

# Sustainability-related disclosures

M&G (Lux) Investment Funds 1 - M&G (Lux) Diversity and Inclusion Fund  
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Website disclosure provided in accordance with Article 10 of the Regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial services sector. Information on the overall sustainability-related impact of the Fund can be found in the Annual Report of the Fund.

## Summary

This document summarises the information about this Fund in relation to the Sustainable Finance Disclosure Regulation. It is not marketing material. The information is required by law to help potential investors understand the sustainability related characteristics and/or objectives and risks of this Fund. You are advised to read it in conjunction with other relevant documentation on this Fund so you can make an informed decision about whether to invest.

This Fund has a sustainable investment objective to invest in companies that have demonstrable gender and/or ethnic diversity, or which provide solutions empowering social equality.

The Fund invests in Diversity Companies and Inclusion Companies. Diversity Companies are companies that demonstrate sustainability and gender and/or ethnic diversity. They must have at least 30% women and/or 30% ethnic minority representation on boards at the time of purchase. Diversity Companies bought for their ethnic minority representation must also have no single ethnicity representing more than 70% of the board at the time of purchase. The Investment Manager also considers other measures of gender and/or ethnic diversity in assessing the contribution of Diversity Companies to the sustainable objective. Inclusion Companies are companies that deliver solutions to empower social equality. These can be understood by reference to the United Nations Sustainable Development Goals ("SDGs") framework as companies which are focused on sustainable development goals such as Good Health and Wellbeing, Quality Education; Gender Equality; Decent Work and Economic Growth; Industry, Innovation and Infrastructure; Reduced Inequalities; and Peace, Justice and Strong Institutions; or other companies which the Investment Manager considers appropriate to invest in pursuit of the sustainable objective.

The Investment Manager expects at least 80% of the Fund to be invested in social sustainable investments, in pursuit of the social sustainable investment objective.

The Fund holds at least 15% and typically a maximum of 30% in Inclusion Companies, with the remainder of the sustainable investments held in Diversity Companies.

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

Sustainable investments that the Fund intends to make do not cause significant harm to any environmental or social sustainable investment objective as they are required to pass a series of tests, including:

1. Whether they represent significant exposure to businesses the Investment Manager considers harmful.
2. Principal Adverse Impact indicators considered to render the investment incompatible with sustainable investment (violations of the UN Global Compact Principles or the OECD Guidelines for Multinational Enterprises, social violations by sovereigns such as being subject to sanctions, negative effects on biodiversity sensitive areas).
3. Other Principal Adverse Impact indicators form part of a materiality assessment to understand whether any exposures are compatible with sustainable investment.

The attainment of the Fund's sustainable investment objective is monitored, with information on performance reported as part of the SFDR periodic reporting. There are a variety of methodologies that can be used depending on the asset class, instrument or sustainable investment objective. The Fund's investment process includes ESG due diligence, which is carried out as a part of fundamental investment research.

The Investment Manager sources information from a range of third party data vendors. Additionally, data used to assess if the Fund attains sustainable investment objective can be sourced from proprietary research and analysis. Where limitations in the methodologies and data have been identified, the Investment Manager seeks to mitigate these through its own assessment, governance and oversight.

Engagement with the issuers is part of the Fund's strategy, with each engagement having an engagement objective. Engagement is undertaken either by the fund managers, analysts, the Stewardship & Sustainability team or a combination of the aforementioned.

## No significant harm to the sustainable investment objective

Sustainable investments that the Fund intends to make do not cause significant harm to any environmental or social sustainable investment objective as they are required to pass a series of tests, including:

1. Whether they represent significant exposure to businesses the Investment Manager considers harmful.
2. Principal Adverse Impact indicators considered to render the investment incompatible with sustainable investment (violations of the UN Global Compact Principles or the OECD Guidelines for Multinational Enterprises, social violations by sovereigns such as being subject to sanctions, negative effects on biodiversity sensitive areas).
3. Other Principal Adverse Impact indicators form part of a materiality assessment to understand whether any exposures are compatible with sustainable investment.

The Investment Manager's research process includes consideration of Principal Adverse Impact indicators for all investments where data is available (i.e. not just for sustainable investments), which allows the Investment Manager to make informed investment decisions.

The Fund's consideration of Principal Adverse Impact indicators is used as part of understanding the operating practices of the investments purchased by the Fund.

Investments held by the Fund are then subject to ongoing monitoring and a quarterly review process.

Further information on the Principal Adverse Impact indicators which are taken into account by the Investment Manager can be found in the Annex to the Investment Manager's website disclosures for the Fund. All investments purchased by the Fund must pass the Investment Manager's good governance tests, and in addition, sustainable investments must also pass tests to confirm they do no significant harm, as described above. These tests embed a consideration of the OECD Guidelines and UN Guiding Principles.

## Sustainable investment objective of the financial product

To invest in companies that have demonstrable gender and/or ethnic diversity, or which provide solutions empowering social equality.

## Investment strategy

The Fund invests in Diversity Companies and Inclusion Companies.

Diversity Companies are companies that demonstrate sustainability and gender and/or ethnic diversity. They must have at least 30% women and/or 30% ethnic minority representation on boards at the time of purchase. Diversity Companies bought for their ethnic minority representation must also have no single ethnicity representing more than 70% of the board at the time of purchase. The Investment Manager also considers other measures of gender and/or ethnic diversity in assessing the contribution of Diversity Companies to the sustainable objective. Diversity Companies are subject to fundamental assessment using the Fund's sustainable investment process ("EQL framework") described below.

The EQL Framework assesses:

- ESG Credentials: environmental and social responsibility characteristics evidenced by strong governance and sustainable business practices.
- Quality: the quality and durability of the company's business model and its ability to produce sustainable economic returns.
- Leading Diversity: the company's commitment towards diversity leadership through diversity representation, policies and targets.

Inclusion Companies are companies that deliver solutions to empower social equality. These can be understood by reference to the United Nations Sustainable Development Goals ("SDGs") framework as companies which are focused on sustainable development goals such as Good Health and Wellbeing, Quality Education; Gender Equality; Decent Work and Economic Growth; Industry, Innovation and Infrastructure; Reduced Inequalities; and Peace, Justice and Strong Institutions; or other companies which the Investment Manager considers appropriate to invest in pursuit of the sustainable objective. These companies are assessed using the Investment Manager's impact assessment methodology ("Impact Methodology") described below.

The Impact Methodology focuses on three criteria:

- Investment Credentials: the quality and durability of the company's business model and its ability to produce sustainable economic returns;
- Intention: the company's purpose as evidenced by the alignment of its mission statement with its corporate strategy and actions; and
- Impact: the scale of the net positive societal impact and the company's progress in addressing social equality challenges.

The outputs of the Impact Methodology enable the Fund to allocate to the following three investment types:

- "Pioneers", whose products or services have or could have a transformational effect on social equality.
- "Enablers", which provide the tools for others to empower social equality.
- "Leaders", which spearhead and mainstream sustainability in industries empowering social equality, but which may have more established profitability than pioneers.

The Investment Manager's engagement with the companies in which the Fund invests is key to the investment approach.

Sustainability considerations, encompassing ESG factors, are fully integrated into analysis and investment decisions, and play an important role in determining the investment universe and portfolio construction.

In order to identify securities for purchase, the Investment Manager reduces the potential investment universe as follows:

1. The exclusions listed in the ESG Criteria are screened out.
2. The Investment Manager then assesses the sustainability credentials of the remaining companies:
  - a. Diversity Companies are assessed using the EQL framework; and
  - b. Inclusion Companies are identified by reference to the relevant SDGs, and assessed using the Impact Methodology.
3. The Investment Manager then performs further analysis to consider the valuation of these companies and the appropriate time to purchase in consideration of the Fund's financial objective.

The Investment Manager operates data driven quantitative good governance tests used to consider investments into companies. The Investment Manager excludes investments in securities that are considered as failing the Investment Manager's good governance tests. When assessing good governance practice the Investment Manager will, as a minimum, have regard to matters it sees relevant to the four identified pillars of good governance (sound management structures, employee relations, remuneration of staff and tax compliance).

## Proportion of investments

The Investment Manager expects at least 80% of the Fund to be invested in social sustainable investments, in pursuit of the social sustainable investment objective.

The Fund holds at least 15% and typically a maximum of 30% in Inclusion Companies, with the remainder of the sustainable investments held in Diversity Companies.

The Fund does not use derivatives to attain its sustainable investment objective and is unlikely to invest in collective investment schemes to achieve its sustainable investment objective. Therefore typically all of the sustainable investments are expected to be held directly.

## Monitoring of sustainable investment objective

The Fund's exclusions are coded and monitored on a pre and post trade basis as investment restrictions to prevent and detect investments that would not be compliant with the stated exclusions. Incidents are recorded, and resolved through an incident investigation process, and are reported as part of the SFDR periodic reporting.

Monitoring of the sustainable investment objective is undertaken through systems and digital investment platform tools. These are applicable on an ex-ante, ex-post basis in the investment process. Surveillance occurs on an ongoing basis in the investment platform tools using codified rules to assess compliance with the requirement to invest in sustainable investments in pursuit of the sustainable investment objective.

The Investment Manager is able to review, at portfolio level, compliance with binding commitments and Key Sustainability Indicator (KSI) outputs.

## Methodologies

Key Sustainability and Principal Adverse Indicators alongside binding elements of the Fund are used to demonstrate attainment of sustainable investment objective of the Fund. Regarding the underlying metrics, there are a variety of methods used subject to the asset class, instrument or sustainable investment objective:

- binary pass/fail test e.g. exclusion of companies in violation of the United Nations Global Compact principles
- meets or exceeds a specific threshold e.g. more than % of board diversity
- industry certification evidencing sustainability performance e.g. Climate Bond Initiative (CBI) certified bond
- contributes a set % of revenue to a climate, environmental or social cause
- proprietary analysis to form an assessment of the sustainability characteristics e.g. net zero alignment or impact

In the case that particular data points are not available or insufficient, it is expected that the Investment Manager's own proprietary assessment will be sufficient.

For corporates, as part of ESG analysis, a proprietary ESG scorecard is used, including ESG considerations such as:

- Environmental: GHG emissions, air emissions & quality, energy management, water & wastewater management, waste & hazardous materials management, ecological & biodiversity impacts, physical risk, materials sourcing
- Social: occupational health & safety, human rights & community relations, labour practices and human capital, supply chain management, data security & privacy, product governance & safety, customer welfare, access & affordability
- Governance: board quality and effectiveness, ownership, remuneration, accounting & transparency, risk management and business continuity, business ethics and transparency, competitive behaviour.

Only factors material to the relevant industry are assessed for a particular company. Please, note that the list of factors above is indicative and is subject to change as regulatory expectations and market practices evolve.

## Data sources and processing

A range of data sources is used to monitor the indicators which align to the sustainable investment objective of the Fund. The Investment Manager sources information from a range of third party data vendors including companies such as:

- MSCI
- Bloomberg
- Aladdin Climate
- Net Purpose
- Findox
- ISS

Additionally, data used to assess if the Fund attains its sustainable investment objective can be sourced from proprietary research and analysis.

Data received from third party vendors typically comes from reputable and, in some cases, audited sources, such as annual reports or sustainability reports. The Investment Manager's Investment Data Assurance team works to ensure data quality and monitors for changes in data provided from third party vendors. To ensure that interpretation of data is consistent, benchmarking exercises are performed where appropriate.

Data is primarily processed through our Investment Data Systems (IDS) to initially check volatility and then to ensure data quality assurance processes are applied prior to onward distribution to downstream systems. External and internal proprietary systems and digital platform tools monitor individual data quality and exposure at a fund and security level pre and post trade.

Use of estimated data is limited and subject to controls given the investment, regulatory and client requirements with regards to data quality. In some cases, external providers may utilise their own estimation models. In this case, the Investment Manager typically seeks to also ingest and understand data quality scores. Over time, these methodologies have improved so where they have been assessed as reliable, such external estimations can be utilised. Should estimations be required to be calculated by the Investment Manager, proprietary analysis and tools are used.

Relating specifically to carbon emissions, given the difficulty obtaining Scope 3 emissions for many sectors, they may not be included in all emissions figures. Carbon emissions intensity figures will only incorporate Scope 1 and 2 emissions. Data quality scores are considered for all

emissions relied on for investment purposes. Consideration of emissions as part of the assessment of Do No Significant Harm also predominantly relies on Scope 1 and 2 emission data given the data limitations. Estimated data may be used for this assessment where reported data is unavailable.

## Limitations to methodologies and data

As mentioned above, sustainable investment objectives are monitored through indicators which are often based on data. ESG information from third party data providers and/or obtained directly from the issuers may be incomplete, inaccurate, stale or unavailable. As a result, there is a risk that the Fund may incorrectly assess an issuer or information that is an input into an indicator. This in turn can result in the incorrect inclusion or exclusion of a company in the portfolio or incorrect outcome for an indicator in the Fund. Incomplete, inaccurate or unavailable ESG data may also act as a methodological limitation to a non-financial investment strategy (such as the application of ESG risk and opportunity characteristics). Where identified, the Investment Manager will seek to mitigate this risk through its own assessment. In the case that particular data points are not available, it is expected that the Investment Manager's own assessment will be sufficient to ensure that the attainment of sustainable investment objective is not materially affected.

Internal methodologies and policies are subject to appropriate governance and oversight, in which limitations are recognised and accepted, with controls applied as appropriate. Exceptions from frameworks are subject to appropriate governance by specialists in the Investment Manager's Stewardship and Sustainability team and/or Governance committees according to the materiality of the departure from policy. Common limitations include: lack of coverage of business involvement screening; lack of key sustainability metrics; divergence of market standards across different geographies.

Where limitations in the methodologies and data have been identified, the Investment Manager seeks to mitigate these through governance and oversight. Whilst, as with financial data, it is impossible to completely eliminate the risk of impact of an external data vendor error, the Investment Manager does conduct its own reviews and challenges where it believes investments have been misclassified. Where the methodologies and/or data are insufficient post mitigation to establish that an investment is a sustainable investment in pursuit of the sustainable investment objective, such investment may not be purchased.

## Due diligence

The Fund's investment process includes ESG due diligence, which is carried out as a part of fundamental investment research.

Appropriate consideration of ESG factors is a mandatory objective in the due diligence process for analysts and fund managers. Due diligence includes both screening and quantitative and/or qualitative assessment of ESG risks. The due diligence process leverages the Investment Manager's internal tools, external data and investment-level research.

The section above entitled 'Methodologies' provides greater detail on the approaches and tools utilised to support due diligence.

## Engagement policies

Where applicable, as an active fund manager, M&G's preference is to engage rather than divest in order to support and, where possible, accelerate the transition for an issuer on key ESG risks, or on improving their approach to meet customer and stakeholder expectations. Engagements are focused on achieving real world outcomes. M&G engage in line with the PRI definition of engagement, focusing on the underlying substance of engagement, delivery of pre-defined engagement objectives and the relevance for the investment decision.

Engagement is undertaken either by the fund managers, analysts, the Stewardship & Sustainability team or a combination of the aforementioned. Examples of engagement objectives could be:

- Seeking to influence change in behaviour of a company
- Seeking to encourage improved ESG disclosure
- Seeking closer alignment of executive compensation with the sustainability performance of the company

In addition to engagement, active voting is a part the investment approach. Please refer to the M&G Investments Engagement Policy and M&G Investments Voting Policy for further information.

# Attainment of sustainable investment objective

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

## Sustainable Investments

### Sustainable investment test

A sustainable investment is an investment in an economic activity that contributes to an environmental or social objective provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

This can be summarised as three requirements (i) contribute to environmental or social objective; (ii) do no significant harm or “DNSH” and (iii) good governance.

Firms such as the Investment Manager are required to devise their own method for identifying which investments they should treat as sustainable investments. This disclosure summarises the Investment Manager’s sustainable investment test.

### Sustainable baseline exclusions – DNSH and good governance

All potential sustainable investments are screened against the Sustainable baseline set out in Annex 2 – ESG Criteria – Exclusions and Restrictions. The Sustainable baseline exclusions represent the measurable, quantitative tests that the Investment Manager uses for DNSH and good governance. It is informed by the PAIs set out in Annex 1. For example, PAI 14 “Exposure to controversial weapons” is covered by Controversial Weapons exclusions test in the Sustainable baseline.

### Contribution to environmental or social objectives

The remaining potential sustainable investments that pass this first phase of DNSH and good governance tests are then tested for whether they contribute to environmental and/or social objectives. This testing includes a combination of quantitative and qualitative tests based on available data, as well as the application of judgment and opinion by the Investment Manager. These tests may vary over time in response to the market environment and evolving practice. This is a complex topic that varies between investment management firms, and an example is provided below to assist investor understanding.

### Further validation of DNSH against PAIs

Completion of the steps above identifies investments as potential sustainable investments but it does not represent the end of the process. The PAIs set out in Annex 1 cover the areas relevant to the DNSH test but they are not all suitable for quantitative tests whereby a threshold can be set below or above which an investment is always considered to fail DNSH. Therefore these are not suitable for systematic screening. Instead, these PAIs are assessed by validating the sustainable investments identified from the previous tests against the full PAI list in Annex 1 to confirm the Investment Manager does not consider such sustainable investments to be doing significant harm.

### Example of assessing contribution to environmental or social objectives

A company may release a statement of intent to the market. Whether or not it has done so is quantifiable. That intent may be verifiable using independent validation, eg it may be a Science Based Target giving it a clearly defined path to reduce emissions in line with Paris Agreement goals. Or, it may require a qualitative assessment of its validity by the Investment Manager. That validated intentionality then provides a rationale for considering securities issued by that company to be contributing towards an environmental objective.

The Investment Manager would then perform ongoing assessment of whether or not the company is living up to that statement of intent. The data the company releases to the market about its emissions reduction would provide quantifiable evidence. But, emissions reduction is rarely a smooth year-on-year delivery. Where a company lags behind its targets on a year-on-year basis, the Investment Manager’s opinion on its overall progress, and potential to progress, would be relevant to determining whether or not such a company should continue to be considered as contributing to an environmental objective.

## ESG Criteria

Certain potential investments are excluded from the investment universe to mitigate potential negative effects on the environment and society and to assist in delivering more sustainable outcomes. This is achieved by applying the “Sustainable Baseline” set out in Annex 2. The restrictions in the Sustainable baseline do not apply to “other investments” purchased for hedging purposes or in connection with cash

held for ancillary liquidity.

Due to the application to the ESMA Naming Guidelines, the Fund applies the exclusion criteria for the Paris-Aligned Benchmark (PAB) set out in Annex 3.

The Fund applies stricter thresholds and definitions than described in the Sustainable baseline and Paris-aligned benchmark criteria for the following exclusions:

- 0% threshold for Thermal Coal Extraction, Conventional Oil and Gas Extraction and Unconventional Oil and Gas Extraction
- 0% threshold for Adult Entertainment and Gambling
- Controversial weapons definition includes all nuclear weapons.

In addition, the Fund excludes:

- companies that derive 0% or more of their revenue from nuclear-based power generation
- companies that derive more than 5% of their revenue from the genetic modification of plants/crops intended for agriculture or human consumption
- companies that derive 0% or more of their revenue from the production of alcohol for consumption.

This section and the annexes from Annex 2 onwards outline exclusions and restrictions applied by the Fund. Where exclusions overlap, the strictest restriction will apply.

### **Investment Universe Reduction**

After applying the exclusions outlined above, the original investment universe is expected to be reduced by a minimum of 20%.

### **ESG Criteria – Approach to Exclusions**

Please note that this section does not apply to exclusions listed in Annex 3 - ESMA Naming Guidelines Exclusions.

The exclusions are intended to assist the Investment Manager in mitigating the harm that the Fund can do on the environment or society. There may be occasions where systematic application of the exclusions does not achieve that outcome with sufficient precision. In such circumstances, the Investment Manager can decide to apply one of the following approaches:

1. The Investment Manager may disagree with data or opinions provided by third parties, and decide to categorise an investment differently. For example, data provided from data vendors can be stale and the Investment Manager may have access to more accurate information from researching the relevant company.
2. The Investment Manager may deem that, in exceptional circumstances, revenues arise from excluded activities the company is no longer undertaking (e.g. if the relevant business has been sold), from one-off payments or from extraordinary income streams that are not expected to persist or which arise by operation of law or regulation. In such cases, the Investment Manager would consider why the revenues were being received, their significance and how long exposure is expected to continue to inform its decision on whether to invest or to remain invested.
3. The Investment Manager may take a different view on a specific investment type from its general opinion of the company (or issuer). For example, the Investment Manager may determine it would not buy shares in a power company because of its heavy reliance on coal-fired power plants, but might consider investing in a green bond issued by the same company, where use of the proceeds from that green bond are restricted to specific activities such as building a solar power plant.

Where the Investment Manager is managing a product it has categorised as ESG Enhanced, Sustainable, or Impact, it will consider a set of “Principal Adverse Impact indicators” as part of its investment management and these will inform decisions like those listed above. Where the Investment Manager is granting an exception for a sustainable investment, it will also consider whether the relevant investment is compatible with the principle of “do no significant harm”. Where a product has applied for an ESG label, such as the Towards Sustainability label provided by Febelfin, any requirements of such label shall also inform the decisions above.

## Annex 1- PAI Table

Issuer	PAI Indicator	PAI	PAI Metric
Corporate	GHG emissions	1a	Scope 1 GHG emissions
		1b	Scope 2 GHG emissions
		1c	Scope 3 GHG emissions
		1d	Total GHG Emissions
	Carbon footprint	2	Carbon footprint
	GHG intensity of investee companies	3	GHG intensity of investee companies
	Exposure to companies active in the fossil fuel sector	4	Share of investments in companies active in the fossil fuel sector
	Share of non-renewable energy consumption and production	5	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage
		6a	Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE A
		6b	Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE B
		6c	Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE C
6d		Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE D	
6e		Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE E	
6f		Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE F	
Energy consumption intensity per high impact climate sector	6g	Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE G	
	6h	Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE H	
	6i	Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE I	
	6l	Energy consumption in GWh per million Euro of revenue of investee companies, per high impact climate sector - NACE L	
Activities negatively affecting biodiversity-sensitive areas	7	Share of investments in investee companies with sites/ operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	
Emissions to water	8	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	
Hazardous waste ratio	9	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average	
Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	10	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	
Lack of process and compliance mechanisms to monitor compliance with UNGC principles and OECD guidelines for multinational enterprises	11	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance / complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for multinational enterprises.	



	Unadjusted gender pay gap	12	Average unadjusted gender pay gap for investee companies
	Board gender diversity	13	Average ratio of female to male board members in investee companies
	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons)	14	Share of investments in investee companies involved in the manufacture or selling of controversial weapons
Sovereigns and Supranationals	GHG intensity	15	GHG intensity of investee countries
	Investee countries subject to social violations	16	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law
Real Estate	Exposure to fossil fuels through real estate assets	17	Share of investments in real estate assets involved in the extraction, storage, transport, or manufacture of fossil fuels
	Exposure to energy-inefficient real estate assets	18	Share of investments in energy-inefficient real estate assets
Corporate	Investments in companies without carbon emissions reduction initiatives	Optional	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement
	Investments in companies without workplace accident prevention policies	Optional	Share of investments in investee companies without a workplace accident prevention policy
	Lack of a human rights policy	Optional	Share of investments in entities without a human rights policy
	Lack of anti-corruption and anti-bribery policies	Optional	Share of investments in entities without policies EN 22 EN on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption

## Annex 2 - ESG Criteria – Exclusions and Restrictions

### Norms-based exclusions

Norms		
Exclusion Criteria	Planet+ baseline	Sustainable baseline
<b>Good Governance</b> Any investment that is assessed to be in breach of the Investment Manager's good governance tests.	Yes	Yes
<b>UNGC</b> Any company that is assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment protection and anti-corruption.	Yes	Yes

### Sector-based and/or values-based exclusions

Environmental		
Exclusion Criteria	Planet+ baseline	Sustainable baseline
The M&G Investments Thermal Coal Investment Policy is applied; a copy may be found on our website.	Yes	Yes

Fossil fuels exclusions test		
Exclusion Criteria	Planet+ baseline	Sustainable baseline
In addition, companies that derive revenues from the extraction of thermal coal are excluded. Where such additional exclusion applies, revenues are tested against the threshold set out for the relevant baseline.	N/A	A 5% combined threshold for fossil fuel revenues from these sources applies. This revenue threshold is applied as part of a systematic process operated by the Investment Manager. A company which exceeds this revenue threshold may be permitted for investment where it has been assessed by the Investment Manager and determined not to cause significant environmental or social harm*.
<b>Conventional Oil and Gas Extraction</b> Companies that derive revenues from the conventional extraction of oil and gas are excluded. Where such exclusion applies, revenues are tested against the threshold set out for the relevant baseline.	N/A	
<b>Unconventional Oil and Gas Extraction</b> Companies that derive revenues from the unconventional extraction of oil and gas (defined as oil sands and Arctic drilling) are excluded. Where such exclusion applies, revenues are tested against the threshold set out for the relevant baseline.	10%	
<b>Carbon-Intensive Power Generation</b> Companies that derive revenues from the following activities are excluded: <ul style="list-style-type: none"> <li>coal-fired power generation.</li> <li>oil or gas-fired power generation.</li> </ul> Where such exclusion applies, revenues are tested against the threshold set out for the relevant baseline.	N/A	

\*Our exclusion set in consideration of PAI 4 (Exposure to companies active in the fossil fuel sector) aims to avoid the harm that would arise from material carbon emissions caused by such activities. We consider it is appropriate to take into consideration whether the relevant company has a positive measurable effect on carbon emissions. If this is determined to substantially outweigh the harm we are seeking to prevent by restricting revenues from this activity, we may consider such an investment to pass DNSH. We would consider why the revenues were being received, their materiality and whether they were likely to continue or grow. For example, a renewable energy producer may have a minor revenue stream from legacy fossil fuel power generation that is not expected to persist, have a transition plan away from that activity and no expansion plans for fossil fuel power generation, while the vast majority of its activities are focused on generating renewable energy and the fund manager may then determine the positive climate change mitigation effect of the renewable power generation far outweighs the contribution to climate change associated with the minor fossil fuels revenue stream. For the avoidance of doubt, we do not consider other positive contributions that are unrelated to the harm to be a basis for such treatment.

Social		
Exclusion Criteria	Planet+ baseline	Sustainable baseline
<b>Adult Entertainment</b> Companies that derive revenues from producing, directing or publishing adult entertainment materials are excluded. Where such exclusion applies, revenues are tested against the threshold set out for the relevant baseline.	10%	5%
<b>Gambling</b> Companies that derive revenues from the provision of gambling-related services are excluded. Where such exclusion applies, revenues are tested against the threshold set out for the relevant baseline.	10%	5%
<b>Tobacco</b> Companies that derive revenues from activities related to the tobacco industry are excluded. Where such exclusion applies, revenues are tested against the threshold set out for the relevant baseline. These test for the manufacture of tobacco products (P), their wholesale distribution (W) and for any involvement in aggregate (including retail distribution) (D).	P 5% D 10%	P+W 5% D 10%
<b>Controversial Weapons</b> Companies involved in anti-personnel mines, cluster munitions, chemical and biological weapons, nuclear weapons outside the non-proliferation treaty, depleted uranium and white phosphorous munitions, blinding laser, non-detectable fragment weapons are excluded. Where such exclusion applies, revenues are tested against the threshold set out for the relevant baseline.	0%	0%
<b>Defence and Other Weapons</b> Companies that derive revenues from the production or sale of weapons systems, components, and support systems and services, or the manufacture and retail of civilian firearms and ammunition are excluded. For the avoidance of doubt, this does not include the provision of generic systems and services that are not weapons-specific. Where such exclusion applies, revenues are tested against the threshold set out for the relevant baseline.	N/A	5%

## Investment-specific exclusions

ABS		
Exclusion Criteria	Planet+ baseline	Sustainable baseline
<b>Sector tests</b> Sector classification is checked against the relevant baseline as set out above under "Sector and/or value based exclusions", rather than using a revenue threshold: <i>Key Counterparty</i>  <i>Underlying assets</i>	No sector exposure permitted  Max 10% combined exposure to the above sectors	No sector exposure permitted  Max 10% combined exposure to the above sectors
<b>Minimum ESG Score</b> A proprietary ABS ESG Scorecard is used to assess whether assets have sufficient ESG characteristics. Securities scoring below a cut-off threshold are excluded.	Below threshold excluded	Below threshold excluded

Government Bonds		
Exclusion Criteria	Planet+ baseline	Sustainable baseline
<b>Social tests</b> The relevant Government is assessed for factors indicating its social progress. Lower scoring governments are excluded.	Applies	For sustainable investments, "DNSH" standard applies. For remaining investments, Planet+ baseline exclusions apply
<b>Environmental tests</b> Governments that pass the social tests are subject to further tests to assess their environmental credentials.	N/A	For sustainable investments, "DNSH" standard applies. For remaining investments, Planet+ baseline exclusions apply

## Annex 3 - ESMA Naming Guidelines Exclusions

The exclusion criteria for the Paris-Aligned Benchmark (PAB) or Climate Transition Benchmark (CTB), as outlined below, are mandated by the ESMA Naming Guidelines<sup>1</sup> for funds using ESG and sustainability-related terms in their names. In addition to applying PAB exclusions where required by the ESMA Naming Guidelines, M&G Investments may opt to apply PAB exclusions to funds not mandated to do so, such as those with a social term in their name.

The exclusions listed below apply as additional features of the Fund's ESG Criteria.

Social		
Exclusion Criteria	CTB	PAB
<b>Controversial Weapons</b>		
(a) companies involved in any activities related to controversial weapons. <sup>2</sup> Where such additional exclusion applies, revenues are tested against the threshold set out in the table.	0%	0%
<b>Tobacco</b>		
(b) companies involved in the cultivation and production of tobacco. Where such additional exclusion applies, revenues are tested against the threshold set out in the table.	0%	0%
<b>UNGC and OECD</b>		
(c) companies that benchmark administrators find in violation <sup>3</sup> of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises.	Yes	Yes

Environmental		
Exclusion Criteria	CTB	PAB
<b>Coal</b>		
(d) companies that derive revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite. Where such additional exclusion applies, revenues are tested against the threshold set out in the table.	N/A	1%
<b>Oil</b>		
(e) companies that derive revenues from the exploration, extraction, distribution or refining of oil fuels. Where such additional exclusion applies, revenues are tested against the threshold set out in the table.	N/A	10%
<b>Gas</b>		
(f) companies that derive revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels. Where such additional exclusion applies, revenues are tested against the threshold set out in the table.	N/A	50%
<b>GHG Intensive Power Generation</b>		
(g) companies that derive revenues from electricity generation with a GHG intensity of more than 100g CO <sub>2</sub> e/kWh. <sup>4</sup> Where such additional exclusion applies, revenues are tested against the threshold set out in the table.	N/A	50%

<sup>1</sup> ESMA34-472-440 Final Report Guidelines on funds' names using ESG and sustainability-related terms published on 14 May 2024.

<sup>2</sup> Controversial weapons means controversial weapons as referred to in international treaties and conventions, United Nations principles and, where applicable, national legislation. These include companies involved in anti-personnel mines, cluster munitions, chemical and biological weapons, nuclear weapons outside the non-proliferation treaty, depleted uranium and white phosphorous munitions, blinding laser and non-detectable fragment weapons.

<sup>3</sup> Companies 'assessed to be in violation' mean companies that are found to be in severe, repeated and/or systemic breach of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises.

<sup>4</sup> Due to data limitations, screening for GHG intensity directly may not be practical, therefore the Manager may monitor revenues from the sources of power generation that are known to have GHG intensity exceeding 100g/kWh (typically power generation from combustion, e.g. fossil fuels) as a proxy. Where for a particular company it can be evidenced that emissions are below 100g/kWh it is allowed as an investment even if it falls under one of monitored sources of power generation.

### Application to asset-backed securities

Due to data limitations on asset-backed securities, look-through to underlying assets based on revenues is not feasible. Therefore, sector classification of underlying assets and key counterparty is used as a proxy. Based on this information, assets with exposure to excluded sectors are not permitted for investment.

### Application to the use of proceeds instruments

European Green Bonds that have been issued under the European Green Bonds Regulation (Regulation (EU) 2023/2631) do not need to be assessed under the exclusions outlined in this Annex. In respect of investments in other use of proceeds instruments, the exclusions outlined in this Annex will be applied to the bond proceeds, with the exception of the UNGC and OECD exclusions, which will be applied to the bond issuer.