

22 February 2022

Dear Investor

### **Implementation of M&G Investments Thermal Coal Investment Policy and its impact on M&G's range of UK-based funds**

**You do not need to take any action, but we recommend that you read this letter carefully. Please note that there will be no change to the Funds' Investment Objectives, nor to their overall risk profiles.**

Defined terms used in this letter have the same meaning as in the relevant Fund Prospectuses.

In March 2021, M&G plc announced its intention to remove its direct exposure to public equity (shares) and fixed income (bonds) from companies involved in business related to coal used for the purpose of power generation (thermal coal), by:

- 2030 for investments in developed countries, defined as Member States of the Organisation for Economic Co-Operation and Development (OECD) and/or the European Union (EU) (as listed in Appendix 3); and
- 2040 across the rest of the world – mostly emerging market countries.

These targets for the removal of our thermal coal exposure are in line with the Intergovernmental Panel on Climate Change (IPCC) guidelines for adhering to the Paris Agreement, which aims to limit global temperature increase to 1.5 degrees Celsius above pre-industrial levels by the end of this century.

In order to achieve this, from 27 April 2022 (the "Effective Date"), the **M&G Investments Thermal Coal Investment Policy** (the "Coal Policy") will be applied across the majority of the funds in our UK range (the "Funds")<sup>1</sup>. The Coal Policy enables the identification, engagement and ultimately exclusion of companies which we believe have material thermal coal exposure and/or are unable or unwilling to participate in the transition away from thermal coal<sup>2</sup>, as set out within the timeframes stated above.

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<sup>1</sup> The "Funds" exclude M&G European Index Tracker Fund and M&G Index Tracker Fund – see "Funds excluded from the Coal Policy implementation" for details.

<sup>2</sup> The Coal Policy does not apply to metallurgical coal, which is used in the steel production process.

This letter provides you with details of how the Coal Policy will be implemented across the Funds, how we believe it will benefit you, and the potential impact on your investment.

### **How will the Coal Policy benefit investors in the Funds?**

We believe that well-governed businesses, run in a sustainable way, have the potential to deliver stronger, more resilient returns in the long term for shareholders, and better outcomes for society.

Companies are increasingly taking steps to align with the Paris Agreement, not only in response to growing Shareholder pressure, but also as governments who have signed up to the Agreement bring in restrictions and policies related to the extraction and use of thermal coal. As a result, companies that do not have the willingness and/or ability to make the transition in the required timeframes are likely to face additional challenges and become less attractive to investors and lose value. We therefore believe that engaging with these companies to promote viable transition plans, and excluding those where this engagement is not successful, will be best for the Funds' ability to deliver their long-term financial objectives.

### **How will the Coal Policy be implemented?**

We have already conducted research on all companies involved in thermal coal activities (including power generation, mining and any companies with plans for new expansion of thermal coal-related business) held within the Funds' portfolios. This analysis only includes shares or bonds held directly by the Funds and excludes investments held indirectly, for example through other funds not managed by M&G.

All Fund Prospectuses will be updated to disclose the investment restrictions that will apply to the Funds under the Coal Policy (see Appendix 1). The criteria we have used for assessing companies are included in the "Implementing M&G Investments Thermal Coal Investment Policy in our funds" document on the M&G website.

This research led to the identification of a number of companies which fall within the Policy's thermal coal related investment restrictions, and/or do not yet meet our expectations for transitioning away from thermal coal within the required timeframes. These include any company without a transition plan in place. From the Effective Date, we will continue our engagement with these companies, highlighting our investment restriction criteria and setting out our expectations of them to adopt what we believe are credible plans to transition away from thermal coal ("Credible Transition Plans"), by:

- 2030 for companies in, or conducting thermal coal activities in, a Member State of the OECD and/or the EU; and
- 2040 for companies in, or conducting thermal coal activities in, the rest of the world.

Where this engagement does not yield a successful outcome, and/or we consider there are no Credible Transition Plans, we will seek to sell our investments in these companies ("Excluded Companies") no later than:

- **31 October 2022**, for companies in, or conducting thermal coal activities in, the OECD and the EU; and
- **31 October 2024**, for companies in, or conducting thermal coal activities in, the rest of the world. The longer engagement period for these regions reflects the later thermal coal phase-out target date set by the IPCC to allow a 'just transition' in countries still heavily dependent on thermal coal for their energy production, and where more significant changes in culture, strategy and/or corporate governance may be required to achieve a complete phase-out of thermal coal.

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Please note that, where Funds presently hold Excluded Companies, they will commence selling them before these dates. These investments may be subject to liquidity constraints or lower liquidity (ie the ability to sell the assets without negatively impacting their value) in difficult market conditions. This may result in:

- the Funds having to sell these investments at an undesirable time and/or under adverse market conditions, which could negatively impact the Funds' value; and/or
- a small number of Excluded Companies still being held after 31 October 2022/2024; we will, however, seek to sell these assets as soon as practicable after these dates should this be required.

#### **How will the Coal Policy impact my investment?**

- **ESG Funds with existing thermal coal exclusions**

A number of Funds already apply thermal coal-related ESG exclusions which are at least as restrictive as the Coal Policy, and as a result the following Funds will not be impacted by its implementation:

- M&G Better Health Solutions Fund
- M&G Climate Solutions Fund
- M&G European Sustain Paris Aligned Fund
- M&G Global High Yield ESG Bond Fund
- M&G Global Sustain Paris Aligned Fund
- M&G Positive Impact Fund
- M&G Sustainable Multi Asset Fund
- M&G Sustainable Multi Asset Balanced Fund
- M&G Sustainable Multi Asset Cautious Fund
- M&G Sustainable Multi Asset Growth Fund

For all the other Funds, the implementation of the Coal Policy will introduce new investment restrictions effective from 31 October 2022 and/or 31 October 2024, when the Funds will be unable to hold any companies that do not meet the Coal Policy criteria. This may result in some Funds having to realign their portfolios to comply with the Coal Policy.

Any change to the Effective Date of the Coal Policy and/or to any of the effective dates of the Coal Policy investment restrictions to a later date determined by the Board would be communicated to you.

A summary of the impact of the Coal Policy on each Fund, including details of estimated realignment costs based on the holdings in the Funds as at December 2021, can be found in the table included in Appendix 2 at the back of this letter. These costs will be borne by the Funds, and the actual costs could vary from the estimates depending on many factors, including what companies each Fund is invested in on the Effective Date and any information on the companies involved which may alter their status with regards to the Coal Policy. We will be updating investors on the progress of the implementation through the Funds' annual reports.

- **Funds excluded from the Coal Policy implementation**

The Coal Policy will not apply to the following Funds:

- M&G European Index Tracker Fund
- M&G Index Tracker Fund

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This is because, in accordance with their Investment Objectives and Investment Policies, these funds aim to track the performance of their respective indices by investing in the constituents of the indices and it is therefore not possible to apply any restrictions to their holdings.

- **Funds mainly, or wholly invested in assets not covered by the Coal Policy**

The Coal Policy screening process can currently only be performed on publicly listed shares and bonds issued by companies. This means that some assets, such as bonds issued by governments (or government related institutions) and direct property will not be covered by the Coal Policy. As a result, for the following funds, a large proportion of their assets will not fall within the scope of the Coal Policy:

Funds mainly invested in government bonds:

- M&G Gilt and Fixed Interest Income Fund
- M&G Global Government Bond Fund
- M&G Index-Linked Bond Fund

Funds mainly invested in property:

- M&G Feeder of Property Portfolio
- M&G Property Portfolio

However, the Coal Policy will apply to any investments within these funds which are issued by companies, such as shares or corporate bonds.

#### **Will the Coal Policy impact the risk profile of the Funds?**

Risk analysis has been conducted on the relevant Funds' portfolio and determined that their risk profiles will not be affected as a result of the additional investment restrictions or, where applicable, any realignment resulting from the implementation of the Coal Policy.

#### **Administration costs associated with the changes**

All administration and legal costs associated with implementing the Coal Policy will be borne by M&G.

#### **Making changes to your investment**

You may sell your investment in the Fund(s), or switch<sup>3</sup> to (an)other M&G OEIC fund(s), free of charge, at any point before or after the changes have taken place subject to our Terms and Conditions.

#### **For more information**

If you have any questions about the changes please contact our **Customer Relations** team by calling **0800 390 390**. The team is available from 08:00 to 18:00, Monday to Friday, and from 09:00 to 13:00 on Saturday. To help us deal with your enquiry as quickly as possible please have your M&G client reference when calling us. For your security and to improve the quality of our service, calls may be recorded.

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<sup>3</sup> Note that, unless you switch to M&G Index Tracker Fund or M&G European Index Tracker Fund, you would switch to a Fund the Coal Policy also applies to.

Please be aware that we are not in a position to give you investment advice. If you are uncertain as to how the changes may affect you, you should consult a financial adviser.

Yours faithfully

A handwritten signature in black ink that reads "Laurence Mumford".

Laurence Mumford  
Director  
M&G Securities Limited

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- Appendix 1: Investment Restrictions Applying to Thermal Coal under M&G Investments Thermal Coal Investment Policy
- Appendix 2: Summary of impact of the implementation of the M&G Investments Thermal Coal Investment Policy
- Appendix 3: List of Member States of the OECD and/or the EU

## APPENDIX 1

### **Investment Restrictions Applying to Thermal Coal under M&G Investments Thermal Coal Investment Policy To be included in the Prospectuses dated 27 April 2022.**

“From 27 April 2022 (the “Effective Date”), all Funds in the Company<sup>4</sup> will be subject to the M&G Investments Thermal Coal Investment Policy (the “Coal Policy”). For further information, investors should refer to the “Implementing M&G Investments Thermal Coal Investment Policy in our funds” document which will be made available on the M&G website prior to the Effective Date.

The Funds will be subject to additional investment restrictions commencing on 31 October 2022 and 31 October 2024 as further described below.

The Investment Manager will continue engagement with companies involved in thermal coal activities (the extraction of, or power generation from, thermal coal, and related sectors), as further explained in the Coal Policy.

This engagement will involve encouraging such companies to adopt plans to transition away from thermal coal, which are credible in the opinion of the fund manager (“Credible Transition Plans”), by:

- 2030 for companies in, or conducting thermal coal activities in, a Member State of the OECD and/or the EU; and
- 2040 for companies in, or conducting thermal coal activities in, other countries.

Companies that have not adopted Credible Transition Plans by 31 October 2022 (for companies in, or conducting thermal coal activities in, a Member State of the OECD and/or the EU) or 31 October 2024 (for companies in, or conducting thermal coal activities in, other countries) shall be excluded from direct investment by the Funds (“Excluded Companies”). Accordingly the Funds shall be subject to additional investment restrictions from 31 October 2022 and 31 October 2024 to give effect to the abovementioned exclusions. These investment restrictions consist of data points which are defined in the Coal Policy and which will enable the Investment Manager to assess whether or not a company is sufficiently engaged in the energy transition to remain an eligible investment for the relevant Fund.

Excluded Companies to be sold by the Funds may be subject to liquidity constraints or lower liquidity in difficult market conditions, which may result in the Investment Manager having to sell investments in Excluded Companies at an unfavourable time and/or under adverse market conditions. This may have a negative impact on the value of the Funds, and/or result in a small number of Excluded Companies still being held by the Funds after 31 October 2022 (for companies in, or conducting thermal coal activities in, a Member State of the OECD and/or the EU) or 31 October 2024 (for companies in, or conducting thermal coal activities in, other countries). The

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<sup>4</sup>M&G European Index Tracker Fund and M&G Index Tracker Fund will be named as excluded in M&G Investment Funds (1) and M&G Investment Funds (2) Prospectuses respectively.

fund managers will, however, seek to sell investment in Excluded Companies as soon as practicable after these dates should this be required.

While engagement will be co-ordinated centrally to maximise M&G's influence, the fund manager(s) of each Fund will retain discretion as to whether they begin to sell holdings in each Fund prior to the additional investment restrictions coming into force. Each Fund may therefore commence sale of Excluded Companies from the Effective Date."

**Specific additional M&G Investments Thermal Coal Investment Policy disclosures will also be added in relevant prospectuses within the text above.**

### **M&G Property Portfolio**

"The Coal Policy applies to direct investments in publicly listed shares and bonds issued by companies. The Fund invests mostly in direct property and other property related assets, which will not necessarily be covered by the Coal Policy. As a result, a substantial majority of the Fund's assets will not fall within the scope of the Coal Policy."

### **M&G Feeder of Property Portfolio**

"The Coal Policy applies to direct investments in publicly listed shares and bonds issued by companies. The Trust, through its investments in M&G Property Portfolio, invests mostly in direct property and other property related assets, which will not necessarily be covered by the Coal Policy. As a result, a substantial majority of the Trust's assets will not fall within the scope of the Coal Policy."

### **M&G Investment Funds (2)**

- M&G Gilt and Fixed Interest Income Fund
- M&G Index-Linked Bond Fund

"The Coal Policy applies to direct investments in publicly listed shares and bonds issued by companies. The M&G Gilt and Fixed Interest Income Fund and M&G Index-Linked Bond Fund invest mostly in bonds issued by governments (or government related institutions), which will not be covered by the Coal Policy. As a result, a substantial majority of these Funds' assets will not fall within the scope of the Coal Policy."

### **M&G Investment Funds (3)**

- M&G Global Government Bond Fund

"The Coal Policy applies to direct investments in publicly listed shares and bonds issued by companies. The M&G Global Government Bond Fund invests mostly in bonds issued by governments (or government related institutions), which will not be covered by the Coal Policy. As a result, a substantial majority of this Fund's assets will not fall within the scope of the Coal Policy."

## APPENDIX 2

### Summary of impact of the implementation of the M&G Investments Thermal Coal Investment Policy (Based on holdings as at December 2021)

The following table summarises the impact of the implementation of the Coal Policy on M&G's range of UK-based Funds.

The table excludes:

- **ESG Funds with thermal coal exclusions**
- **Funds excluded from the Coal Policy implementation**
- **Funds mainly, or wholly invested in assets not covered by the Coal Policy**

Costs are estimated based on analysis of the Funds' portfolios as at December 2021. Note that these costs could change and may be higher or lower by the end of the realignment process, depending on a number of factors including the success of our engagement efforts and our approach to assessing Credible Transition Plans.

Transaction costs will be borne by each Fund. Impacted holdings will be sold from the Effective Date.

Fund	Anticipated realignment required (% of the Fund's Net Asset Value)	Estimated transaction cost (% of the Fund's Net Asset Value, to the nearest 0.01%)
M&G Absolute Return Bond Fund	0.0%	0.00%
M&G Asian Fund	4.9%	0.02%
M&G Corporate Bond Fund	0.6%	<0.01%
M&G Dividend Fund	4.1%	<0.01%
M&G Emerging Markets Bond Fund	3.0%	0.02%
M&G Emerging Markets Monthly Income Fund	9.8%	0.07%
M&G Episode Allocation Fund	0.0%	0.00%
M&G Episode Growth Fund	0.0%	0.00%
M&G Episode Income Fund	2.6%	<0.01%
M&G European Corporate Bond Fund	2.3%	<0.01%
M&G Global Convertibles Fund	1.5%	<0.01%
M&G Global Dividend Fund	0.0%	0.00%
M&G Global Emerging Markets Fund	7.7%	0.05%
M&G Global Enhanced Equity Premia Fund	0.9%	<0.01%
M&G Global Floating Rate High Yield Fund	0.0%	0.00%
M&G Global High Yield Bond Fund	0.0%	0.00%
M&G Global Listed Infrastructure Fund	3.6%	0.04%
M&G Global Macro Bond Fund	0.0%	0.00%
M&G Global Strategic Value Fund	2.0%	<0.01%
M&G Global Target Return Fund	0.0%	0.00%
M&G Global Themes Fund	2.0%	<0.01%
M&G Japan Fund	6.4%	0.01%



<b>Fund</b>	<b>Anticipated realignment required (% of the Fund's Net Asset Value)</b>	<b>Estimated transaction cost (% of the Fund's Net Asset Value, to the nearest 0.01%)</b>
M&G Japan Smaller Companies Fund	0.0%	0.00%
M&G Managed Growth Fund	0.0%	0.00%
M&G North American Dividend Fund	1.6%	<0.01%
M&G North American Value Fund	0.0%	0.00%
M&G Optimal Income Fund	0.6%	<0.01%
M&G Recovery Fund	7.2%	0.09%
M&G Short Dated Corporate Bond Fund	0.6%	<0.01%
M&G Smaller Companies Fund	0.0%	0.00%
M&G Strategic Corporate Bond Fund	0.8%	<0.01%
M&G UK Income Distribution Fund	0.5%	<0.01%
M&G UK Inflation Linked Corporate Bond Fund	0.0%	0.00%
M&G UK Select Fund	0.0%	0.00%

### **APPENDIX 3**

#### **List of Member States of the OECD and/or the EU As at January 2022**

Australia	Denmark	Japan	Romania
Austria	Estonia	Latvia	Slovakia
Belgium	Finland	Lithuania	Slovenia
Bulgaria	France	Luxembourg	South Korea
Canada	Germany	Malta	Spain
Chile	Greece	Mexico	Sweden
Colombia	Hungary	Netherlands	Switzerland
Costa Rica	Iceland	New Zealand	Turkey
Croatia	Ireland	Norway	United Kingdom
Cyprus	Israel	Poland	United States
Czech Republic	Italy	Portugal	