

M&G (Lux) Global Sustain Paris Aligned Fund



ESG Key Performance Indicators (KPIs) – Annual Review

Fund manager – John William Olsen

January 2024

- In this report we highlight four key performance indicators (KPIs) that we consider to be materially significant from an ESG perspective.
- In order to consider key ESG performance indicators at a fund level, we have focused on factors that are relevant across the entire portfolio.

The value and income from the fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.

The M&G (Lux) Global Sustain Paris Aligned Fund is a core global equity fund, investing in a concentrated portfolio of quality, sustainable companies that contribute towards achieving the Paris Agreement climate change goals. At least 80% of the fund is invested directly in the shares of companies, across any sector and of any size, from anywhere in the world, including emerging markets. The Investment Manager expects at least 80% of the Fund to be invested in environmental sustainable investments, in pursuit of the environmental sustainable investment objective. The Fund is not required to favour any specific type of environmental sustainable investment.

The Fund invests in securities that meet the ESG Criteria, applying an Exclusionary Approach and Positive ESG Outcome, in addition to its sustainable investment strategy in pursuit of the sustainable investment objective, as described in the precontractual annex to the Prospectus.

The fund usually holds shares in fewer than 40 companies. We believe ESG awareness is a matter of good stewardship, and a sensible part of any sustainable investment strategy aimed at maximising long-term economic returns.

Sustainability refers to the long-term durability of a business, and incorporates aspects including financial strength, competitive advantages and ESG factors. Such considerations include how a company is run, as well as how it treats its customers, its employees and the environment, for example. We 'screen in' companies that meet these requirements, including them in our watch-list of stocks we would like to own when the timing and price are right. We perform deep fundamental research on this list, looking at all the financial and non-financial elements affecting the business. We then wait patiently for behavioural episodes that allow us to invest in these companies at attractive valuations.

In addition to 'screening in' we also formally 'screen out':

- Companies deemed to be in breach of the UN Global Compact Principles on human rights, labour, the environment and corruption; and
- Producers of tobacco and controversial weapons (comprising biological, chemical and nuclear weapons, cluster munitions, depleted uranium, anti-personnel mines and white phosphorous).

Finally, the fund does not invest in companies involved in gambling, adult entertainment, the extraction of thermal coal, oil shale and tar sands.

The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.

Investing in emerging markets involves a greater risk of loss due to greater political, tax, economic, foreign exchange, liquidity and regulatory risks, among other factors. There may be difficulties in buying, selling, safekeeping or valuing investments in such countries.

The fund holds a small number of investments, and therefore a fall in the value of a single investment may have a greater impact than if it held a larger number of investments.

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ESG information from third-party data providers may be incomplete, inaccurate or unavailable. There is a risk that the investment manager may incorrectly assess a security or issuer, resulting in the incorrect inclusion or exclusion of a security in the portfolio of the fund.

Key ESG Performance Indicators

When researching stocks for the portfolio, we consider the materiality of ESG factors relative to a given company or industry. We also undertake ongoing ESG analysis on individual holdings within the portfolio, building an evolving picture of sustainability issues relevant to that company. For example, while raw material sourcing represents a significant risk for the fashion industry, the same does not apply to the financial sector (where responsible lending might be considered), or for an IT company (where cyber security might be a much larger risk). We internally score the holdings in our portfolio, rating them against these issues of materiality.

Resources deployed to monitor the ESG impact of the funds are mainly internal to M&G. They comprise the Sustain team's embedded analysts, one of whom leads our engagement with companies, as well as the team's investment specialist – we believe in the importance of conducting our own research and forming independent views. To assist with the decision-making process, we will however scrutinise research and indicators from several third-party providers and get support from our corporate finance and stewardship team for our engagement efforts.

In order to consider key ESG performance indicators at a fund level, we have focused on factors that are relevant across the entire portfolio:

| Environmental | Social | Governance | Human rights |
|---|--|--|--|
| <ul style="list-style-type: none"> Total CO2 equivalent emissions to revenue (million USD) | <ul style="list-style-type: none"> Female workforce % | <ul style="list-style-type: none"> Board gender diversity % | <ul style="list-style-type: none"> UN Global Compact compliance |

These are by no means the only ESG factors that we consider at a company level, but we feel they are the most practical at a portfolio level. These factors are regularly reported by the majority of companies, they are transparent and reliable and work across sectors, allowing us to report consistently. These KPIs are not intended to represent a comprehensive overview of the many factors that are analysed as part of our ESG assessment, nor our ongoing monitoring of, and engagement with, investee companies.

Indicators are sourced from MSCI to facilitate updating and consistency of data.

For a list of the fund's sustainability indicators used to measure the attainment of its sustainable objective, please refer to the fund's precontractual disclosure for the financial products in the Prospectus, available on our website.

Of the KPIs detailed below, the fund scores ahead of the benchmark on **carbon emissions**, **female workforce** and board diversity.

The fund's benchmark is the MSCI World Net Return Index. The benchmark is a comparator used solely to measure the fund's performance. The investment manager considers the fund's weighted average carbon intensity against the benchmark, which does not otherwise constrain portfolio construction. The benchmark has been chosen as it best reflects the scope of the fund's financial objective. The fund is actively managed. The investment manager has complete freedom in choosing which investments to buy, hold and sell in the fund. The fund's holdings may deviate significantly from the benchmark's constituents.

No reference benchmark has been designated for the purpose of attaining the sustainable investment objective.

KPI 1: Carbon Efficiency: Carbon Intensity



Category: Environmental

Weighted average carbon intensity (WACI) measures the carbon efficiency of a company as total carbon emissions normalised by total sales. At a portfolio level, carbon intensity is the ratio of portfolio carbon emissions normalised by the investor's claims on sales. This method expresses portfolio carbon efficiency and allows investors to know how many emissions per \$ of sales are generated from their investment.

It is calculated by taking carbon intensity (Scope 1 + 2 Emissions / \$M Sales) for each portfolio company and calculating the weighted average by portfolio weight.

KPI 2: Female Workforce



Category: Social

There is growing evidence that companies are likely to perform better financially if their workforce is more diverse. A study from McKinsey & Co published in January 2018 found that firms in the top quartile for gender diversity are 21% more likely to post above-average profitability compared with companies in the bottom quartile. It is clear to us that a diversified workforce will help foster stronger cultures, problem solving and innovation. A diversified workforce will also help attract and retain talent. While diversity is a broad term covering a wide range of characteristics such as race, ethnicity, gender, age and religion, we believe that the number of females is one relevant indicator of diversity that has become reasonably easy to track.

It is calculated as the proportion of female employees in the total workforce.

KPI 3: Board diversity



Category: Governance

We believe that board diversity is equally as important as diversity of managers and can positively influence corporate governance and performance. Many studies show that a diverse board is good for business. Research conducted by accountancy firm Grant Thornton in 2015 showed that share price of UK FTSE350 companies with at least one female board member outperformed those with male-only boards by 0.53%, on average.

The 30% Club, which aims to achieve a minimum of 30% women on UK FTSE boards, and of which M&G is an active member, lists the numerous advantages of a diverse board:

- diversity of thought, broader perspectives, background expertise when it comes to taking decisions: this is crucial when considering that corporate boards decide on all strategic areas, from purchasing – where traditionally women make around 70% of decisions – to executive compensation and choice of CEOs.
- better reflection of a company's customer base, with the benefit that companies will be more in tune with what clients ultimately expect of a product/service
- truer reflection of today's global economy, making companies more nimble and adaptable

It is calculated as the percentage of women on the board.

KPI 4: Global Compact compliance



Category: Human rights

There is growing acceptance that companies hold their share of responsibility for the fulfilment and respect of international human rights standards. With many listed companies operating on a global scale, this applies not only to the management of employees but also to the work of suppliers. In a world where social media spreads news in a matter of seconds, ignoring

human rights issues is not an option for companies that want to avoid irremediable damage to their reputation and brand. We recognise that, due to the complexity of their supply chains, certain companies will not be in a position to avoid minor issues. Nevertheless, when conducting our due diligence, we will scrutinise whether a company has sufficient resources to monitor and quickly tackle any alleged abuse that might surface.

For this indicator, we use the percentage of companies that pass UNGC compliance. This indicates whether the company is in compliance with the United Nations Global Compact principles. The possible values are Fail, Watch List, or Pass. UNGC has become the conventional norm to gauge levels of corporate responsibility. Two of the 10 principles specifically refer to human rights and require that companies should support and respect the protection of human rights as well as ensuring that they are not complicit in any human rights abuses.

KPIs at a glance

| KPIs | Environmental | Social | Governance | Human Rights |
|---|--|------------------------|---------------------------------|----------------------------------|
| | Carbon Intensity T CO ₂ e/\$M Sales | Female Workforce | Board Gender Diversity, Percent | Global Compact Compliance - Pass |
| M&G (Lux) Global Sustain Paris Aligned Fund | 48.45 100% coverage | 39.18% 94% coverage | 35.76% 100% coverage | 87.88% 100% coverage |
| MSCI World Net Return Index | 105.41 100% coverage | 38.43% 69% coverage | 34.74% 99% coverage | 94.73% 100% coverage |

Source: MSCI, December 2023

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

The fund invests mainly in company shares and is therefore likely to experience larger price fluctuations than funds that invest in bonds and/or cash.

Investing in this fund means acquiring units or shares in a fund, and not in a given underlying asset such as a building or shares of a company, as these are only the underlying assets owned by the fund.

For explanation of the terms used in this document, please refer to the glossary on our website:

<https://www.mandg.com/dam/global/shared/en/documents/glossary-master-en.pdf>

For European investors, the fund's sustainability-related disclosures can be found on the relevant country website below:

Luxembourg: <https://www.mandg.com/investments/professional-investor/en-lu/funds/mg-lux-global-sustain-paris-aligned-fund/lu1670715116#sustainability>

Austria: <https://www.mandg.com/investments/professional-investor/de-at/funds/mg-lux-global-sustain-paris-aligned-fund/lu1670715116#sustainability>

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In the Netherlands, all funds referred to are UCITS and registered with the Dutch regulator, the AFM. M&G Luxembourg S.A. is the manager of the UCITS referred to in this document. Registered Office: 16, boulevard Royal, L 2449, Luxembourg.

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For Switzerland, please refer to M&G International Investments Switzerland AG, Zollstrasse 17, 8005 Z rich.

For Italy, they can also be obtained on the website: www.mandgitalia.it.

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For Ireland, they are available in English language and can also be obtained from the Irish facilities agent, Soci t  G n rale SA, Dublin Branch, 3rd Floor IFSC House – The IFSC Dublin 1, Ireland.

For Germany and Austria, copies of the Instrument of incorporation, annual or interim Investment Report, Financial Statements and Prospectus are available in English and the Prospectus and Key Information Document/s are available in German.

For Greece, they are available in English, except the Key Information Document/s which is available in Greek, from the Greek Representative: Eurobank Ergasias S.A. 8, Othonos Street, 10557 Athens.

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