

ESG Investment Policy



1 Introduction

1.1. Scope

1.1.1 This policy document sets out the Environmental, Social and Governance (ESG) investment policy relating to M&G Group Limited ('MGG') investment and asset management businesses and activities ('M&G Investments') excluding M&G Investments Southern Africa (MGSA) and ResponsAbility. The assets in scope are all the assets directly managed by M&G Investments on behalf of its clients, including the internal asset owner, whether or not they are held within funds with a specific ESG objective or promoting ESG characteristics.

1.1.2 The policy is owned by the MGG Chief Executive Officer (CEO) or their delegated deputy.

1.1.3 This policy was first approved by the MGG Board in October 2021. It will be refreshed at least annually. Any changes proposed as a result of the refresh will require approval at the MGG Executive Committee, which has delegated authority for ESG matters from the MGG Board.

1.1.4 The policy is subject to and does not supersede the M&G plc's Code of Conduct, the M&G plc Reputational Risk Policy, the M&G plc Employee Relations Policy and all relevant regulation and legislation.

1.1.5 This policy supersedes the published statement 'M&G Investments' approach to responsible investment. The operational oversight of the implementation of this policy is provided by the MGG Executive Committee.

1.2 Context

1.2.1 M&G plc 's ('M&G') stated purpose is to help people manage and grow their savings so they can live the life they want, making the world a little better along the way. We deliver our purpose through investing in line with individual mandates, addressing our clients' requirement for good financial returns while regarding the wider needs of society through considering the material impacts of ESG factors to the economy, society and the environment as a whole.

1.2.2 As the asset management business of M&G, M&G Investments is guided by the core values of Care and Integrity. These values are underpinned by our ESG principles and priorities, detailed in section 3.2.

1.2.3 Although the importance of different ESG issues varies across sectors and geographies, as a group M&G has identified two strategic sustainability priorities, given their importance for the long-term sustainability of all businesses and society as a whole. These are climate change including implications for natural capital, and diversity & inclusion. M&G has made specific firm-wide commitments in respect of these priorities which apply in turn to the activities and sustainability priorities of M&G Investments:

i. Climate change: M&G aims to achieve:

a. Net zero carbon emissions across our investment portfolios by 2050 to align with the Paris Agreement on climate change

b. A near term carbon emissions reduction of 46% across our operations (Scope 1, 2 and Scope 3 travel) by 2030 at the latest

ii. Diversity and Inclusion:

a. to achieve 40% female representation and 20% representation from Black, Asian and minority ethnic backgrounds by 2025

b. As an asset owner, to evaluate the diversity policy of investment managers that manage assets on our behalf, and how investment managers challenge investee companies to improve and maintain diversity – To continue to meet our external benchmarks, including the National Equality Standard and LGBT Great Equality Index

1.2.4 M&G prohibits, across the entire group, any activity or investment that is against the law in any of the countries in which it operates. We comply with all relevant regulation in the jurisdictions where we operate.

1.2.5 M&G is politically neutral. M&G does not donate to political parties and has no direct affiliation with any political party in any country.

1.2.6 M&G is committed to working with our suppliers and stakeholders to help fight slavery, human trafficking, child labour or any other abuse of human rights. M&G believes in supporting human rights and acting responsibly and with integrity in everything it does, and its policies are guided by the Universal Declaration of Human Rights and the International Labour Organisation's core labour standards.

1.2.7 As the asset management business of M&G plc, the objectives of M&G Investments' activities must be consistent with delivering the group's purpose, priorities and commitments.

1.2.8 M&G Investments is a regulated entity with fiduciary responsibilities to its clients, and must invest according to investment mandates, or as defined in fund documentation and in line with local regulations.

1.2.9 As a consequence of changing legislation, regulation and social norms, fiduciary duty is being interpreted by some of our clients more broadly than the delivery of financial returns. Increasingly we are being held to account by our clients and the group's stakeholders on how we have chosen to invest their money, assessing the delivery of the stated investment objectives while taking into account the material impacts of ESG factors for the economy, society and the environment as a whole.

1.2.10 Certain ESG issues can have material implications for the risk / return profile of individual investments or whole sectors, with ramifications for financial investment returns, as well as wider stakeholders' wellbeing as a

consequence of their social or environmental impact. Furthermore, the materiality of ESG issues to different stakeholder groups can also vary over time. As a result, the inappropriate treatment of these ESG issues for investment purposes can be a source of controversy and regulatory compliance.

1.2.11 Given that M&G Investments clients' and wider stakeholders' expectations are dynamic, as well as the broad array of ESG issues, the policy does not prescribe the investment treatment of each ESG issue. Instead, this policy sets out our principles-based approach to addressing ESG matters in investing, and policies for specific ESG matters that must be applied by the asset manager across all asset classes.

2 Governance

2.1.1 Responsibility for ESG across all of MGG activities lies with the MGG Executive Committee.

2.1.2 The MGG Executive Committee (MGG ExCom) or a delegated sub-committee will review the policy on at least an annual basis. Any material changes will need to be escalated to the MGG ExCom and to the MGG Board for review and approval as required. The decision on the governance and approvals required is for the Sustainability Steering Committee to determine.

2.1.3 The Product Management Committee, and Investment Performance and Risk Committee, will be notified of relevant changes to this policy to determine the implications for existing investment strategies, and to update the relevant parties accordingly.

3 ESG investment principles

3.1 Purpose of the ESG investment principles

3.1.1 This section sets out the ESG investment principles which we use to inform and guide all investments made as an asset manager. These principles are consistent with M&G plc's ESG principles and reflect the firm's purpose and corporate values of Care and Integrity.

3.1.2 These principles support, and do not supersede, our fiduciary responsibility to our clients, to invest according to investment mandates, or as defined in fund documentation. In general, for funds other than those that are specifically ESG related, the overall objective will be to deliver a given financial outcome or to optimise investment returns in line with any level of risk defined in the fund documentation or client investment mandate.

3.2 M&G Investments ESG investment principles

A. We aim to consider within investment processes Environmental, social and governance ('ESG') factors that have the potential to have a material financial impact. In addition, for funds/mandates that promote specific ESG, sustainability or impact characteristics and/or objectives, we will manage

these funds according to the commitments made in the fund documentation / investment mandate.

- B. Consideration of the implications for society and the environment is a fundamental part of investment stewardship and in line with our fiduciary duty to our customer.
- C. We take a long-term approach, keeping in mind customer time horizons, the urgency of individual ESG issues and delivery of the firm's ESG priorities and commitments.
- D. We aim to identify ESG themes and risk factors and incorporate them into our general investment and risk management processes.
- E. We are active investors and believe in active management, preferring stock selection, engagement and voting (where relevant) over divestment. Our aim is to invest in the solution not the problem, therefore as a responsible investor we seek to support companies transitioning towards the creation of a more sustainable economy.
- F. As an investor we are politically neutral, we do not engage in political contributions, nor do we have a direct affiliation with any political party in any country. We are committed to working with our stakeholders, including our investee companies, to help fight slavery, human trafficking, child labour or any other abuse of human rights. Therefore, we take into consideration politics where they impact human rights, the rule of law, fairness and equality, and where local and/or geo-political risk impacts the risk return profile of an investment.
- G. Where an investment, either by the nature of its business or by the nature of the investee company's activities or behaviours, breaches our core values, we will assess the investment under our exclusion process. Where we believe engagement and voting has been or will be ineffective in influencing positive change, we may exclude the company from our portfolios.
- H. We review our ESG approach regularly in order to align with scientific and technological improvements, changes in the global economy, and the evolution of good practice, sustainability and ethics.
- I. We aspire to produce research of the highest quality for our investment teams, generating market leading proprietary research and data, integrating ESG into the investment process across all asset classes.
- J. We recognise the complexity in identifying and addressing the drivers of ESG issues, given the interdependence of ESG factors, some of which are inherently subjective and where available data may not be of high quality. In such cases we adopt

a pragmatic approach, balancing the implications for the economy, society and the environment where available information is not objective or reliable.

- K. We are providers of capital to investee companies, and are not responsible for the day-to-day management of those companies. However, we are cognisant of the need to encourage good corporate governance and sustainable business practices and, if necessary, vote for changes to board composition where this is not the case.

Policy requirements

4 ESG integration within the investment process

4.1 Principles of ESG integration

4.1.1 M&G Investments subscribes to the definition of ESG integration, endorsed by the UN PRI, as the explicit and systematic inclusion of ESG issues in investment analysis and investment decisions. The asset manager's implementation of these principles rests on three pillars:

- i Integration of ESG issues into investment research
- ii Integration of ESG issues into investment decision-making, and
- iii Portfolio construction, overseen through periodic ESG Portfolio Review for listed (and in scope unlisted) fixed income and equity.

4.1.2 ESG integration recognises our role as stewards of our clients' assets and our role in responsibly allocating, managing and providing oversight of capital to create long-term value for clients and beneficiaries. The intended outcome of these roles is to deliver benefits for our clients, the economy, society and the environment.

4.1.3 For active funds, we seek to add value for our clients by pursuing an active investment policy: through portfolio management decisions; by ensuring constructive dialogue with investee company management, General Partners (GPs) and other third parties overseeing asset management on our behalf; by voting on resolutions at company general meetings; and by negotiations on covenants, engagements and voting on waivers and amendments.

4.1.4 We aim to systematically include consideration of material ESG factors into investment analysis and decision-making in all asset classes on an iterative and continuous basis.

4.2 Framework for ESG integration

4.2.1 In order to provide an overarching framework for the consideration and integration of ESG issues in the investment process, M&G Investments considers a range of materiality frameworks including that set out by the Sustainability Accounting Standards Board (SASB). These frameworks are used to assess, analyse and

evidence the applicability and materiality of a specific or collection of ESG issues within ESG integration processes. These frameworks have been used to develop M&G Investments proprietary Corporate ESG Scorecard is used to analyse and expose the materiality of ESG factors at a sector, company and issuer level. This is supplemented by additional ESG factors as M&G Investments deems appropriate, as is the case for private assets, or as relevant to the specific client mandate.

4.2.2 Where M&G Investments has significant influence and control, such as in real estate or private infrastructure equity assets, operational and active management of ESG issues aids the management of material exposures and performance. The integration of ESG considerations into operational risk management underpins financial value and ESG performance. Where the nature of the financial instrument or mandate does not direct significant influence, alternative measures are used to ensure the risk framework considers ESG factors for integration. Proprietary investment approaches are informed by industry standards or guidelines to enable the intended performance of the asset or instrument to manage material ESG risks and deliver financial outcomes.

4.2.3 Where there is a structural and fundamental inability to characterise ESG factors against specific benign revenue streams eg, in the case of certain royalties, we will clearly disclose these circumstances.

4.2.4 At an entity and financial market participant (FMP) level we will apply principal adverse sustainability impact (PASI) indicators as described in section 5 below.

4.3 Integration into investment research

4.3.1 M&G Investments Stewardship & Sustainability (S&S) team and domain subject matter experts undertake and produce thematic, sector and stock-level research to enable ESG integration in the investment process.

4.3.2 Research and investment teams have access to internal proprietary ESG thematic research, as well as relevant data from other sources. They evaluate the impact and materiality of these ESG themes within the context of the industries and companies that they cover, with assistance from the S&S team.

4.3.3 Together, these teams deliver actionable investment research that includes ESG issues, insights and recommendations to fund managers for use within the investment decision-making and portfolio construction processes. For public single stock and sectoral research, research analysts are accountable for determining the materiality of ESG factors with fund managers incorporating these into investment decisions.

4.3.4 Wherever possible, M&G Investments makes use of existing investment processes, forums, and interactions to conduct ESG integration.

4.3.5 M&G Investments prefers the use of proprietary ESG research in the investment decision-making process.

The following artefacts and tools are currently deployed across asset classes where appropriate:

- i. **M&G Investments Corporate ESG Scorecard:** Acknowledges the qualitative nature of many ESG considerations, and allows analysts to express their views in primarily qualitative terms, within the context of a structured and disciplined framework. The scorecard enables consideration of key ESG factors and comparison of management and performance by companies. The scorecard has been designed so as to provide a ranking of companies either on a total ESG basis or on any of the constituent parts of environmental, social or governance. The output is therefore separate scores for E, S, G, Climate and an overall ESG score.
- ii. **ESG Securitisation Scorecard:** Follows the approach of the Corporate ESG Scorecard in taking a qualitative approach to ESG considerations and assesses securitised products in the context of Transactions, Assets and Counterparties (TAC).
- iii. **M&G Investments Sovereign Framework:** Framework to assess the sustainability of Sovereign Issuers as evaluated against criteria including non-cooperative tax jurisdictions, sanctions, Climate change Progress Index (CCPI) as per IIGCC guidance, as well as broader social progress (eg, Social Progress Index (SPI) assessments)
- iv. **ESG Themed Bond Assessment (ESGTBA):** Assesses the quality and validity of ESG themed bond issuances where required. The framework of the bond is evaluated, as well as the corporate and ESG strategy of the issuer and the alignment of this with the bond. The main aims of the ESGTBA are to ensure:
 - a. That ESG themed bond issuances conform to voluntary principles, since ESG bonds are self-labelled without strong oversight
 - b. That investment is avoided in poor quality ESG bonds (greenwashing) that could cause M&G reputational risk
 - c. That, where applicable, there is increased understanding of the impact of investing in ESG bonds
- v. **E-Luminate:** Tool which enables surfacing of issuer level data for ESG metrics in order to aid research and allow analysts to make assessments on ESG factors.
- vi. **Portfolio Analysis Tool:** Allows fund managers to analyse ESG scorecards on an aggregated portfolio basis including against benchmarks. External data including climate data and ESG vendor scores are combined with proprietary data to support investment decision-making and portfolio construction.

- vii. **Carbonator:** M&G carbon emission estimation tool able to approximate Scope 1 and Scope 2 emissions for investee companies and other investments subject to data availability to inform the estimation. Primarily used for private companies where there is no actual or estimation coverage from third-party data providers.
- viii. **Engagements Tool:** Records all engagements (as defined by M&G following the PRI definition) conducted by S&S and the investment teams across asset classes. The tool records both private and public engagements to ensure we can consistently and accurately report to clients defined ESG engagements that have been undertaken.

4.3.6 M&G Investments' analysts and investment teams make use of external ESG content for a range of purposes. M&G Investments ESG Data Strategy will record preferred vendors for particular coverage and subject matter requirements. M&G Investments has developed a proprietary Investment Data Platform (IDP) that provides the central ingestion and production platform for all data within MGG.

4.3.7 Alongside IDP, investment teams have portal and data access with a range of ESG data vendors and other specialist advisors. In addition, we obtain ESG data through authorised aggregators or channels. The use of these vendors balances the following requirements:

- i. Data quality and accuracy – whether the vendor's product delivers accurate, actionable information in the context of the envisaged use case
- ii. Breadth of coverage for particular asset classes
- iii. Ensuring no single data vendor or aggregator has over-all control and the group can source data and information as is required

4.3.8 ESG integration within Private and Alternative Assets is undertaken through proprietary ESG management processes. These processes define how ESG factors are included in the investment strategy, appraisal of investments, active asset management process and associated monitoring and oversight. ESG integration is focussed on mitigating ESG risks, creating opportunities, meeting the firm's sustainability commitments and delivering investment performance. Each investment opportunity that passes the respective private asset screening process will include appropriate due diligence and investment analysis according to its ESG risks.

4.4 Integration of ESG issues into investment decision-making and portfolio construction

4.4.1 Investment decisions are taken following the consideration of a wide range of investment drivers. Such drivers will include, but are not limited to:

- i. Mandate restrictions
- ii. Market liquidity
- iii. Valuations, and
- iv. Investment research

4.4.2 Where ESG factors are material within such drivers they will be incorporated into decision-making. Examples of how such information is used in the investment process includes: written research that integrates ESG factors; S&S team publications on thematic ESG issues; face-to-face discussions; sector and ranking reviews; and the consumption of external sources including ESG ratings and advisor due diligence.

4.4.3 Integration of ESG issues into investment decision-making and portfolio construction, for listed (and relevant unlisted) equity and fixed income funds, is overseen through regular periodic ESG Portfolio Review.

- i. At ESG periodic review meetings, where there are no dedicated ESG staff, S&S team members convene with the relevant investment team to analyse the portfolio ESG ratings, diversity and inclusion, human rights, carbon footprint, Principal Adverse Sustainability Impact (PASI) indicators, key sustainability indicators and other topics as they may arise over time for the portfolio.
- ii. Portfolio managers and analysts scrutinise and explore the impact of ESG themes and risks on portfolio holdings. Where relevant, specific ESG issues may be raised for engagement with investee companies. (See section 6).
- iii. ESG issues that were taken into account in investment decision-making since the last review meeting are also discussed.

4.4.4 Product ESG commitments will be explicitly communicated where there is any environmental and/or social promotion.

4.5 Evidence of ESG Integration into Research

4.5.1 Where ESG factors are incorporated within written research, they should be highlighted by the addition of a specific thematic hashtag for record keeping and cross-functional sharing purposes. The list of hashtags is derived from the SASB materiality map and supplemented by additional hashtags for factors that are agreed by the S&S team with the analyst teams.

4.5.2 Hashtags for ESG-informed company meetings: When meetings are arranged and calendar entries are made within relevant MiFID tracking calendars, or through M&G's ESG Engagement template tool, anticipated ESG discussion topics should be recorded using ESG hashtags. Where ESG factors are incorporated within written research following company meetings, they should also be highlighted by the addition of specific hashtags.

4.5.3 Minutes of portfolio review meetings: Portfolio review materials and action points following periodic review meetings are documented on a central system, or in an appropriate format for private assets, to enable historical analysis and evidencing. ESG concerns or considerations that influenced an investment decision are recorded over the review period and complement the portfolio review.

Copies of all reports prepared to analyse portfolios are recorded, as are the action points arising from meetings. Notes are also kept of any ESG issues that were taken into account in investment decision-making since the last meeting.

4.6 Private and Alternative Assets ESG Integration

4.6.1 Private and alternative assets implement active management approaches to deliver optimised financial and ESG outcomes. Consideration of ESG factors at an investment and fund level is undertaken alongside financial reporting at defined stages throughout the investment process. Processes have been defined to consider ESG risks, the need for tailored environmental and social management systems (ESMS), performance expectations and/or associated outcomes on a forward-looking basis.

4.6.2 The long-term maturity and illiquidity of some private and alternative assets requires comprehensive and enhanced due diligence prior to investment. If investment proceeds are via an intermediary vehicle, eg, SPV, General Partner, or a broader syndicate structure, due diligence is also performed on the nature and quality of resources associated with other partners and upstream ultimate beneficial owners where there is influence and control, eg, SPV, General Partner, broader syndicate structure or as part of collateralised securitisation structures.

4.6.3 In certain circumstances, due to the fundamental characteristics of the financial instrument where control and influence is diminished, eg, lending to SPVs, the resultant due diligence and investment conditions will comprise the entire ability to integrate and influence ESG outcomes, unless there are formal breaches of covenants or loan terms, such as a failure to comply with environmental laws.

4.6.4 In all circumstances, excepting those identified in 4.6.5, due diligence shall include the following considerations:

- i. Identification of material environmental, social and governance (ESG) risks and subsequent mitigation measures
- ii. Identification of and, if present, assessment of the effectiveness and appropriateness of Environmental & Social Management Systems
- iii. Compliance and overarching alignment with applicable laws (local, international and regulatory)
- iv. Quality and completeness of resources, at strategic, investment and operational levels, to manage ESG risks
- v. Confirmation of promoted environmental, social or quality certifications, eg, International Organisation for Standardisation ('ISO'), International Labour Organisation ('ILO')
- vi. Commitments to progress, or status of achieving, relevant internationally recognised standards on health and safety and/or the safety of product use

- vii. The standards and systems of corporate governance as relevant to the asset class or investment vehicle
- 4.6.5 In the case of investments via Special Purpose Vehicles (SPVs), the due diligence items identified in 4.6.4 will be considered in either due diligence or through dedicated covenants in the investment documentation.
- 4.6.6 Reflecting the urgent and societal prioritisation of climate change, M&G has proprietary tools seeking to address limited data availability in private assets to estimate carbon emissions from underlying assets. Where this may not be feasible, we may engage specialist sector advisors to supplement our ability to identify and capture carbon emission data.
- 4.6.7 Asset plans define the strategy to achieve the real asset or overarching fund's ESG objectives. Where appropriate, at asset or company level, proprietary ESG action plans and performance criteria are set on an annual basis to create value and ensure year-on-year performance improvements. These plans formalise shareholder expectations that private assets are intrinsically actively managed and are outperforming their public equivalents, which have already matured or captured these value improvements.
- 4.6.8 Participation in legacy agreements, investments, structures or as limited by jurisdictional law, ie in the case of tenants in third-party or directly owned assets, these agreements will be reviewed and appraised at the next available opportunity. Until such time, these agreements and investments will be recognised as exempt on the grounds of a legacy decision for the period up until the next opportunity to renegotiate to terminate contracts. For the avoidance of doubt, where investments are made after the date of this policy being approved by the MGG Board, they will no longer be considered 'legacy' investments. Where feasible or considered materially significant, there is an aspiration to negotiate enhanced information and control rights in these investments to meet current expectations. Greater engagement, disclosure and transparency may be requested to offset the lower historical expectations laid out in formal contracts to avoid further action taking place.
- 4.6.9 Where appropriate, and as defined in fund documents or mandates, regular reporting occurs against ESG targets or pre-defined KPIs (eg, carbon emissions, ESG scores et al). This provides a quantitative understanding of performance and management of pre-investment material ESG risks. For financial products classified under regional sustainable finance disclosure regulators, such as the EU's SFDR, there will be clear ESG outcomes as defined by key sustainability indicators for each financial product.
- 4.6.10 Mandatory inclusion of ESG items is required across asset classes, and will include at least the following items:
- i. Due diligence as appropriate to the asset class, financial product or instrument and as framed by a materiality assessment on an asset class basis. If lower liquidity events are likely to occur prior to maturity of the position, due diligence will be enhanced as befitting the reduced ability to divest without impacting on clients' outcomes.
 - ii. ESG standing items on decision-making bodies, whether at asset, portfolio company, fund or board levels, such as the Final Investment Committee decision over investments, at Board meetings for each Portfolio Company or within Audit and Risk Committees associated with each asset
 - iii. ESG plans, if applicable due to the asset type or class, setting out the intended course of action prior to or during investment, or as part of remediation measures to address identified deficiencies to meet stakeholder expectations
 - iv. Fund ESG reporting, where this is feasible, across a suite of relevant themes and topics to provide transparency and an ability to link ESG performance with broader value creation
 - v. Investment decision reporting prior to investment, and where applicable during and upon maturation, to ensure ESG factors are considered alongside financial factors. Where investment occurs via special purpose vehicles (SPVs) ESG factors will consider underlying assets as a whole rather than the SPV itself

5 Consideration of principal adverse impacts

- 5.1.1 The Sustainable Finance Disclosure Regulation 2019/2088 ('SFDR') was adopted on 27 November 2019, and began to apply on 10 March 2021.
- 5.1.2 SFDR introduces a series of disclosure obligations for products and 'financial market participants' ('FMPs'). SFDR requires FMPs to assess and report to investors on any principal adverse impacts ('PAI') of investment decisions on sustainability factors. SFDR also requires products to disclose how PAIs are considered in the investment process across all investment decision-making and specifically with regards to determining whether an investment is considered a 'sustainable investment.'
- 5.1.3 At the time this policy was reviewed, the only FMP within MGG in scope of the regulations was M&G Luxembourg S.A. (MGL). The portfolio management function of MGL is delegated to MAGIM which acts on MGL's behalf to consider and identify PAIs (as set out in this policy) to enable MGL to perform its duties as per the SFDR Regulatory Technical Standards requirements.

5.1.4 Specifically, SFDR requires two types of disclosure for FMPs:

- i. **Entity level disclosures:** In-scope FMPs are required to publish a statement (the 'PAI Statement') on the M&G website by 30 June 2023 (and then annually) that sets out how they consider PAIs of their investment decisions on sustainability factors (Article 4 SFDR). This also needs to contain the quantitative data as described in 5.1.6. below. There is a required template which must be used, which is set out in Table 1 of Annex I of SFDR.
- ii. **Product level disclosures:** For funds in scope of SFDR, pre-contractual disclosures and periodic reports must contain the relevant mandated information on consideration of PAIs (Article 7 SFDR).

5.1.5 The following definitions are applied where the following terms are used within this policy:

- i. **Principal Adverse Impact or PAI:** The most significant negative impacts of investment decisions on sustainability factors relating to (i) climate and the environment and (ii) social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.
- ii. **Sustainability factors:** Environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.
- iii. **Sustainability risk:** An environmental, social or governance event or condition that, if it occurs, could cause a potential material negative impact on the value of the investment.
- iv. **Sustainable investment:** Sustainable investment means an investment in an economic activity that contributes to an environmental objective or social objective, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices.

5.1.6 PAIs are measured through a series of regulatory defined 'indicators' which seek to measure in a comparable and systematic way impacts on (i) climate and the environment and (ii) social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. These PAI indicators are divided into 'mandatory' indicators and 'additional' indicators, with FMPs required to disclose all 'mandatory' and at least one additional 'environmental' and at least one additional 'social' indicator. There are mandatory PAI indicators for investee companies, sovereigns and real estate.

5.1.7 M&G Investments considers PAIs on a pre-trade basis where this is committed to in fund pre-contractual documentation. Consideration of sustainability risks for funds in scope of the SFDR requirements are achieved through the application of this policy.

5.2 Entity level assessment of principal adverse impact indicators

5.2.1 The purpose of monitoring PAI indicators is to enable the FMPs to identify and assess its exposure to PAIs and Sustainability Risk at an entity level, to give oversight of delivery of commitments and sustainability principles.

5.2.2 The FMP will have access to the PAI data via a dashboard to enable an understanding of exposure within the funds they manage to PAIs and sustainability risks. At least annually, a nominated committee of the FMP will review performance in relation to the PAIs (with representatives from M&G Investments in attendance if required, for example Sustainability & Stewardship, Product) to understand implications and discuss recommendations to help mitigate the PAIs identified in the data in following reporting years.

5.2.3 The consequent actions planned in response to the PAI data will be undertaken in adherence with this policy, as well as:

- i. M&G Investments Engagement Policy
- ii. M&G plc ESG Risk Policy
- iii. M&G Investment Risk Policy

5.3 Principal Adverse Impact data sourcing and data hierarchy

5.3.1 M&G Investments source and consider PAI indicators, where available and material, for assets under management and in scope of SFDR as part of existing ESG integration requirements set out in this policy.

5.3.2 Data sourcing may include:

- i. Third party data vendors who undertake ESG data (incl. PAI data) collection (which may include direct compilation or assessment or calculation against PAIs)
- ii. Direct sourcing from portfolio companies or assets
- iii. On desk assessment (qualitative or quantitative)

5.3.3 The selection of any vendor for PAI usage considers the following aspects:

- i. **Data quality and accuracy:** Whether the vendor's product delivers accurate information
- ii. **Data availability:** Breadth of coverage for the broad range of asset classes
- iii. **Data methodology:** Whether methodologies and proprietary tools or estimates deployed are in line with the regulatory and/or M&G Investments requirements
- iv. **Market position:** There continues to be evolution in the ESG data vendor market, selection should consider current breadth of clients and market position, on-going development, market consolidation
- v. **Ease of use:** Is the vendor already used for across M&G Investments for data sourcing (for sustainability or non-sustainability reasons)

- vi. Flexibility: Ensuring no single data vendor or aggregator has over-all control and MGG can source data and information as is required

5.3.4 Data sourcing is on a best-efforts basis. We believe the above data collection processes and third-party sourcing enables demonstration of best efforts. However, the immature ESG data landscape means that there will be gaps in data against all mandatory and opt in indicators adverse impacts data which will be explained within the PAI Statement.

5.3.5 Periodic reviews of available products on the market should be performed in future to ensure best quality data provision and coverage. On an on-going basis, responsibility for selection of replacement or additional providers is required to meet the principles in 5.4.2 and is owned by Market Data Services as directed by the Sustainability Steering Committee.

5.4 Methodology to select 'additional' sustainability indicators

5.4.1 As described above, in addition to the mandatory PAI indicators outlined within the PAI Statement, at least two additional opt-in indicators are required by SFDR to be identified, one related to environmental factors and the other to a social factor.

5.4.2 M&G Investments uses the following principles to select the additional PAI indicators:

- i. **Materiality:** The applicability of the indicators for the entire asset base to ensure that the data provided is meaningful and insightful at both an aggregate and individual level. Materiality also accounts for the probability of occurrence and the severity of those PAIs.
- ii. **Ongoing relevance:** The PAI indicators selected are binary rather than relative which means that the data is likely to be consistent year-on-year and the indicators will stay relevant. This allows for a forward-thinking approach to the collection of PAI data to ensure comparability across sectors and asset classes. The binary nature of the PAI indicators demonstrates the presence or absence of key management controls which are indicative more generally of the strength and effectiveness of the investee's governance.
- iii. **Data availability:** To ensure there is, and will continue to be, sufficient, accurate and meaningful coverage for reporting.

5.4.3 The additional PAI indicators selected at the time of approval of this policy are set out in Appendix 1.

5.4.4 The selection of additional PAI indicators will be reviewed annually by the Sustainability Steering Committee alongside a wider review of performance against PAIs indicators.

6 ESG Priorities for M&G plc and M&G Investments

6.1. M&G Investments' ESG Priorities are derived from two sources:

- i. Certain priorities are acquired from the M&G plc, reflecting and capturing the purpose and strategy of the Group. There is a growing focus on sustainability across the market. This informs our strategy and aligns with our purpose – to help people manage and grow their savings and investments, responsibly. At the current time, M&G plc has identified Climate Change, including implications for Natural Capital, and Diversity & Inclusion as priority ESG themes. The sustainability commitments of M&G plc will remain as customer led, capability enabled and sustainably delivered.
- ii. Other ESG Priorities will reflect themes that are identified as having a disproportionate impact on investment returns and risk. Such priorities will emerge organically and will be reflected in the periodic updates of this policy and as evidenced in position statements or policy prioritisation.

6.2 M&G plc Sustainability Principles

6.2.1. The seven M&G plc sustainability principles provide a foundation for decision-making and broader strategic target setting for the entire group.

6.2.2. M&G plc sustainability principles:

- i. Consider sustainability and ESG factors when determining our corporate strategy and new business initiatives.
- ii. Embed sustainability considerations throughout our business.
- iii. Consider the interests of all our stakeholders and ensure our views on sustainability are consistent with our long-term approach.
- iv. Manage our businesses to the same principles of acting responsibly that we hold our investee companies to account on.
- v. Identify and incorporate ESG risk factors into our general risk management process.
- vi. Review our sustainability thinking regularly in order to align with scientific and technological improvements, and changes in the global economy, ethics and consumer preferences. We aspire to be a thought leader, to innovate, and to advance understanding of sustainability issues.
- vii. Aim to use our influence as a global investor and asset owner to drive positive change in sustainability policy and corporate standards. We believe in active asset ownership and management, which invests in businesses providing solutions to 21st-century challenges and encourages companies to transition towards a sustainable future.

6.3 Climate change

6.3.1. M&G Investments have committed to reducing the greenhouse gas (GHG) emissions on our total assets under management to net zero by 2050. This is in line with the commitments made by M&G plc, and is consistent with climate policy objectives of the UK, the EU governments and the central enabling role of finance as recognised in the Paris Agreement's Article 2.1(c) on 'making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.'

6.3.2. As members of the Net Zero Asset Manager Initiative, M&G Investments have committed not only to our 2050 net-zero carbon emissions target across our total AUM, but also to setting interim targets for 2030, consistent with a fair share of the 50% global reduction in CO₂ identified as a requirement in the IPCC special report on global warming of 1.5°C.

6.3.3. There are many potential pathways to decarbonise the economy given the interdependency between decisions at the macro level – such as governmental policy and scientific developments – as well as at the micro level – changing consumer behaviours, which could have materially different implications for investments. Therefore, our roadmap to net zero – our Net Zero Investment Framework (NZIF) – will be an incremental and iterative process of:

- i. Identifying and investing in climate solutions
- ii. Engaging with our investments to effect real world change
- iii. Defining the necessary quantum and trajectory of carbon emissions reductions through influence and stewardship
- iv. Investing in companies to accelerate their transition to a lower carbon pathway, and
- v. Divesting contentious high carbon exposures

6.3.4. We intend for this approach to ensure that, over time, the proportion of our portfolios which are not Paris-aligned will decline to zero.

6.3.5. We believe that exclusion of any company from our portfolio on the basis of its excessive carbon emissions is an action of last resort, which should only be taken if we are certain that engagement will not change behaviour.

6.4. Diversity and inclusion

6.4.1. We believe that over the long-term diverse organisations perform better financially, are better at managing risks, and are more representative of society. We believe diversity encompasses many axes, and it is important not to reduce the concept to a number of representation targets solely along gender and ethnicity lines. Diverse organisations strive to include the greatest possible number of different viewpoints for consideration in the day-to-day running of their business.

6.4.2. We believe the best way of improving diversity and inclusion in our investee companies is through scrutiny of their stated objectives, evidence of actions being undertaken to support D&I, together with remuneration data, and people policies to assess consistency and alignment of the firm's intentions and actions with their delivery. Where appropriate, and due to the strong correlation with financial performance, we retain the right to directly engage with our investee management teams and vote against Board members on this theme, where we have an equity vote.

7 Engagement and divestment

7.1. We believe that the long-term success of companies is supported by effective investor stewardship and high standards of corporate governance. We believe that if a company is run well, and sustainably, it is more likely to be successful in the long run.

7.2. Where applicable, as an active fund manager, M&G Investments engages with companies to add value to the investment process, to increase our understanding, or provide feedback to a company. Engagements are focussed on achieving real world outcomes. We focus on the underlying substance of our engagement, delivery of our engagement objectives and the relevance for the investment decision when assessing the quality and effectiveness of an engagement. We may also engage as an equity holder or as a fixed income investor to protect our clients' interests before and during the course of an instrument's life. If this is an ESG engagement, our aim is to influence company behaviour or disclosure. As investors in private or illiquid asset classes, or where there is an intention to hold the asset to maturity, we undertake due diligence and engagement prior to, and throughout, investment on the basis that the ability to add value occurs during the investment decision-making process and that engagement is a more constructive decision than divestment.

7.3. Active and informed voting is an integral part of our responsibility as stewards of our clients' assets. In using our votes, we seek to add value and protect the interests of our clients as shareholders. Our starting point as an active, long-term fund manager is to be supportive of our investee company boards. There will be occasions when we need to vote against management-proposed resolutions or support shareholder resolutions which are not recommended by the company board. In these cases, where it is practical, M&G Investments seeks to engage prior to, and after, any voting.

7.4. M&G Investments reports its stewardship activities to the Financial Reporting Council on an annual basis. As signatories to the Stewardship Code 2020 we see growing regulatory and client expectations as stewards of client assets, including those that are not listed equities. This includes increased reporting and disclosure

[†]The PAI indicators should use the standardised metrics as set out in the Commission Delegated Regulation (EU) 2020/18182 and Commission Delegated Regulation (EU) 2021/21393.

requirements, particularly concerning the quantity and quality of company engagements and significant votes.

7.5. M&G Investments operates a centralised Engagement Tool to evidence and record all ESG engagements as defined in 7.6.1 iii. The validation of engagements rests with M&G Investments S&S team, who assess each engagement within the proprietary M&G Investments Engagement Tool.

7.6 How M&G Investments interact and effect change

7.6.1 To gain insight, establish relationships and/or to influence and affect change we undertake the following measures:

- i. **Company meetings** – which includes but is not limited to company monitoring, updates on trading strategy, capital allocation
- ii. **ESG informed meetings** – In company monitoring meetings we may ask questions relating to ESG, which are recorded using the hashtags as described in section 4.5 above. This could include remuneration and more general governance meetings.
- iii. **ESG engagements** – Should have a specific time bound objective, action and outcome which is measurable, and will be tracked over time. An ESG objective seeks to influence a company's behaviour or disclosures and cannot be merely to increase understanding. Each engagement is assessed for its effectiveness and is designated a red, green or amber traffic light colour coding. Green indicates a positive engagement outcome. Amber suggests further monitoring is required. Red indicates an unsuccessful outcome.

7.6.2. These three levels of interaction can be conducted through meetings with companies and/or correspondence. ESG Engagements can be bilateral or through collective engagement vehicles, such as Climate Action 100+ or the Investor Forum.

7.7 Engagement framework

7.7.1. We have two approaches to our engagement programme – top-down and bottom-up.

- iv. Top-down, pro-active ESG engagement programmes are thematic, such as our climate engagement programme or engagement on controversies or potential controversies, including UNGC red flags and modern slavery within operations or supply chains. These engagements are conducted across all investment teams.
- v. Bottom-up programmes create individual engagements, with proactive targets arising from: company monitoring; ESG portfolio reviews; annual governance meetings; remuneration reviews; controversial resolutions at shareholder meetings et al. We also undertake reactive engagements in light of company news, including on trading, changes to the board, M&A etc.

7.7.2. On an annual basis, M&G Investments Engagement priorities will be agreed by the M&G Investments Sustainability Steering Committee. This committee will ensure priorities align with the M&G plc priorities and to reflect the investment manager's risk framework. These priorities will operate alongside, and will not take precedence over, individual investment desk engagement themes.

7.7.3. ESG engagements are recorded in a central log by the S&S team for use by the different investment, client and marketing teams within M&G. A sample of significant ESG engagement case studies is published in M&G Investments' Annual Stewardship Report.

7.7.4. Engagements reflect a clear objective and can occur over an extended period of time. Engagements are founded upon being able to establish dialogue, the ability to uncover more information, evidence and achievement of a clear position or action from both participants.

7.8 Engagement over divestment

7.8.1. Our preference is to engage rather than divest, as we believe it is better to work with a company to foster real world improvements, rather than passing the problem on to someone else. Engagement and continued participation is grounded on the principle of being able to support, and where possible accelerate, the transition for an issuer on key ESG risks or in improving their approach to meet customer and stakeholder expectations.

7.8.2. In circumstances where a product has a predefined investment universe or strategy, this in itself may exclude issuers due to the nature of the promoted environmental and/or social characteristics, or as a result of a sustainable investment objective. In these circumstances, the exclusion delivers on an agreed client commitment for the specific product.

7.8.3. Investment decision-making is undertaken by individual fund managers in compliance with the principles and terms of this policy, and therefore the fund managers have full accountability over any decision to divest of a holding.

8 Exclusions

8.1. M&G Investments supports and encourages adherence to global norms on environmental, social and employee matters, human rights, labour standards, anti-bribery and anti-corruption. These norms represent best practices supporting a sustainable society, and we believe adherence will result in the best outcomes for our customers in the long term.

8.2. These norms are codified in various sources, such as the OECD Guidelines for Multinational Enterprises, the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, the United Nations Global Compact and the Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework. We use norms-based screening data from several vendors, including specialist advisors, to identify companies that egregiously violate global norms in the areas of human rights, labour standards, environmental standards and anti-corruption.

8.3 Basis of exclusion

8.3.1. We only consider exclusion of an investment where the nature of its business or the nature of the investee company's activities or behaviours breach our core values and/or ESG investment principles, and we believe engagement is either inappropriate or we believe it will be ineffective in influencing positive change. Where additional exclusions exist at a fund level, these will be explicitly disclosed in the fund documentation and in a product framework.

8.3.2. For sector exclusions on the grounds of the nature of the economic activity, there are three sources for exclusion:

- i. **Legality:** the nature of the investment is illegal in the countries in which we operate
- ii. **Inconsistency with M&G plc's core values of care and integrity:** either with the nature of the products and services M&G plc as a whole offers, or with the stated priorities and commitments of the firm
- iii. **Product Commitment:** the nature of the investment has been excluded in order to deliver a separate outcome, such as lower carbon emissions or avoidance of exposure to the harm created by a specific product, eg, tobacco

8.3.3. As defined in ESG investment principles E, F and G (as defined in section 3.2 above), for any investment where the behaviours or activities of the investee company result in a breach of M&G Investments core values or ESG investment principles, or the behaviours or activities materially impact the risk-return profile of the investment, the investment will be reviewed, where we have control or rights, to determine the ongoing appropriateness within the portfolio.

8.4. List of investment exclusions

8.4.1. M&G Investments has specific policies excluding investments across all actively managed funds:

- i. Cluster munitions and anti-personnel landmines
- ii. Thermal Coal Investment Policy

8.4.2. Details of the above firm-wide sector exclusions are set out in a separate policy statements

8.4.3. Where additional exclusions exist at a fund level, these will be explicitly disclosed in the fund documentation. A central list of house-wide exclusions is maintained at: **Responsible investing at M&G Investments – ESG Exclusion List**

8.5. Exclude and divest

8.5.1. As outlined in ESG investment principles E, F and G, and as an active investor, our default position is to engage rather than exclude where we have existing relationships. In certain circumstances, the outcome of engagement activities will be the requirement to exclude an issuer or instrument from an investible universe, and/or to divest of existing holdings. The timeline and framework for exclusion and divestment will be set out in the specific exclusion policy or within the specific product commitment as per 8.4.3.

Appendix 1

Additional Principal Adverse Impact Indicators selected by M&G Investments

Adverse sustainability impact	Indicators applicable to investments in investee companies	Metric	Justification for selection as additional indicator
Additional climate and other environment-related indicators (As selected from Table 2 RTS²)			
Emissions	Investments in companies without carbon emission reduction initiatives (additional indicator No.4)	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	<ol style="list-style-type: none"> 1. Material in our understanding of company exposure to transition risk 2. Widely relevant across all sectors 3. Data availability – high
Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters (As selected from Table 3 RTS²)			
Social and employee matters	Investments in companies without workplace accident prevention policies (additional indicator No.1)	Share of investments in investee companies without a workplace accident prevention policy	<ol style="list-style-type: none"> 1. Material in our understanding of company exposure to health and safety and accident risk 2. Widely relevant across all sectors 3. Data availability – high
Human Rights	Lack of a human rights policy (additional indicator No.9)	Share of investments in entities without a human rights policy	<ol style="list-style-type: none"> 1. Material data point in understanding more granular risk associated with human rights and UNGC/OECD/global norms compliance 2. Widely relevant across all sectors, particularly useful for sectors/companies with high human rights risk 3. Data availability – high
Anti-corruption and anti-bribery	Lack of anti-corruption and anti-bribery policies (additional indicator No.15)	Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption	<ol style="list-style-type: none"> 1. Material data point in understanding more granular risk associated with bribery and corruption risk and UNGC/OECD/global norms compliance 2. Widely relevant across all sectors, particularly useful for sectors/companies with high human rights risk 3. Data availability – high

²https://ec.europa.eu/finance/docs/level-2-measures/C_2022_1931_1_EN_annexe_acte_autonome_part1_v6.pdf

