September 2022

M&G Investments

M&G Sustainable Multi Asset Balanced Fund

2021 Environmental, Social and Governance (ESG) and Impact Report

Contents

Sustainability in brief: M&G Sustainable Multi Asset Balanced Fund

Positive ESG tilt	Climate focus	Positive impact
Average MSCI ESG rating[1] for the positive ESG tilt section of the fund:	Carbon intensity[2] of the fund: (based on corporate holdings only)	Proportion of the fund held in positive impact assets:
7.1 (equivalent to AA)	**77.4 tonnes CO_2 per US$ million sales[3]**	**36.4%[4]**

CCC	B	BB	BBB	A	AA	AAA
0.0-1.4	1.4-2.9	2.9-4.3	4.3-5.7	5.7-7.1	7.1-8.6	8.6-10

Source: M&G. As at 31 December 2021.

The metrics listed in the table above provide an overview of some of the high level sustainability credentials of the fund. From a sustainability perspective, all our holdings can be classified as either 'Positive ESG tilt' or 'Positive Impact' holdings. As shown above, our positive ESG tilt holdings have an MSCI ESG score of 7.1, equivalent to a AA MSCI ESG rating. The carbon intensity of the fund is another metric we monitor closely. It is calculated as the sum of the product of each portfolio holding's weight and that company's individual carbon intensity, where carbon intensity equals the company's carbon emissions divided by its total sales in US dollar terms. With a carbon intensity of 77.4 tonnes CO_2/US$ million sales, our fund compares very favourably to the MSCI World ACWI index, representing the global equity market, which has a carbon intensity of 151.5 tonnes CO_2/US$ million sales. Finally, the fund holds 36.4% of its value in positive impact assets, (up from 33.9% as at 31 December 2020) holdings which have clear net positive social or environmental externalities. This increase in the positive impact allocation highlights the fund's aspiration to continue to take advantage of the growing opportunity set across asset classes in the positive impact space.

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[2]Carbon intensity calculation methodology (MSCI): Weighted average Carbon Intensity is measured in terms of tonnes of CO_2 per US$ million of sales. It is calculated as the sum of the product of each portfolio holding's weight and that company's individual carbon intensity, where carbon intensity equals the company's carbon emissions divided by its total sales in US$ terms.

[3]The fund does not target a particular level of carbon intensity. For context, the carbon intensity measure for the MSCI ACWI index (which consists entirely of equities, unlike the fund which is a multi-asset strategy which includes other asset classes such as bonds, cash and alternative assets), had a carbon intensity measure of 151.5 tonnes CO_2/US$ million sales, as at 31 December 2021.

[4]The positive impact methodology for the fund is explained in the section commencing on page 15 of this report.

The M&G Sustainable Multi Asset Balanced Fund invests across six different positive impact areas, three environmental and three social, representing 36.4% of the portfolio, as at 31 December 2021. Each of these impact areas incorporates at least two of the 17 United Nations Sustainable Development Goals (SDGs). While we support the UN SDGs, we are not associated with the UN and our funds are not endorsed by them. We measure specific impacts that our investee holdings seek to deliver within each area.

In the last year, the companies and institutions whose investments we hold have made contributions to each of the impact areas.

Our Climate Action holdings...

generated 63,000 GWh of renewable energy, and avoided almost 39 million tonnes of CO_2 emissions

Our Environmental Solutions holdings...

avoided over 130 million tonnes of CO_2 and saved, tested, treated or provided more than 1,140 billion litres of water

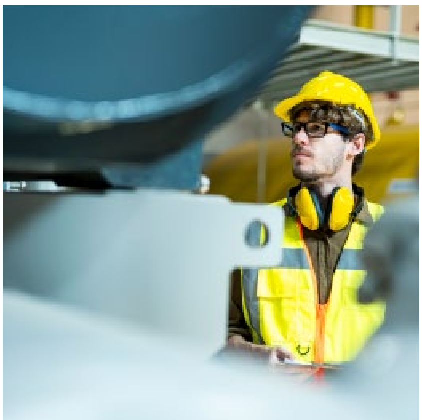
Our Circular Economy holdings...

avoided more than 188 million tonnes of CO_2 emissions, saved 59 million trees and 3.2 billion litres of water, and handled 96 million tonnes of recyclables

Our Better Health, Saving Lives holdings...

treated or served 135 million people, processed 36 million blood donations, provided 650 thousand cochlear implants, and sequenced 170 petabases of DNA

Our Better Work and Education holdings...



provided educational services for 2.4 million students and workers' compensation insurance to 8000 policyholders

Our Social Inclusion holdings...

provided financial, insurance, and family support services to over 58 million people in underserved or lower income markets, provided 6,525 beds for homeless people, and the supranational bonds held in the fund contributed US$6 billion to development projects in emerging countries

Figures are based on the key performance indicators (KPIs) against which we measure individual company impacts. These have been aggregated within each impact area, where companies within the area share similar KPIs. These figures are largely based on the latest information available from company literature and hence are backward looking.

Introduction

Maria Municchi
Fund Manager

It has been an eventful year since I last wrote to you. Although the COVID-19 pandemic has continued to cast a long shadow over businesses and wider populations globally, the success of worldwide vaccination programmes has been revolutionary and had a powerful effect on societies, economies and markets. In the meantime, we have also continued to see some significant developments in the sustainability space.

In March 2021, the new EU-wide Sustainable Finance Disclosure Regulation (SFDR), came into effect. It was designed to provide investors with more clarity around the categorisation of sustainable investment products and increased ESG information disclosure. It has been a key milestone that further increased the focus on sustainable investing, leading to better calibration and improvements across the industry.

However, the most pivotal developments came in November, with the 2021 UN Climate Change Conference (COP 26), when representatives of almost 200 countries met to try to accelerate our response to the climate challenge.

We saw strong commitments to phase down coal and cut methane emissions* – two areas that have important implications, not just for energy providers, utilities and the fossil fuel industry, but for all sectors. Renewable energy providers that continue to play a key role here include wind farm investment firm Greencoat Renewables. The firm, which is held in the fund, aims to make wind farms more efficient by investing in battery-based energy storage technology.

Making new vehicles zero-emission by 2040 was a key environment pledge** from the conference. Some companies in this space have shown high levels of innovation. Our investments here include smart energy technology provider SolarEdge, which recently partnered with Fiat to introduce an electric version of Fiat's E-Ducato light commercial vehicle to the European market.

Another pledge was ending and reversing deforestation. As forests are able to absorb a high proportion of CO_2 emissions, the ecosystem plays a vital role in being able to achieve our broader climate goals, as well as offering protection against shorter-term weather events. Companies like Danone aim to fight deforestation across their supply chain, using new technology like satellite images to enhance traceability.

Finally, some important commitments from COP26 came in relation to financing by developed countries to support developing countries, as well as private finance to transition towards a more sustainable economy. This transformation might lead to different risks and opportunities and change the way we invest. For example, in 2021 we invested in a green bond issued by the government of Colombia, which provided us with attractive financial characteristics whilst meeting our sustainability/positive impact criteria, with 100% of proceeds funding a range of impactful activities.

Crucially, I believe that the social element of sustainability remains as important as the climate aspect. This has become more and more apparent as the concept of 'just transition' takes hold and acknowledges that social elements need to be embedded in all aspects in the move to a sustainable economy. Recognising the importance of the social aspect, we invested in a newly issued Chilean social bond, which funds a wide range of support programmes for people in vulnerable circumstances.

I believe the approach we take to invest your savings in the M&G Sustainable Multi Asset Balanced Fund will continue to help drive and support the quest for a truly sustainable outlook for our own, our children's and our planet's future.

*Coal is responsible for around 40% of annual CO_2 emissions. Nearly 200 countries made a pledge to phase down the production and use of coal.

**An agreement was reached by 30 countries to make zero-emission vehicles accessible and affordable by 2030. In the UK, the government has pledged to make all sales of new cars and trucks zero-emission vehicles by 2040.

Our approach to sustainable multi asset investing

Responsible investment approach

The fund is categorised as Planet +/Sustainable and promotes ESG characteristics. Within this category, a combination of a Positive ESG tilt approach for the ESG component of the portfolio and an Impact approach for the Positive Impact component of the portfolio is applied.

Sustainable multi asset portfolio

In employing a sustainable investment approach that looks to generate long-term returns, we intend for the asset allocation decisions to be the key drivers of those returns. Implementation of those decisions sees the fund populated with assets by applying the strict ESG and/or positive impact selection criteria we have set down to identify potential investments. Details of the criteria are laid out in a dedicated document, ESG Criteria and Sustainability Criteria, which is available on our website.

We aim to achieve optimal asset allocation, managing the composition of a portfolio to balance anticipated risk with potential reward, according to market conditions.

Implementing sustainability

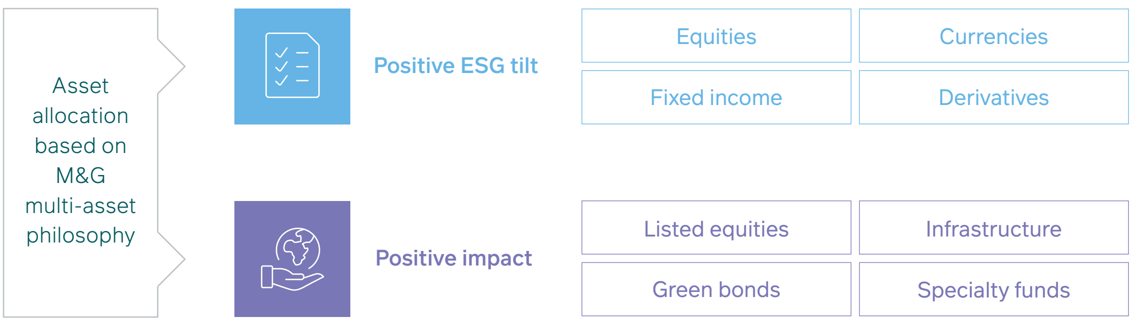
Once an asset allocation has been determined, the fund will aim to build a portfolio that considers opportunities across the spectrum of responsible investing. This entails investing in securities, including equities (company shares) and bonds among others, that fulfil the requirements of a rigorous ESG screen or a positive impact assessment.

The majority of the fund is invested in ESG-screened assets, using our Positive ESG tilt approach. Then separately, typically between 20% and 50% is dedicated to investing in positive impact assets.

Positive impact assets are those considered to have a positive societal or environmental impact, addressing the world's major challenges, as identified by the 17 United Nations Sustainable Development Goals (SDGs). Examples include companies that build or operate renewable energy infrastructure, or that focus on building low-cost or social housing.

The ESG Criteria and Sustainability Criteria are anticipated to reduce the Fund's investment universe by a minimum of 20%.

Asset allocation



Source: M&G, illustrative, as at December 2021.

Positive ESG tilt approach to fund holdings

Corporates

For the companies in the Positive ESG tilt part of the portfolio, we adopt a three-stage process in screening for potential investments:

First, we exclude companies assessed to be in breach of the United Nations Global Compact Principles on human rights, labour, the environment and anti-corruption.

We further exclude companies that are producers of, or provide services in, controversial products, and we scrutinise CO_2 intensive industries such as oil and gas and utilities. More details regarding the exclusion criteria applied to the fund's investment universe may be found in the Appendix of this report.

Last, within each sector we aim to identify the key ESG risks and consider how each company is positioned relative to those while comparing across peers. We want to invest in companies that we believe meet superior standards of ESG behaviour. For this, we mainly use ESG ratings provided by MSCI, where a rating of at least BBB is required for consideration. (Please note that ESG ratings are not the same as credit ratings.)

Three-stage screening process for corporates

Step 1	Step 2	Step 3
Respect the UN Global Compact Principles	**Exclude controversial sectors**	**Focus on corporates with better ESG quality***
1 Human Rights 2 Labour 3 Environment 4 Anti-corruption	Tobacco Alcohol Adult entertainment Gambling Controversial weapons Thermal coal	Exclude corporates rate below BBB AAA, AA – Leader A, BBB, BB – Average B, CC – Laggard

Source: M&G, as at December 2021.
*MSCI Corporate Universe.

The investment decisions for the majority of the fund will involve selecting what the manager considers to be attractive securities that qualify against agreed ESG criteria, making using of third-party information and/or proprietary analysis, to focus on the ESG leaders.

We build on those assessments by actively engaging with companies to engender greater transparency and reporting of ESG efforts and successes, in addition to improving our insight into the risks and opportunities associated with companies.

As the majority of the fund is invested in Positive ESG tilt assets, the process has a significant influence on the shape of the fund, by filtering to create the investable pool of companies and securities that may be held.

The remainder of the fund's investments are in assets that are dedicated to generating a positive impact to society and the environment. Those investments will also have been subject to individual ESG assessment.

MSCI determines an ESG quality score for most companies and sovereigns, between 0 and 10, with 0 being lowest and 10 the highest rating. These equate to the alphabetical ratings as the table shows.

At the end of December 2021, the average MSCI ESG score for the fund was 7.2 (see Appendix), suggesting an average rating of A at the fund level. The equity holdings had an average MSCI ESG score of 7.8 whilst the corporate bond holdings had a score of 8.3. The majority of the fund's corporate holdings were rated in the AAA or AA brackets. The ESG selection criteria for the fund means it does not hold any corporate investments rated below BBB in the Positive ESG tilt section of the fund.

The distribution of ESG ratings across the fund shows a clear skew toward better-rated companies. The ESG rating of some fund holdings in the positive impact section may be lower than BBB. However, this may be related to the niche nature of the company's business and/or the fact that they may be newer than others, and therefore have not built up a substantial catalogue of historic data required to achieve a more positive score. They also need to pass the criteria threshold of our robust proprietary framework for inclusion in the fund, which tend to be more forward looking.

M&G Sustainable Multi Asset Balanced Fund – MSCI ESG rating breakdown for Positive ESG tilt corporate holdings

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Source: M&G, 31 December 2021.

Sovereigns

We believe that holding bonds issued by sovereign entities in sustainable strategies is fully justified, as sovereigns typically issue bonds to supplement their tax and other revenues and use that to fund spending across the breadth of their economies.

Most nations will see that spending applied to a variety of positive social endeavours, such as education, healthcare and welfare. Inevitably, some is also likely to be spent on defence and military forces. However, we believe that overall, the weight of government spending is likely to be more beneficial to a nation, than not.

As in the case of corporates, MSCI will attribute an ESG rating to sovereigns, and we permit any with a rating of at least BB to be considered for investment. Not all governments are considered be appropriate for the portfolio, however, even if they achieve an MSCI ESG rating of BB or higher. Each will be considered on its own merits prior to investment.

Combining quantitative with qualitative assessment for sovereigns

Quantitative ESG screening	Qualitative assessment on social factors	Qualitative assessment on environmental factors
Exclude countries rated below BB AAA, AA – Leader A, BBB, BB – Average B, CC – Laggard	• World Bank • Freedom House • Financial Action Task Force • United Nations Security Council	• Climate Change Performance Index • Climate Action Tracker • Climate Analytics • New Climate

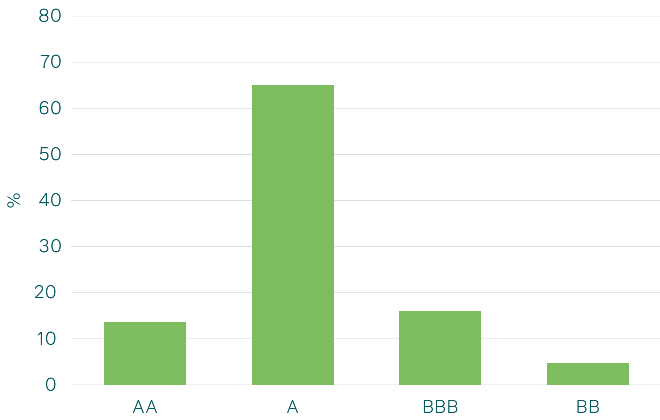
Source: M&G. As at December 2021.

As yields remain persistently low for many developed market governments, we have a preference for US Treasuries. They currently feature the highest yield amongst western sovereign bonds, and we believe they offer attractive diversification properties to the fund. We also hold a Portuguese government bond within the holdings of mainstream government bonds. We hold a number of emerging markets government bonds that we believe appear attractive, given the higher level of yields they currently provide compared to developed market bonds.

On the other hand, many mainstream bonds are still trading today at very low level of yields, such as those issued by Germany.

The ESG qualification approach we apply means the fund excludes holding bonds issued by governments that score too lowly on our quantitative and/or qualitative overlay criteria. These include bonds issued by China, Russia or Indonesia. However, it may be possible to achieve similar exposure in those markets by investing in bonds issued by supranational agencies, priced in the desired emerging market currency, for example in Brazilian reals or Indonesian rupiah. There has also been a growing trend in new issuance of green and sustainable bonds from both developed and emerging markets. In 2020, we invested in a social bond issued by the government of Chile. More recently, we invested in Colombia's first ever green bond in October 2021.

M&G Sustainable Multi Asset Balanced Fund – MSCI ESG rating breakdown for Positive ESG tilt sovereign bond holdings



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Source: M&G, 31 December 2021.

Climate metrics

Current carbon footprint of fund holdings

One way to measure the carbon footprint of the M&G Sustainable Multi Asset Balanced Fund is by considering the aggregate greenhouse gas emissions of the fund's holdings.

The M&G Sustainable Multi Asset Balanced Fund weighted average carbon emissions intensity (based on the corporate holdings only as at 31 December 2021) was 77.4 tCO_2/US$ million sales. To provide some context to that figure, the equivalent measure for the broad global equity market index, MSCI ACWI Index was 151.5 tCO_2/US$ million sales, according to MSCI ESG Research.

The data for the fund reflects the limited holdings in the oil and gas utilities sectors and not having any thermal coal holdings. The fund also has investments in renewable energy infrastructure and solution providers.

This is based on 'Scope 1' and 'Scope 2' emissions, which are those emissions within the direct control of a company. 'Scope 1' includes emissions from fuel combustion within owned furnaces or boilers and company vehicles, while 'Scope 2' includes emissions from purchased electricity, heating, cooling and steam. 'Scope 3', or indirect emissions, currently remain difficult for companies to quantify with sufficient accuracy, so we do not include them in this year's report.

Data availability and disclosure is continuing to improve. In the light of this, we expect to provide further client metrics for the fund in future reporting.

What is Scope 1, 2 and 3?

Scope 1 (direct)

All direct emissions from activities of an organisation or activities under its control

Scope 2 (direct)

Emissions created during the production of electricity, steam, heating and cooling used by an organisation

Scope 3 (indirect)

All other indirect emissions from activities of the organisation from sources they do not own or control

Upstream
Emissions generated from purchased goods and services, business travel and employee commuting

Downstream
Emissions generated from consumption of goods and services sold, end-of-life treatment of products

Source of emissions

As the bar chart below shows, the industrial sector is responsible for over 32% of the fund's emissions, despite the fund only having an allocation of 9% to this sector. This is due to the high absolute carbon intensity associated with the industrials sector, which is shown in the table to the right. Many companies in this sector are positive impact holdings that sit within the Environmental Solutions and Circular Economy impact areas.

While these companies rely on manufacturing processes that use substantial amounts of energy, they have been selected for the fund because the net impact they generate is positive. The amount of emissions saved or avoided through the use of their products and services outweighs the emissions emitted during production.

Republic Services, a waste management company, is an example. The company reports a carbon footprint of more than 13.5 million tonnes of CO_2; however, it handled 96.2 million tonnes of recyclables in 2021.

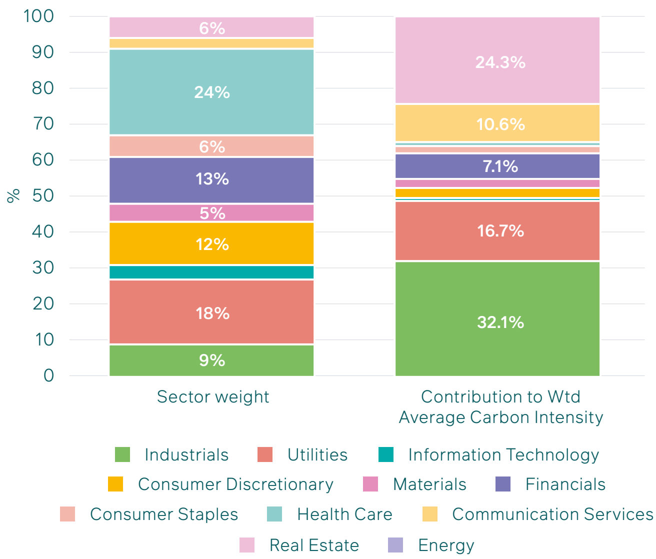
The utilities sector is the next largest contributor (see bar chart). However, much of the exposure in this sector is achieved through holdings of green bonds, where projects are dedicated to reducing the carbon intensity of the issuer company, and to supporting climate transition.

Weighted Average Carbon Intensity (WACI) by sector
M&G Sustainable Multi Asset Balanced Fund

Sector	Weighted Avg Carbon Intensity of fund holdings (tCO_2/US$ million)
Utilities	362.1
Industrials	304.3
Materials	277.8
Information Technology	84.2
Consumer Staples	54.2
Consumer Discretionary	49.6
Real Estate	27.5
Healthcare	18.4
Communication Services	16.0
Financials	4.4
Energy	N/A
Overall fund WACI	77.0

Source: M&G, MSCI ESG Research, as at 31 December 2021.

Sector contributions to fund Weighted Average Carbon Intensity



Source: M&G, MSCI ESG Research, as at 31 December 2021.

Looking towards the future

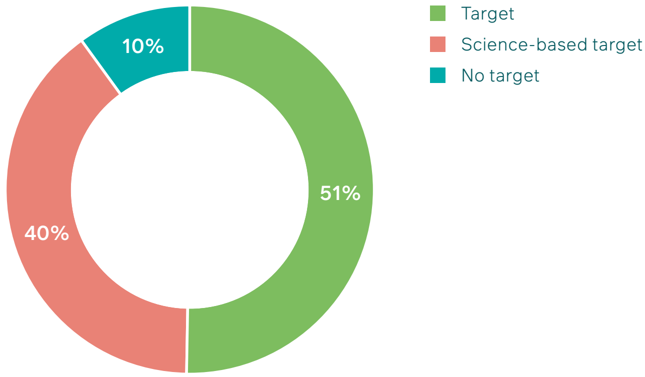
While the fund does not have a specific climate objective, we aim to assess our holdings not only relative to their current carbon emissions and emission intensity but also on the basis of their climate transparency, governance and ambition as represented by clear reduction targets.

For the fund's positive impact holdings, we go a step further. While the positive impact holdings' main focus is the impactful nature of a company's product or services, we do scrutinise the operations of all these holdings as part of our ESG assessments. In all cases, we look for meaningful carbon reduction programmes and targets, and particularly encourage companies with energy intensive manufacturing processes to develop and enforce science-based targets. We note that the fund's largest emitter, Republic Services, published its targets in August 2020, aiming to reduce absolute Scope 1 and Scope 2 emissions by 35% by 2030, from a 2017 baseline.

Currently, only 11% of our corporate holdings lack a carbon emission target and the overall fund is aligned to 2^0 Celsius temperature increase by 2050, according to ISS (Institutional Shareholder Services) Climate Scenario Alignment Analysis.

The ISS methodology for that analysis is shown in the Appendix of this report.

Climate target assessment (% portfolio weight)



Source: M&G, as at 31 December 2021.

Active ownership and engagement

Active ownership is an essential element of our investment approach. By engaging with management during and between meetings, and voting at the Annual General Meetings, we can use our voice and votes to encourage our companies to act in the best interests of stakeholders and towards the UN SDGs. By participating in and encouraging open conversation with companies, we can share our thoughts and ideas regarding key issues, to encourage transformation towards a more sustainable economy. We are also able to gain clearer insight into the processes and measures companies are putting into place to improve their ESG profile and potential positive impact.

Voting

M&G has been an active participant on behalf of the M&G Sustainable Multi Asset Balanced Fund during the course of 2021. The team voted at 101 of the 104 votable meetings it attended, casting votes on 1,296 votable items.

Of those votes, we voted against management on 106 occasions (8.0% of the time). We voted against a proposal in 103 (8.0%) of instances.

At individual country level, we were most active in the US and UK. It was across the entirety of Europe and the UK that we attended the most votable meetings, however (46 of 104).

We have cast votes in favour of shareholder resolutions for gender pay gap disclosure and employee representation on the board. We have also voted against management or abstained on such things as remuneration and choice of auditors.

Strategic engagement

Across our portfolio holdings we identify opportunities for strategic engagement on sustainability-related matters. Subjects for engagement may be wide and varied and include areas such as sourcing of raw materials, effects of operations on biodiversity, reductions in carbon footprint, to improvements in working conditions both within the company and throughout its supply chain.

Green bonds

Engagement is likely to take place with the issuers of the green bonds held in the fund. When green bonds are issued, the use of proceeds may often not be specifically assigned to environmental objectives. To ensure that there is sufficient alignment with SDGs, we require an external ESG third-party verification for these bonds. Additionally, we follow up with the company if we require further information on the use of the proceeds, if disclosure of key performance indicators (KPIs) is not sufficient, and/or if we seek better understanding how the green bond framework aligns with the overall sustainability strategy of the issuer. An example of this type of engagement included a green bond issued by Fibria, where we followed up on two of these aspects to ascertain that the bond continues to meet our positive impact criteria.

COVID-19

During 2020 and into 2021, one of our primary concerns was how our investee companies were being affected by the COVID-19 crisis and to ascertain what they were doing to address the pandemic's negative ramifications. The Positive Impact team sent a letter to the chair/ chief executive of our positive impact equity holdings asking about the experience and actions under the extraordinary conditions the world was facing.

The team received responses from the majority of our positive impact holdings, demonstrating overwhelming support for those affected by the pandemic. Overall, we have been pleased to observe a strong alignment between the actions taken by companies and their mission statement. Distinct themes emerged from the responses, including the design of new products, repurposing of existing ones, innovation, supply-chain resilience and business model flexibility.

M&G Stewardship and Sustainability team

M&G Investments' 22-strong Stewardship and Sustainability team supports our investment teams on a range of issues that can affect our investments over the long term, acting as a dedicated central ESG resource for the whole of M&G Investments, working collaboratively with investors across our wholesale and institutional business. Having a central function team to cover these areas ensures oversight and accountability for stewardship within the organisation.

The team coordinates M&G Investments' stewardship activities, engaging with companies on a number of issues from corporate governance to environmental sustainability, alongside the investment teams. Closely linked to this engagement work, the team undertakes M&G Investments' voting responsibilities at shareholder meetings, which we see as one of our central responsibilities as long-term shareholders. The team votes in line with M&G Investments' Voting Policy, which is evolving to reflect our increased engagement focus on both climate and diversity.

The team is responsible for coordinating M&G Investments' participation in various external initiatives and investor collaborations, including the UK's Investment Association, the Investor Forum, the Institutional Investors Group on Climate Change and the Asian Corporate Governance Association, among others. The team also maintains M&G Investments' relationships with responsible investment-oriented organisations, including the UN-backed Principles for Responsible Investment (UNPRI).

Our approach to positive impact investing

Investing for impact explicitly targets investments that deliver positive, measurable and material change for society or the environment, in pursuit of one or more of the 17 UN Sustainable Development Goals (SDGs). We believe those investments also have the potential to generate attractive financial returns.

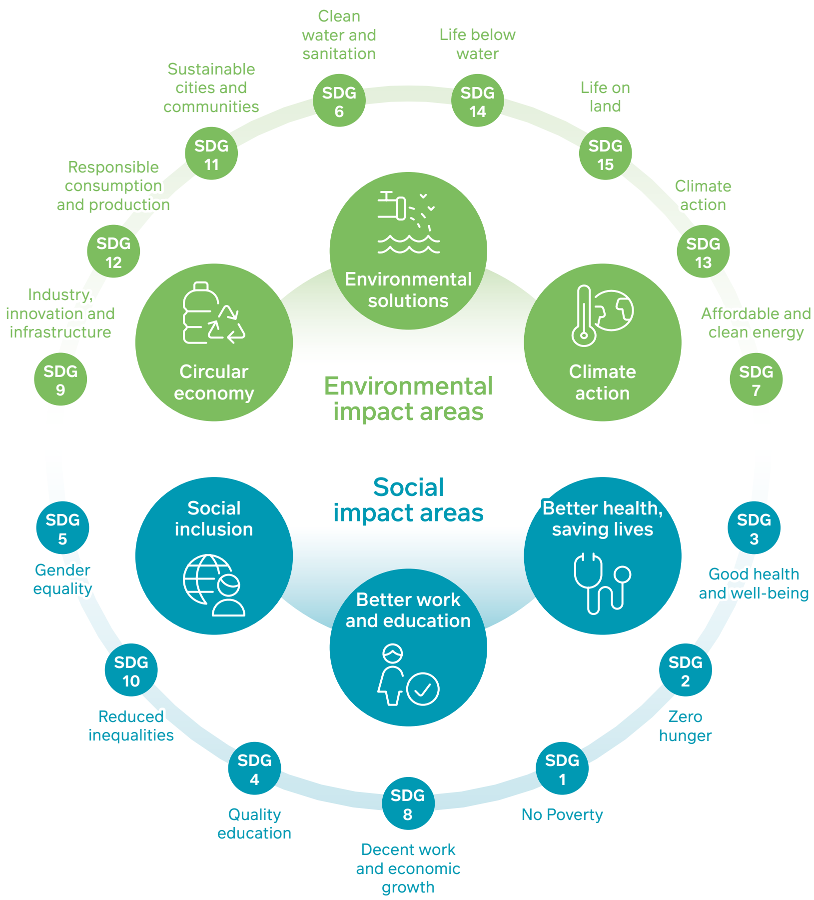
The fund embraces the SDGs framework and invests in companies focused on six key areas, mapped against the SDGs. These are: climate action; environmental solutions; circular economy; better health, saving lives; better work and education; and social inclusion.

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

The M&G Sustainable Multi Asset Balanced Fund uses a triple-I (III) framework as a practical means of scoring candidate companies. The framework robustly and consistently applies set criteria and standards for rating the impact and investment case of each company.

Each 'I' score is derived from the assessment and rating of its key drivers, outlined on the next page. The team aims to achieve an optimal balance of quality companies, with a solid, established culture that is consistent with the management's vision and strategy.

How M&G captures UN Sustainable Development Goals in its Impact areas



The diagram to the left references the UN SDGs – 'Sustainable Development Goals'. We have mapped the SDGs against M&G's Impact Areas. While we support the UN SDGs, please note that we are not associated with the UN and our funds are not endorsed by the organisation.

Source: M&G, as at December 2021.

Investment

We assess the quality and viability of the investment, focusing on opportunities and threats (including the risk of default).

Intention

We aim to understand the intentionality behind the security/instrument issued by the company. This means a company specifically sets out to deliver a particular impact, with that goal being part of the company's mission statement, strategy and actual day-to-day operations (inadvertent impact doesn't count).

Impact

We seek to assess the material impact of the investment towards achieving one or more of the specific UN SDGs.

When assessing the 'Impact' score of a company or issuance, we consider both the 'materiality' and the 'additionality' of the impact delivered.

Materiality is the degree to which the company helps solve a given societal problem or contributes to a particular SDG, and measured by the percentage of a company's revenue derived from those activities.

Additionality is considered in terms of 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.

We aim for the positive impact section of the portfolio to represent between 20% and 50% of the fund. The investments that make up the positive impact section are made up of different asset classes and may come from anywhere in the world where we can find investable opportunities in which we have conviction. This includes listed equities, green, social and sustainable bonds, bonds issued by supranational development banks such as the Inter-American Development Bank, infrastructure investments or collective investment vehicles.

Three-factor analysis

Investment	Intention	Impact
Quality of the investment	Mission statement and purpose	Measurability
Risks assessment	ESG and Culture	Materiality/ revenues to SDGs

Source: M&G, December 2021.

Impact holdings by Impact area: 36.4% of the fund

11% Circular economy	20% Environmental solutions	27% Climate action
16% Social inclusion	2% Better work and education	23% Better health, saving lives

Source: M&G, 31 December 2021.

The M&G Positive Impact team

As part of the III analysis of the fund's equity holdings, the team internally scores companies on their III credentials, and requires above-average results for inclusion in the watch-list, as well as consensus agreement of a company's merits from the entire Positive Impact team.

The team represents a wide range of expertise, and includes fund managers, impact analysts and specialists in various fields.

Measuring the positive impact of our holdings

In the following sections, we review the fund's positive impact investments as of 31 December 2021, by impact area, assessing the impact that the holdings have made and quantifying that overall impact where possible.

There are some holdings currently within the portfolio whose impact it has proven very challenging to quantify. For these types of companies in particular, we have engaged to encourage better disclosure, and will look for different ways to measure their impact as we move through the fund's second year of operation. Examples of such holdings are found in the impact measurement section of this report.

Impact area

Climate action

In 2021, for our Climate Action investments, the companies or organisations in which we are invested contributed by helping avoid the emission of almost 39 million tonnes of CO_2 and generating 63,000 GWh of renewable energy

We need to cut energy-related greenhouse gas emissions by around 7% every year to meet the Paris Agreement goals, so huge progress is needed. The positive news is that, in addition to increasing public policy action on clean energy generation, private-sector investment continues to rise. More than half of respondents to the 2020 GIIN Survey said they plan to increase their allocations to energy over the next five years. This is encouraging, and progress is even ahead of schedule in some areas, but more is needed to accelerate the transition away from fossil fuels, and the positive wind and solar growth trend remains far from being aligned with the goal to reach net zero by 2050.

Guiding capital towards green and sustainable energy generation can take many different forms. Solar and wind power are well-known solutions, but there are other promising sources of electricity generation – including hydropower, wave and tidal power and biomass. There are also opportunities in energy storage and emerging green hydrogen infrastructure.

We continue to invest in holdings that are having a direct positive impact in trying to mitigate the effects of climate change, most notably through the production of renewable energy, or by increasing the efficiency of renewable energy being produced.

> “It is unequivocal that human influence has warmed the atmosphere, ocean and land. Widespread and rapid changes in the atmosphere, ocean, cryosphere and biosphere have occurred. The scale of recent changes across the climate system as a whole and the present state of many aspects of the climate system are unprecedented over many centuries to many thousands of years.”

IPCC: Sixth Assessment Report

Impact measurement

Company/Holding	Activity	Primary SDGs	KPI outcomes*
AES Brasil (Equity)	Brasil based renewable energy provider with large hyrdopower footprint		Generated 9,393 GWh of renewable energy
Apple (Green Bond)	A green bond issued to fund environmental impact and sustainability projects		439,000 tonnes of CO_2 emissions avoided 337m litres of water saved 400 GWh of renewable energy generated
Boralex (Equity)	Renewable energy provider		350,000 tonnes of CO_2 emissions avoided; 6,215 GWh of renewable energy generated
European Investment Bank (Green bond)	Green bond issued to finance various climate change mitigation projects in Europe in various sectors including transportation, construction and renewable energy		291,000 tonnes of CO_2 emissions avoided and 668 GWh of renewable energy generated
Electricité de France (Green Bond)	A green bond issued to finance new EDF Renewables wind and solar projects. Proceeds also used to renovate and modernise French hydropower assets		3,300 GWh of renewable energy generated Estimated 1.8m tonnes of CO_2 emissions avoided
Energias de Portugal (Green Bond)	A green bond issued to extend EDP's renewable energy footprint, and contribute to the energy transition		2,000 GWh annual net production of renewable energy 1.2m tonnes CO_2 emissions avoided
Greencoat Renewables (Alternative)	Owner and operator of renewable infrastructure energy assets		600,000 tonnes of CO_2 emissions avoided 1,500 GWh of renewable energy generated
Greencoat UK Wind (Alternative)	Investment company investing in UK wind farms		1.2m tonnes of CO_2 emissions avoided 2,900 GWh of renewable energy generated
KFW (Green Bond)	Green bond issued to facilitate projects focused on renewable energy sources		1.1m tonnes of CO_2 emissions avoided
Octopus Renewables Infrastructure (Alternative)	Builds and operates renewable energy assets		Estimated 400 GWh renewable energy generated Estimated 125,000 tonnes of CO_2 avoided
Ørsted (Equity)	Operates wind farms		13.1m tonnes of CO_2 emissions avoided 32,000 GWh of renewable energy generated
SolarEdge Technologies (Equity)	Smart energy products for residential and commercial use		17.4m tonnes of CO_2 emissions avoided
The Renewables Infrastructure Group (Alternative)	Renewable energy infrastructure in the UK and Northern Europe, with a focus on operating projects		Estimated 4,125 GWh of renewable energy generated; 1.4 million tonnes CO_2 emissions avoided

*KPI = Key Performance Indicators.

Based on information available from company literature.

Case study: Greencoat Renewables (Alternative)

Greencoat Renewables is an owner and operator of renewable infrastructure energy assets. The company is currently invested in wind farms in the Republic of Ireland and France, with plans to expand to other European countries.

Climate action has never been more urgently needed than it is now, as demonstrated by the 2021 Intergovernmental Panel on Climate Change (IPCC) August 2021 report. The report stated that limiting global warming to 1.5-2 degrees Celsius is only possible if drastic and immediate cuts are made to global emissions. A key part of this is increasing capacity of renewable energy sources, which Greencoat Renewables is active in through its interests in 25 operating wind farms. Through its geographical focus in the Republic of Ireland, it is particularly material in contributed to the Republic's goal to have 70% of its energy coming from renewable sources by 2030. As of 2021, Ireland has 4.3 GW of installed wind power capacity, the third highest per capita in the world. In 2020 wind turbines generated 38% of Ireland's electrical demand.

Greencoat Renewables' activity contributes to provide access to affordable, reliable, sustainable and modern energy to all (SDG 7) – the energy produced by Greencoat Renewables' assets powers almost 350,000 homes per year. In 2021, the company produced over 1,500 GWh of renewable energy, avoiding almost 610,000 tonnes of CO_2 emissions. By acquiring and running operating sites to a high standard, they ensure reliable production and free up capital for constructors to start work on new renewable developments.

Impact area

Environmental solutions

In 2021, for our Environmental Solutions investments, the companies or organisations in which we are invested contributed by avoiding over 130 million tonnes of CO_2 and saving, testing, treating or providing more than 1,140 billion litres of water.

Global greenhouse gas (GHG) 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.

Reducing energy consumption, for example, across both industry and consumer use is necessary to meet net-zero carbon emission targets. Current industrial processes must be made more efficient, or new methods of production need to be developed, in order to significantly reduce GHG emissions from the production of many goods and materials. Producing steel and cement, for example, are highly energy-intensive industries; however, new methods and technologies to reduce energy use in these industries could lead to a significant fall in GHG emissions. Reducing energy loss in industrial processes can also have a meaningful impact. This could involve reducing heat loss or increasing waste heat recovery, or simply adapting processes so that energy is only used when it is needed.

Improvements can also be made to electricity transmission and distribution systems to reduce energy losses and maximise the use of renewables in the energy mix. These include smart grid technologies, distributed generation and peak demand management – for example, battery storage to balance the supply and demand of electricity generated from intermittent renewable sources such as wind and solar.

Consumers also have a significant part to play in reducing their energy use to help lower CO_2 emissions and combat climate change. Homes can be made more energy efficient through the use of effective insulation and energy-efficient appliances, lighting and heating, or the installation of energy-efficient technologies, such as smart meters, which provide consumers with the information they need to monitor and more efficiently manage their energy use.

We invest in holdings that are delivering positive solutions, either directly or indirectly, to the environmental challenges the world is facing. Our investments are currently focused on holdings helping to reduce energy use, improve energy efficiency and provide environmental diagnostic solutions.

> **"Energy efficiency trends are expected to return to their ten year average after the worst year in a decade. However, the rate of improvement needs to double from current levels to match the gain outlined in the IEA Net Zero Emissions by 2050 Scenario."**

International Energy Agency

Impact measurement

Company/Holding	Activity	Primary SDGs	KPI outcomes*
Chile (Sovereign Green Bond)	Green bond issued in accordance with the government green bond framework targeting investments in clean transportation, energy efficiency, renewable energy, living natural resources, water management, green building	11	Estimated 70,900 tonnes of CO_2 emissions avoided from clean transport projects
Colombia (Sovereign Green Bond)	Green bond issued in accordance with the ICMA's four Green Bond principles, targeting investments in sustainable water management, clean and sustainable transport, and ecosystem services and biodiversity	6	See case study
Daimler (Green Bond)	Green bond issued by one of the world's largest automotive manufacturers. Proceeds used to deploy capital into clean transportation development and production	11	See case study
Fibria (Green Bond)	Green bond issued used to achieve sustainable forest management, restoration of native forests and conservation of natural biodiversity	15	5.3m tonnes CO_2 emissions avoided via Sustainable Forest Management and Forest Restoration projects
Hannon Armstrong (Alternative)	Infrastructure solutions that reduce carbon emissions and increase resilience to climate change	9	Estimated 6.0m tonnes CO_2 emissions avoided annually, equivalent to eliminating emissions from nearly 600,000 average U.S homes every year. Annual water saving of 15.9bn litres, equivalent to eliminating the annual water consumption of 80,000 homes in the U.S
Horiba (Equity)	Manufacture of precision instruments for measurement and analysis	13	Horiba is an enabler. It is difficult to measure attributable impacts for some enablers. See case study
Johnson Controls International (Equity)	Produces building management equipment and systems	9	1.2 million tonnes of CO_2 saved in 2020
Onsemi Equity)	Leader in smart power and image sensing technologies with uses in the automotive, industrial, and medical sectors	9	See case study
Schneider Electric (Equity)	Enables the reduction of CO_2 emissions through its range of energy efficient solutions designed for buildings and infrastructure	9	120 million tonnes of CO_2 saved
Toyota (Green Bond)	Green bond issued to finance new retail loan and lease contracts for low emission vehicles.	11	62,800 tonnes of CO_2 emissions avoided
Unibail-Rodamco-Westfield (Green Bond)	Green bond issued to improve the the energy efficiency of various shopping malls by reducing their energy and carbon intensity	9	See case study
Vodafone (Green Bond)	Green bonds issued to fund eligible projects that fall into either of the following areas: Energy Efficiency, Renewable Energy and Green Buildings	7	417,000 tonnes of CO_2 emissions avoided
Xylem Inc (Green Bond)	Water technology equipment designer and manufacturer	6	1,100bn litres of water saved 194,000 tonnes of CO_2 avoided

*KPI = Key Performance Indicators.

Based on information available from company literature.

Case study: Colombia (sovereign green bond)

Colombia debuted its first green bond in October 2021, the first Latin American government to issue a green bond in the local market. Its framework has robust governance procedures and is aligned with the International Capital Market Association's (ICMA) four Green Bond principles, which ensure integrity in the green bond market and promote transparency, disclosure and reporting.

The proceeds will be split between a large variety of impactful eligible categories. The portfolio for this issuance consists of 27 projects with 40% of capital designated to sustainable water management, 27% to clean and sustainable transport, 16% to ecosystem services and biodiversity, 14% to non-conventional energy sources, energy efficiency and connectivity, and 3% to waste and circular economy and sustainable agricultural production. Through a number of these categories, Colombia's use of proceeds from this bond will also help support progress towards its commitment to reduce carbon emissions by 51% by 2030.

There is clear alignment to a wide range of the UN's Sustainable Development Goals including: SDG 6: Clean water and sanitation, SDG 7: Affordable and clean energy, SDG 9: Industry, innovation and infrastructure, SDG 11: Sustainable cities and communities, SDG 12: Responsible consumption and production, SDG 13: Climate action, SDG 14: Life below water, and SDG 15: Life on land, as well as the objectives of Colombia's National Development Plan.

Impact area

Circular economy

In 2021, our Circular Economy companies contributed by avoiding more than 188 million tonnes of CO_2, saving 59 million trees and testing, treating or providing more than 3.2 billion litres of water.

It is time to shift to a circular economy, one that is based on the principles of 'designing out' pollution and waste, as described by the Ellen MacArthur Foundation. In a circular economy, waste from production and consumption becomes a resource to be recycled, repaired and reused – offering an alternative to the linear model that we have become so used to. Importantly, a circular, sustainable economy can help the world reach its biodiversity goals at the same time as benefitting society and combatting climate change.

The UN's SDG 12 calls for responsible consumption and production. Progress has been made against this goal in some parts of the global economy, but a lot more is needed. The unsustainable use of natural resources is driving up pollution levels, accelerating climate change and wiping out nature. Take single-use plastic, for example. The UN's latest Sustainable Development Goals Report highlights that one million plastic drinking bottles are purchased every minute, and five trillion single-use plastic bags are thrown away each year. Plastic pollution drastically affects wildlife and marine ecosystems, as well as the livelihoods associated with these.

Circularity has become a hot topic, but confusion remains over what it really means to 'close the loop'. While recycling and reusing are important factors, a 'real' circular economy goes one step further: by not creating waste in the first place. Companies that embrace the circular economy should be better placed to make the most of long-term trends and deliver competitive returns for investors. Furthermore, they have the potential to generate a material positive impact for the global environment.

We invest in companies that are helping to create a more circular economy and effectively dealing with the ever-growing accumulation of waste that we as a society are producing. This is focused on sustainable logistics and packaging, as well as waste and recycling services.

> **"Circularity transforms our throwaway economy into one where we eliminate waste, circulate resources, and adopt nature-positive, low carbon, resource-efficient systems and actions."**
>
> Waste & Resources Action Programme

Impact measurement

Company	Activity	Primary SDGs	KPI outcomes*
Ball Corporation (Equity)	Innovative, sustainable aluminium packaging for beverage, personal care and household products	12 Responsible consumption and production	See case study
Boston Properties (Green bond)	Fully integrated real estate company that develops, manages and operates a portfolio of office space	12 Responsible consumption and production	6,123 tonnes of CO_2 emissions avoided 7,247 KWh of energy saved 12.3 megalitres of water saved
Brambles (Equity)	Helps preserve natural resources such as water and wood, minimise waste and reduce carbon emissions through its sharing business model	12 Responsible consumption and production	3.1bn litres of water saved 2m tonnes CO_2 emissions avoided
DS Smith (Equity)	Directly helps reduce the amount of waste generated by packaging. According to Eurostat, the average European generates 170kg of packaging waste per year	12 Responsible consumption and production	59m trees saved
Prologis (Green bond)	A leading global logistics real estate company with a large green certified portfolio (169 million square feet)	12 Responsible consumption and production	84,400 tonnes of CO_2 emissions avoided 12.9 GWh of energy saved
Republic Services (Equity)	Provides a solution to growing waste levels from population growth and promotes sustainable waste collection practices	11 Sustainable cities and communities	96m tonnes of recyclables
Rockwool (Equity)	Directly contributes towards making solar energy more efficient and more affordable	11 Sustainable cities and communities	186m CO_2 emissions avoided over the lifetime of insulation sold in 2020

*KPI = Key Performance Indicators.

Based on information available from company literature.

Case study: Ball Corporation

Ball Corporation is the world's largest aluminium can manufacturer and is one of our circular economy investments. According to a 2018 report from the World Bank[1], without urgent action, global waste will increase by 70% on 2018 levels by 2050. It predicts rapid urbanisation and growing populations will cause global annual waste generation to reach 3.4 billion tonnes over the next 30 years, up from 2.0 billion tonnes in 2016. High-income countries are generating 34% of the planet's waste, despite only accounting for 16% of its population. This ratio is even more stark for the US, with its being responsible for 12% of the planet's waste, yet only comprising 4% of the global population.[2]

Of the three main materials used for drinks containers – aluminium, PET plastic and glass – aluminium is by far the least damaging to the planet. It can be recycled infinitely; indeed, 75% of aluminium ever produced is still in use today. The recycling process for aluminium is also simpler, leading to a 69% global recycling rate, compared to a recycling collection rate of only 43% and 46% for PET and glass respectively. According to our estimates, if US consumers consumed all their drinks from aluminium containers instead of all PET, they would reduce the amount of material that would end up in landfill or be incinerated by 64% and avoid an estimated 5.5m tonnes of CO_2 emissions annually (equivalent to removing c. 1.2 million cars from the road). If this was instead of all glass, this reduction would be 94% and c. 22.2 million tonnes of CO_2 emissions annually (equivalent to 4.8 million cars removed from the road). In 2021 Ball Corp manufactured and shipped about 112.5 billion cans globally, making it well-positioned to serve the transition to more sustainable and circular packaging.

1. What a Waste 2.0: A Global Snapshot of Solid Waste Management to 2050. www.openknowledge.worldbank.org/handle/10986/30317
2. www.theguardian.com/us-news/2019/jul/02/us-plastic-waste-recycling

Impact area

Better health, saving lives

In 2021, our Better Health, Saving Lives companies contributed by treating or serving 135 million people, and processing 36 million blood donations.

They also provided 650,000 cochlear implants and sequenced 170 petabases of DNA.

It goes without saying that human health has come under the spotlight over the last couple of years due to COVID-19 and the devastating impact it has had on lives, livelihoods and economies. The global health crisis has exposed gaps in healthcare systems across the world, providing impetus for change. To a large extent, those gaps still exist – but there have been some advancements. The race to develop vaccines before rolling them out globally has shown how much can be done under pressure; pressure to save lives and restore economies.

The steady, long-term improving trend of improving health has been knocked off course in the short term by COVID-19. For example, routine immunisation services faced serious challenges in 2020 due to the pandemic, which caused the most widespread global disruption in recent history, according to research published in *The Lancet.* Frustratingly, access to coronavirus inoculations has been uneven and unfair. In July of 2021, the head of the World Health Organisation called attention to the 'horrifying injustice' that 75% of the vaccine shots that had been delivered globally were in just 10 countries.

While COVID-19 has acted as a serious setback to global health, there have been notable improvements to human health and well-being in recent years. For example, WHO Global Malaria Programme data show that in the last year, two more countries (El Salvador and China) have been added to the list of malaria-free regions. Investing in solutions that ensure good access to quality healthcare for everyone, regardless of their financial, family or cultural background, can improve the quality of life of individuals and increase life expectancy within societies. Evidence also shows that good physical and mental well-being improves labour market participation and productivity.

> “We are still losing too many young lives from largely preventable causes, often because of weak and underfunded health systems which have faced enormous pressure over the pandemic. And the burden of these deaths is not carried equally around the world.”
>
> UNICEF

We have identified a number of investable companies seeking to improve health and save lives, with around a third of the portfolio currently invested in this area. Our positive impact investments here cover both prevention and cure, including advanced, low-cost diagnostics, cutting-edge pharmaceuticals, DNA sequencing and clinical-stage biotherapeutics.

Impact measurement

Company	Activity	Primary SDGs	KPI outcomes*
Agilent Technologies (Equity)	Helps improve lab economics and accelerate time to results. Helps develop biology-based solutions to some of our planet's largest societal challenges such as healthcare, energy and the environment		More than 600,000 units of equipment in over 260,000 customer labs
Cochlear (Equity)	Medical device company that is a leader in implantable hearing devices that help to restore hearing		650,000 of cochlear implants provided
Fresenius Medical Care (Equity)	Directly helps maintain lives via its life-saving blood cleansing procedure that substitutes kidney function in case of kidney failure		Over 346,300 patients treated
Grifols (Equity)	Helps treat a number of medical conditions such as immunodeficiency diseases and haemophilia via the separation of proteins from blood plasma		36m blood donations screened
Illumina (Equity)	Creates systems for the analysis of genetic variation and biological functions, fueling groundbreaking advancements in life science research, genomics and molecular diagnostics		170 petabases of DNA sequenced
Novo Nordisk (Equity)	Helps address the rising prevalence of diabetes, a condition that affects more than 420m people worldwide		32.8m patients served
Quest Diagnostics (Equity)	Helps detect and prevent noncommunicable diseases, covering a wide range of areas including cardiovascular, infectious diseases and immunology. As a high-quality but low-cost provider, Quest provides affordable access to those who need it the most		85.6m patients served
Thermo Fisher (Equity)	Develops, manufactures, and sells a range of diagnostic products and services in the biopharma and analytical tools space		400,000 people treated or served
UnitedHealth Group (Equity)	Helps promote access to healthcare with its 22% market share in Medicare (retirees) and 9% in Medicaid (low-income, long-term care)		15.8m people insured

*KPI = Key Performance Indicators.

Based on information available from company literature.

Case study: Agilent Technologies (Equity)

Agilent Technologies serves the life sciences, diagnostics and applied chemical markets, providing application-focused solutions that include instruments, software, services and consumables for the entire laboratory workflow. Agilent's mission is to 'deliver trusted answers and insights that advance the quality of life'. It delivers on this mission by providing instruments and tools to advance the development of therapies. Its customers include pharmaceuticals, biotechnology companies and academic and government researchers. Agilent contributes to the UN's SDG 3: Good health and well-being by enabling others to develop treatments for diseases and help countries manage health risks.

Agilent provides a range of instruments and consumables to industries who use them for research and development within healthcare or analysis of substances eg, water. A portion of the business is dedicated to even more innovative uses, including cell analysis and work in genomics. Agilent also contributes to SDG 6: Clean water and sanitation and SDG 12: Responsible consumption and production through its instruments that analysis substances within water, soil and air.

This holding is made even more impactful by its scale; in 2020 Agilent had the largest life science tool installed base globally, with 600,000+ pieces of equipment in 260,000+ customer labs.

Impact area

Better work and education

In 2021, for our Better Work and Education investments, the companies or organisations in which we are invested contributed by providing educational services for 2.4 million students and workers' compensation insurance to 8,000 people.

Pupils across the world have experienced an extremely turbulent time since the pandemic first disrupted education systems and resulted in school closures. Some were able to continue learning remotely, but pupils in many parts of the world were not so fortunate. Children of poorer households with limited or no internet access suffered significant setbacks.

Education plays a fundamental role across a huge range of issues, including inequality reduction, social inclusion, poverty alleviation and climate change. Public funding in this area is important as the main source of provision for education. However, private investors can also take action and fill any education gaps left by limited government funding.

The pandemic has also had serious repercussions for the working lives of millions of people, exacerbating long-standing trends in the deterioration of job security. COVID-19 has created one of the biggest global shocks in modern economic history, with the world effectively shutting down in 2020 to protect human health, and the crisis triggering a raft of unparalleled fiscal measures designed to support economies and livelihoods. Unfortunately, the ongoing post-pandemic recovery is likely to be uneven. Despite the World Bank noting that growth for almost every part of the world has been revised upward for 2021, many countries – particularly emerging markets – continue to struggle against a backdrop of COVID-19 resurgences, vaccination disparity and withdrawal of support measures. Governments have provided emergency economic packages, but the support is inherently short term.

We seek to invest in companies that are delivering solutions to improve working conditions and educational attainment. This has remained a challenging area in which to find investable ideas, but we continue to search for impactful companies that are making a difference.

> "The foundations of life as we know it, learning for our youth and work for adults, have been shaken by the COVID-19 global pandemic."

Kantar

Impact measurement

Company	Activity	Primary SDGs	KPI outcomes*
Amerisafe (Equity)	Provides workers' compensation insurance. It's customers stem from small to mid-sized employers engaged in hazardous industries such as construction, trucking, manufacturing and agriculture		8,000 policyholders
Cogna Educação (Equity)	Aims to fill the need for education for the lower-middle segment of the Brazilian population. Given its scale and discounted fees, Cogna is one of the most affordable and effective private options		2.4 million students

*KPI = Key Performance Indicators.

Based on information available from company literature.

Case study: Cogna Educação

Cogna bridges the educational gap in Brazil, where public options are underfunded.

Founded in 1966, Cogna is the largest private educational company in Brazil. Generally speaking, affluent children in Brazil attend expensive private schools and progress into public universities, which creates a barrier for less-affluent children. In the past, the Brazilian government would help through grants and loan programmes, but this is no longer the case. As government is no longer able to fill this gap, Cogna has become a more affordable and effective private option.

Cogna began its educational services in 1966, when five friends founded the Pitágoras preparatory course for university admission exams – within two years, 600 students had enrolled. This initiative grew throughout the next decades, opening the first Pitágoras school in 1974, creating the Pitágoras network of schools in the 1990s and the first Pitágoras college in the 2000s. In 2014, under Cogna's former name Kroton, the company merged with Anhanguera Educacional, to make it the largest educational company in the world in terms of market cap and students.

Cogna provides quality and affordable education to place lower-income students in a better position to enter the public university system. Its core business is operating private post-secondary education programmes, which also cater for low to middle-income students. It operates across all educational segments, including pre-school, elementary, secondary, higher, professional and post-graduation education, and has 687 associated schools and 1,410 distance learning centres. It reaches 967 municipalities via distance learning, which has been a key area of growth following the COVID-19 pandemic. This move into online courses at a reduced cost meant that courses were more accessible to low-income students. Cogna now has a 28% market share in the distance-learning segment.

Cogna meets the need for affordable and effective private education that caters for less affluent students in Brazil. It provides affordable loans and financing for eligible students, which places them in a better position to succeed in the public university system. Cogna also offers distance learning, which democratises access to higher education for students living in rural areas. Students can access on-line lessons and discussion forums through a virtual learning environment, meaning that access to education is less restricted by geographical location.

Cogna's affordable and effective services align most closely to SDG 4: Quality education.

Impact area

Social inclusion

In 2021, our Social Inclusion investments contributed by providing financial, insurance, and family services to over 58 million people in under-served or lower income markets, provided 6,525 beds for homeless people, and the supranational bonds held in the fund contributed US$6 billion to development projects in emerging countries

The world is experiencing a consumer bailout unlike any before. An unprecedented flood of fiscal and monetary support has shored up billions of livelihoods and small businesses throughout the pandemic. But as the economic plasters come off, the social scars are looking deeper than ever.

The effect the global outbreak has had on social progress is profound. Despite governments and central banks wading in to help, the pandemic has continued to exacerbate a multitude of existing, deep-seated social issues. This crisis has hit the youngest generations hard. Add to this the existing pre-pandemic levels of intergenerational inequality, and it's easy to see why there is so much catching up to do. One of the biggest setbacks over the COVID-19 crisis has been the widespread disruption to education. Last year, the UN found that closures of schools and other learning spaces affected 94% of the world's student population – up to 99% in low and lower-middle income countries. And while the proportion of economically-active young adults either unemployed or fully furloughed halved between May 2020 and the end of May 2021 to around 16%, they are two and a half times more likely to be out of work than older people, according to the Resolution Foundation.

There is also a great deal of work needed on gender equality. The gender gap in political empowerment has widened since 2020 by 2.4 percentage points – and is only 22% closed, according to the World Economic Forum's 2021 Global Gender Gap Report. Achieving gender parity would also make a huge, positive difference to other global issues, including nature loss.

> "Stimulus packages for the COVID-19 recovery will need to be designed to counterbalance the widening social gaps and will have to guard against creating new forms of exclusion. The crisis is also an opportunity to focus on the rebuilding more inclusive systems that allow society as a whole to be more resilient to future shocks."

United Nations, Africa Renewal

We invest in holdings that are actively trying to improve the level of social inclusion across societies, from gender equality in the US to development project financing through supranational bonds. Our investments focus on providers of financial services and pandemic relief, as well as the provision of childcare and affordable housing.

Impact measurement

Company	Activity	Primary SDGs	KPI outcomes*
AIA (Equity)	The largest independent, publicly listed pan-Asian insurance group	8	38m policies
Bank of Georgia (Equity)	Aids financial inclusion, in a society left with little infrastructure following the end of communism. 61% of group profits are derived from low-end and mass-market customers	9	2.6m people served
Bright Horizons (Equity)	Provides family support services for dependents of all ages, meeting short-term and long-term needs. In particular, Bright Horizons forms a viable option for women to have their children cared for, while still participating in the workplace	5	2.6m via back-up centres, ~30,000 via full service children's centres
Chile (Sovereign Social Bond)	Proceeds go towards pandemic relief efforts relating to social efforts	1	See case study
HDFC Bank (Equity)	Directly contributes towards encouraging and expanding access to banking, insurance and financial services for all	9	2.5m accounts
Home REIT (Equity)	Contributing to the alleviation of homelessness in the UK	11	Provides 6,525 beds in social housing for previously homeless people
Inter-American Development Bank (Supranational Bond)	Provides financial and technical support to middle- and low-income countries across Latin America and the Caribbean	8	Invested in one issuance totalling $99 million, see case study for example projects
International Bank for Reconstruction and Development (The World Bank) (Supranational Bond)	Provides loans, guarantees, risk management products, and advisory services to middle- and low-income countries	8	Invested in an issuance of US$52 million, see case study for example projects
International Bank for Reconstruction and Development (The World Bank) (Supranational Pandemic Bond)	Provides loans, guarantees, risk management products, and advisory services to middle and low-income countries	8	Invested in two issuances $5.85bn, see case study for example projects
Sanlam (Equity)	Provides life and non-life insurance solutions in Africa	8	12.9m entry-level customers

*KPI = Key Performance Indicators.

Based on information available from company literature.

Case study: Chile (sovereign social bond)

Chile is a leader when it comes to green sovereign debt, as demonstrated by being the second country in the world to achieve climate bond certification from the Climate Bond Initiative. It follows in this trend with its social bond issuance, having issued nine social bonds in the last two years. Chile has a strong mission statement that is aligned with its sustainable bond framework. The bond's governance is good, with a transparent process outlined for the selection of projects and is well-reviewed in its second party opinion.

The eligible projects contribute to a wide range of social SDGs, primarily towards SDG 1: Zero poverty and SDG 10: Reduced inequalities, but also contributing to SDG 3: Good health and well-being, SDG 4: Quality education, SDG 8: Decent work and economic growth, and SDG 11: Sustainable cities and communities. Chile has demonstrated a commitment to social issues such as income poverty, demonstrated by its Gini coefficient (which measures income distribution across a population) falling from 57.2 in 1990 to 44.9 in 2020 (World Bank estimate).

The use of proceeds is split between general social purposes and pandemic relief, with around 60% of the expenditures related to social projects and 40% specifically to alleviate the socioeconomic consequences of the COVID-19 pandemic. The projects included are varied but can go towards any of support for the elderly, those with special needs from vulnerable sectors, low-income families, human rights victims, community through job creation, as well as affordable housing, access to education, food security, access to essential services including health, and focus on unemployment stemming from socioeconomic crises as well as support for small to medium-sized enterprises.

Additional case studies

Investing in Supranational Bonds

The availability of positive impact investments is growing across asset classes, and within our sustainable multi-asset investment we aim to capitalize on as many of those opportunities as possible. The role that supranational development banks play is an important one, both within global development and within our portfolio. Supranational bonds enable us to widen our exposure to different types of positive impact investments, as well as providing diversification for the portfolio in terms of duration, maturity and currency exposure. These bonds allow us to finance smaller projects in more challenging geographies without taking on the associated credit risk. We have given some examples of the types of projects financed by these bonds in the case studies in the following pages, which we view as highly impactful and SDG-aligned.

Hannah Holmer
Sustainable Multi Asset Analyst

Inter-American Development Bank (Supranational)

The Inter-American Development Bank (IADB) is an organisation that finances development in Latin America and the Caribbean, working to help countries develop in a sustainable, climate-friendly way. We are invested in one of their general bonds. Below we outline two examples of projects that have received IADB funding.

In 2020, an US$80 million project was commissioned to facilitate the energy transition of the Bahamas to increase the use of renewable energy, which currently stands at less than 1% of the Bahamas' entire energy matrix. This included solar-powered microgrids, a programme for small-scale rooftop renewable-energy generation, and utility-scale solar projects, saving more than 25,000 tonnes of CO_2 per year. The funds also went towards fixing critical energy infrastructure and resuming electricity services on islands affected by Hurricane Dorian. These projects also offer communities employment opportunities in construction, and training for installing and maintaining the solar equipment. This project supports 7 of the UN's Sustainable Development Goals including SDG 5: Gender equality and 13: Climate action.

During the COVID-19 pandemic US$470 million was spent on improving telemedicine in Argentina to help vulnerable people with the effects of the pandemic, and to help reduce mortality from the disease. The number of offices using the network more than doubled, going from 300 to 800, and an equally impressive increase of medical professionals, technicians and administrators were all using the network. This increased care through telemedicine by five times, and generally improved the quality of care provided since second opinions and specialised services were more accessible.

N.B. Disclosure on allocation of funds to specific projects is not available, and so there is no guarantee our funds went towards the specific examples above.

International Bank for Reconstruction and Development (Supranational)

The International Bank for Reconstruction and Development (IBRD), part of the World Bank, mobilises finance for middle-income countries to support the UN's Sustainable Development Goals. We are invested in one of their general bonds and two pandemic specific bonds.

IBRD approved US$4.0 billion of lending to the Middle East and North Africa region in 2021, as well as another US$114 million for the West Bank and Gaza. These funds are supporting a wide range of activities, including reforming education, strengthening health systems and modernising social protection. One major area of development is green economy, with focus on reducing emissions, sustainable transport and mobility, and diversifying energy sources. For example, US$250 million was used for the Morocco Green Generation Program-for-Results, which will increase job opportunities and income for youth in rural areas, and improve efficiency, climate resilience, and environmental sustainability of the agrifood value chain. In Egypt, funding has gone towards development in the form of a US$200 million investment into the Greater Cairo Air Pollution Management and Climate Change Project, which has goals to reduce emissions from major sectors and similar areas. This is mainly focusing on lowering vehicle emissions, improving solid waste management, and climate impact mitigation.

In East Asia and Pacific US$6.8 billion was approved by the IBRD for development in various areas. With the COVID-19 pandemic, emergency projects in hard-hit countries became a key area of focus for funds, with financing for medical and laboratory supplies, training medical staff, and strengthening national public health systems. A significant example is the 2020 response in Mongolia, where funds were reallocated to provide immediate financing to support emergency needs as well as for preparation for future health crises. Medical and personal protective equipment and ventilators were provided to hospitals across the country, as well as training for emergency care staff, infection control

measures and public information campaigns. In 2021, an additional US$51 million was approved to provide fair and affordable access to COVID-19 vaccines through effective delivery, logistical support, information campaigns and staff training. There was additional support for other impacts from the pandemic, including social insurance relief for 120,000 people enrolled in the country's voluntary plan, workers and employers, as well as education support, benefiting more than 1 million children.

N.B. Disclosure on allocation of funds to specific projects is not available, and so there is no guarantee our funds went towards the specific examples above.

Horiba (Equity: Environmental Solutions)

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

This year Horiba announced its electrification offering, which serves all relevant stages of research, development, validation, certification and end-ofline verification. It covers material characterisation, component, system and vehicle for all varieties of e-powertrains, including those with batteries, fuel cells and hybrid architectures. The total solution ranges from single component testing to turnkey testing solutions, and includes consulting and other services throughout the total vehicle development process. Unique in its approach, Horiba is able to integrate scientific expertise from a range of industries to offer a solution based on customer needs.

As countries across the world push towards their net zero emission goals and enact policies to phase out combustion vehicles, Horiba should play a crucial role in enabling electric vehicle adoption.

Unibail-Rodamco-Westfield (Environmental Solutions)

Unibail-Rodamco-Westfield is one of the largest provider of shopping centres (managing 87 globally). More recently it further diversified its offering by adding offices and convention centres to the portfolio. URW has a history of sustainability as part of its business strategy. This has been recognised by its inclusion in multiple sustainable indices. Its “Better Places 2030” strategy, introduced in 2016, includes both a commitment to a reduction of the environmental footprint and an increased social engagement by “integrating CSR into the Group’s entire value chain”.

The 2014 green bond was used to improve the energy efficiency of three shopping centres in France, reducing their energy intensity compared to their opening year by 47%, 24% and 23% respectively, and their carbon intensity by 78%, 37% and 55% respectively. Retrofitting buildings to improve energy efficiency is a vital part of the climate transition, as buildings generate nearly 40% of annual global GHG emissions. In the wake of the Paris Climate Agreement, France committed to cutting greenhouse gas emissions by 2050 to 75% below 1990 levels. To help achieve this ambitious target and as part of its energy transition strategy, France wants to lower final energy consumption to 50% below 2012 levels by 2050. The residential and non-residential building sector currently accounts for 45% of final energy consumption and 27% of the country’s greenhouse gas emissions. Lowering energy use in this sector is therefore a key part of achieving these ambitious energy and climate targets, and this green bond has directly contributed to those goals.

onsemi

onsemi (previously ON Semiconductor) develops and sells energy-efficient products and solutions to enable its customers to design green electronics.

Its products are used across a variety of sectors, from automotive and medical to industrial power and personal electronics.

onsemi's long-term expertise and leading role in renewable energy generation, power management, and energy conversion helps customers across the globe handle the challenges of Energy Storage Systems and create suitable solutions for the evolution of the power grid.Its Silicon Carbide (SiC), SiC/Si hybrid, and IGBT (insulated-gate bipolar transistor module technology), as well as its broad offering of advanced discrete SiC MOSFETs (metal-oxide semiconductor field-effect transistor), IGBTs, and mid-voltage MOSFETs, together with versatile gate drivers, sensing, protection, and power management integrated circuits bring flexibility to tailor energy storage systems to the requirements of power grids.

As renewable energy grows as part of the energy generation mix, energy storage systems will become increasing critical in allowing solar parks and wind farms to provide base load power, as well as the current intermittent peak load power. The components that onsemi manufactures are essential for the efficient running of these technologies.

Closing remarks

Youssef Bougroum
Investment Specialist

We hope this report was useful in bringing to life the variety of the positive impact that our investments are having. Looking ahead, most of the medium- and long-term sustainability trends driving these investments and driving our transition to a lower carbon world are accelerating. It is becoming increasingly clear that the effects of climate change are being felt with a much higher magnitude – and much sooner – than expected. The choices we make and implement over the short term are going to determine our success in tackling the climate challenge over the long term. Finally, as we tackle climate change, we mustn't forget about the social challenges we are facing, not least the rise in inequality. Equitable and inclusive outcomes for all have a higher chance of being achieved if we invest in access to education, healthcare and other essential services. Over the past year, we have been encouraged by the significant increase in investment opportunities in these areas. With your support, we remain hopeful and determined to play our part in achieving a just transition.

Appendix

ESG exclusion criteria

ESG exclusion criteria

Exclusion criteria	Sector	Threshold
Environmental	Thermal coal extraction	0% of revenues
Social	Adult entertainment	0% of revenues
Social	Alcohol for consumption	0% of revenues
Social	Controversial weapons	0% of revenues
Social	Gambling	0% of revenues
Social	Tobacco	0% of revenues*
Environmental	Unconventional oil and gas extraction	Maximum 10% of revenues
Environmental	Conventional oil and gas extraction	Maximum 60% of revenues**
Environmental	Electricity power generation	Power production max. 10% from coal, max. 30% from oil and gas or max. 30% from nuclear fuel sources Companies breaching these limits may be in included in exceptional cases if they have a clear transition strategy towards low-carbon power production (max. 5% total limit at fund level)
Social	Other weapons	Maximum 10% of revenues

The table above summarises the main exclusions and restrictions criteria for environmental and social issues, that are applied to the potential investments. The list is monitored on an ongoing basis.

*Tobacco: maximum 0% revenue threshold for production, maximum 10% revenue threshold for distribution.
**Conventional oil and gas extraction: maximum 60% of revenue from conventional oil and gas extraction, excluded if revenue from renewable sources or natural gas extraction is less than 40%.

MSCI ESG quality scores

The table below shows how ESG quality scores determined by MSCI align with its ESG ratings in alphabetical formats.

MSCI ESG quality scores vs. ESG ratings

ESG quality score	ESG rating
8.6-10.0	AAA
7.1-8.6	AA
5.7-7.1	A
4.3-5.7	BBB
2.9-4.3	BB
1.4-2.9	B
0.0-1.4	CCC

Source: MSCI, December 2021.

ISS Climate Scenario Alignment Analysis methodology

The purpose of the approach is to analyse the current and future emission intensity of an issuer to understand which climate scenario it is aligned with until 2050 based on its market share's carbon budget.

The report presents three climate scenarios provided by the International Energy Agency (IEA) in their report World Energy Outlook 2019 (from 13 November 2019): the Sustainable Development Scenario (SDS), the Stated Policy Scenario (STEPS), and the Current Policy Scenario (CPS).

Each scenario expects a certain level of temperature increase by 2100 and is thus tied to a carbon budget. A carbon budget specifies the cumulative amount of carbon dioxide emissions permitted to remain within a certain temperature by the end of the century. For example, to remain within the limits of the SDS, less carbon can be combusted compared to the scenarios that expect a significant temperature increase, ie, the CPS.

The ISS ESG scenario analysis combines the IEA scenarios with the Sectoral Decarbonization Approach (SDA), as developed by the Science-based Targets Initiative, by allocating a carbon budget to a company based on its market share and the expected emissions trajectory associated with that sector.

For most sectors, this analysis is based on Scope 1 and 2 emission intensity per revenue. For certain sectors such as utilities and fossil fuel producers, sector-specific approaches are implemented looking at company outputs, for example, $tCO2/GWh$. Thus, this tool is mainly relevant for sectors with large emissions and fossil fuel producers.