M&G (Lux) Sustainable Global High Yield Bond Fund

ESG Key Performance Indicators (KPIs) – Annual Review

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- When assessing the fund's environmental, social and governance (ESG) performance, we also assess how the fund and the global high yield market are evolving from an ESG perspective
- In this report we highlight four key performance indicators (KPIs) that we consider to be materially significant from an ESG perspective; they are quantifiable and with sufficient data coverage across the global high yield universe.

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. Where any performance is mentioned, please note that past performance is not a guide to future performance.

Overview

The M&G (Lux) Sustainable Global High Yield Bond Fund is designed to offer clients a sustainable, high-conviction and benchmark-unconstrained bond proposition. At least 80% of the fund is invested in lower quality bonds, denominated in any currency, and issued by companies from anywhere in the world, including emerging markets. The fund's currency exposure is typically hedged back to US dollar. The fund promotes the use of an exclusionary approach and a strategy to achieve a positive ESG outcome. We expect at least 70% of the fund to be aligned to the promoted E/S characteristics. At least 40% of the fund will be in sustainable investments.

The fund invests in securities that meet the ESG Criteria and Sustainability Criteria. The fund excludes certain potential investments from its investment universe to mitigate potential negative effects on the environment and society and to assist it in delivering more sustainable outcomes. For securitised investments such as asset-backed securities (ABS), this also includes assessing them against the Investment Manager's proprietary scoring methodology. Accordingly, the Investment Manager is promoting environmental and/or social characteristics by excluding certain investments that are considered to do significant harm to environmental and/or social objectives.

The fund maintains a higher weighted average ESG rating and lower weighted average carbon intensity than the fund's investment universe of global high yield bonds, as represented by the ICE BofA Merrill Lynch Global High Yield Index USD Hedged.

The fund combines M&G's long-running expertise in global high yield debt with an assessment of ESG factors. The fund draws on the M&G fixed income team's well-established, value-driven investment approach, which is backed by significant credit research resources and well-connected trading capabilities. The fund puts sustainability factors at the core of its investment approach, with the aim of continuously maximising sustainability elements in the portfolio while maintaining a value-based investment approach.

In order to identify securities that meet the fund's sustainability criteria, potential investments undergo a three-stage process as follows:

Stage 1 - the fund excludes companies that are assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment protection and anti-corruption. This stage also excludes government bonds from countries classed as "Not Free" by the Freedom House index based on civil liberties and political rights.

Stage 2 - the fund seeks to exclude companies which are engaged in business activities deemed to be damaging to the environment and/or the wellbeing of society. We seek to filter out companies that derive a material part of their revenues from the following activities: tobacco, alcohol, adult entertainment, gambling, conventional weapons, controversial weapons, thermal coal, oil & gas, nuclear energy and genetically modified crops.

Stage 3 – to ensure minimum quality standards in how financially-material ESG risks are managed, the fund seeks to exclude issuers considered to be ESG laggards based on the analysis of external research providers and M&G's in-house assessment.

Once the sustainability-themed universe has been defined through the three-stage screening process outlined above, the fund managers seek to achieve a positive ESG tilt through the inclusion of issuers which display more favourable ESG characteristics, subject to relative value considerations.

ESG portfolio monitoring

The fund's ESG performance is monitored across a wide range of metrics. At a broad portfolio level, we review the fund's average ESG score (based on MSCI scores) both at an absolute level and compared with the fund's investment universe of global high yield bonds (as represented by the ICE BofA Merrill Lynch Global High Yield Index USD Hedged. Please note that for some KPIs, data is not available on 100% of the fund holdings or the index. As well as monitoring the fund's ESG performance, the fund managers also regularly assess how both the fund and the global high yield market are evolving from an ESG perspective.

The fund managers also track the ESG performance of individual companies held within the fund. They pay close attention to any companies that have had their ESG score downgraded or are at risk of being downgraded in the future. As part of this process, the fund managers ensure that they focus on the most relevant ESG metrics based on a company's sector. For example, environmental factors, such as carbon emissions, are highly significant for the oil and gas sector, but would be less relevant for a financial services company. To reflect this, MSCI bases its score on the 6-10 most material ESG issues for the industry in which a company operates.

At a more granular level, the managers monitor a wide range of more specific ESG-related metrics, such as the fund's overall carbon footprint or its exposure to companies where labour rights issues have been identified. In this report we highlight four key performance indicators (KPIs) that we consider to be materially significant from an ESG perspective, as well as being quantifiable and with sufficient data coverage across the global high yield universe. We have selected one KPI for each of the three ESG categories (environmental, social and governance), and an additional KPI to cover human rights.

The KPIs highlighted in this report are intended to demonstrate how several different aspects of the fund's ESG performance are monitored in real-time, while also providing some additional insight into our ESG methodology. The KPIs are not intended to represent a comprehensive overview of the many factors that are monitored as part of our ESG assessment. A lack of data means that some ESG metrics cannot be calculated at a portfolio level, but may nevertheless form an important input when analysing and monitoring certain companies. ESG assessment also includes subjective elements, which would be difficult to reflect as a numerical score.

Of the 4 KPIs detailed below, the fund scores ahead of the investment universe on carbon emissions and independent board majority. In terms of labour rights, the fund scores behind the investment universe, while in terms of human rights, the fund scores just behind the investment universe in the minor and moderate categories.

The KPIs presented below use data from MSCI as at 31 December 2023.

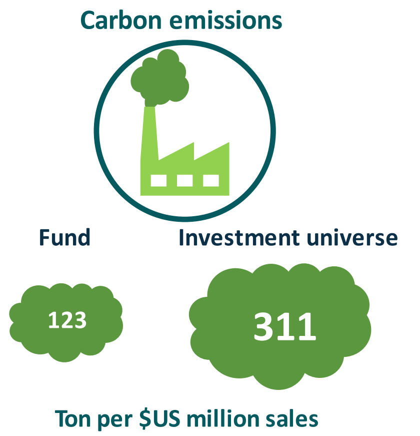
KPI 1 – Carbon emissions

Category: Environment

A carbon footprint is the total quantity of greenhouse gas produced directly and indirectly to support a company's activities. Having a good understanding of a company's carbon emission profile is an important factor in assessing the potential risks it may face relating to environmental regulations or future changes in government policy.

The fund's carbon footprint is measured in tonnes of carbon dioxide equivalent (CO_2e) produced per $US million of revenues. Carbon dioxide equivalent (CO_2e) allows for different greenhouse gas emissions to be compared on a like-for-like basis relative to one unit of CO_2.

The chart shows the fund's level of carbon emissions, calculated with reference to the most recently reported or estimated Scope 1 (direct emissions) and Scope 2 (indirect emissions related to the consumption of electricity) greenhouse gas emissions of the fund's underlying holdings. This is normalised by sales in US$, which allows for comparison between companies of different sizes.



Source: M&G, MSCI, December 2023.Data not available for 12.7% of the fund holdings and 18.0% of the investment universe.

Based on this measure, the fund is considerably less carbon-intensive than the fund's investment universe of global high yield bonds (as represented by the ICE BofA Merrill Lynch Global High Yield Index USD Hedged). We believe this bias towards lower-carbon companies is a natural consequence of the fund's ESG integration screen, which ensures that companies with relatively higher carbon emissions tend to be assigned lower ESG scores.

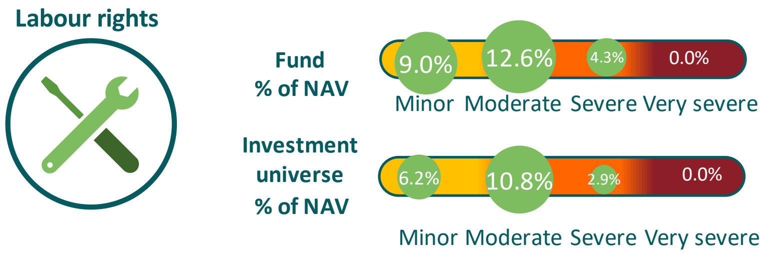
KPI 2 – Labour rights

Category: Social

This indicator measures the severity of controversy cases relating to a company's labour-management relations. Factors affecting this evaluation include, but are not limited to, a history of involvement in employee-related legal cases, widespread or egregious instances of wrongful termination, reductions in benefits, mistreatment of either employees or contractors, resistance to improved practices, and criticism by non-governmental organisations (NGOs) and/or other third-party observers.

Please note that companies are categorised according to the most severe issue identified, rather than the total number of issues. For instance, a company with four minor issues and one severe issue will be treated as one severe case.

Severe labour rights issues can have a significantly negative impact on a company's operations. Examples of cases which might be deemed severe include widespread and disruptive employee protests related to unfair working practices or costly legal actions associated with poor working conditions or discrimination in the workforce.



By absolute number	Minor	Moderate	Severe
Fund	8	12	2
Investment universe	69	58	14

Source: M&G, MSCI, December 2023.

In our view, companies that have good labour standards may see a benefit in terms of their financial performance, such as through improved productivity or employee retention. Conversely, companies with a poor track record in this area may face a greater risk of fines, production disruption or negative publicity. This is particularly the case for companies with severe or very severe cases.

As shown in the graphic, the fund has a higher exposure than the investment universe, as represented by the ICE BofA Merrill Lynch Global High Yield Index USD Hedged, to issuers that are involved in minor or severe cases, although it has a similar exposure to issuers that are involved in moderate cases. Neither the fund nor the index have any exposure to issuers that are involved in very severe cases.

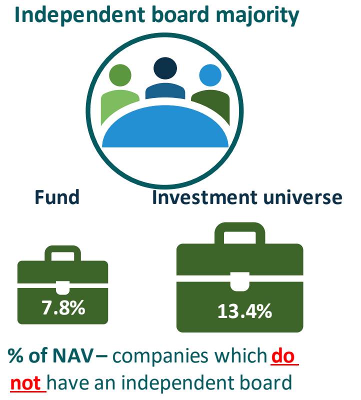
KPI 3 – Independent board majority

Category: Governance

This indicator measures board independence, which we regard as one of the most important governance issues. We believe that independent directors play a key role in ensuring good corporate governance, an effective monitoring of management and the protection of bondholders.

Of the three ESG pillars, we believe it is governance that can have the greatest impact on a company's financial performance. A robust governance framework, underpinned by an independent board of directors, is the key to ensuring that bondholders' interests are aligned with those of shareholders and management. By providing an independent check on management, good corporate governance can also significantly reduce the risks associated with unethical or fraudulent business practices, which could ultimately have a devastating impact on a company's financial performance.

The figure highlighted in the graphic indicates the percentage of companies where the majority of the directors do not meet the designated criteria for independence. Therefore, a lower number is preferable.

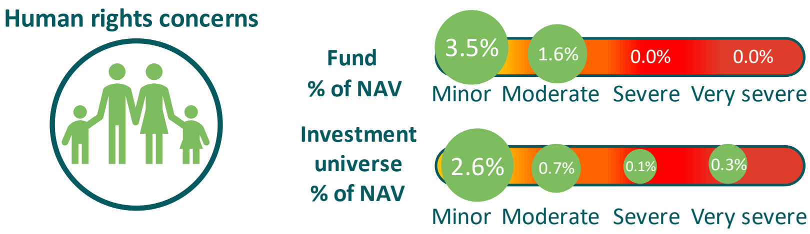


Source: M&G, MSCI, December 2023. Data not available for 17% of the fund holdings and 21% of the investment universe.

KPI 4 – Human rights concerns

Category: Human rights

This indicator measures the severity of controversy cases related to the impact of a firm's operations on human rights. Factors affecting this evaluation include, but are not limited to, a history of involvement in human rights-related legal cases, widespread or egregious complicity in killings, physical abuse, or violation of other rights, resistance to improved practices, and criticism by NGOs and/or other third-party observers.



By absolute number	Minor	Moderate	Severe	Very severe
Fund	3	2	0	0
Investment universe	20	5	3	4

Source: M&G, MSCI, December 2023. Data not available for 6% of the fund holdings and 5% of the investment universe.

Human rights concerns are categorised as minor, moderate, severe or very severe. Very severe cases are reserved for the most serious instances of human rights violations. Recent examples of such cases have included allegations of human rights abuses and poor living conditions at a company's accommodation facilities. Another case centred on a company's lack of progress in tackling alleged abuses by a foreign government's security forces against indigenous communities.

The fund has a small exposure to companies where minor or moderate human rights concerns have been identified and is behind the investment universe. However, the fund has zero exposure to companies where severe or very severe human rights concerns have been identified and, within these categories, compares favourably with the global high yield market.

ESG Controversies – Research Process and Methodology

To identify controversy cases (such as detailed in KPI 2 and KPI 4), MSCI analysts rely on a variety of sources, including company public documents, media sources, and NGO publications.

Each controversy case is assessed for the severity of its impact on society or the environment and rated Very Severe (reserved for 'worst of the worst' cases), Severe, Moderate, or Minor.

To reach its assessment, MSCI firstly determine the nature of impact on a scale ranging from minimal to very serious harm. MSCI then determines the scale of impact, ranging from low to extremely widespread. The combination of these two assessments is used to reach an initial determination of severity, as shown in the matrix.

For the final assessment, MSCI will consider any extenuating or exacerbating circumstances that may require an adjustment to the case's severity.

Extenuating circumstances might include instances where the company's responsibility is deemed indirect or difficult to determine, or where the case results from company actions that ceased five or more years ago.

Exacerbating circumstances might include instances where there is a strong indication that the company knowingly broke the law or disregarded human or environmental well-being, or where the affected party is deemed especially vulnerable, such as indigenous groups, children or biological hotspots.

	Very Serious	Serious	Medium	Minimal
Extremely widespread	Very Severe	Very Severe	Severe	Moderate
Extensive	Very Severe	Severe	Moderate	Moderate
Limited	Severe	Moderate	Minor	Minor
Low	Moderate	Moderate	Minor	Minor

Source: MSCI

M&G

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The main risks associated with this fund:

- 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.
- Investments in bonds are affected by interest rates, inflation and credit ratings. It is possible that bond issuers will not pay interest or return the capital. All of these events can reduce the value of bonds held by the fund.
- High yield bonds usually carry greater risk that the bond issuers may not be able to pay interest or return the capital.
- 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 may use derivatives to profit from an expected rise or fall in the value of an asset. Should the asset's value vary in an unexpected way, the fund will incur a loss. The fund's use of derivatives may be extensive and exceed the value of its assets (leverage). This has the effect of magnifying the size of losses and gains, resulting in greater fluctuations in the value of the fund.
- 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.

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

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

The fund's sustainability-related disclosures can be found at the link below:

Luxembourg: https://www.mandg.com/investments/professionalinvestor/en-lu/funds/mg-lux-sustainable-global-highyield-bond-fund/lu1665235914#sustainability

UCITS HAVE NO GUARANTEED RETURN, AND PAST PERFORMANCE IS NOT A GUIDE TO FUTURE PERFORMANCE

M&G Investments

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