M&G (Lux) Optimal Income Fund

Promoting ESG characteristics by aligning to SFDR Article 8

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September 2021

- From 29 October 2021, the M&G (Lux) Optimal Income Fund will become Article 8 classified under the new Sustainable Finance Disclosure Regulation (SFDR) introduced by the European Commission.
- The fund will follow a positive ESG tilt approach, aiming to deliver investors a weighted average ESG score above that of its benchmark.
- The fund will broaden its norms-based ESG exclusions, e.g. companies in breach of the UNGC principles, and countries assessed as “not free” by the Freedom House index.
- The changes will allow us to continue to look for what we consider some of the world’s best bond opportunities, while promoting environmental, social and governance (ESG) factors.

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 and you may get back less than you originally invested. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.

Aligning the fund to SFDR Article 8

From 29 October 2021, the M&G (Lux) Optimal Income Fund will see its strategy become Article 8 classified under SFDR. This is part of M&G’s commitment to evolve as many strategies as possible towards ESG, sustainable or impact outcomes. SFDR dictates various disclosure-related requirements for financial markets, aiming to provide more transparency on sustainability in a standardised way. It was introduced by the European Commission in March 2021 as part of a package of legislative measures arising from its broader action plan on sustainable finance.

What will change when the fund becomes Article 8?

Essentially, two things will change:

1) Firstly, as a result of the fund becoming Article 8 classified, *the fund will now follow a positive ESG tilt approach*. This will be achieved by maintaining a weighted average ESG score above the average ESG score of the benchmark index. This means we will continue to monitor the ESG characteristics of the bonds we buy and, while we would generally prefer bonds with superior ESG scores, we would not be forced sellers of bonds in specific sectors or companies classified as laggards from an ESG point of view. Again, we can invest in those companies, but we always have to be mindful of the overall ESG score of the fund as this has to be better than the one of our benchmark.

2) Secondly, the fund *will broaden its norms-based ESG exclusions* to any company that is assessed to be in breach of the United Nations Global Compact principles (e.g. on labour, human rights, the environment, and anti-corruption)[1]; and any government bond issued by countries classed as “not free” by the Freedom House index. In this regard, civil liberties and political rights are used to gauge whether or not a country is classified as “not free”.

There will be no other changes to the fund and we will continue to have an unconstrained approach with the full flexibility to invest across the entire fixed interest universe (and across equities to a max. 20%) with a clear focus on active return generation.

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[1] Currently, the fund (along with all our actively managed SICAVs) only excludes companies involved in the manufacture, development or trade of cluster munitions or anti-personnel mines.

UCITS HAVE NO GUARANTEED RETURN, AND PAST PERFORMANCE IS NOT A GUIDE TO FUTURE PERFORMANCE

The fund allows for the extensive use of derivatives.

Further risks associated with the fund can be found in the fund's Key Investor Information Document.

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