Investing aligned to the Paris Climate Agreement

April 2022

The Paris Climate Agreement – from the idea to implementation

In view of the challenges posed by global climate change, the European Union (EU) has set itself an ambitious goal: by 2050, the EU economy is to become climate neutral. For this transformation to succeed, high levels of investment in sustainable economic sectors, companies and production processes are needed – and not just from the governments. To encourage private investment, the EU has introduced regulations for sustainable investment, such as Sustainable Finance Disclosure Regulation (SFDR) in 2021 or the EU Taxonomy that became effective in 2022.

The benchmark and orientation for this is the Paris Climate Agreement of 2015, at which time almost all the countries of the world committed themselves to combating climate change. Since then, numerous companies have announced their climate targets and asset managers their proposed solutions. It is time to ask: To what extent is the Paris Climate Agreement also being implemented in the fund world?

A milestone for the global economy

The primary goal of the Paris Climate Agreement is to limit global warming to a maximum of 2 degrees Celsius, but preferably 1.5 degrees Celsius above pre-industrial times. From 2050, therefore, no more climate-damaging gases may be emitted than nature can remove from the atmosphere. Therefore, companies must "decarbonise" themselves quickly and consistently. The special feature of the Paris Climate Agreement: For the first time, reduction targets for greenhouse gas emissions are made scientifically transparent and quantifiable. It is, therefore, also an important basis for climate-friendly investment decisions.

Progress in the investment industry

Financial institutions have an important role to play in the transition to a carbon-neutral economy. However, according to a study by the non-profit environmental disclosure charity Carbon Disclosure Project (CDP)[1], there are currently only a small number of investment funds working in line with the goals of the Paris Climate Agreement.

The CDP analysed more than one third of the global fund volume in more than 16,500 funds. Out of these, only 158 were following a 'temperature path' to achieve the targets of the agreement. Looking at the assets under management of the respective funds, this equates to only 0.5% of the total $27 trillion of assets. There is, therefore, still a lot to do in this area.

Sustainability at M&G

At M&G Investments we have pledged to align our influence as a global investor and asset owner with the Paris Agreement, and use it to drive positive change, to decarbonise the energy system and increase energy and resource efficiency. As an asset owner, we have discretion over sustainability policy and strategy, and we will work in partnership with our clients to achieve their investment objectives while transitioning their investments to net zero by 2050.

In 2020, we set ourselves specific and ambitious targets in our two sustainability priority areas: climate change and diversity and inclusion. But we have also set ourselves the broader goal of embedding sustainability in everything we do, to ensure we remain able to deliver on our purpose of helping people live the lives they want while making the world a little better on the way, and continue to try to deliver stronger returns for shareholders in the long term[2].

How is M&G implementing the Paris climate goals?

At M&G we offer two funds that work towards the aims of the Paris Agreement, one focusing on European equities and the other on global equities. Both funds invest only in companies that align as closely as possible with the agreed climate targets. To achieve this, they aim for a Weighted Average Carbon Intensity at least 50% lower than their benchmarks. This is the amount of CO_2 emitted per million US dollars of sales, for all underlying companies, weighted to their proportions in the portfolio.

The fund managers also engage with investee companies, actively encouraging them to further reduce their CO_2 emissions and set Science-Based Targets aligned to the

[1] Just 0.5% of $27trn global fund assets are Paris-aligned (cdp.net). CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

[2] Source: M&G, Sustainability (mandg.com)

Paris Climate Agreement. Because that’s how we can achieve real positive change.

Both funds comply with the requirements under Article 9 under SFDR.

M&G (Lux) Global Sustain Paris Aligned Fund

The fund aims to provide combined income and capital growth that is higher than that of the global stockmarket (as measured by the MSCI World Net Return Index) over any five-year period and to invest in companies that contribute towards the Paris Agreement climate change goal of keeping a global temperature rise this century well below two degrees Celsius above pre-industrial levels. At least 80% of the fund is invested in the shares of sustainable companies from anywhere in the world, including emerging markets. The fund usually holds shares in fewer than 40 companies. Companies that are assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment and anti-corruption are excluded from the investment universe. Industries such as tobacco and controversial weapons are also excluded. The investment manager invests in the shares of companies with sustainable business models, where short-term issues have created attractive buying opportunities. ESG and sustainability considerations are fully integrated into the investment process.

The M&G (Lux) Global Sustain Paris Aligned Fund is actively managed and the benchmark is the MSCI World Net Return Index.

M&G (Lux) Pan European Sustain Paris Aligned Fund

The fund aims to provide combined income and capital growth that is higher than that of the European stockmarket (as measured by the MSCI Europe Net Return Index) over any five-year period and to invest in companies that contribute towards the Paris Agreement climate change goal of keeping a global temperature rise this century well below two degrees Celsius above pre-industrial levels. At least 80% of the fund is invested in the shares of sustainable companies, across any sector and of any size, that are based, or do most of their business, in Europe. The fund usually holds shares in fewer than 35 companies. Companies that are assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment and anti-corruption are excluded from the investment universe. Industries such as tobacco and controversial weapons are also excluded. The investment manager invests in the shares of companies with sustainable business models, where short-term issues have created attractive buying opportunities. ESG and sustainability considerations are fully integrated into the investment process.

The M&G (Lux) Pan European Sustain Paris Aligned Fund is actively managed and the benchmark is the MSCI Europe Net Return Index.

Read more about our ”Paris Aligned“-Funds:

- Website Luxembourg

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The value and income from the funds’ 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 funds will achieve their objectives and you may get back less than you originally invested.

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

For the M&G (Lux) Global Sustain Paris Aligned Fund: Investing in emerging markets involves a greater risk of loss due to greater political, tax, economic, foreign exchange, liquidity and regulatory risks, among other factors. There may be difficulties in buying, selling, safekeeping or valuing investments in such countries.

ESG information from third-party data providers may be incomplete, inaccurate or unavailable. There is a risk that the investment manager may incorrectly assess a security or issuer, resulting in the incorrect inclusion or exclusion of a security in the portfolio of the fund.

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

Investing in these funds mean acquiring units or shares in a fund, and not in a given underlying asset such as a building or shares of a company, as these are only the underlying assets owned by the fund.

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.

Please refer to the glossary list for an explanation of the investment terms used in this article. Please note that these links open a new window.

Our Sustainable finance Disclosure statements can be found at: https://www.mandg.com/investments/professional-investor/en-lu/solutions/investment-options/sustainability