



MODEL PORTFOLIO SERVICES

Due Diligence guide for the
Global ESG Themes Portfolios

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Executive summary

The M&G MPS (Model Portfolio Service) offers three different investment styles: Passive, Hybrid and Global ESG Themes. 'ESG' stands for environment, social and governance. This document covers the Global ESG Themes MPS, which is a range of five risk-managed portfolios that aim to deliver competitive returns whilst also delivering positive environmental and social outcomes. The portfolios are designed for investors who want a diversified mix of asset classes and regions, including thematic and impact strategies that aim to have a positive effect on pressing social and environmental issues.

To build and manage the portfolios, we leverage M&G plc's investment capabilities in ESG research and investing, asset allocation, fund research, and portfolio management. This document covers the investment processes, ESG framework and key portfolio characteristics.

M&G Wealth Investments LLP is part of M&G plc. M&G plc's purpose is to give everyone real confidence to put their money to work.

This document has been prepared for information only and does not contain or constitute investment advice or recommendation and is accurate at the time of issue.

Why use the M&G Model Portfolio Service (MPS)?

Investment management responsibilities take a lot of time, and rightly so, as it's incredibly important. Not only are there increasing regulatory pressures, markets change rapidly and it takes time to do the research to keep on top of everything.

Using the M&G MPS allows advisers to let go of the day-to-day underlying investment management responsibilities, giving them to our investment professionals. We take care of the portfolio management, asset allocation, fund research, and risk monitoring required to deliver the aims of the portfolios. We also help advisers keep their customers informed by providing monthly factsheets, weekly market commentary, client guides, and quarterly market outlooks. This means advisers can have more time for building relationships with their clients and delivering financial planning services.

We offer three different MPS ranges with different investment styles: Passive, Hybrid and Global ESG Themes.

This document covers the Global ESG Themes portfolios.

What are the Global ESG Themes portfolios?

Global ESG Themes is a range of five risk-managed portfolios, with the following characteristics:

Global

The majority of the portfolio is invested in funds that hold global equities and global bonds, rather than focusing on a specific geographic region. This gives the fund managers a wider set of investment opportunities.

ESG

The portfolio is invested in funds that aim to deliver both competitive returns as well as manage ESG risks, pursue ESG opportunities and address pressing social and environmental issues. The ESG framework is described in this document. ESG factors are integrated in our processes for strategic asset allocation and selecting fund managers.

Themes

The majority of the equity exposure is invested in long-term themes. The themes are aligned with the UN Sustainable Development Goals, and include areas such as climate action, better health and social inclusion. We believe investing in themes can deliver strong performance, as these are areas where companies are innovating and new industries are being created. The longevity and speed of change are often underestimated, creating an opportunity for investors.

What is the target market?

What type of investor is this suitable for?

The portfolios are suitable for retail investors through various wrappers, including ISAs, Pensions, General Investment Account (GIA) or Investment Bonds.

How much knowledge and experience does your client have?

Based on the standard definitions of types of investors included in the European Financial Management Association, the target market includes Basic Investors, Informed Investors and Advanced Investors. Advisers are responsible for assessing the suitability of the portfolios for their clients given their capacity to bear losses; risk tolerance; and objectives and needs. We've based the following table on the standard definitions of types of investors included in the European Financial Management Association.

Type	Definition
Basic Investor	<ul style="list-style-type: none">• Basic knowledge of how investments work• Can make decisions based on regulated and authorised documents or with the right advice• No experience of the financial industry• Usually a first-time investor
Informed Investor	<ul style="list-style-type: none">• Average knowledge of how investments work• Can make an informed decision based on regulated and authorised documents or with their own knowledge• Understands specific factors or risks• Some experience of the financial industry
Advanced Investor	<ul style="list-style-type: none">• Good knowledge of how investments work• Good financial industry experience• Has access to professional investment advice

What is your client's capacity to lose capital?

The portfolio can be offered to clients who are able to accept a limited fall in capital depending on their attitude to risk and those that are able to lose unlimited capital. The portfolio management service does not have any capital guarantees.

Negative target market

- The portfolio should not be offered to clients that do not have capacity to absorb a loss.

What is your client's risk appetite?

The client must be happy to accept some degree of investment risk. There are five different risk profiles offered in the Global ESG Themes portfolio range which can be matched to the client's attitude to risk. See the equity ranges and volatility ceilings in the 'Investment Objectives' section of this document.

Negative target market

- The portfolio should not be offered to clients who are not prepared to accept some degree of investment risk.

How does this portfolio management service meet your client's objectives and needs?

The portfolio is designed for capital growth. However, M&G recognises that advisers may utilise the portfolios in scenarios where clients are taking regular income from capital (decumulation). In these cases, advisers should consider the impact of Sequence of Returns Risk for clients. Sequence of Returns Risk is the risk created by the order in which portfolios generate weak or strong years of performance for clients that are withdrawing funds. If portfolio returns are weak and unsustainably high income is withdrawn, this can affect the long-term value of the portfolio and its ability to meet future income needs. It affects investors who are relying on their portfolios for an income, and particularly investors in the 'decumulation' phase.

It is expected that clients would have an investment time horizon of least five years or more.

The Global ESG Themes range of portfolios is intended for clients who do have environmental and/or societal outcomes as a consideration whilst simultaneously wanting to achieve their financial goals. ESG factors are also considered as part of determining the Strategic Asset Allocation and Manager Oversight processes.

Negative target market

- The portfolios are not designed for the preservation of capital.
- The portfolios are not suitable for investors seeking a 'smoothed', 'absolute' or 'guaranteed' return.
- The portfolios are not suitable for clients who have an investment time horizon of less than five years.
- The portfolios are not suitable for clients who require a proportion of their portfolio to be held as cash for liquidity purposes.

How do clients invest in this product?

The portfolio management service is only available to retail clients with investment advice. The portfolios are held on a platform recommended by an adviser to the end client. The direct contractual relationship is between M&G Wealth Investments LLP and the adviser, who is treated as a professional client under MiFID. The underlying retail client is not the client of M&G Wealth Investments LLP.

Negative target market

- The portfolios are not available to clients who do not have a financial adviser.

Is your client vulnerable?

Advisers should consider within their initial and ongoing suitability processes whether a customer displays characteristics of vulnerability or their personal circumstances make them especially susceptible to harm, as this may impact the appropriateness of the chosen portfolio.

What we believe gives the M&G MPS offering the edge

Adviser and customer service

We help advisers deliver a better customer experience with our suite of marketing materials. We publish factsheets, market commentary, guides and quarterly outlooks that can be sent to retail customers.

Investment expertise

The model portfolios draw on M&G plc's expertise in asset allocation, manager research and investment risk oversight. These resources are used as inputs for a dedicated team to build portfolios specifically for the MPS market.

Size and scale

M&G Wealth Investments LLP is part of M&G plc, one of the UK's leading savings and investment companies, with £343.5 billion of assets under management (as at 31 December 2023). We aim to leverage the knowledge, experience and buying power of M&G plc to deliver good outcomes for clients.

ESG

M&G Wealth Investments apply ESG factors as part of the investment analysis process to identify material risks and growth opportunities and consider ESG when designing investment solutions.

Using the Global ESG Themes MPS means advisers can access fund managers and investment professionals trained to look at investing through an ESG lens.

The investment process and resources

We believe it's wise for most investors to hold a portfolio constructed from a wide range of assets, implemented with diverse managers. We aim to keep costs low and have a robust risk management framework in place. We leverage M&G plc's wide ranging investment capabilities in long term asset allocation, fund research, and risk analysis to deliver for our customers. Several teams feed into the investment process at different stages. They carry out clearly defined roles whilst also working closely together to ensure the smooth running of the portfolios.

An Investment Committee oversees the investments services offered by M&G MPS. The committee members are responsible for evaluating risk and monitoring performance.

The investment process can be broken down into five areas:

- Strategic asset allocation
- Tactical asset allocation
- Fund selection and manager oversight
- Portfolio management
- Investment Risk Oversight.

Strategic Asset Allocation (SAA)

M&G Wealth Investments LLP sets the overall approach for the MPS, covering the investment objectives, permitted asset classes, liquidity requirements, cost constraints and risk profiles. The team uses analysis of the multi-asset peer group to set parameters for the regional equity allocations.

The Long-Term Investment Strategy team (LTIS) develops the asset allocation for the MPS based on the parameters. This team is part of M&G's Treasury & Investment Office (T&IO).

The process for creating the Strategic Asset Allocation is:

The team produces a set of capital market assumptions (CMAs) for future expected returns, volatility and correlation of different asset classes. This is completed with historical data, forward-looking analysis, and internal and external research.

The LTIS team then uses proprietary models and economic scenario generators based on these assumptions, and develop a recommended asset allocation. The asset allocation takes views on markets, based on what regions and asset classes are expected to deliver growth. The asset allocation is regularly reviewed to consider material changes in volatility or growth prospects, as well as whether new asset classes should be included.

ESG factors are integrated into the CMAs by:

- Sensitivity analysis – portfolio exposures to ESG factors assessed in terms of physical, transition and litigation risks.
- Country Risk Categorisation – framework extended in 2019 to add environmental factors alongside existing social and governance factors.
- Benchmark construction – analysis to understand the distribution of ESG factor exposures within benchmarks.

Tactical asset allocation

The MPS investments team adjusts the asset allocation in portfolios on a short-term basis to take advantage of situations where the team believes assets are mispriced. These short-term adjustments are the 'tactical' asset allocation component.

The MPS investments team has a time horizon of six months to one year for tactical views, although market movements will determine how long a position is maintained in portfolios.

The team can set views in three areas:

1. Equities vs. fixed income
2. Relative views in equities, such as regions or sectors
3. Relative views in fixed income, such as the duration, credit quality or region.

The MPS investments team considers the three factors below when making tactical decisions. The team only takes a position when they believe the mispricing to be significant or the opportunity has a high likelihood of being rewarded.

- **Macro:** relating to economic and market fundamentals.
- **Valuation:** based on views of appropriate valuation parameters for asset classes.
- **Behavioural:** resulting from short-term mispricing due to excessive pessimism or optimism, or a clear trend that is likely to be sustained.

Fund selection and manager oversight

The Manager Oversight team within M&G's Treasury & Investment Office (T&IO) recommends the investment vehicles for the M&G MPS.

The T&IO Manager Oversight team has created a rigorous set of procedures to underpin the selection, ongoing monitoring and management of the various underlying investments.

The funds used in the portfolios have been selected on the basis of a robust due diligence process that combines quantitative factors, including measures of performance and holdings analysis, with qualitative analysis focused on the business, people, process, philosophy and infrastructure.

Their initial and ongoing due diligence processes also incorporate assessment and challenge of managers' ESG investment policies and practices and ambitions. In collaboration with the M&G plc ESG and Regulatory team, the Manager Oversight team will review the asset managers' strategy against the T&IO ESG Product framework and ensure that the selected managers are, at a minimum, ESG Risk focused. They will continuously encourage and push the managers to consider ESG in their investment philosophies and processes. The Manager Oversight team provides challenge to the fund managers on sustainability issues and risks identified as part of the investment research and analysis process. This also includes a review of the fund managers' engagement and voting policies to ensure these are aligned with T&IO's approach and policies. All monitoring of our fund managers' engagement with investee companies is carried out in line with T&IO's policies and voting standards. This ensures that the managers are aligned with T&IO values and ambitions.

The investment philosophy and process applied can provide several advantages:

- Analysis of key risks within each underlying fund – single stock, sector and country exposures – helps the team understand drivers and detractors of performance at any given time.
- Accessibility and greater transparency provides greater depth of research.
- Closer view of markets through constant interaction – better information flow from managers that can assist short and long-term thinking.
- The Manager Oversight team conducts ongoing due diligence reviews of existing asset managers to assess their continuing ability to provide expected investment and ESG outcomes. Forward-looking attestation that asset managers' engagement is considered as part of due diligence. Ongoing due diligence comprises:
 - Regular face-to-face meetings or conference calls focused on performance.
 - Deeper face-to-face meetings and site visits (when appropriate).
 - Annual review of fund holdings and/or implementation of ESG policies and approaches using the Top-down and Bottom-up approach.

ESG is a standing item on the formal agenda that all regular meetings follow, and this is now supported by the review of the ESG Due Diligence Questionnaire. Meetings are also held directly with portfolio managers to enable communication on items such as performance profiles. At the face-to-face due diligence and site visits, business level items, such as organisational re-structures and team changes, are covered. The engagement that fund managers have been undertaking is also reviewed annually.

If the Manager Oversight team has material concerns over the continued suitability of an existing fund manager, the team will recommend appropriate mitigating actions, such as increasing allocation to passive/complementary managers to realise diversification benefits, or the divestment and reallocation of assets.

Portfolio management

The MPS investments team is responsible for portfolio construction and ongoing portfolio management.

To build portfolios, the team brings together the Strategic Asset Allocation, Tactical Asset Allocation, preferred fund managers, ESG approach, portfolio risk limits and cost budget. These factors are considered when selecting the funds and exact allocations within each portfolio. Portfolios are rebalanced at the discretion of the MPS investments team. The team reviews the overall exposure to different regions, sectors, asset classes and companies to ensure that the portfolio positioning is aligned with strategy.

The MPS investments team are responsible for the ongoing portfolio management and risk monitoring. The team monitors performance of the individual funds and their contribution to the overall portfolio performance. Each portfolio has a set of defined risk limits for the equity exposure, volatility and tactical asset allocation.

Investment risk oversight

The portfolios are reviewed on a regular basis by an independent risk team within M&G plc. This provides challenge to the MPS investments team, and helps to build more robust portfolios.

Meet some of the team behind the scenes



Shanti Kelemen
Chief Investment Officer
M&G Wealth Investments LLP

Shanti joined M&G Wealth Investments in November 2021 and is responsible for the development and ongoing management of discretionary investment solutions offered by M&G Wealth Investments. Prior to joining M&G, she worked in private banking for 10 years. She is a regular guest on BBC's Radio 4 Today and Wake Up to Money programmes. Shanti holds a Masters in Management from the London School of Economics.



Parit Jakhria, CFA
Director of Long-Term Investment Strategy (LTIS)
M&G Treasury & Investment Office

Parit is part of the team responsible for the management and oversight of Prudential Assurance Company's (PAC) range of funds. He is head of the LTIS team and a member of the T&IO Executive Committee and responsible for setting T&IO's long-term investment strategy which includes setting the strategic asset allocation (SAA) for all the multi-asset and annuity funds and providing advice on hedging and Asset and Liability Management (ALM) strategies. Previous responsibilities include calculating the regulatory capital requirements for Prudential UK & Europe and creating Prudential's in-house Economic Scenario Generator (ESG) framework. Parit is a Fellow of the Institute and Faculty of Actuaries and a CFA charterholder.



Ciaran Mulligan
Co-Head Treasury & Investment Office

Ciaran joined the company in May 2015 and co-heads the Treasury & Investment Office, having previously led the Manager Oversight team within the Treasury & Investment Office. Prior to joining, Ciaran worked at Buck Consultants investment consultancy as Head of Global Research, and at Investment Solutions (part of the Alexander Forbes group).



Simon Iversen
Co-Head Treasury & Investment Office

Simon joined the company in 2004 and co-heads the Treasury & Investment Office, having previously led the Annuity team within the Treasury & Investment Office. He has previously worked in a variety of roles at M&G and Prudential, including actuarial, risk, capital and finance. Simon holds an MA in Economics from the University of Cambridge and is a Fellow of the Institute of Actuaries.



Jin Wee Tan
Head of ESG & Regulatory Team, Treasury & Investment Office

Jin Wee has led the ESG & Regulatory team for four years. He has worked at the nexus of life insurance and asset management for many years, and has previously held roles in investment, asset allocation, operations and projects. Jin Wee holds a first class degree in Economics from the London School of Economics, and is a CFA Charterholder.

Asset allocation

SAA Level 1 – asset class diversification

The Global ESG Themes MPS uses an asset allocation that was developed specifically for this range of model portfolios.

The Investment Team reviews the alignment of the model portfolio to the strategic asset allocation on a regular basis. In normal market conditions, the asset allocation of the model portfolios will be close to the weights listed below. There will be differences in the weights of each asset class and these can be caused by:

- The use of global equity and global bond funds with the model portfolio. Fund managers can make changes to their investments on a regular basis, resulting in the allocations to different regions changing

- Daily market movements impacting the value of investments
- The tactical views implemented by the investment team
- A fund manager investing in an asset class that differs from the high-level classification of the fund. For example, an emerging market equity fund manager could choose to invest in a Chinese company that is listed on a US stock exchange. This might be classified as a US equity, rather than an emerging market equity.

The following table shows strategic asset allocation by asset class, as of 15 December 2024.

Strategic asset allocation by asset class

SAA Level 1	Global ESG Themes 1	Global ESG Themes 2	Global ESG Themes 3	Global ESG Themes 4	Global ESG Themes 5
Asset class	SAA weight %	SAA weight %	SAA weight %	SAA weight %	SAA weight %
UK Equity	2.5	5.75	8	10	12.25
Europe ex UK Equity	1.5	3.5	5	6.25	7.75
North America Equity	4.25	10.25	13.75	17.5	21.25
Japan Equity	1	2.25	3	3.75	4.5
Asia ex Japan Equity	2	4.5	6	7.75	9.5
Emerging Market Equity	1.25	2.75	3.75	4.75	5.75
Total Equity	12.5	29	39.5	50	61
Global Property	2.25	2.75	3.5	4	4.5
Listed Infrastructure Equity	3.5	4	4.5	5.5	6
Absolute Return	2.25	2.75	3.5	4	4.5
Total Alternatives	8	9.5	11.5	13.5	15

SAA Level 1	Global ESG Themes 1	Global ESG Themes 2	Global ESG Themes 3	Global ESG Themes 4	Global ESG Themes 5
UK Investment Grade	23	17.25	13	9	5.5
European Investment Grade	7.5	5.75	4.25	3	1.75
UK Government Bonds	6.25	5	4	3	2
US Investment Grade	21	15.75	12.25	8.75	5.25
US Government Bonds	6.25	5	4	3	2
Global High Yield	3	2.75	2.5	2.25	1.5
Emerging Market Debt	7.5	7	6.5	5.5	4
Total Fixed Income	74.5	58.5	46.5	34.5	22
Cash	5	3	2.5	2	2
Total Cash	5	3	2.5	2	2

Fund selection

The funds used within the Global ESG Themes MPS all have their distinct strengths and roles to play. The funds were selected following quantitative screening of the fund investment universe and face-to-face due diligence covering managers' investment and ESG processes. A selection of the underlying funds is detailed below.

Example Thematic Equity funds

- The **M&G Positive Impact Fund** is a concentrated portfolio of global stocks. The fund uses a disciplined stock selection process to make long-term investments in companies that aim to generate a positive social and/or environmental impact alongside a financial return. Both sustainability and impact considerations are fundamental in determining the investment universe and assessing business models. Engagement with companies is a key element of the investment strategy. M&G's proprietary impact investing framework, characterised by the 'triple I' approach to identifying impactful investments (Impact, Intention, Investment), helps this strategy stand out as focusing on genuine impact.
- **Pictet Global Thematic Opportunities Fund** is a best ideas global equity strategy that leverages expertise from across Pictet's 11 different thematic teams. The strategy is concentrated and not constrained by a benchmark. It contains around 50 stocks, which gives it a high active share and an ability to generate both alpha and impact. The portfolio is built bottom-up with no top-down allocation between the different themes to ensure stock selection drives value. The investment managers focus on ensuring the stocks selected from across the different themes are compared consistently.
- **RobecoSAM Sustainable Water Fund** is grounded on the conviction that companies tilted towards structural growth trends with sustainable business practices will be more successful in the long run. The strategy invests globally in companies offering products and services that address the challenges related to the quantity, quality and allocation of water.

- **RobecoSAM Gender Equality Impact Fund** is a fundamental, bottom-up and concentrated equity strategy, focused on investing in companies that are leaders in promoting gender diversity and an equitable workplace. In managing the strategy, Robeco looks beyond simply the number of women at board level to assess workplace equality, considering aspects such as equal pay practices, female representation at all levels of the organisation and employee well-being programmes.
- **Pictet Clean Energy Fund** is a concentrated global equity offering that aims to deliver long term growth by investing in companies supporting and/or benefiting from the move to a low carbon economy. The strategy aims to identify the most attractive investment opportunities in four key areas: renewable energy, energy efficiency, enabling technologies and enabling infrastructure. Pictet believe that each of these areas have a vital role to play in helping the world move through its energy transition.
- **Franklin Templeton Global Climate Change Equity Fund** is a global equity portfolio that makes long-term investments that aim to contribute towards climate change mitigation and adaptation. The fund invests across global sectors in companies that are achieving social and environmental development such as reducing carbon emissions, improving resource efficiency and transitioning companies.

Example Alternatives funds

- **First Sentier Responsible Listed Infrastructure Fund** seeks to invest in infrastructure companies that can contribute to or benefit from sustainable development, as defined by the UN Sustainable Development Goals (SDGs). Given infrastructure assets' large environmental footprints and social licence to operate, investment in this space will play a central role in working towards these goals. Of the 17 primary SDGs, they have identified six as being particularly relevant to listed infrastructure companies. Their analysis of company alignment with the SDGs represents a key element of the fund's investment process and stock selection decisions.
- The **Fulcrum Diversified Core Absolute Return Fund** aims to achieve long-term returns of inflation plus 3-5% pa over rolling five-year periods, with lower volatility than equity markets. The strategy uses long and short positions in equities, bonds, foreign exchange and commodities to deliver returns. The positioning of the fund is driven by macroeconomic research. Idea generation comes from a variety of sources across Fulcrum. ESG considerations are incorporated into the investment process, from research (thought leadership on climate-aligned investing and ESG integration) to direct engagement with companies.

Example Fixed Income funds

- The **Wellington Global Impact Bond Fund** is driven by fundamental research. This strategy seeks to outperform global fixed income markets by investing in the debt of companies, governments and organisations whose core businesses aim to address some of the world's major social and environmental challenges. The team believes that there is no systematic screening process that can reliably capture impact issuers, and therefore rely on their bottom-up process to identify opportunities meeting their high standards of materiality, additionality and measurability.
- The **PIMCO GIS Global Investment Grade Credit ESG Fund** seeks to maximise total return by investing in high quality investment grade credit while delivering positive environmental and social benefits. The investment style combines top-down and bottom-up analysis, driven by cyclical as well as secular trends, and emphasizes diversification. The fund incorporates the three building blocks of PIMCO's ESG process – exclusions, evaluation, and engagement.
- **Federated Hermes SDG Engagement High Yield Credit Fund** looks to invest in high-yield bonds with attractive performance potential across global markets. The fund managers engage with the underlying companies to ensure objectives are aligned with the Sustainable Development Goals (SDGs). Through fundamental analysis, the manager aims to identify the bonds with the most appealing return prospects and prices. In addition to strong potential returns, each company's management team, products and services or supply chains should provide a foundation to create positive SDG-aligned change through engagement. The Lead Engager, supported by the stewardship team in EOS at Federated Hermes, delivers the engagement strategy.

This table shows the funds used in the Global ESG Themes MPS, their asset class, and whether the funds are actively or passively managed.

Asset class	Fund name	Active/Passive
Global Equity	M&G Positive Impact Equity	Active
Global Equity	Pictet Global Thematic Opportunities Fund	Active
Global Equity	Robeco Gender Equality	Active
Global Equity	Robeco Sustainable Water	Active
Global Equity	Pictet Clean Energy	Active
Global Equity	Franklin Templeton Global Climate Change Equity	Active
UK Equity	iShares UK Equity ESG Index Fund	Passive
Asia Pacific ex Japan Equity	HSBC Asia Pacific ex Japan Sustainable Equity	Passive
Japan Equity	iShares Japan Equity ESG Index Fund	Passive
Emerging Market Equity	iShares MSCI EM ESG Enhanced	Passive
Global Real Estate	iShares Environment & Low Carbon Tilt Real Estate Index Fund	Passive
Listed Infrastructure Equity	First Sentier Responsible Listed Infrastructure Fund	Active
Absolute Return	TM Fulcrum Diversified Core Absolute Return Fund	Active
Global Investment Grade	Wellington Global Impact Bond	Active
Global Investment Grade	PIMCO Global Investment Grade Credit ESG	Active
UK Investment Grade	Royal London Ethical Bond Fund	Active
US Investment Grade	PIMCO US Investment Grade Corporate Bond Fund	Active
Global High Yield	Federated Hermes SDG Engagement High Yield Credit Fund	Active
Emerging Market Debt	M&G Emerging Markets Bond Fund Sterling	Active
Cash	GBP Cash	n/a
Cash	Royal London Short Term Money Market	n/a

Platform availability

The Global ESG Themes range is available on a number of platforms, as shown below. The portfolios can invest in mutual funds and exchange-traded funds.

- M&G Wealth Platform
- Aviva
- Scottish Widows (formally Embark)
- Nucleus
- LV

ESG approach

M&G plc ESG overview

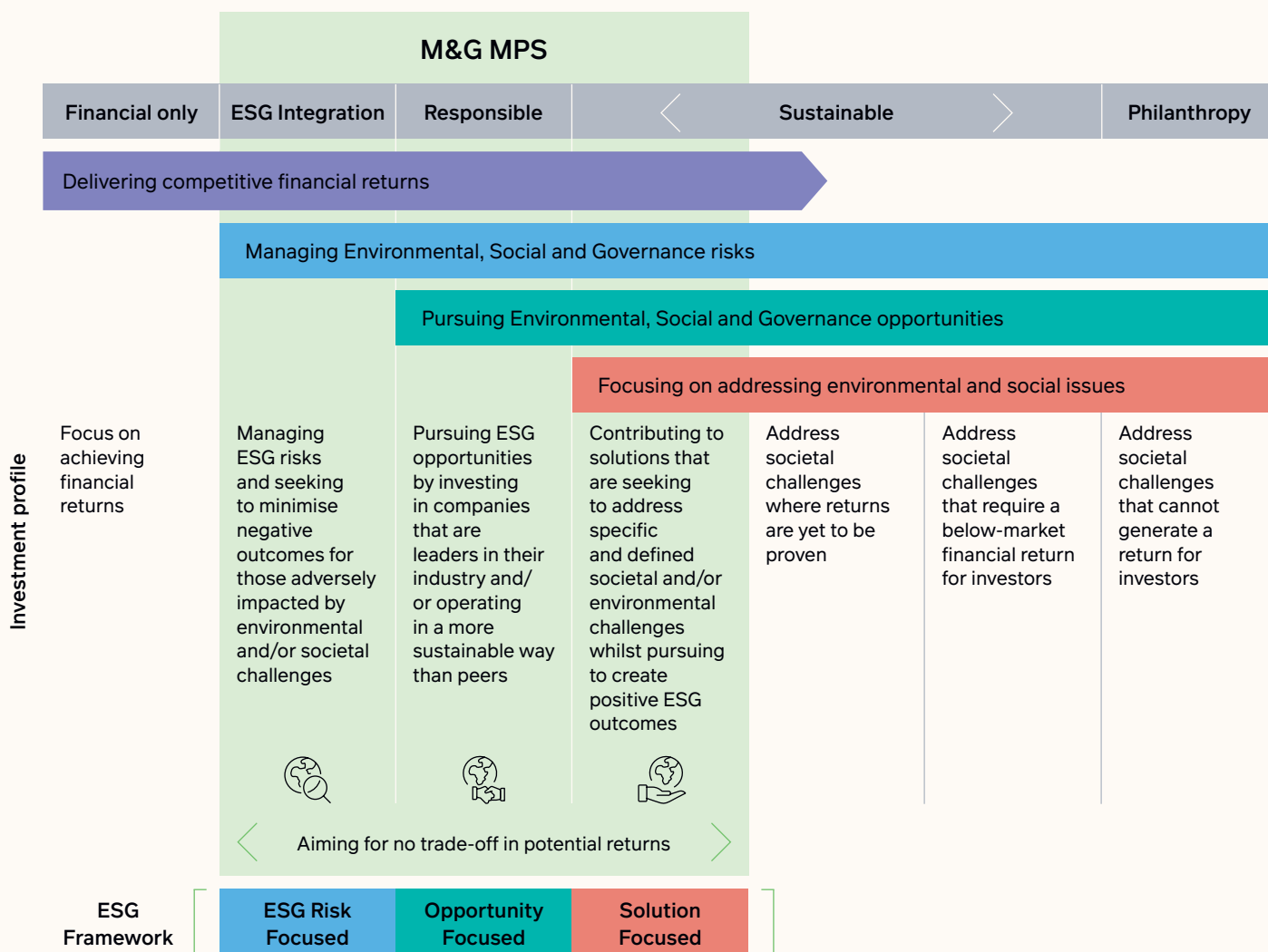
M&G plc has two ESG priorities of Climate Change and Diversity & Inclusion, given their importance for the long-term sustainability of all businesses and society as a whole. M&G aims to be carbon net zero as a corporate entity by 2050. Further, M&G aims to achieve 40% female and 20% ethnicity representation in leadership roles by 2025.

More detailed information about M&G plc's sustainable business ambitions, 10-point plan and journey towards these goals can be found at www.mandg.com/sustainable.

M&G Wealth Investments: ESG approach

Investing has historically emphasised two ends of an investment spectrum – traditional investing to maximise profits; and philanthropy to achieve social and environmental good at the expense of financial returns. The Global ESG Themes MPS looks to take advantage of the investment opportunities that exist across the spectrum, as illustrated in Figure 1.0. The aim is to deliver competitive financial returns by investing in a way that seeks to address social and environmental challenges.

Figure 1.0 How we define the spectrum of positive outcomes



The ESG Framework

The ESG Framework has been developed by the M&G T&IO to classify the ESG approach used by funds. It is part of the investment manager selection and ongoing due diligence.

The three types of ESG approaches below are not a hierarchy of 'doing good' – each applies ESG criteria in a different way. The three approaches are ESG Risk Focused, Opportunity Focused and Solution Focused, illustrated by the diagram below.

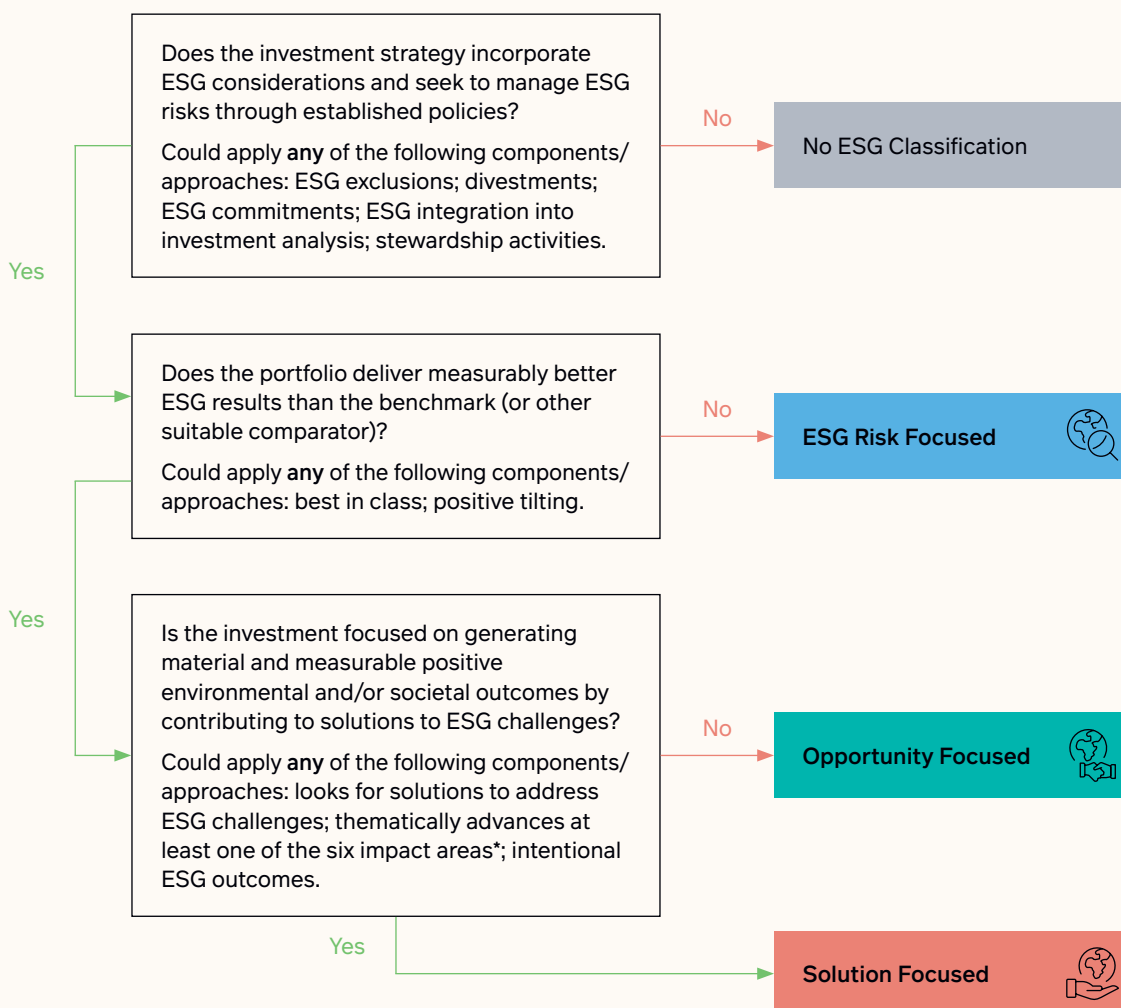
Figure 1.1 ESG Framework



ESG investment approach classification

M&G's Manager Oversight team assesses each fund within the portfolio against the ESG framework. The process for determining which of the three ESG investment approach categories each fund aligns to is shown in the decision tree below, which demonstrates how the fund manager is intending to treat ESG and Impact within their investment process.

Figure 1.2 Top-down approach for determining the categorisation of an investment



Source: Impact Management Norms.

*The six impact areas are: Climate Action, Environmental Solutions, Circular Economy, Social Inclusion, Better Health & Saving Lives, and Better Work & Education.

Bottom-up view

To ratify this analysis, the Manager Oversight team assesses a sample of each fund manager’s holdings on an annual basis as part of ongoing investment due diligence (or more frequently if required). This ensures that each fund manager is held accountable to the intentionality and scope of the outcomes that their investment approach suggests.

The Manager Oversight team uses the five dimensions below to assess a sample of Solution Focused fund managers’ holdings against each of the impact dimensions as developed by the Impact Management Norms. Sampling is part of investment due diligence and will be based on the below framework of how to assess each stock.

Figure 1.3 Bottom-up view assessment for ongoing due diligence – Impact Management Norms five dimensions

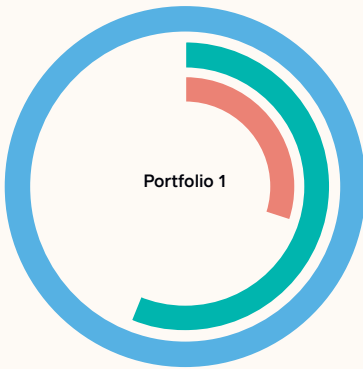
Impact dimension	Impact question each dimension needs to answer
☐ What	What outcome is occurring in the period? Is the outcome positive or negative? How important is the outcome to the people (or planet) experiencing them?
○ Who	What type of stakeholders are experiencing the outcome?
≡ How much	How much of the outcome is occurring in resolving the challenges/issues – across scale, depth and duration?
+ Contribution	Would this change be likely to happen anyway without its participation in the market? How is ‘additionality’ being measured?
△ Risk	What is the risk to people and planet that impact does not occur as expected? What are the possible unintended effects?

Source: Impact Management Norms.

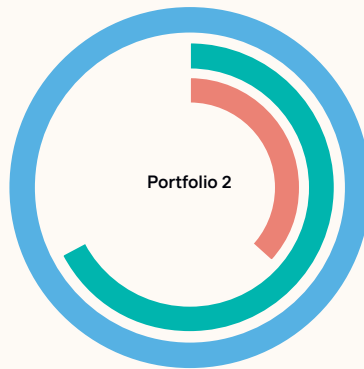
ESG approach classification for Global ESG Themes portfolios 1-5

The graphs below show the portfolio exposure to each outcome, based on the fund classification framework described previously. This data is correct as of 2 January 2025 and subject to change as the preferred funds or tactical positioning of the portfolios change over time.

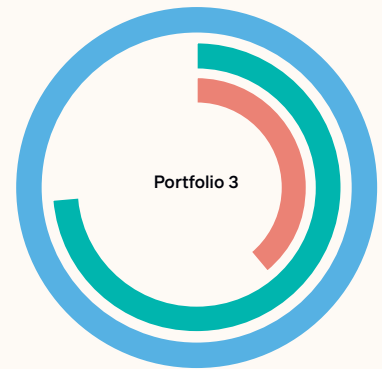
Outcome classifications



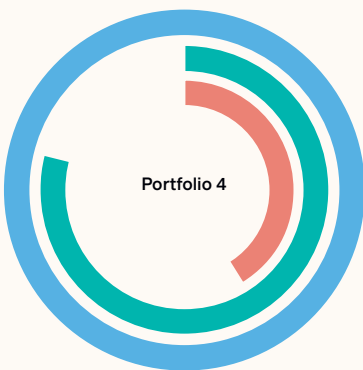
- ESG risk focused 100%
- Opportunity focused 56.25%
- Solution focused 30%



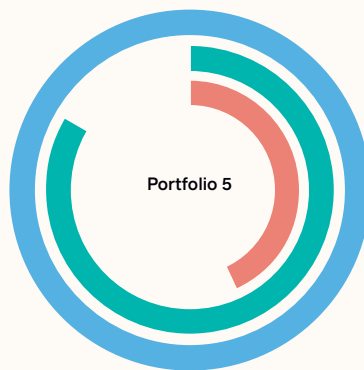
- ESG risk focused 100%
- Opportunity focused 67.25%
- Solution focused 36.75%



- ESG risk focused 100%
- Opportunity focused 73.75%
- Solution focused 39%



- ESG risk focused 100%
- Opportunity focused 79%
- Solution focused 41.25%












- ESG risk focused 100%
- Opportunity focused 83.5%
- Solution focused 43.25%




ESG Policies and Exclusions








ESG restrictions are applied based on the individual policies of the fund managers. The ESG policies followed by the underlying fund managers broadly cover the sectors in the table below. A '✓' means that the fund has restrictions in place on exposure to the business activity.








This does not mean that there will be zero exposure to these categories in all cases, but rather exposure is restricted to an acceptable limit with measures such as the percentage of company revenue from the business activity. Whilst some funds may not have explicit restrictions, by virtue of their investment strategy they may still be unlikely to invest in companies in these sectors.

Asset class	Region	ESG approach	Strategy	Exclusion sectors						
										
Equity	Global	Solution focused	M&G Positive Impact	✓	✓	✓	✓	✓	✓	
Equity	Global	Solution focused	Pictet Clean Energy	✓	✓	✓	✓	✓	✓	
Equity	Global	Solution focused	Robeco Sustainable Water	✓	✓	✓	✓	✓	✓	
Equity	Global	Solution focused	Robeco Gender Equality Impact	✓	✓	✓	✓	✓	✓	
Equity	Global	Solution focused	Pictet Global Thematic Opportunities	✓	✓	✓	✓	✓	✓	
Equity	Global	Solution focused	Franklin Templeton Global Climate Change	✓		✓	✓			
Equity	Europe	Opportunity focused	iShares MSCI EMU ESG Enhanced	✓	✓	✓	✓			
Equity	Global	Opportunity focused	iShares Environment & Low Carbon Tilt Real Estate Index Fund	✓	✓	✓	✓			

-  Thermal coal
-  UN Global Compact
-  Controversial weapons
-  Tobacco

-  Adult entertainment
-  Gambling
-  Alcohol

Asset class	Region	ESG approach	Strategy	Exclusion sectors						
										
Equity	UK	Opportunity focused	iShares UK Equity ESG Index Fund	✓	✓	✓	✓	✓	✓	✓
Equity	APAC ex JPN	Opportunity focused	HSBC Asia Pacific ex Japan Sustainable	✓	✓	✓	✓	✓	✓	
Equity	Japan	Opportunity focused	iShares Japan Equity ESG Index Fund	✓	✓	✓	✓	✓	✓	✓
Equity	Emerging Markets	Opportunity focused	iShares MSCI EM ESG Enhanced	✓	✓	✓	✓			
Equity	Listed Infrastructure	Opportunity focused	First Sentier Responsible Listed Infrastructure			✓	✓			
Alternatives	Absolute Return	ESG Risk focused	Fulcrum Diversified Core Absolute Return Fund			✓	✓			
Fixed Income	UK	ESG Risk focused	Royal London UK Ethical Bond			✓	✓	✓	✓	✓
Fixed Income	Emerging Markets	ESG Risk focused	M&G Emerging Markets Bond	✓	✓	✓				
Fixed Income	Global	Solution focused	Federated Hermes SDG Engagement HY Credit	✓	✓	✓	✓	✓	✓	
Fixed Income	Global	Solution focused	Wellington Global Impact Bond	✓	✓	✓	✓			
Fixed Income	Global	Opportunity focused	PIMCO Global IG Credit ESG	✓		✓	✓			
Fixed Income	Global	ESG Risk focused	PIMCO US Investment Grade Corporate Bond Fund			✓				
Cash	Cash	ESG Risk focused	Royal London Short Term Money Market Fund			✓	✓			

-  Thermal coal
-  UN Global Compact
-  Controversial weapons
-  Tobacco
-  Adult entertainment
-  Gambling
-  Alcohol

Exclusion definitions

Definitions in the table are determined by M&G and applied across the asset owner and asset manager. Whilst the definitions used in the exclusions policies of external managers are largely aligned, the specific categorisations can be found on the managers' websites.



Thermal coal – a company involved in the extraction of, and power generation using, thermal coal outside of that permitted by the M&G Investments Thermal Coal Investment Policy outlined in the prospectus.



UN Global Compact – any company that is assessed to be in breach of the United Nations Global Compact Principles on human rights, labour, environmental protection, and anti-corruption.



Controversial weapons – any company involved in the manufacture, development or transfer of anti-personnel mines, cluster munitions, chemical and biological weapons, nuclear weapons outside the non-proliferation treaty, depleted uranium munitions and white phosphorus incendiary munitions, blinding laser or non-detectable fragmented weapons.

For funds managed by M&G entities, the Manager Oversight Team is comfortable that the M&G Investments ESG investment principles, focusing on the corporate priorities of climate change and diversity and inclusion, are closely aligned. The team incorporates considerations of these priorities via a combination of focused engagement strategies and some exclusions.



Tobacco – any company involved in the production and/or distribution of tobacco, or companies with an ownership in these companies.



Adult entertainment – any company involved in the production and/or distribution of adult entertainment.



Gambling – any company involved in the provision of gambling services.

The Manager Oversight Team monitors alignment to the M&G Treasury & Investment Office ESG investment principles on an ongoing basis. Where there are divergences, the Manager Oversight Team looks to either engage with managers to encourage alignment with the ESG investment principles over time, or to migrate the assets to a fund that aligns.

ESG fund characteristics

The Global ESG Themes Portfolios applies ESG restrictions based on the individual policies of the fund managers employed for each strategy. Whilst the Manager Oversight Team look to select underlying fund managers that have strong ESG credentials and at a minimum employ an ESG Risk Focused approach, the specific ESG characteristics of each fund are dependent on the investment strategy of the fund. The table below indicates which of these characteristics are exhibited by each underlying fund:

Strategy	Fund	Exclusions	ESG integration	Active ownership	Engagement	Voting	Divestment	Positive screens/tilts/best in class	Sustainability-themed investing	Target universe	Current fund classification	
Equity	M&G Positive Impact	✓	✓	✓	✓	✓	✓	✓	✓	✓	Solution	
	Pictet Global Thematic Opportunities	✓	✓	✓	✓	✓	✓		✓	✓	Solution	
	Robeco Gender Equality Impact	✓	✓	✓	✓	✓	✓	✓	✓	✓	Solution	
	Robeco Sustainable Water	✓	✓	✓	✓	✓	✓		✓	✓	Solution	
	Pictet Clean Energy	✓	✓	✓	✓	✓	✓	✓	✓	✓	Solution	
	Franklin Templeton Global Climate Change	✓	✓	✓	✓	✓	✓	✓	✓	✓	Solution	
	iShares UK Equity ESG Index Fund	✓	✓					✓				Opportunity
	iShares MSCI EMU ESG Enhanced	✓	✓					✓				Opportunity
	iShares Japan Equity ESG Index Fund	✓	✓					✓				Opportunity
	HSBC Asia Pacific ex Japan Sustainable	✓	✓	✓	✓	✓	✓	✓				Opportunity
	iShares MSCI EM ESG Enhanced	✓	✓					✓				Opportunity
	iShares Environment & Low Carbon Tilt Real Estate Index Fund	✓						✓				Opportunity

Strategy	Fund	Exclusions	ESG integration	Active ownership	Engagement	Voting	Divestment	Positive screens/tilts/best in class	Sustainability-themed investing	Target universe	Current fund classification
Fixed income	Wellington Global Impact Bond	✓	✓	✓	✓		✓	✓	✓	✓	Solution
	PIMCO Global IG Credit ESG	✓	✓	✓	✓		✓	✓			Opportunity
	PIMCO US Investment Grade Corporate Bond Fund	✓	✓	✓	✓		✓				Risk
	Royal London UK Ethical Bond	✓	✓	✓	✓		✓	✓		✓	Risk
	Federated Hermes SDG Engagement HY Credit	✓	✓	✓	✓					✓	Solution
	M&G Emerging Markets Bond	✓	✓	✓	✓						Risk
Alternatives	First Sentier Responsible Listed Infrastructure	✓	✓	✓	✓				✓		Opportunity
	Fulcrum Diversified Core Absolute Return Fund	✓	✓	✓	✓						Risk
Cash	Royal London Short Term Money Market Fund	✓	✓	✓	✓						Risk

Exclusions Avoiding or screening out certain businesses, sectors, or other issuers on the basis of values/ethics, controversies or risk-based criteria.

ESG integration The systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions.

Engagement Interactions and dialogue conducted between an investor and an investee (eg company), or a non-issuer stakeholder (eg an external investment manager or policy maker) to improve practice on an ESG factor, make progress on sustainability outcomes, or improve public disclosure.

Voting The exercise of voting rights on management and/or shareholder resolutions to formally express approval, or disapproval, on relevant matters.

Divestment Selling or disposing of shares or other assets in certain investments.

Positive screens Applying filters to a universe of securities, issuers, investments, sectors or other financial instruments to rule them in, based on their positive performance on ESG factors.

Sustainability-themed investing An investment approach that specifies investments on the basis of a sustainability theme.

Target universe Clearly defined asset-level selection criteria specified in measurable terms.

Costs and charges

Costs and charges may vary in the future. As of 2 January 2025, the costs for the Global ESG Themes range were as below. The product costs will vary over time, in response to changes in the funds used within

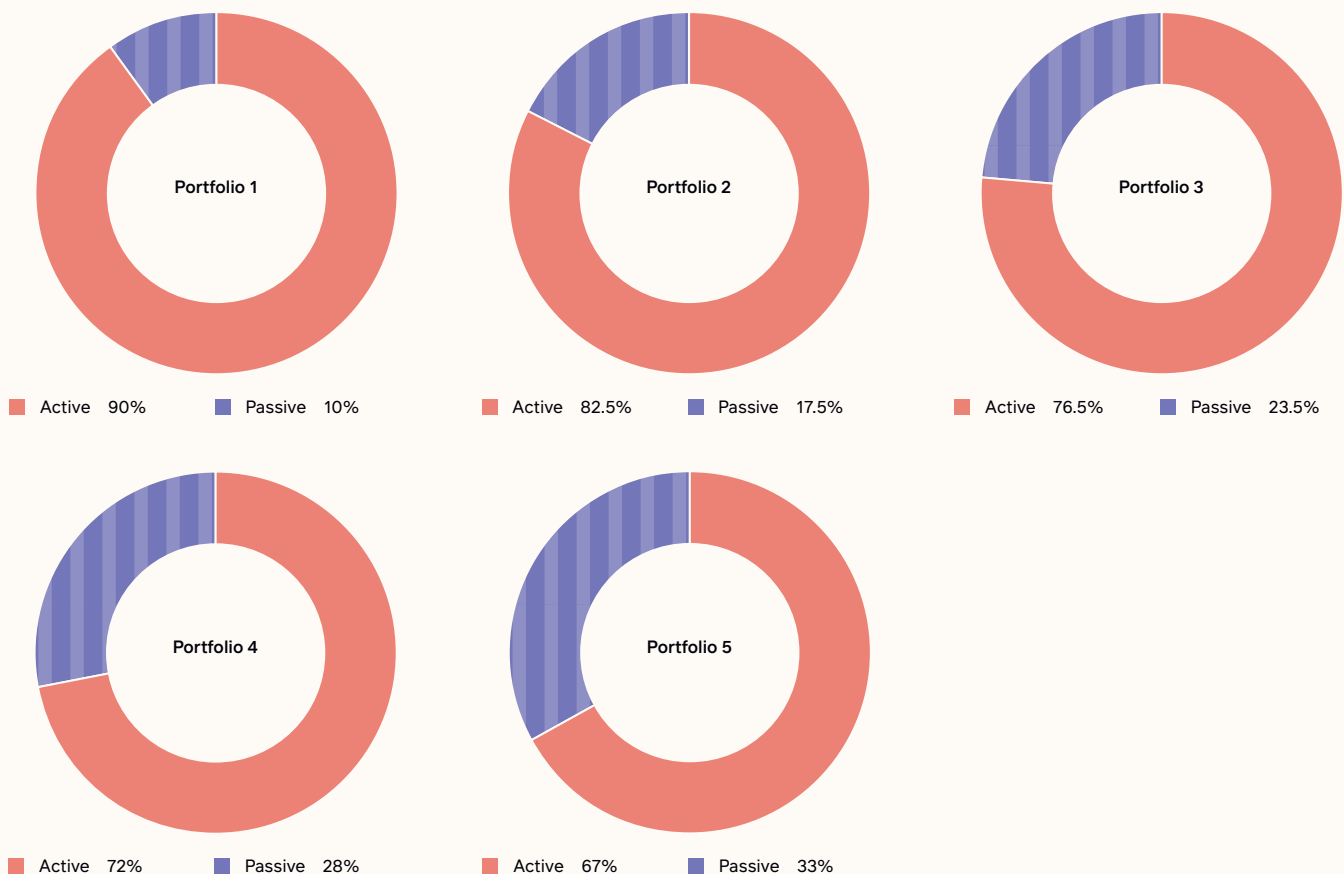
the portfolio and the tactical asset allocation of the portfolio. The product costs represent the ongoing charging figure for the funds. This does not include transaction costs incurred within the platform.

MPS Global ESG Themes range	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5
Product costs	0.46%	0.47%	0.48%	0.48%	0.49%
M&G Wealth management fee	0.15%	0.15%	0.15%	0.15%	0.15%
Total cost	0.61%	0.62%	0.63%	0.63%	0.64%

The split of active and passive funds used within the portfolios is below. This is correct as of 2 January 2025, and will vary over time as preferred funds and tactical

asset allocation views change. The different proportions of active and passive funds can impact the cost.

Active-passive split



Investment objectives

Investment objective for the Global ESG Themes range, portfolios 1-5

The objective is to grow the capital value of the portfolio over a long-term time horizon (five years or more), whilst aiming to limit the average volatility per annum over rolling five-year periods. The portfolio invests in equities, bonds, cash and alternatives, such as infrastructure and absolute return strategies. Equity exposure varies by portfolio, with the likely ranges highlighted below.

The portfolio uses active and passive funds to achieve its objectives. The majority of the portfolio is invested in global funds, rather than funds that focus on a specific region.

In addition to generating financial returns, most of the underlying funds apply at least one of three ESG investing approaches:

1. managing environmental, social and governance risks and minimising negative outcomes
2. pursuing environmental, social and governance opportunities
3. focusing on addressing environmental and social issues.

Global ESG Themes range	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5
Volatility ceiling	9% pa	10% pa	12% pa	14.5% pa	17% pa
Equity ranges	Limited exposure	Moderate exposure	Medium exposure	Significant exposure	Significant exposure
Min-Max	10-30%	30-50%	40-60%	50-70%	65-85%

Glossary

ESG ESG stands for Environmental, Social and Governance. ESG is a framework that helps stakeholders understand how an organization is managing risks and opportunities related to environmental, social and governance criteria.

ESG investing Type of investing where investors are applying ESG factors as part of their analysis process to identify material risks and growth opportunities.

ESG outcome/Sustainability outcome The positive and negative effects of investment activities on people and/or the planet. They are understood in the context of global sustainability goals and thresholds. A positive social outcome is the intended benefit on people and communities that happens as a result of an action, business or investment activity. A positive environmental outcome is the intended benefit on the planet and external environment that happens as a result of an action, business or investment activity.

Responsible investing Responsible Investing involves consideration of environmental, social and governance (ESG) issues in investment decisions making and stewardship activities. It complements traditional financial analysis and portfolio construction techniques. Responsible investing also often aims to avoid harmful investment activities through negative exclusions in areas such as controversial weapons, tobacco, coal mining or gambling.

Sustainability Sustainability is defined as the ability for an organization to maintain a balance of resources and relationships, with the objective of meeting the needs of current generations without compromising the ability of future generations to meet their own needs.

Appendix

Appendix 1 Supporting documentation

Additional supporting documents links:

- [Sustainability report](#) from M&G plc
- M&G [Model Portfolios Service web page](#).

Appendix 2 Risk profiling

M&G works with the risk profiling companies to assess our Global ESG Themes range and reports are available from the following:

- Synaptic

Additional risk profiling can be added, based on adviser demand.

Appendix 3 Business Resilience and Recovery

M&G plc's Business Resilience and Recovery approach includes:

Business resilience

- M&G plc has documented plans to allow appropriate responses to interruptions to business as usual at a departmental level. Plans are maintained by department managers for localised incidents. An annual assurance programme is in place, with results reported to the Operational Resilience Forum (ORF).
- M&G plc has a wider Operational Resilience programme in flight to implement heightened resilience capabilities for the business services that are most important to our customers.

IT disaster recovery

- M&G plc plans for loss of data centre or failure of critical enterprise architecture or applications. Detailed plans are maintained by relevant Technology teams.

Incident management

- M&G plc implements a defined framework by which actual or potential disruptions are identified, escalated and managed. This is supported by an annual exercising schedule.

Third party oversight

- M&G plc has identified its critical dependencies on third parties and manages these through a rigorous review and assessment programme, undertaking due diligence around operational resilience, business and IT recoverability.

Pandemic response

- M&G plc has established effective measures to mitigate any potential disruption from future pandemic scenarios. These measures are an extension of the firm's well-established Business Resilience programme.

Appendix 4 Proposition Development Framework

M&G has a Propositional Development Framework which is designed to consider the requirements of FCA PROD rules and guidance. It is overseen and challenged by committees and individuals with delegated authority. Oversight occurs throughout the development cycle to make sure we develop and review our services in a consistent and well-controlled way.

The framework includes the following steps:

1. **Imagine/Create** – initial ideas generated.
2. **Proposition Design** – designed with input from across our business including our customer committee, customer insights team and proposition governance committee.
3. **Solution Design and Development** – we use an iterative approach, adopting agile development and market testing. We continuously loop back to check that our solution meets the target customer requirements.
4. **Deliver** – this is where we build the solution and get it ready for implementation.
5. **Launch** – we assess readiness and create a plan for after the launch.
6. **Manage/Run** – we review what we're delivering and challenge ourselves to continually deliver good customer outcomes, in a manner that's aligned with our firm's strategy.

Appendix 5 Service Value Assessment

M&G publishes a Service Value Assessment (the 'Assessment') for the Global ESG Themes Range on an annual basis. The Assessment is designed to help you to see whether M&G is delivering value for customers. It covers the quality of the service, whether the service is competitively priced and long-term investment performance. You can view the most recent Assessment on our [website](#).

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