

# M&G Sustainable Multi Asset Range of Funds – Cautious, Balanced and Growth



## Fund questionnaire

Fund manager – Maria Municchi

June 2022

- A flexible asset allocation approach to investing sustainably by considering environmental, social and governance (ESG) factors in combination with positive impact investing and a climate focus
- An investment strategy that is strongly embedded in the M&G multi asset philosophy to asset allocation, based on valuation analysis, observations of fundamentals and applying behavioural finance to take advantage of market mispricing
- Three funds designed to match different client risk profiles (cautious/balance/growth) combined with a risk management process to limit volatility to each fund's respective ceiling
- Position sizes tailored to minimise specific risk in favour of macro risk

### Main risks associated with these funds

- The value and income from each fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the funds will achieve their objectives and you may get back less than you originally invested.
- The funds are exposed to different currencies. Derivatives are used to minimise, but may not always eliminate, the impact of movements in currency exchange rates.
- The funds may use derivatives to profit from an expected rise or fall in the value of an asset. Should the asset's value vary in an unexpected way, the funds will incur a loss. The fund's use of derivatives may be extensive and exceed the value of its assets (leverage). This has the effect of magnifying the size of losses and gains, resulting in greater fluctuations in the value of the fund.
- Investments in bonds are affected by interest rates, inflation and credit ratings. It is possible that bond issuers will not pay interest or return the capital. All of these events can reduce the value of bonds held by the funds.
- 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.
- In exceptional circumstances where assets cannot be fairly valued, or have to be sold at a large discount to raise cash, we may temporarily suspend a fund in the best interest of all investors.
- A fund could lose money if a counterparty with which it does business becomes unwilling or unable to repay money owed to that fund.
- Operational risks arising from errors in transactions, valuation, accounting, and financial reporting, among other things, may also affect the value of your investments.

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

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# Fund management team

## The management team

The manager of the M&G Sustainable Multi Asset Fund range is Maria Municchi. She is a member of M&G's Multi Asset team, headed by Fabiana Fedeli, and is also a member of the M&G Positive Impact team. Maria has been in charge of the funds since launch.



**Maria Municchi**  
Fund Manager

Maria Municchi joined M&G in 2009 and is a member of the Multi Asset team and the Positive Impact team. She is the fund manager of the M&G Sustainable Multi Asset Fund range as well as other sustainable multi asset funds managed by M&G Investments. Before joining M&G, Maria worked at Barings and UBS Asset Management. She has an MSc in international management and finance, is a CFA charterholder and has also successfully completed the University of Cambridge Institute of Sustainability Leadership programme in Business Sustainability Management.



**Steven Andrew**  
Deputy Fund Manager








Steven Andrew joined M&G in 2005 as a member of the portfolio strategy and risk team, before moving to the Multi Asset team, where he helped to formulate asset allocation strategies for M&G's multi-asset fund range. He is the fund manager of the M&G Multi Asset Income Strategies. He is also deputy fund manager on the all sustainable multi asset strategies at M&G. In July 2020, he was appointed co-fund manager of the M&G Conservative Allocation Strategy. Steven has also successfully completed the University of Cambridge Institute of Sustainability Leadership programme in Business Sustainability Management.

## Team structure and responsibilities

### M&G Multi Asset team

Fund manager Maria Municchi is a member of the M&G Multi Asset team, located at M&G's head office in the City of London. This close-knit group of experienced fund managers are all trained economists, with average investment experience of more than 15 years. The core members of the team have been applying their unique investment philosophy and process for more than 20 years, first managing multi-asset mandates for the Prudential Life Fund and then using the approach for the M&G Multi Asset funds. While each fund manager bears responsibility for the management decisions of each portfolio, the group functions as a true team, continually sharing and testing investment ideas and assessing a wide variety of macroeconomic data.

Multi Asset: experienced team with a rigorous valuation framework

 <p><b>Fabiana Fedeli</b> Chief Investment Officer, Equities &amp; Multi Asset</p> <p>0 22</p>	 <p><b>Dave Fishwick</b> Head of Macro Investing</p> <p>M&amp;G Episode Macro Strategy (CFM) M&amp;G Dynamic Allocation Strategy (DFM)</p> <p>23 34</p>	 <p><b>Juan Nevado</b> Fund Manager</p> <p>M&amp;G Dynamic Allocation Strategy (CFM) M&amp;G Episode Allocation Strategy (CFM)</p> <p>23 36</p>	 <p><b>Tony Finding</b> Fund Manager</p> <p>M&amp;G Episode Allocation Strategy (CFM)</p> <p>23 24</p>	 <p><b>Craig Moran</b> Fund Manager</p> <p>M&amp;G Conservative Allocation Strategy (CFM) M&amp;G Dynamic Allocation Strategy (CFM)</p> <p>16 14</p>
 <p><b>Craig Simpson</b> Head of Portfolio Management</p> <p>Head of portfolio management for the Multi Asset team</p> <p>16 19</p>	 <p><b>Eric Lonergan</b> Head of Multi Asset Research</p> <p>M&amp;G Episode Macro Strategy (CFM) M&amp;G Episode Growth Strategy (CFM)</p> <p>15 23</p>	 <p><b>Steven Andrew</b> Fund Manager</p> <p>M&amp;G Episode Income Strategy (FM) M&amp;G Income Allocation Strategy (FM) M&amp;G Conservative Allocation Strategy (CFM)</p> <p>15 20</p>	 <p><b>Stuart Canning</b> Deputy Fund Manager</p> <p>M&amp;G Episode Allocation Strategy (DFM) M&amp;G Charity Multi Asset Strategy (DFM)</p> <p>14 3</p>	 <p><b>Maria Municchi</b> Fund Manager</p> <p>M&amp;G Sustainable Multi Asset Strategy (FM) M&amp;G Sustainable Allocation Strategy (FM)</p> <p>12 13</p>
 <p><b>Christophe Machu</b> Fund Manager</p> <p>Fund of Funds and advisory mandates</p> <p>9 4</p>	 <p><b>Aaron Powell</b> Portfolio Manager</p> <p>Sustainable and Income Strategies</p> <p>9 3</p>	 <p><b>Alex Houlding</b> Deputy Fund Manager</p> <p>M&amp;G Episode Growth Strategy (DFM)</p> <p>7 3</p>	 <p><b>Tristan Hanson</b> Fund Manager</p> <p>M&amp;G Global Target Return Strategy (FM) M&amp;G Charity Multi Asset Strategy (FM)</p> <p>5 21</p>	 <p><b>Marc Beckenstrater</b> Head of International Investments</p> <p>Fund manager, PIMSA Strategies</p> <p>4 23</p>

Key: FM = Fund Manager; CFM = Co-Fund Manager; DFM = Deputy Fund Manager

Source: M&G, February 2022.

Common philosophy

The M&G Multi Asset team’s principles are based on:

- Repeatable process applicable to all liquid asset classes
- Asset allocation and selection as the primary driver of performance
- A disciplined valuation framework to highlight asset mispricing
- Behavioural analysis to identify causes of mispricing

All of M&G’s multi-asset strategies are managed within a single global investment framework under the direction of Fabiana Fedeli. Underpinning this framework is the belief that the best approach to managing a portfolio lies in flexibly allocating capital between global asset classes in response to changes in asset valuations and understanding the behavioural and economic drivers of those valuations.

Each individual manager or co-management team is responsible for deciding how the team’s asset allocation decisions are employed within each fund portfolio, taking account of the fund’s specific investment objectives and its risk/reward profile. Portfolio positions would reflect the team’s general view on markets and asset pricing.

# Investment objective and strategy

- A multi-asset strategy that seeks to maximise the total return while limiting the average volatility per annum over any five-year period
- The funds consider environmental, social and governance (ESG) factors and hold a dedicated sleeve of assets considered to be providing a positive societal and environmental impact
- The portfolios have a climate focus, aimed to improve their carbon intensity and climate adaptability

## Investment objective

Each fund in the range has two aims:

- To limit the average volatility per annum over any five-year period while providing a total return (the combination of capital growth and income) over that period; and
- To invest in assets which meet the Fund's preferred ESG standards and/or those that provide a positive societal impact through addressing the world's major social and environmental challenges.

Please note, there is no guarantee the funds will achieve their objective over this or any other period, and you may not get back the amount you originally invested.

Volatility barometer		Bond-like ← 2/3 equity volatility → Equity-like		
Financial	Fund name	M&G Sustainable Multi Asset Cautious Fund	M&G Sustainable Multi Asset Balanced Fund	M&G Sustainable Multi Asset Growth Fund
	Maximum volatility expected (pa over a 5yr rolling period)	9%	12%	17%
	Sector	IA volatility managed	IA volatility managed	IA volatility managed
	Typical equity allocation ranges	0-35%	20-60%	55-100%
	Performance comparator	IA Mixed Investment 0-35%	IA Mixed Investment 20-60%	IA Flexible Investment
Non-Financial	Expected MSCI ESG rating	A-AA	A-AA	A-AA
	Expected carbon intensity	Below MSCI AC World	Below MSCI AC World	Below MSCI AC World
	Expected positive impact exposure	20% to 50%	20% to 50%	20% to 50%

## Performance comparators

The funds' benchmarks are as follows:

- M&G Sustainable Multi Asset Cautious Fund: : IA Mixed Investment 0-35% Shares Sector
- M&G Sustainable Multi Asset Balanced Fund: IA Mixed Investment 20-60% Shares Sector
- M&G Sustainable Multi Asset Growth Fund: IA Flexible Investment Sector

In each case, the benchmark is a comparator for the fund's financial objective against which the Fund's financial performance can be measured. The sector has been chosen as the fund's benchmark as it reflects the financial aspects of the fund's investment policy. The comparator benchmark does not constrain the fund's portfolio construction.

The funds are actively managed. The fund manager has complete freedom in choosing which investments to buy, hold and sell in the funds within the constraints set by the funds' respective objective and investment policy.

## Investment strategy

This dedicated multi-asset fund range employs a sustainable investment approach that looks to generate returns over the long-term while aiming to maintaining the volatility of those returns to set volatility ceilings. The returns are expected to consist of a combination of income and capital growth through flexible asset allocation, guided by a robust valuation framework, while investing in assets issued by companies or governments that uphold high standards of ESG behaviour. In addition, the funds seek to maintain a dedicated holding of assets that are considered to have a positive societal impact through addressing the world's major social and environmental challenges.

We believe that no one has the edge in attempting to predict market movements; therefore, we avoid forecasting and instead focus on what current asset valuations are signalling about the attractiveness of different assets, and why. In particular, we seek to respond to occasions when asset prices move away from a reasonable sense of 'fair' value due to investors over-reacting to events and allowing their emotions to cloud rational judgment. Our fund managers believe such occasions create opportunities because short-term emotional responses should be less important than underlying fundamentals over the medium-to-long term.

This approach seeks to take advantage of emotionally driven misalignments by establishing asset positions that we believe stand to benefit as prices gravitate back towards their longer-term normalised valuation.

An in-depth assessment of long-term valuation signals is an integral part of the fund's investment process, in order to establish a sense of 'fair' value. However, the strategy does not rely on a purely quantitative approach. These models can fall into their own traps, not only with regards to the technical difficulties in their creation, but especially because of their failure to adapt to changes in the economic environment. The manager's ability to examine the economic environment and make judgments as to the validity of valuation signals, is a significant aspect of the fund's investment process.

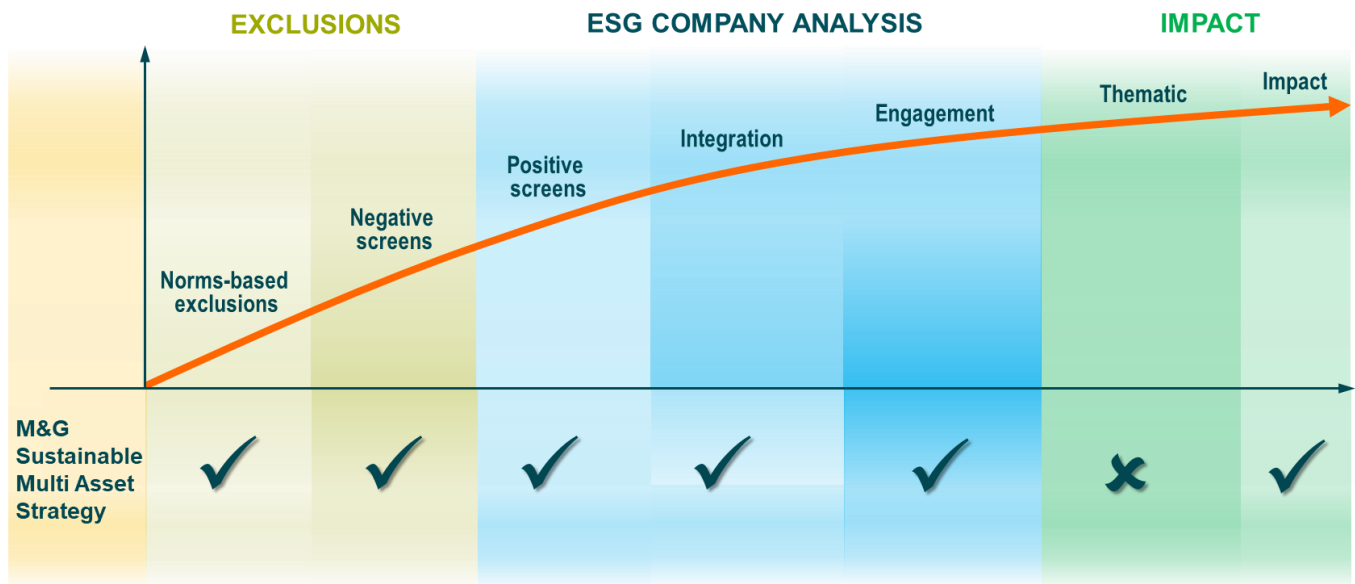
The funds invest globally (including emerging markets), with the flexibility to allocate to asset classes in broad ranges. The typical equity range is illustrated in the above table. For example, the balanced fund will typically hold 20-60% in equities and is expected to sit within the IA Mixed Investment 20-60% Shares universe for comparative performance purposes.

The actual allocation to equities, bonds and cash, will be guided by the strategic and tactical asset allocation preference in addition to the volatility management process aiming to maintain the funds' volatility below their respective ceilings.

## Implementing sustainability

Once an asset allocation has been determined, the fund manager will aim to build a portfolio that considers opportunities across the spectrum of responsible investing. This will entail investing in securities that fulfil the requirements of a rigorous ESG-screening exercise ('Positive ESG tilt'), alongside other assets that demonstrate an active determination for achieving a positive impact.

### Spectrum of responsible investing



Source: M&G, illustrative, as at December 2020

Norms-based exclusions = exclusions based on generally accepted international standards

## Positive ESG tilt

Responsible investing covers a broad spectrum of activities. Applying a simple negative screen to exclude investments in particular industries, such as controversial weapons or munitions manufacturing, or alcohol and tobacco production for instance, is one form of responsible investing. This can extend to focussing investments in securities that are involved in particular ESG and/or sustainability themes, such as renewable energy production.

The investment decisions for the majority of each fund will involve selecting what the manager considers attractive securities that qualify against agreed ESG criteria (details can be found in the ESG Criteria and Impact Criteria document found on our website, and in the later Portfolio construction section below), 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 gaining better insights into the risks and opportunities associated with companies.

## Positive impact

Further along the spectrum, impact investing entails making investments, which may be long-term in nature, that aim to generate a positive social and/or environmental impact alongside a financial return.

At least 20% of each fund and normally between 20% and 50% (although 50% is not an upper limit), will be invested in assets 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 may be companies that are dedicated to developing building sustainable or green infrastructure, supporting the production and distribution of affordable renewable energy, or that focus on providing education building low cost/social housing or hospitals in underprovided areas. Please note that there is no cap on the proportion of each fund that may be invested in positive impact assets.

The M&G Positive Impact team consists of a number of investment professionals, including fund managers, analysts and investment specialists. They provide extensive coverage and expertise in the field of responsible and impact investing (see Portfolio construction section below for further detail).

### What are the UN SDGs?

The United Nations Sustainable Development Goals (SDGs) are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. Its timeframes run to 2030.

The 17 Goals (with 169 key performance indicators - KPIs, or sub-goals) build on the eight Millennium Development Goals established by the UN in 2000, while including new areas such as climate change, economic inequality, innovation and sustainable consumption among other priorities. The goals are interconnected – often the key to success on one will involve tackling issues more commonly associated with another.

This provides a framework to deliver sustainable outcomes and is increasingly being adopted by both investors and companies as a means of framing their sustainable, or impact, activities.

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

For more information visit <https://sdgs.un.org/>

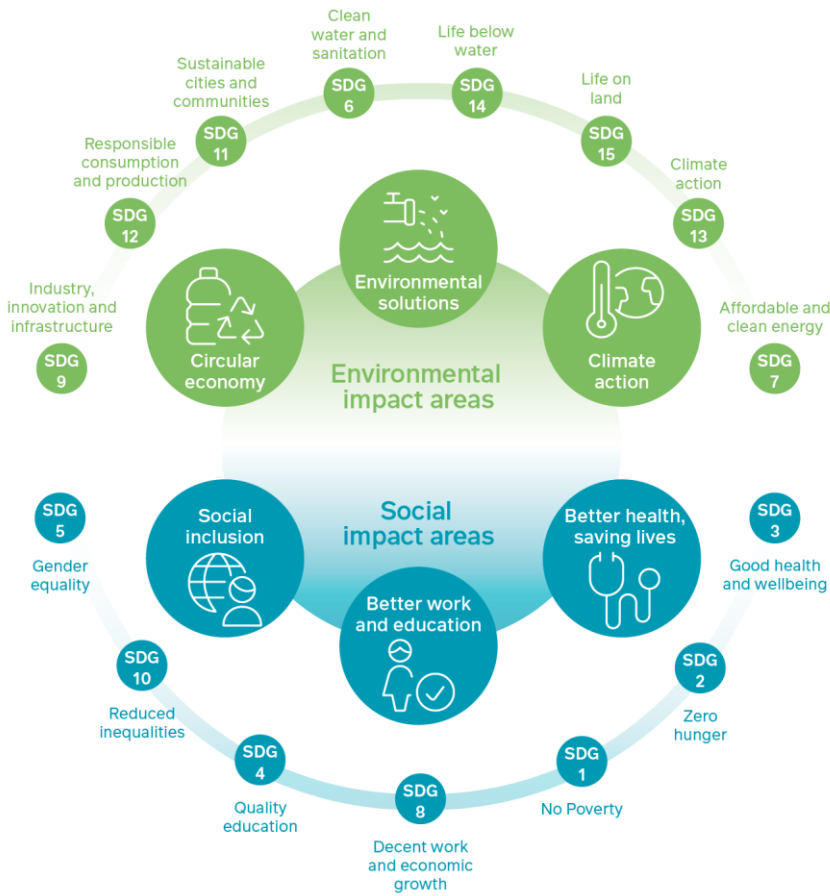
#### United Nations Sustainable Development Goals:

- 1 No Poverty
- 2 Zero Hunger
- 3 Good Health and Wellbeing
- 4 Quality Education
- 5 Gender Equality
- 6 Clean Water and Sanitation
- 7 Affordable and Clean Energy
- 8 Decent Work and Economic Growth
- 9 Industry, Innovation and Infrastructure
- 10 Reduced Inequalities
- 11 Sustainable Cities and Communities
- 12 Responsible Consumption and Production
- 13 Climate Action
- 14 Life Below Water
- 15 Life On Land
- 16 Peace, Justice and Strong Institutions
- 17 Partnerships for the Goals

Source: United Nations



We categorise the SDGs into one of six impact areas, each aligned to particular SDGs and capable of having specific measurable outcomes and performance indicators.

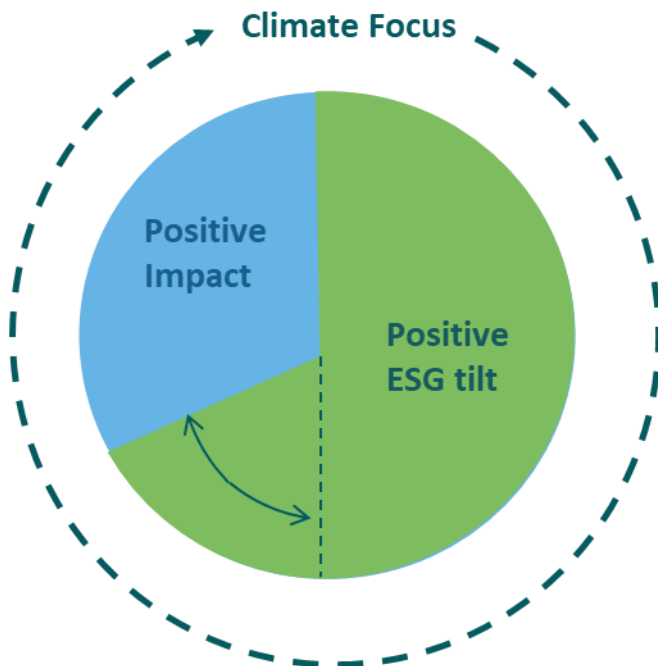


The diagram above references the UN SDGs – 'Sustainable Development Goals'. We have mapped the SDGs against M&G's Impact Areas. While we support the UN SDGs, please note that we are not associated with the UN and our funds are not endorsed by the organisation.

Source: M&G, as at June 2022

## Climate focus

The fund range also has an overarching climate focus. It is applied to the wider portfolio across asset classes, sectors and geographies. The purpose of this climate focus is to assess the long-term sustainability of assets, with a focus on carbon intensity and climate adaptability, which is crucial to achieving a more sustainable global economy.



Source: M&G, illustrative, as at June 2022

In order to implement the climate focus across each fund, several aspects are considered. First, sectors known for their negative impact on climate such as thermal coal extraction are excluded, while the funds also exclude companies that derive more than 10% of their revenue from unconventional oil and gas extraction, such as shale oil, shale gas, oil sands and Arctic drilling. Further, the fund also limits exposure to other carbon intensive sectors. Exclusions will also apply to oil & gas extraction companies that derive less than 40% of their revenue from activities related to natural gas extraction or renewable energy sources. Further, the funds will not finance electricity utility firms that derive more than 10% power production from coal, more than 30% from oil and gas or more than 30% from nuclear fuel sources. However, companies with a clear business model aim of accelerating transition to low-carbon power production will be considered, with a maximum total limit of 5% of the fund, even if in breach of the limits above. The fund will not finance electricity utilities with expansion plans that would increase their negative environmental impact or those constructing additional coal or nuclear-based power production installations. In addition, the fund might invest in financial instruments linked to sustainability, such as green or sustainable bonds in these sectors. Secondly, on a corporate level, companies will be assessed on their 'climate readiness'. For example, a company with a science-based target or a Carbon Disclosure Project (CDP) score of either A or B, can satisfy the climate focus requirements. Engagement may also be used as a tool to further understand and enhance the climate readiness of a company. For investment in government bonds, we assess a country's climate data during the qualitative overlay stage, which is evaluating social and environmental factors.

## Reporting on sustainability

Once a year, an extensive ESG and positive impact review is published, providing clients with an overview of measurable ESG and impact outcomes at a holding and portfolio level as well as examples on voting and engagement.

# Investment process

- A disciplined valuation framework prevents the managers falling victim to behavioural biases
- The ability to understand the behavioural nature of the mispricing of assets is key
- Applying a risk management process, which aims to securing a constrained profile of volatility over the long term
- Portfolio construction is essential to achieve the respective fund’s objectives

## The process of idea generation

### Strategic asset allocation

The manager starts from the long-term asset allocation which is a blend of equities, fixed income and cash. The typical equity range of each fund is aligned to its risk profile to match the investor’s risk appetite: the cautious fund’s equity range extends from 0-35%, for the balanced fund from 20-60% and for the growth fund from 55% to 100%.

The funds will each seek to hold a range of asset types, including equities and equity-related securities, fixed income securities, cash and near cash. Exposure to these assets is typically gained directly, but may also be gained indirectly, via funds (including funds managed by M&G) or derivatives. The funds may also invest to a limited extent indirectly in other asset classes such as property and gold.

### Investment process



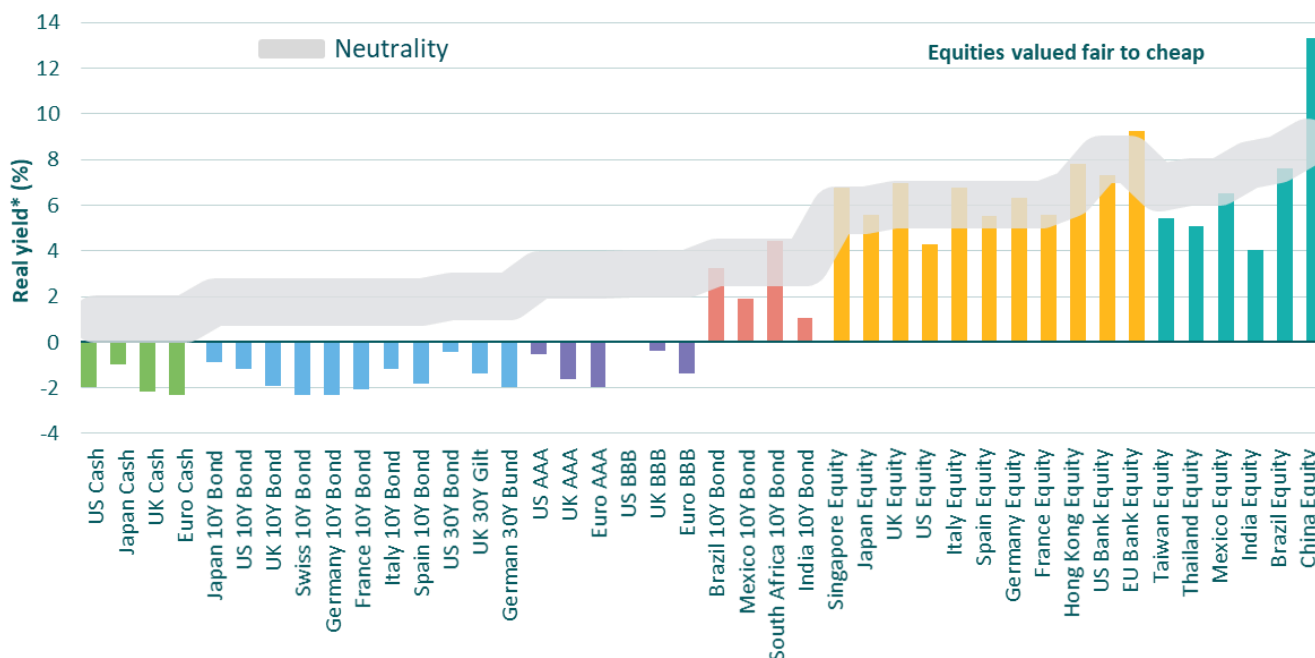
Source: M&G, as at June 2022

The next step is identify a strategic asset allocation based on an objective examination of a wide-ranging investment universe, including equities, fixed interest, and other assets across developed and emerging markets via the ‘valuation framework’.

Valuation is key. The manager assesses what she would consider to be fair value for a wide range of assets around the world in light of historical expected returns, economic theories and investors’ preferences for each asset class. This is called ‘neutrality’. She then compares this neutrality with the real yield of these assets to create a robust valuation framework (see

chart below). The objectivity and discipline of this analysis helps to prevent the fund manager from falling victim to the very emotional biases she looks to exploit.

### Sample of assets – real yields against an assessment of neutrality



Source: M&G. Please note this chart is for illustrative purposes only and does not reflect current market data.

Neutrality is the positioning of the fund if all assets were trading at their 'fair value'. This can be thought of as a strategic asset allocation. In an ideal world, when all assets were trading at their 'fair value', then neutrality would be how a fund was positioned, given its strategy and risk profile. However, assets seldom trade at fair value, so the actual allocation of each fund may not match the neutral position.

\* Real yield for equities is defined as an inverted p/e ratio, using forward consensus data. For bonds, it is the yield to maturity adjusted to eliminate the effect of inflation. For cash, it is the interest rate minus inflation. The above data is a hypothetical representation for illustrative purposes only and is not representative of any M&G product or strategy.

No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.

Where an asset's real yield is not in line with neutrality, we would consider that the current valuation is signalling either that the asset is 'cheap' (if it is offering a real yield higher than neutrality), or 'expensive' (if it is offering a real yield lower than neutrality). This chart gives the manager a good starting point to look for potential opportunities across a wide spectrum and to focus her analysis on the most attractive asset classes. Valuations analysis is carried out by the manager; however, she also makes extensive use of a wide variety of both internal and external resources.

A great deal of research is conducted within the Multi Asset team, meaning that although the manager is ultimately responsible for all investment decisions in the funds, she also communicates daily with her peers on the Multi Asset team, all sitting together in our London office. Our multi-asset fund managers are constantly sharing and testing ideas with the other multi-asset fund managers, fund managers' assistants and investment specialists. The team also use analysis produced via a dedicated multi-asset team research programme, which involves a weekly meeting where the managers and other members of the team discuss the research done on specific global investment themes. The manager is also assisted in portfolio construction by specialised in-house research analysts from across M&G, including equity, fixed income and property teams. Furthermore, she has frequent access to the wider group resources and meets every quarter with members of various teams from around the world to discuss research and ideas at the Global Macro Forum.

In terms of external resources, the team use both investment banking research and independent research.

**Dynamic assessment: behavioural stage**

If the valuation stage identifies that certain assets are under- or overpriced, particularly where an asset price has moved rapidly, the multi-asset managers seek to identify what is driving this. There may be a valid reason for the price movement, if there has been genuine fundamental change, or it could be due to behavioural factors. Investors may be reacting emotionally to events and therefore ignoring the more important normal/fundamental investment factors. The team identifies three factors that can help to recognise behavioural events, known as 'Episodes':

- Focus on a single story – when market participants draw their attention to a single specific event and disregard other information
- Inconsistent responses – when the market behaves differently from the manner suggested by economic developments
- Rapid price movement – of any asset class either up or downwards, suggesting an ill-considered response

Over the medium-to-long term, the managers would expect such mispricing to correct. Therefore, these behaviourally-driven episodes may create opportunities for investment.

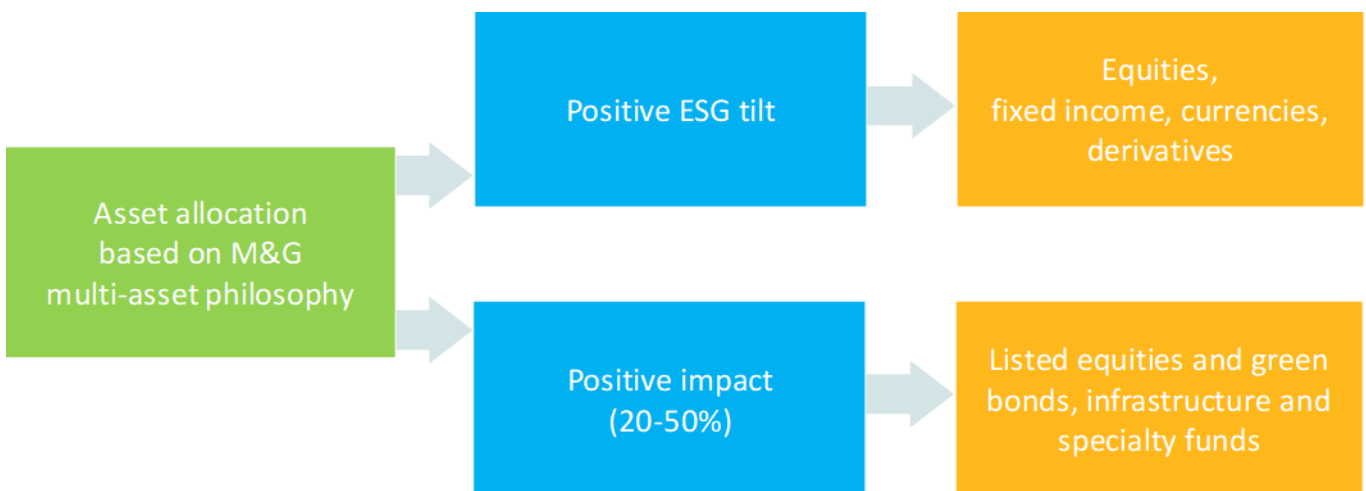
# Implementing sustainability – portfolio construction

- Asset allocation and selection are the primary drivers of performance
- The fund manager’s views are implemented through the purchase of securities that she expects will provide a beneficial ESG contribution or a positive impact
- Position sizes are tailored to minimise specific risk in favour of macro risk

## Portfolio construction process

The main drivers of returns and volatility of the fund are the allocation to and selection of the different asset classes. The portfolio’s asset class-level exposures are determined through a top-down asset allocation approach. Potential holdings are then identified via an evaluation process that assesses the ESG factors of individual candidate securities that are considered to carry appropriate risk/return characteristics.

### Allocation to asset class



Source: M&G, as at June 2022

### Positive ESG tilt – allocation

Most of each fund is invested using an ESG-screening approach to focus on the investments with better ESG characteristics. An investable universe of screened direct securities is identified applying the following rules:

- 1 Exclusions – Companies are excluded from the investable universe if they are:
  - Assessed to be in breach of the United Nations Global Compact principles on human rights, labour, the environment and anti-corruption.
  - Producers of the following (revenue limit is 0%):
    - Tobacco products
    - Alcohol
    - Adult entertainment
    - Gambling
    - Thermal coal
    - Controversial weapons
  
- 2 Restrictions on the percentage of revenues derived from certain activities may prevent investment in companies operating in certain sectors, including:
  - Oil and gas extraction
  - Power generation
  
- 3 Minimum MSCI ESG ratings<sup>1</sup> are applied in the following way:
  - Equity and corporate bond issuers must have an MSCI ESG rating of at least BBB. Where available, companies are also assessed based on an M&G ESG Scorecard.

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#### Positive ESG tilt – Corporates

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<b>Respect the UN Global Compact Principles</b>	<b>Exclude or restrict controversial sectors</b>	<b>Focus on corporates with better ESG quality*</b>																				
<ol style="list-style-type: none"> <li>1. Human rights</li> <li>2. Labour</li> <li>3. Environment</li> <li>4. Anti-corruption</li> </ol>	<ul style="list-style-type: none"> <li>Tobacco</li> <li>Alcohol</li> <li>Adult entertainment</li> <li>Gambling</li> <li>Controversial weapons</li> <li>Thermal coal</li> <li>Oil &amp; gas extraction (restricted)</li> <li>Power generation (restricted)</li> </ul>	<table border="1" style="width: 100%; text-align: center; border-collapse: collapse;"> <tr> <td colspan="6" style="background-color: #f08080; color: white;">Excluded</td> </tr> <tr> <td style="background-color: #f08080;">CCC</td> <td style="background-color: #f08080;">B</td> <td style="background-color: #f08080;">BB</td> <td style="background-color: #f08080;">BBB</td> <td style="background-color: #f08080;">A</td> <td style="background-color: #f08080;">AA</td> <td style="background-color: #f08080;">AAA</td> </tr> <tr> <td colspan="3" style="background-color: #f08080;">LAGGARD</td> <td style="background-color: #fff9c4;">AVERAGE</td> <td colspan="3" style="background-color: #fff9c4;">LEADER</td> </tr> </table>	Excluded						CCC	B	BB	BBB	A	AA	AAA	LAGGARD			AVERAGE	LEADER		
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Source: M&G. As at June 2022. \*Peer relative ranks

The exclusions and restrictions applied to potential investments for these funds are summarised in the Additional information section of this document. For more detailed information regarding exclusions and restrictions, please refer to the ESG Criteria and Impact Criteria document available on our website.

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<sup>1</sup> Please note that ESG ratings are not the same as credit ratings.

- Government bonds must have an ESG rating of at least BB. Additionally, government bonds are assessed by qualitative social and environmental factors.

Positive ESG tilt – Government bonds



Source: M&G. As at June 2022

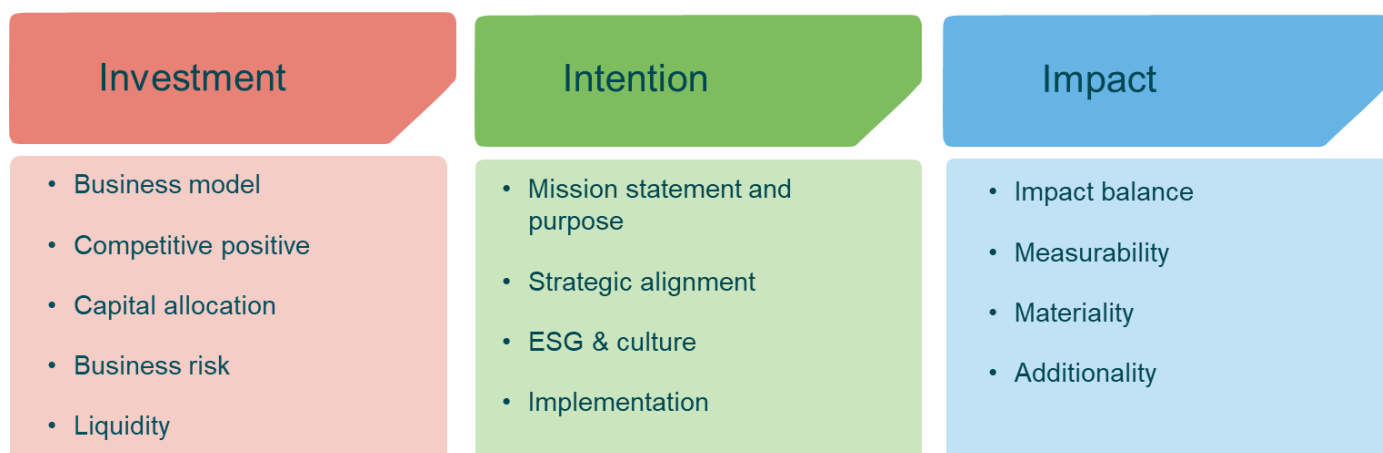
**Positive impact allocation**

Positive impact investing is a core feature of the fund. We aim to invest at least 20% of each fund, and normally between 20% and 50% (although 50% is not an upper limit) in positive impact assets at all times. The selected levels of exposure have been established considering two key factors:

- Liquidity of the eligible impact market, including less liquid asset classes such as green bonds and infrastructure investments;
- Having the ability to flexibly allocate across asset classes to generate attractive risk-adjusted returns at the overall fund level.

The positive impact exposure is diversified across asset classes, and each holding has to pass the same diligent assessment, following the ‘iii’ framework.

The ‘iii’ framework focuses on three key aspects: investment, intention and impact.



Source: M&G.

**Investment:** we assess the quality and viability of the investment focusing on opportunities and threats (including the risk of default). Depending on the type of asset, the investment score might consider: quality of the business model; competitive positioning; capital allocation; business risk, and liquidity.



**Intention:** we aim to understand the intentionality behind the security / instrument issued by the company. The strategic and economic alignment of the investment's activities against its mission statement and/or expected impact is assessed. The governance and implementation of the investment activities are also examined,

**Impact:** we seek to assess the material impact of the investment towards achieving one or more of the specific UN SDGs. There are then five key areas explored when considering a company's impact score:

- **Primary impact:** the main SDG the company is solving and the key performance indicators (KPIs) used to measure the impact.
- **Net impact:** other SDGs the company is addressing, as well as any negative impacts the company may generate.
- **Measurability:** ability to measure the impact generated by a company.
- **Materiality:** the percentage of a company's revenue that contributes to the impact being measured.
- **Additionality:** how the world/region would look if the company did not exist or were not adequately funded – i.e. could another company equally deliver that impact.

We look to achieve positive impactful investment through a variety of asset classes including, but not limited to, listed equities, corporate bonds and convertible bonds, green corporate and government bonds, listed infrastructure investments and collective investment vehicles (funds or exchange traded funds – ETFs, up to 10% of the portfolio).

## Cooperation with Positive Impact team

The M&G Positive Impact team consists of a number of investment professionals, including fund managers, analysts, and ESG specialists. Maria Municchi is a permanent member of the team. The team provides extensive coverage and expertise in the field of responsible and impact investing dedicated to investing in quality sustainable companies and securities that aim to have a positive environmental or societal impact.

The Positive Impact team identifies potentially appealing impact opportunities in equities. The fund manager also seeks to capitalise on the 'iii' framework when assessing suitable bond and infrastructure impact ideas supported by an analyst dedicated to the sustainable multi asset strategies. She also has the freedom to reach out to colleagues across the wider M&G group, such as fixed income fund managers and analysts, to gain further insight.

# Implementing sustainability – security selection

- An ESG-screened allocation of securities comprising equities, corporate bonds and government bonds ('positive tilt')
- A consistent allocation to securities issued by companies that are dedicated to generating a positive social and/or environmental impact
- Green bonds and other specialist bonds and infrastructure assets also form part of the investable universe

## Positive ESG tilt allocation

### Equity selection

The fund manager will identify a basket of equities with sound economic fundamentals and valuations, with the aim of achieving the desired market exposure, as determined by the asset allocation process.

The fund manager will aim to optimise the ESG profile of the basket, while reducing the divergence of key factors, such as sector exposure, valuation (price/earnings ratio and price-to-book ratio), leverage and volatility, from the specific market. While this process is mainly quantitative, the fund manager has access to the breadth of M&G resources and capabilities in equities, and regularly consults with analysts and fund managers. To minimise the specific risk of a holding, the target weights will be between 0.5% and 1.3% for equities.

### Corporate credit selection

Following a macro analysis of market opportunities, the fund manager aims to identify attractive issues or issuers within the corporate credit universe. The investment decision taken is based on the desired duration and credit risk characteristics and the contribution each makes to the overall portfolio.

The fund manager has access to the breadth of M&G resources and capabilities in fixed income, and regularly consults with the analysts and fund managers. To maintain an appropriate level of specific risk, the objective weight of a single corporate credit exposure will be approximately 0.5%.

### Government debt

Government debt instruments are selected according to the fund manager's macro views, always considering the ESG objective of the fund and the specific MSCI ESG rating of each issuer. The investment decision is focused on the desired position on the yield curve in the context both of the overall portfolio and the prevailing macroeconomic backdrop. As with other areas of the portfolio, holdings are globally diversified.

## Positive impact allocation

### Green, social and sustainable bonds, climate-aligned bonds

We identify new and existing issues using a screening tool, usually Bloomberg. The fund manager will also assess the likely impact the bonds will have, and the intentionality of the issuer according to the ILL framework key drivers. The credit quality of the issuer and the valuation of the bond will also be assessed. Given the liquidity characteristics of these bonds, they are traded by a specialist dealer in our fixed income team, who would also notify the fund management team of new issuance in the market.

### Supranationals

Bonds issued by supranational bodies, such as the European Investment Bank, the Inter-American Development Bank or the International Bank for Reconstruction and Development, may also be considered as being impactful given the investment

activity of those issuers. There is a clear strategic and economic alignment of those development banks to several SDGs. We aim to examine the governance and implementation of the investment activities and to assess the impact derived by the type of projects being financed, to the IIL framework key drivers,

### **Corporate watchlist**

Listed equities, corporate bonds and convertibles are sourced from those issued by companies in our positive impact corporate watchlist. This comprises about 150 companies operating worldwide and identified through M&G's 'iii' framework.

Following an in-depth quantitative and qualitative analysis by dedicated analysts, the Positive Impact team (which includes fund manager, Maria Municchi) will vote on whether or not to include the company on the watchlist.

### **Infrastructure**

The funds can gain access to the infrastructure market via specialised collective investment vehicles, or by investing directly in listed equities or bonds. Examples would include holdings in wind and solar farms infrastructure names and sustainable real estate investment trusts (REITs).

## **Other investments**

### **Collective investments**

For up to 10% of the fund value, specialist collective investment vehicles could be used to access specific parts of the market where the fund manager has assessed that the valuation and positive impact characteristics fulfil the fund's requirements in an efficient manner. This also provides the fund with the ability to invest in less liquid parts of the impact market.

### **Other securities**

Other instruments, including, but not limited to, convertible bonds and derivatives such as futures and options, could be used to access more specific exposure with ESG characteristics.

It is important to note that the positive impact exposure of the funds do not follow the same ESG-screened approach that is applied to the remainder of the portfolio, as the minimum ESG ratings are not applied. This is primarily due to many of the companies within our corporate watchlist operating within specific niche markets, making a broader MSCI ESG comparison at sector level less efficient.

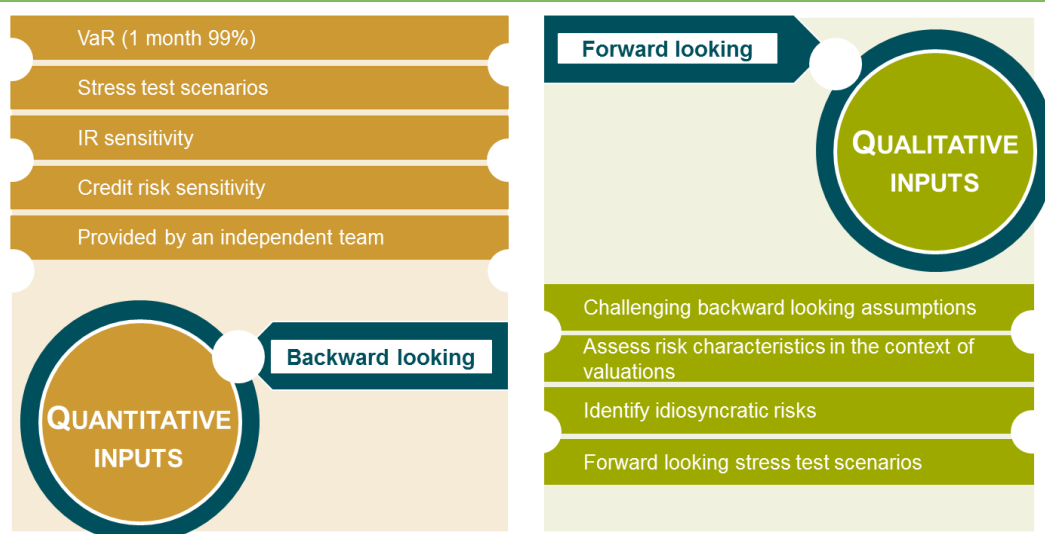
### **Derivatives**

The funds may use derivatives to meet its investment objective, for hedging and for efficient portfolio management. The funds may take synthetic short positions in equity or fixed income market indices, currencies, and other groups of securities. Index derivatives can also be used to hedge physical exposures (using short positions) or to temporarily achieve exposure to equity or bond markets (using long positions) until a physical exposure can be implemented (with a maximum term of 90 days, reviewed monthly). The funds are not permitted to implement short positions on single stocks.

# Risk management

- Understanding correlation patterns is key to portfolio diversification
- Asset allocation and selection aims to take the right level of risk
- Independent team of risk analysts support the fund manager with regular risk reports as well as in monitoring the fund's volatility in respect to its volatility ceiling

## Overcoming quantitative risk management inefficiencies



Source: M&G.

## Correlations and risk management

The M&G Multi Asset team believes that risk is best considered as the probability of losing money over a significant period of time. Volatility, on the other hand, measures how much the price of an asset may move in either direction over time.

While maintaining a diversified portfolio to try to minimise volatility is a sensible approach, it is important to recognise that statically holding a variety of asset classes based on the assumption that they will each have a different impact on portfolio risk by consistently behaving in a particular way may not provide effective diversification.

It is important to understand and challenge the correlation patterns among different asset classes, and not simply rely on the historical correlations drawn from past performance. In order to construct a truly diversified portfolio, it is important to maintain an objective view of asset valuations and also to take into account the effect that human behaviour and investor psychology can have on asset pricing and their relative movements.

Taking some level of risk can be helpful, even essential, in meeting investment goals, as long as sufficient compensation is anticipated for taking that risk. Through a diversified, flexible portfolio the fund manager aims to add value by taking the right level of risk at the right price.

## Monitoring of investment risk

Risk management for each fund is the responsibility of the fund manager. She is supported in this by independent teams of risk analysts and monitoring professionals. The risk teams are independent of the investment management team and provide investment risk analysis and monitoring across a broad spectrum of M&G fund management activities, including fixed

interest, multi-asset and structured fund mandates and investment vehicles. The teams run risk models that provide regular – daily and monthly – risk monitoring and analysis reports to determine whether a fund remains within its specified risk parameters.

### Risk analysis

The Risk Analysis team undertake quantitative modelling and analysis, providing support and challenge to the investment management process. The team carry out a review on a monthly basis with a focus on its sensitivity to core market risk factors, sector and issuer concentration. The analysts pay particular attention to any derivative activity and any implied leverage or shorting.

### Volatility monitoring

Notwithstanding the team's core belief that volatility often presents long-term investors with attractive investment opportunities, this fund range aims to not exceed the volatility ceiling for any five-year rolling period. To ensure that the fund's ex-post volatility does not exceed the limit, ex-ante volatility is closely monitored by the fund manager. Additionally, the independent risk management team ensures the funds adhere to a stringent risk framework, which triggers different levels of enhanced oversight depending on the current levels of ex-ante and ex-post volatility measures.

	Ex-ante volatility measure below the fund ceiling	Ex-ante volatility measure above the fund ceiling
Ex-post volatility measure below the respective fund ceiling with a margin of more than 2%	Regular oversight process	Enhanced oversight process
Ex-post volatility measure below the respective fund ceiling with a margin of less than 2%	Enhanced oversight process	Enhanced oversight process Pre-trade modelling required
Ex-post volatility measure above the respective fund ceiling	Enhanced oversight process Pre-trade modelling required Potential risk reduction plan implementation	Enhanced oversight process Pre-trade modelling required Potential risk reduction plan implementation

Source: M&G.

As a fund approaches its respective limits, the oversight process may restrict the potential for taking additional risk, or even require risk to be reduced.

The risk analysis and monitoring teams works closely together and share systems. However, they have separate reporting lines, reflecting their different priorities.

### Risk management process

The risk management process has three key objectives:

- To monitor each fund's overall risk position against specified risk limits established in line with its volatility objectives and investment policy
- To provide effective analysis on portfolio construction focusing on risk concentration
  - provision of portfolio risk analysis identifying key risk factor positioning
  - provision of risk sensitivities stress test and scenario analysis
- To provide oversight for senior management that funds are being managed in line with mandates
  - highlighting key risks to fund performance
  - ensuring that adequate debate on risks takes place between the fund manager and senior management team

# Additional information

## Exclusions/restrictions within the funds

The table below 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.

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 & gas extraction	Maximum 10% of revenues
Environmental	Conventional oil & gas extraction	Maximum 60% of revenues **
Environmental	Electricity power generation	Power production max. 10% from coal, max. 30% from oil & gas or max. 30% from nuclear fuel sources Companies breaching these limits may be 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

\*Tobacco: maximum 0% revenue threshold for production, maximum 10% revenue threshold for distribution.

\*\*Conventional oil & gas extraction: maximum 60% of revenue from conventional oil & gas extraction, excluded if revenue from renewable sources or natural gas extraction is less than 40%.

For more detailed information regarding exclusions and restrictions, please refer to the ESG Criteria and Impact Criteria document available on our website.

## Support available to the fund management team

The fund manager is ultimately responsible for all investment decisions. However, he has access to extensive investment resources, including Multi Asset team peers and M&G's wider equity, fixed income, property and convertibles teams, and broader parts of M&G across the world, including dedicated risk professionals.

She is supported by the following specialist teams within M&G:

- Research Analysts
- Investment Specialists
- M&G Risk team
- Dealers

In addition, support is provided by front, middle and back office departments including the following:

- Performance Analytics
- Operations Marketing

- Legal & Compliance
- Business Management

This structure is intended to ensure that the fund manager is focused entirely on fund management.

## Fund manager responsibilities and focus

Our fund managers are fully committed to and focused on fund management. They have full responsibility for the investment performance of the funds under their management. As M&G Multi Asset team members, they are also actively involved in the generation and discussion of investment ideas by the team. Other activities include communication with clients invested in our funds and occasional meetings with external consultants and rating agencies. All other activities not directly related to fund management are undertaken by the support teams at M&G.

## Fund manager succession plan

Our succession plan relies on the strength of the investment teams and the common elements of our investment processes. Since the fund managers work closely together and share a common investment philosophy and language, we are confident that our funds could be seamlessly managed should a member leave. Research is conducted within the Multi Asset team using a single global investment framework. All the strategies – and individual portfolios within them – have a deputy fund manager who is fully aware of the way the portfolio is managed and its key positions. The deputy fund manager is also supported by the other fund managers and is fully qualified to take over management should it be necessary.

## Company remuneration policy

M&G's remuneration structures are designed to support the achievement of the Group's short and long-term business objectives. Central to this is the aim to attract, motivate and retain the best talent to help ensure continued growth and success of the company and to strike an appropriate balance between short-term and long-term performance with strong linkage to Group performance, effective risk management, management of conflicts of interest, customer outcomes, the culture and values of the Group and long-term shareholder value creation.

Short term incentives for Fund Managers are determined on a discretionary basis taking into consideration a range of factors including, but not limited to, adherence to risk management and compliance policies, adherence to company culture, values and behaviours, fund/financial performance (including investment performance measured over 3 years).

M&G operates a short term incentive deferral policy whereby an element of the short term incentive is deferred for a period of three years. Deferral is normally into M&G plc shares or notional fund units (or a combination of both) to ensure appropriate alignment to the long-term sustainable performance of the business. Typically, the rate of deferral will be set so as to ensure that those in receipt of higher amounts of performance pay are required to defer more. Malus provisions may be applied to deferred awards to support the risk management objectives of the firm.

M&G operates a fully flexible policy on variable remuneration, which would enable it to award no variable remuneration should individual, business unit/team and/or company performance warrant this (including with relation to financial and non-financial (including against risk and compliance objectives) performance).

## Key fund facts

Fund names	M&G Sustainable Multi Asset Cautious Fund M&G Sustainable Multi Asset Balanced Fund M&G Sustainable Multi Asset Growth Fund
Fund legal structure	OEIC, incorporated in the UK
Inception date	8 December 2020
Fund currency	Pounds sterling
Compliance regulation	Non-UCITS Retail Scheme (NURS)
NAV calculation frequency	Daily
NAV redemption frequency	Daily
Jurisdictions where the fund is domiciled	UK
Financial services regulator	Financial Conduct Authority (FCA)
Name of manager	Maria Municchi
Managers' location	London, UK
Management Company	M&G Securities Limited
Custodian/Depositary	State Street Bank & Trust Company/National Westminster Bank plc
Dealing point	12:00 UK time
Dealing frequency	Daily, each business day
Pricing frequency	Daily, each business day, at 12:00 UK time
Countries where registered for sale	UK

Source: M&G, as at June 2022.



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