addition to the watch-list. For example, a company that scored 8/10 on Investment, 4/10 on Intention and 7/10 on Impact would not qualify for the watch-list, as all three pillars failed to score above 5/10, despite the average III score being 6.3/10. Once a company has been analysed through the III process and been deemed potentially appropriate for the watch-list, the wider Positive Impact team will debate its merits. Only when the team is unanimously convinced of the appropriateness of the company will it enter the watch-list.

## III framework

### Investment

- Business model
- Competitive positioning
- Capital allocation
- Business risk
- Environmental, social and governance (ESG) factors
- Liquidity



### Intention

- Mission statement and purpose
- Management and strategic culture
- Management transparency
- Culture



### Impact

- Impact balance
- Measurability
- Materiality / revenues to SDGs\*
- Additionality



The fund holds a small number of investments, and therefore a fall in the value of a single investment may have a greater impact than if it held a larger number of investments.

The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.

\*While we support the United Nations Sustainable Development Goals (UN SDGs), we are not associated with the UN and our funds are not endorsed by them.

The fund is a concentrated portfolio of quality, sustainable, impactful companies typically held for the long term. The fund generally holds around 30 well-understood stocks diversified around three main climate areas that we think businesses are well placed to address:

### **Clean energy**

Renewable energy producers, such as solar, wind and hydro, as well as companies that provide critical components for the production of solar, wind and hydro energy.

### **Green technology**

Building efficiency, battery and electrification, clean transportation, products that promote sustainable agriculture and plant-based foods.

### **Circular economy**

Business models based on re-using, sharing, recycling and reducing waste. Investments can be found across multiple sectors, in addition to traditional waste management companies.

Across these three areas, the fund invests in three types of impactful companies: 'pioneers', 'enablers' and 'leaders', providing additional diversification across industries, end markets, and maturity of business models.

### **Pioneers**

Pioneers tend to be young companies whose innovative products/services are likely to disrupt and revolutionise a given area. They tend to spend large amounts of capital in research and development as a percentage of revenues and are not mature in their development. This could be a transformative metal recycling company, for example.

### **Enablers**

Enablers are those that provide tools for other companies to deliver the impact; ie simulation software companies whose software directly helps to design energy efficiency products, or companies that produce CO<sub>2</sub> emission measuring tools.

### **Leaders**

Leaders are those companies that have spearheaded sustainability and impact in their own area of expertise. They maintain their leadership by continuing to invest in research and development, but this represents a smaller percentage of revenues compared with pioneers, as their profitability is more established. This could be a leading participant in offshore wind or hydro power, for example.

The fund will be as balanced as possible across the different impact areas and company types, but will not necessarily be equally split, as this will be influenced by market opportunities.

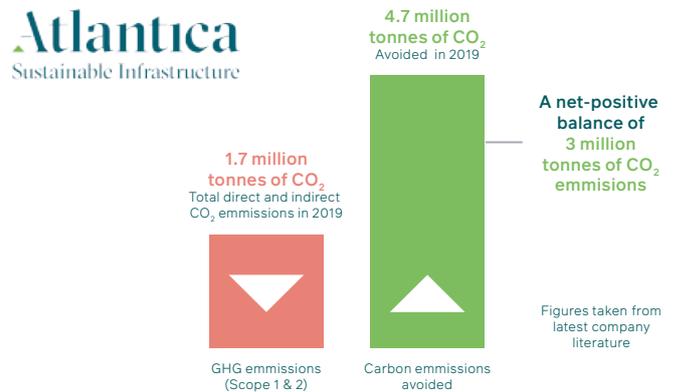


# Our net emissions approach

In order to be eligible for the fund, a company must deliver a **net-positive climate impact**; ie the carbon emissions avoided/saved through the use of the company's products and services must outweigh those emitted during production. We must be able to validate this quantitatively, so each company must provide data on their own emissions and the emissions avoided/saved by their products or services. If a company cannot provide this data, it is not eligible for the portfolio. Below are some examples of our net emission approach.

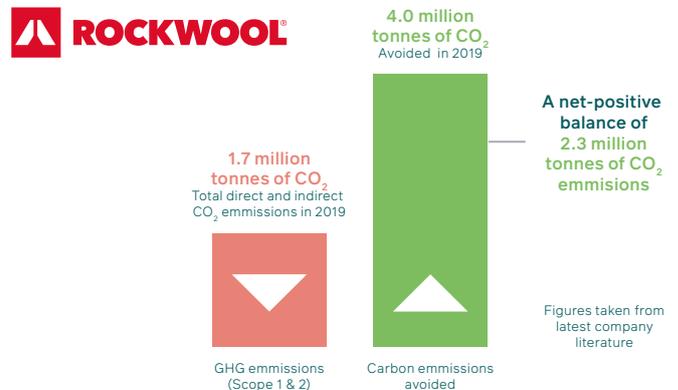
Atlantica Sustainable Infrastructure generates renewable energy, primarily through solar and wind. Renewable energy makes up ~75% of its energy capacity and the group also undertakes other activities considered low-carbon, such as transmission and water desalination.

In 2019, Atlantica's Scope 1 and 2 emissions were **1.7 million tonnes of CO<sub>2</sub>** and the company helped avoid **4.7 million tonnes of CO<sub>2</sub>**. This gives a net-positive climate impact of **3 million tonnes of CO<sub>2</sub>**.



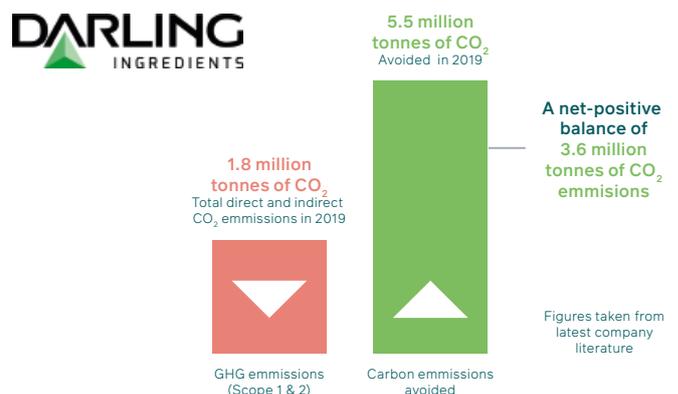
ROCKWOOL produces stone wool and stone wool-based products such as insulation, fire protection and noise control products. Stone wool can be indefinitely recycled, which promotes greater circularity and sustainability.

In 2019, ROCKWOOL's Scope 1 and 2 emissions were **1.7 million tonnes of CO<sub>2</sub>**, but the company avoided **4 million tonnes of CO<sub>2</sub>** through building insulation sold. This gives a net-positive climate impact of **2.3 million tonnes of CO<sub>2</sub>**.



Darling Ingredients is a world leader in the recycling of meat-based products and cooking oils. It converts these products back into food, pet food, products for the pharma industry and fuel. By rendering meat by-products, the carbon is captured and reused, rather than being released into the environment as a greenhouse gas.

In 2019, Darling Ingredients' Scope 1 and 2 emissions were **1.8 million tonnes of CO<sub>2</sub>**, but the company saved **5.5 million tonnes of CO<sub>2</sub>**. This gives a net-positive climate impact of **3.6 million tonnes of CO<sub>2</sub>**.



# What are Scope 1, 2 and 3 emissions and how do we integrate them into our approach?

There are many sources of greenhouse gas emissions; some are directly caused by a company's operations, while others are caused indirectly by entities in a company's supply chain. The Greenhouse Gas (GHG) Protocol Corporate Standard classifies GHG emissions into three Scopes:

**Scope 1:** All direct emissions from the activities of an organisation or under its control. This includes fuel combustion on site, emissions from owned vehicles and fugitive emissions. Examples include fleet vehicles, gas emissions from boilers and air conditioning refrigerant leaks.

**Scope 1 emissions**

GHG emissions that are the direct results of owned or controlled sources



**Scope 2:** Indirect emissions from electricity purchased and used by the organisation.

**Scope 2 emissions**

GHG emissions indirectly resulting from the generation of purchased energy



**Scope 3:** All other indirect emissions from activities of the organisation, but which occur from sources it does not own or control. This is usually the largest share of the carbon footprint, especially for office-based companies, including emissions associated with business travel, procurement, waste and water, use of sold products, and transportation and distribution (up and downstream). Examples include plane travel, shipping of goods and waste disposal.

**Scope 3 emissions**

GHG emissions indirectly resulting from the extraction of purchased materials and fuels, transport-related activities such as business travel, outsourced activities, waste disposal etc.



While we have witnessed a steady increase in companies reporting their Scope 1 and 2 emissions, the disclosure of Scope 3 emissions is still very patchy. This is because Scope 3 requires organisations to survey their entire supply chains – and the supply chains of their suppliers – which makes capturing this data more challenging. When calculating the net-positive climate impact of portfolio companies using our net emissions approach, we must ensure that we are comparing like-for-like. For example, if one company discloses its Scope 3 emissions but another does not, then we do not have the data consistency to make an accurate comparison between them. At present, only 50% of the fund's holdings report their Scope 3 emissions.

In the market, there tends to be a reliance on third-party providers to provide Scope 1, 2 and 3 carbon emissions data (either through reported or estimated sources). The issue is that many of these providers only focus on the negatives of a company's carbon footprint and do not give information about the positive climate impact. For example, industrial gas company Linde has a carbon footprint of 37.5 million tonnes of carbon dioxide equivalent, or 37.5 MT CO<sub>2</sub>e (Scope 1 and 2 emissions), but the company's applications helped customers avoid 100 MT CO<sub>2</sub>e. Through allowing end users to avoid more than twice the greenhouse gas emissions of all Linde's operations, Linde has an overwhelmingly net-positive climate impact – which is not captured by third-party providers.

With this in mind, the best we can currently do in a rigorous manner is report our holdings' Scope 1 and 2 emissions, as well as provide data on the emissions saved/avoided for stocks held in the portfolio. As climate reporting metrics improve and regulation becomes more stringent, we hope this will improve over time.

# Differentiating between strategies

We believe it is worthwhile making the distinction between different approaches to climate investing. The M&G Climate Solutions Fund is designed as a solutions fund; ie a fund that invests in companies whose products and services directly aim to deliver solutions to the challenge of climate change. It is not a low-carbon or a transition fund.

As a fund that focuses on solutions, we will not invest in high-pollutive companies that are transitioning towards low-carbon. Every company within our portfolio must prove that it has a net-positive climate contribution; ie its products/services save more CO<sub>2</sub> than the company produces.

The value and income from the fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.

## Climate investment strategies

### Low-carbon strategy

Invests in companies that are aligned with a low-carbon economy. This could involve screening for companies with low-carbon emissions or low-carbon intensities.

### Climate transition strategy

Invests in companies that are progressively transitioning to a low-carbon economy. This could involve screening for companies with emission reduction targets in line with the Paris agreement on climate change, or engaging with companies on climate issues to accelerate the transition.

### Climate solutions strategy

Invests in companies that are providing the solutions to climate change. This could involve investing in companies whose products or services have a transformational effect on the environment, that provide the tools for others to deliver a positive environmental impact, or that spearhead climate impact in their industries.

## Climate measurement

The following pages list all of our investments by impact category. We assign our investments a climate-related primary UN Sustainable Development Goal (SDG) that we believe they are addressing, and determine specific, SDG-aligned key performance indicators (KPIs), against which we measure the materiality of the impact they are achieving. In other words, the percentage of a company's revenue that contributes to the impact being measured. Many of these measurements rely on company reporting and hence are backward looking, which is why we are reporting on 2019 data. Wherever possible, we source climate data directly from investee companies.

While we support the UN SDGs, we are not associated with the UN and our funds are not endorsed by them.

There are three companies in the 'green technology' impact area where it has been challenging to quantify the exact carbon dioxide emissions avoided/saved. This is because these companies are what we call 'enablers' and are one step removed from the end client, which makes the measurement of their ultimate climate impact difficult. In these instances, we have taken a sample of the company's customers and measured the carbon emissions saved/avoided from them. These examples alone have more than offset the company's Scope 1 and 2 emissions (further detail can be found in the company-specific case studies on page 11).

There are also three companies in the 'circular economy' impact area where it has been challenging to quantify the exact carbon dioxide emissions avoided/saved. This is because these companies report CO<sub>2</sub> emissions avoided/saved as a percentage relative to other more carbon-intensive alternatives, rather than as an absolute figure. We continue to work with these three companies to develop more effective means of measuring their impact, and hope that this disclosure will improve in the near future.

# Climate measurement: clean energy

**Clean energy** stocks cover renewable energy producers such as solar, wind and hydro, as well as companies that provide critical components for the production of renewable energy.

	Activity	Materiality	Scope 1 (metric tonnes CO <sub>2e</sub> ) (2019)	Scope 2 (metric tonnes CO <sub>2e</sub> ) (2019)	Scope 1 & 2 (metric tonnes CO <sub>2e</sub> ) (2019)	KPI (2019)	Avoided / saved emissions (metric tonnes CO <sub>2e</sub> ) (2019)	Net CO <sub>2</sub> avoided / saved (metric tonnes CO <sub>2e</sub> ) (2019)
AES Tiete	Renewable energy	100%	49,092	359	49,451	# CO <sub>2</sub> emissions saved	1,000,000	950,549
Atlantica Sustainable Infrastructure	Renewable energy: solar and wind	75%	1,533,000	123,000	1,656,000	# CO <sub>2</sub> emissions avoided	4,700,000	3,044,000
Boralex*	Renewable energy: portfolio of green energy sources	95%	246,652		246,652	# CO <sub>2</sub> emissions avoided	290,557	43,905
Brookfield Renewable Corp	Renewable energy: hydroelectric, wind, solar and storage	100%	65,765	160,687	226,452	# CO <sub>2</sub> emissions avoided	27,000,000	26,773,548
EDP Renovaveis*	Renewable energy: wind	100%	28,807		28,807	# CO <sub>2</sub> emissions avoided	19,000,000	18,971,193
Ørsted	Renewable energy: wind	75%	1,846,000	111,000	1,957,000	# CO <sub>2</sub> emissions avoided	8,100,000	6,143,000
SolarEdge Technologies	Renewable energy: solar and wind	100%	1,197	9,182	10,379	# CO <sub>2</sub> emissions saved	9,000,000	8,989,621
Verbund	Renewable energy: hydropower	70%	1,070,000	300,000	1,370,000	# CO <sub>2</sub> emissions saved	24,000,000	22,630,000
Vestas Wind Systems	Renewable energy: manufacturing, selling and installing wind turbines	100%	71,000	38,000	109,000	# CO <sub>2</sub> emissions avoided	151,000,000	150,891,000
Weyerhaeuser	Timberland company	98%	410,000	700,000	1,110,000	# CO <sub>2</sub> emissions saved	9,000,000	7,890,000

\*Scope 1 and 2 emissions data sourced from ISS. Other emissions data sourced from latest available company literature.

# Climate measurement: green technology

**Green technology** stocks cover companies involved in building efficiency, battery and electrification, clean transportation, products that promote sustainable agriculture and plant-based foods.

	Activity	Materiality	Scope 1 (metric tonnes CO <sub>2</sub> e) (2019)	Scope 2 (metric tonnes CO <sub>2</sub> e) (2019)	Scope 1 & 2 (metric tonnes CO <sub>2</sub> e) (2019)	KPI (2019)	Avoided / saved emissions (metric tonnes CO <sub>2</sub> e) (2019)	Net CO <sub>2</sub> avoided / saved (metric tonnes CO <sub>2</sub> e (2019)
Ansys	Engineering simulation software	100%	1,960	16,510	18,470	# CO <sub>2</sub> emissions avoided	Company specific case studies	Company specific case studies
Autodesk	Simulation software	42%	2,650	72	2,722	# CO <sub>2</sub> emissions avoided	Company specific case studies	Company specific case studies
Equinix	Data cloud centres	71%	40,700	306,000	346,700	# CO <sub>2</sub> emissions avoided	450,000	103,300
Horiba*	Measurement and monitoring tools	29%		10,145	10,145	# CO <sub>2</sub> emissions avoided	Company specific case studies	Company specific case studies
Infineon Technologies	Semiconductor manufacturer	67%	264,203	664,770	928,973	# CO <sub>2</sub> emissions saved	3,900,000	2,971,027
IPG Photonics	Highly efficient fibre lasers	90%	12,821	42,730	55,551	# CO <sub>2</sub> emissions avoided	3,200,000	3,144,449
ITM Power*	Green hydrogen	100%		1,706	1,706	# CO <sub>2</sub> emissions avoided	28,000,000	27,998,294
Johnson Controls	Building management equipment and systems	40%	686,713	269,191	955,904	# CO <sub>2</sub> emissions saved	1,500,000	544,096
Linde	Industrial gases	53%	16,461,000	21,012,000	37,473,000	# CO <sub>2</sub> emissions saved	62,500,000	25,027,000
ON Semiconductor	Efficient semiconductor products	41%	2,067,983	671,922	2,739,905	# CO <sub>2</sub> emissions avoided	3,200,000	460,095
Rockwool International	Fire resistant stone-wool insulation	90%	1,410,000	340,000	1,750,000	# CO <sub>2</sub> emissions avoided	4,000,000	2,250,000
Schneider Electric	Low voltage electrical components	75%	171,335	373,323	544,658	# CO <sub>2</sub> emissions saved	51,000,000	50,455,342
Spirax-Sarco Engineering	Steam management systems	84%	23,873	19,497	43,370	# CO <sub>2</sub> emissions saved	5,700,000	5,656,630
Wabtec	Transportation solutions	80%		384,475 metric tonnes CO <sub>2</sub> e	384,475	# CO <sub>2</sub> emissions saved	1,650,000	1,265,525

\*Scope 1 and 2 emissions data sourced from ISS. Other emissions data sourced from latest available company literature.

# Green technology: company-specific case studies



## Case study: **Ansys**

Ansys is the world leader in engineering simulation software. Its unrivalled ability to integrate various branches of physics (thermodynamics, electromagnetism, quantum, optics, atomic) allows its customers to perform complex simulations within a real world environment.

Ansys has, for example, designed a system for Climeworks – creator of the first commercially available carbon-capture technology. Climeworks CO<sub>2</sub> collector system captures, filters and concentrates the gas, which can then be used by greenhouses, the food and beverage industry, and manufacturers of renewable products. To optimise the system, Climeworks used computational fluid dynamics and structural simulation obtained through Ansys.

Ansys simulation can also be used in complex emission reduction technologies, for example, as simulations offer accurate modelling for sprays and atomisation, solidification and decomposition.



## Case study: **Autodesk**

Autodesk's 3D simulation software and advanced design tools allow companies to reduce their carbon emissions, materials used and waste. Users can model their projects using Autodesk software before they begin, which increases energy and material efficiency and allows for more environmentally conscious decisions to be made. The company itself has a very low CO<sub>2</sub> footprint, with its buildings, data centres and cloud services powered with 100% renewable energy.

Autodesk has assessed the embodied carbon in buildings by serving as a lead sponsor of the Embodied Carbon in Construction Calculator (EC3), incubated at the Carbon Leadership Forum with input from nearly 50 industry partners. EC3 takes data from Environmental Product Declarations to align, assess and present the embodied carbon impacts in a way that is easy to use and act upon during material specification and procurement.



## Case study: **Horiba**

Horiba specialises in state-of-the-art measuring equipment and analytical devices that are used across a wide range of medical, environmental and automotive applications.

Horiba has designed and manufactured a motor exhaust gas analysis system that measures masses of pollutants in exhaust gas. This system is used by major automobile manufacturers, as well as testing and research agencies, around the world. Horiba also designs and builds emission testing facilities, including the laboratory and peripheral equipment.

Horiba's measuring equipment can also be used to measure CO<sub>2</sub> in ambient air. The Japan Meteorological Agency has been using Horiba's ambient air carbon dioxide analysers at monitoring stations on the Minamitorishima Island in the Pacific Ocean and Yonagunijima Island in the Okinawa Islands.



# Climate measurement: circular economy

**Circular economy** stocks are companies whose business models are based on re-using, recycling and reducing waste. They can be found across multiple sectors, in addition to traditional waste companies.

	Activity	Materiality	Scope 1 (metric tonnes CO <sub>2</sub> e) (2019)	Scope 2 (metric tonnes CO <sub>2</sub> e) (2019)	Scope 1 & 2 (metric tonnes CO <sub>2</sub> e) (2019)	KPI (2019)	Avoided / saved emissions (metric tonnes CO <sub>2</sub> e) (2019)	Net CO <sub>2</sub> avoided / saved (metric tonnes CO <sub>2</sub> e (2019)
Ball Corporation	Recycling aluminium cans	80%	434,670	808,272	1,242,942	# CO <sub>2</sub> emissions avoided	5,500,000	4,257,058
Brambles	Transport logistics and share and reuse of pallets	100%	26,651	22,237	48,888	# CO <sub>2</sub> emissions saved	2,000,000	1,951,112
Darling Ingredients	Recycling meat-based products and cooking oils	100%	1,433,089	413,432	1,846,521	# CO <sub>2</sub> emissions saved	5,500,000	3,653,479
DS Smith	Corrugated packaging services focused on closed-loop recycling	100%	1,833,000	510,000	2,343,000	# CO <sub>2</sub> emissions avoided	3,000,000	657,000
Republic Services	Recycling and waste management	78%	13,930,867	242,878	14,173,745	# CO <sub>2</sub> emissions avoided	18,000,000	3,826,255
Trex Company*	Sustainable composite decking	100%	67,106		67,106	# CO <sub>2</sub> emissions avoided	Company specific case study	Company specific case study
Umicore	Clean transportation and recycling	78%	815,175 tonnes		815,175	# CO <sub>2</sub> emissions saved	237,804,000	236,988,825
Unifirst *	Laundering services that are less energy, water and chemical intensive	97%	31,375		31,375	# CO <sub>2</sub> emissions saved	Company specific case study	Company specific case study

\*Scope 1 and 2 emissions data sourced from ISS. Other emissions data sourced from latest available company literature.

# Circular economy: company-specific case studies



## Case study: Trex

Trex is the largest composite decking producer in the world. Composite decking is more durable and has better sustainability credentials than lumber alternatives, which make up a majority of the decking market. Trex also has its own network to collect used plastic and wood, which stops materials being placed in landfill.

Compared to wood decking, Trex composite decking is more durable, longer-lasting and easier to maintain. It also avoids many of the resource intensive production and maintenance aspects associated with wood decking. In 2019, Trex decking emitted 42% fewer greenhouse gas emissions compared to Alkaline Copper Quaternary (ACQ) treated wood decking.

	ACQ Treated Lumber	Trex Decking 2016	Trex Decking 2019
GHG emissions (g/CO <sub>2</sub> e)	2,190,000	1,395,000	1,263,000

Data sourced from latest available company literature.



## Case study: UniFirst

UniFirst is a uniform rental company that manufactures, sells and rents uniforms and protective clothing. UniFirst helps improve energy and water efficiency by the scale manufacture, collection and laundering of workplace uniforms.

The company's advanced laundering process uses 64% less water, 73% less energy and 90% less chemicals than traditional laundering. At UniFirst's 260 facilities, the company utilises only 'green' environmentally-friendly laundry detergents that are biodegradable, made from renewable sources and free of phosphates and other chemicals.



# The carbon intensity of the portfolio

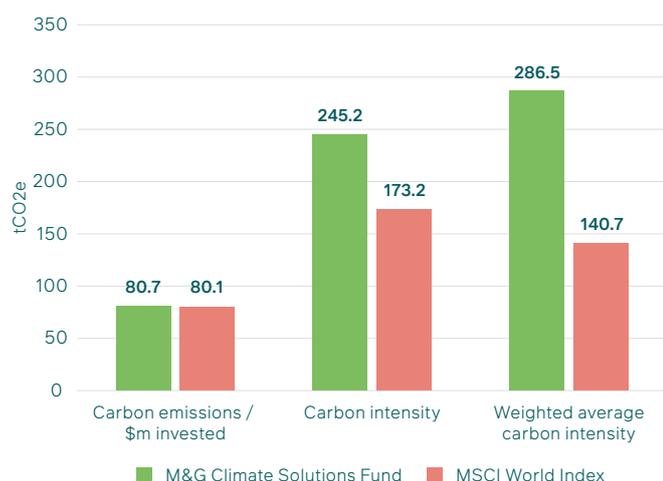
In light of being a solutions strategy (not a low-carbon or climate-transition strategy), the M&G Climate Solutions Fund currently has higher total carbon emissions, carbon intensity and weighted average carbon intensity than its benchmark, the MSCI World Index. This is because these metrics look at each company's carbon footprint without accounting for carbon saved through the use of the company's products and/or services.

Carbon Reporting: Key Metrics Defined	
Carbon Emissions	What is the portfolio's normalised carbon footprint per million dollars invested?
Total Carbon Emissions	What is the portfolio's total carbon footprint?
Carbon Intensity	How efficient is the portfolio in terms of emissions per unit of output?
Weighted Average Carbon Intensity	What is the portfolio's exposure to carbon-intensive companies?

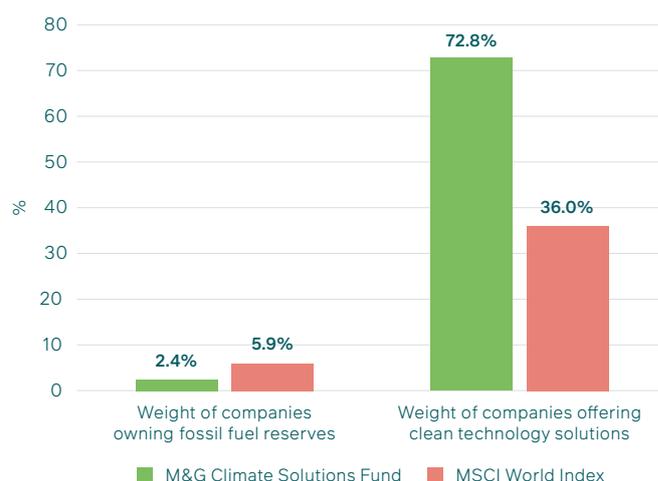
	Carbon Emissions	Total Carbon Emissions	Carbon Intensity	Weighted Average Carbon Intensity	Carbon Emissions Data Availability
M&G Climate Solutions Fund	80.7	80,673	245.2	286.5	96.5%
MSCI World Index*	80.1	80,058	173.2	140.7	99.9%
	t CO <sub>2</sub> e / \$M Invested	t CO <sub>2</sub> e	t CO <sub>2</sub> e / \$M Sales		Market Value

\*Data sourced from MSCI ESG Research as of 30 March 2021. Please see definitions in glossary (page 20).

Despite having higher carbon emissions per \$million invested, carbon intensity and weighted average carbon intensity, the portfolio's weight of companies offering clean technology solutions is double that of the benchmark (as of 31 March 2021).



Data sourced from MSCI ESG Research as of 30 March 2021.



Data sourced from MSCI ESG Research as of 30 March 2021.

The value and income from the fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.

\*The benchmark is a target against which the fund's financial performance can be measured. The index has been chosen as a benchmark as it best reflects the financial aspects of the fund's investment policy. The benchmark does not constrain the fund's portfolio construction.

The fund is actively managed. The fund manager has complete freedom in choosing which investments to buy, hold and sell in the fund. The fund's holdings may deviate significantly from the benchmark's constituents.

# The biggest emitters in the portfolio

Five companies (Republic Services, Linde, Atlantica Sustainable Infrastructure, DS Smith and Darling Ingredients) contribute 69% of portfolio emissions. While these companies are high Scope 1 and 2 emitters, the emissions that they avoid / save far exceed what they emit. In addition to being net carbon positive, they are also taking action to reduce their own emissions. For example, Republic Services is the first US recycling and solid waste services provider to have its emissions reduction target approved by the Science Based Targets initiative (SBTi), while Linde committed to Science Based Targets in 2020.

Company	Activity	Impact	Impact calculation	Net impact
Linde	Industrial gases	Linde provides solutions to businesses that help reduce energy use. It also operates infrastructure for the safe and efficient transportation of hydrogen. Hydrogen is a CO <sub>2</sub> free fuel that is displacing fossil fuels.	100m tonnes CO <sub>2</sub> benefits enabled by Linde application for customers and end users – 37.5m tonnes footprint	Net 62.5m tonnes CO <sub>2</sub> avoided
Republic Services	Waste management	Republic Services provides a solution to growing waste levels from population growth while promoting sustainable waste collection practices.	Measures aimed at reducing emissions from landfill by innovative collection of biogas and recycling (75 landfill gas and renewable energy projects and 79 recycling centres)	4.5m tonnes of cardboard, metals, plastics, organics, biogas and oil recovered in 2019, out of ~115m tonnes of waste collected each year
Atlantica	Renewable energy, efficient natural gas, transmission, storage and water desalination	75% of Atlantica's revenue is generated from renewable assets (mainly wind and solar), 13% from natural gas, others accounting by low activities are transmission and water desalination assets.	4.7m tonnes of CO <sub>2</sub> avoided in 2019 versus 2.4m tonnes of CO <sub>2</sub> emissions (mainly natural gas)	Net 2.3m tonnes of CO <sub>2</sub> avoided
DS Smith	Recycling and waste management	DS Smith is Europe's largest cardboard and paper recycler and a leading full-recycling and waste company.	3.0m tonnes of CO <sub>2</sub> avoided in 2019 versus 2.3m tonnes of CO <sub>2</sub> emissions	Net 0.6m tonnes of CO <sub>2</sub> avoided
Darling Ingredients	Recycler of meat-based products and cooking oils, aiding the conversion back into food, pet food, products for the pharmaceutical industry and fuel	Darling Ingredients captures and re-uses carbon, rather than allowing it to be released into the environment as a greenhouse gas.	Meat rendering business <ul style="list-style-type: none"> <li>• 1.7m tonnes CO<sub>2</sub> emissions versus</li> <li>• 5.3m tonnes CO<sub>2</sub> emissions avoided</li> <li>• Renewable diesel: 1.9m tonnes CO<sub>2</sub> avoided</li> </ul>	Net 3.6m + 1.9m tonnes of CO <sub>2</sub> avoided = 5.5m tonnes

# Science Based Targets

While an increasing number of companies have established emission reduction targets, the next step is to ensure that those targets are consistent with the pace recommended by climate scientists to limit the worst impact of climate change.

The Science Based Targets initiative (SBTi) is a joint initiative of CDP, the United Nations Global Compact (UNGC), the World Resources Institute (WRI) and WWF. The goal is for companies to set ambitious and meaningful corporate greenhouse gas reduction targets that align with the Paris Agreement. Targets are considered 'science-based' if they are in line with emission reduction levels required to keep the temperature increase below 2°C compared to pre-industrial temperatures.

The SBTi is still developing target setting methods, tools and guidance for some sectors. As of May 2021, a quarter of portfolio companies had set Science Based Targets and a further eighth have either committed to Science Based Targets (SBTs) or business ambition for 1.5°C. We are currently engaging with the highest emitters in the portfolio to set SBTs where feasible, and are continually monitoring these companies' emission reduction targets.

## Setting a Science Based Target: a five-step process:

1. **COMMIT** – a company submits a letter establishing its intent to set a Science Based Target
2. **DEVELOP** – the company works on an emission reduction target that is in line with the SBTi's criteria
3. **SUBMIT** – the company presents the target to the SBTi for official validation
4. **COMMUNICATE** – the company communicates its target and informs its stakeholders
5. **DISCLOSE** – the company reports emissions and progress against targets on an annual basis.

## Portfolio companies that have committed or set a Science Based Target:

- Autodesk (targets set)
- Ball Corp (targets set)
- Johnson Controls (committed)
- Linde (committed)
- Ørsted (targets set)
- Republic Services (targets set)
- Rockwool International (targets set)
- Schneider Electric (targets set)
- Verbund (targets set)
- Vestas (targets set)

## Portfolio companies that have committed to Business Ambition for 1.5°C

- AES Tiete
- Brambles

# Climate engagement case studies

Due to the rigour of the 'III' process, most of our investee companies already score well in relation to sustainability. As a result, our engagement efforts usually focus on improving impact metrics and climate disclosure. For example, we encourage companies to clearly manage and report their greenhouse gas emissions through setting Science Based Targets where possible. We also engage with various companies being considered for our watch-list to gain greater clarity on the impact and investment case to help develop our III analysis.

While the fund focuses predominantly on climate-related issues, we also engage on social and governance-related issues. Some examples of recent engagements are detailed below.



## Case study: Unifirst

**Engagement Start Date:** May 2020

**Engagement End Date:** Engagement still ongoing

**Engagement Objective:** Push for living wage standards to be met in UniFirst's Nicaragua and Mexico facilities.

**Action Taken:** Spoke with the CFO to ask the company whether employees are paid the national living wage.

**Engagement Result:** The company investigated and realised that newly inducted employees take a while to hit the national living wage standards. The company said it will ensure that everyone receives a salary comparable to the national living wage as soon as they become an employee.



## Case study: Trex

**Engagement Start Date:** July 2020

**Engagement End Date:** Engagement still ongoing (Trex's 2020 sustainability report has not yet been published)

**Engagement Objective:** Push Trex to provide more data on water usage.

**Action Taken:** Spoke with the CEO about why water usage at the company seemed fairly high and pushed for better disclosure of water usage.

**Engagement Result:** The CEO confirmed that a closed water system has been put in place at all production plants. The company will also report updated water figures post these changes in this year's sustainability report.



## Case study: Darling

**Engagement Date:** August 2020

**Engagement End Date:** September 2020

**Engagement Objective:** Push Darling Ingredients to publish a sustainability (environmental) report.

**Action Taken:** Spoke with the CEO, CFO and IR and asked them to publish the requested report.

**Engagement Result:** Darling Ingredients produced its first comprehensive ESG report in September 2020. It is 43 pages long and provides available environmental figures, including Scope 1, 2 and 3 emissions. It is the first company in its industry to do this.

# Climate change group policy

Our approach to climate change is at the forefront of our stewardship framework and seeks to reflect regulatory advances, shifting client expectation and an increasingly clear investment imperative.

This approach is focused on the delivery of two primary outcomes. The first is a structured process for understanding and managing the climate-related risks to our investments across asset classes, incorporating a climate risk management programme that focuses on the largest emitters; this is derived from a mapping of high-carbon sectors and our holdings within them, based on portfolio carbon foot-printing and elements of climate change scenario analysis. The second broad outcome is the identification of investment opportunities that represent the solutions to tackling climate change.

We believe companies that clearly understand the risks to their business – and have put in place measures to mitigate and adapt to these risks, as well as capitalising on long-term opportunities – will be better positioned to deliver stronger, investment outcomes in the long run.

Our analysis provides the basis for a risk and opportunity evaluation and structured engagement programme, which prioritises greater transparency in corporate disclosures and a clearer demonstration of corporate decarbonisation plans. In this way, we will use our position as an investor to encourage the transition to a low-carbon economy. To build on this analysis and engagement activity, we are developing a voting approach that integrates an assessment of climate performance more structurally into our voting decisions for all companies.

We assess the carbon footprint of our portfolios to understand their exposure to carbon emissions, incorporating a climate risk management programme that focuses on the largest emitters and looking at both the physical risks of global heating and transition risks – these being the regulatory changes in response to climate change that will negatively affect companies without adequate net-zero transition plans. We also identify the best tools to run scenario analysis for different temperature changes, helping understand how companies and portfolios are aligned with the Paris Agreement.

We participate with other investors and stakeholders to push for improved climate-related disclosures and risk management and to encourage positive change. We collaborate with the Institutional Investors Group on Climate Change (IIGCC), we were a founding signatory of Climate Action 100+ and are members of the IIGCC Paris Aligned Investment Initiative. We will continue our participation in other industry-led collective engagement groups and climate change initiatives to help accelerate progress in investment approaches and wider policy direction.

More information on M&G's approach to climate change can be found [here](#). □



## Glossary of terms

**Additionality** Whether the impact being measured would be achieved if the company did not exist or were not adequately funded – ie, could another company equally deliver that impact?

**Asset** Anything having commercial or exchange value that is owned by a business, institution or individual.

**Asset class** Category of assets, such as cash, company shares, fixed income securities (bonds) and their sub-categories, as well as tangible assets such as real estate.

**Benchmark** Measure, such as an index or sector, against which a portfolio's performance is judged.

**Capital Growth** Occurs when the current value of an investment is greater than the initial amount invested.

**Carbon Disclosure Project (CDP)** CDP is an independent, non-profit organisation that maintains a database of corporate climate change data, incorporating disclosures of individual organisations' greenhouse gas emissions and climate change strategies.

**Carbon footprint** The total amount of greenhouse gases produced to support human activities, both directly and indirectly. It can be attributed to an individual, organisation, country etc, and is usually expressed in equivalent tonnes of carbon dioxide (CO<sub>2</sub>). Activities like driving, heating and food production have associated CO<sub>2</sub> emissions. The carbon footprint is then the sum of all these emissions that were induced by activities within a given timeframe (usually a year).

**Carbon intensity** Expresses the carbon efficiency of the portfolio and allows institutional investors to measure the volume of carbon emissions per million dollars of sales generated by portfolio companies over a specified timeframe. This metric adjusts for company size and is a more accurate measurement of the efficiency of output, rather than a portfolio's absolute footprint.

**Carbon target** A carbon target is a defined value used as a quantitative goal for a company's carbon footprint or net carbon emissions (footprint minus any carbon offset activities) to meet within a given timeframe. These targets can be absolute, or based on a comparison with industry averages.

**Climate change** A change in global or regional climate patterns and largely attributed to the increased levels of atmospheric carbon dioxide produced by the use of fossil fuels.

**Climate risks** Risks stemming from climate change that have the potential to affect companies, industries and whole economies. There are a range of business risks associated with climate change, including regulatory developments, growing natural resource scarcity and potential reputational damage. These are all risks that need increasingly to be proactively managed.

**Engagement** Interaction with company management on various financial and non-financial issues, including ESG. Engagement allows investors to advise on and influence company behaviour and disclosures where appropriate. Meetings are also held with management to better understand how a company operates and how it interacts with its stakeholders.

**Environmental, Social and Governance (ESG)** An investment approach that incorporates environmental, social and governance factors into the investment process.

**ESG integration** The explicit and systematic inclusion of Environmental, Social and Governance (ESG) factors in investment analysis and decisions. It underpins a responsible investment approach and, in our view, allows investors to better manage risk and generate sustainable, long-term returns.

**Exclusions** Excluding or restricting investment in companies based on the sector in which they operate or for other specific criteria, ie, they are deemed to be in breach of the United Nations Global Compact principles on human rights, labour, the environment and anti-corruption.

**Fossil fuels** A natural fuel such as coal or gas formed in the geological past from the remains of living organisms. Burning fossil fuels emits a number of air pollutants that are harmful to both the environment and public health.

**Global warming** The gradual increase in the overall temperature of earth's atmosphere, generally attributed to the greenhouse effect caused by increased levels of carbon dioxide and other pollutants.

**Greenhouse gas emissions** Gases and other particles that are released into the atmosphere as a result of burning fuels and other processes. Generally, these emissions are most likely to come from vehicles, power generation and industrial processes. A greenhouse gas, then, is a classification of gases that, when released into the atmosphere, are capable of absorbing infra-red radiation. Consequently, this process will trap and hold heat in the Earth's atmosphere. This is called the greenhouse effect, and ultimately is what leads to global warming. Greenhouse gases include carbon dioxide (CO<sub>2</sub>), Methane (CH<sub>4</sub>) and Nitrous Oxide (N<sub>2</sub>O).

**Ill approach** Is one that examines the Investment case, the Intentionality and the Impact of a company to assess its suitability for the fund. The Investment case considers several factors such as the business model, competitive position and business risk; Intentionality means a company specifically sets out to deliver a particular impact and Impact is the measurable impact of a company on society or the environment.

**Income** Money paid out by an investment. Dividends are income from shares. Income from bonds is called interest or coupon.

**Index** An index represents a particular market or a portion of it, serving as a performance indicator for that market or segment.

**Impact** Investment with the purpose of generating a measurable social or environmental return, alongside a financial return.

**Materiality** The percentage of a company's revenue that contributes to the impact being measured.

**MSCI World Index** The MSCI World Index is a market cap weighted stock market index of around 1,600 companies throughout the world. It is maintained by MSCI and is used as a common benchmark for equity funds intended to represent a broad cross-section of global markets.

**Ongoing Charges Figure** The ongoing charge figure represents the operating costs investors can reasonably expect to pay under normal circumstances.

**Paris Agreement** The Paris Agreement resulted from the Paris Climate Conference (COP 21) in December 2015 and brought together all COP member nations in an agreement to undertake ambitious efforts to tackle climate change and limit the rise of global temperatures (from pre-industrial levels) to below 2°C, and ideally below 1.5°C.

**Renewable energy** Energy that comes from natural sources or processes that are constantly replenished, such as sunlight, wind, rain, tides, waves and geothermal heat.

**Scope 1, 2 and 3 emissions** Developed by the Greenhouse Gas Protocol to help define how companies manage and report greenhouse gas emissions.

Scope 1: All direct emissions from the activities of an organisation or under their control

Scope 2: Indirect emissions from electricity purchased and used by the organisation.

Scope 3: All other indirect emissions from activities of the organisation, occurring from sources that they do not own or control

**Screening** Screening is an approach taken to filter investment opportunities based on specific pre-defined criteria. These can be negative screens which 'screen out' or remove companies based on an involvement in an undesirable activity or sector, or positive screens which 'screen in' or filter companies specifically due to their involvement in beneficial activities.

**Stewardship** Stewardship is the act of being a responsible and engaged investor, pursuing an active investment policy through portfolio management decisions, maintaining a constructive dialogue with management and voting on resolutions at general meetings. Stewardship aims to ensure long-term protection and enhancement of the value of investments.

**Sustainable** The investment universe is driven by sustainability-themed considerations, which might include climate change mitigation, pollution prevention, sustainability solutions (environmental, social) and approaches that address

one or more of the UN Sustainable Development Goals (SDGs); there is a clear ambition, supported by explicit targets, to drive sustainability across the portfolio; an investment approach that selects companies/issuers with strong ESG credentials.

**Sustainable Investing** Long-term investment in a company, asset or sector that makes a positive contribution to the environment, economy or society, in order to support or boost that positive contribution over time.

**Total carbon emissions** Measures the absolute tonnes of CO<sub>2</sub>e (Scope 1 + 2) for which an investor is responsible. This metric calculates the 'owned' emissions from each position in the portfolio and sums those emissions' yields for the total carbon emissions for the portfolio.

**United Nations Global Compact** A United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies and to report on their implementation.

**United Nations Sustainable Development Goals (UN SDGs)** A set of 17 goals which seek to address the most challenging social, environmental and economic issues facing the world today.

**Weighted Average Carbon Intensity** Measures a portfolio's exposure to carbon-intensive companies. This metric can serve as a proxy for a portfolio's exposure to potential climate change-related risks relative to other portfolios or relative to a benchmark. Weighted Average Carbon Intensity is calculated by taking the carbon intensity (Scope 1 + 2 emissions / \$M sales) for each portfolio company and calculating the weighted average by portfolio weight.

## Contact

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 **Customer Relations**

**0800 390 390\***

If you have a query regarding your M&G investment, our Customer Relations team can be contacted from 08:00 to 18:00, Monday to Friday, and from 09:00 to 13:00 on Saturday.

 **Investment Helpline**

**0800 389 8600\***

If you would like to make an investment, request further information on a new or additional investment, or want to read more about our products and services, call us from 08:00 to 18:00, Monday to Friday, and from 09:00 to 13:00 on Saturday.

 **info@mandg.co.uk\*\***

For information.

 **www.mandg.co.uk/info**

Visit our website for the latest performance information, fund prices and literature.

 **M&G Customer Relations**

**PO Box 9039**

**Chelmsford**

**CM99 2XG**

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\*For security purposes and to improve the quality of our service, we may record and monitor telephone calls.

\*\*Please note that information contained within an email cannot be guaranteed as secure. We advise that you do not include any sensitive information when corresponding with M&G in this way.

Further details of the risks that apply to the fund can be found in the fund's Prospectus.

The views expressed in this document should not be taken as a recommendation, advice or forecast.

The fund invests mainly in company shares and is therefore likely to experience larger price fluctuations than funds that invest in bonds and/or cash.