

European SRI Transparency Code

M&G (Lux) Positive Impact Fund



January 2023



Contents

Statement of Commitment	2
Compliance with the Transparency Code.....	2
1. List of funds covered by the Code	2
2. The fund management company	3
3. The SRI fund	7
4. Investment Process	9
5. ESG Controls	11
6. Impact Measures and ESG Reporting	11

Statement of Commitment

Sustainable and Responsible Investing is an essential part of the strategic positioning and behaviour of M&G Investments. Our full response to the European SRI Transparency Code can be accessed below and is available on our website.

Sustainable and Responsible Investing is an essential part of the strategic positioning and behaviour of M&G Investments. We have been formally involved in SRI since 2013 and welcome the European SRI Transparency Code.

This is our fifth statement of commitment and covers the period 31 December 2022 to 31 December 2023. Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our website.

Compliance with the Transparency Code

M&G Investments is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate. M&G Investments meets the full recommendations of the European SRI Transparency Code.

1. List of funds covered by the Code

Name of the fund(s): M&G (Lux) Positive Impact Fund					
Dominant/preferred SRI strategy (Please choose a maximum of 2 strategies)	Asset class	Exclusions standards and norms	Fund capital as at 31 December	Other labels	Links to relevant documents
<input type="checkbox"/> Best-in-Class Investment section <input type="checkbox"/> Engagement & Voting <input type="checkbox"/> ESG Integration <input type="checkbox"/> Exclusions <input checked="" type="checkbox"/> Impact Investing <input type="checkbox"/> Norms-Based Screening <input type="checkbox"/> Leading to exclusions <input type="checkbox"/> Leading to risk management analysis/engagement <input type="checkbox"/> Sustainability Themed	Passively managed <input type="checkbox"/> Passive investing – core benchmark: specify the index tracking <input type="checkbox"/> Passive investing – ESG/SRI benchmark: specify the index tracking Actively managed <input type="checkbox"/> Shares in a euro area country <input type="checkbox"/> Shares in an EU country <input checked="" type="checkbox"/> International shares <input type="checkbox"/> Bonds and other debt securities denominated in euro	<input checked="" type="checkbox"/> Controversial weapons <input checked="" type="checkbox"/> Alcohol <input checked="" type="checkbox"/> Tobacco <input checked="" type="checkbox"/> Arms <input checked="" type="checkbox"/> Nuclear power <input checked="" type="checkbox"/> Human rights <input checked="" type="checkbox"/> Labour rights <input checked="" type="checkbox"/> Gambling <input checked="" type="checkbox"/> Pornography <input checked="" type="checkbox"/> Animal testing <input type="checkbox"/> Conflict minerals <input type="checkbox"/> Biodiversity <input type="checkbox"/> Deforestation	€500.2m as at 31 December 2021 €272.3m as at 31 December 2022	<input checked="" type="checkbox"/> French SRI label <input type="checkbox"/> French TEEC label <input type="checkbox"/> French CIES label <input type="checkbox"/> Luxflag Label <input checked="" type="checkbox"/> FNG Label <input type="checkbox"/> Austrian Ecolabel <input type="checkbox"/> Other (please specify)	- KID found here - Prospectus found here - Management Report found here - Financial and non-financial reporting found here - Corporate presentations - Fund Overview found here - Other (please specify) - Annual Impact Report here - ESG Criteria here - Sustainability-related Disclosures here

	<input type="checkbox"/> International bonds and other debt securities <input type="checkbox"/> Monetary assets <input type="checkbox"/> Short-term monetary assets <input type="checkbox"/> Structured funds	<input checked="" type="checkbox"/> CO2 intensive (including coal) <input checked="" type="checkbox"/> Genetic engineering <input type="checkbox"/> Other (please specify) <input checked="" type="checkbox"/> Global Compact <input checked="" type="checkbox"/> OECD Guidelines for MNCs <input checked="" type="checkbox"/> ILO Conventions <input type="checkbox"/> Other (please specify)			
--	--	--	--	--	--

2. The fund management company

2.1. Name of the fund management company that manages the applicant fund

M&G Investment Management Limited
 10 Fenchurch Avenue
 London EC3M 5AG
 United Kingdom
<https://www.mandgplc.com/who-we-are>

M&G was founded under its original name of 'Municipal and General Securities' in 1901 as the financial arm of a British engineering company. M&G revolutionised British finance in 1931 when it launched the first-ever mutual fund for the general public. Since then, the firm has concentrated on the management of investment funds and has undergone over 85 years of innovation. In 1968, the company changed its name to M&G.

In 1999, M&G was acquired by Prudential and formally merged with Prudential's institutional fund management arm, Prudential Portfolio Managers Limited (PPM) on 31 December 2000. M&G is the name of the investment management division of Prudential plc in Europe. In August 2017, the group combined its asset manager, M&G, and Prudential UK & Europe to form M&G Prudential, a leading savings and investments business. In 2018, Prudential plc announced its intention to demerge M&G plc and give it a premium listing on the London Stock Exchange. On 21 October 2019 the demerger took place and M&G plc listed on the London Stock Exchange.

M&G plc is a leading savings and investments company, managing investments for both individuals and for large institutional investors, such as pension funds around the world. As an active long-term manager of our customers' money, we invest in a very wide range of different asset classes and markets around the world. And, in keeping with our long history and tradition, we have never stopped innovating for our customers. The fund is not subject to management delegation.

2.2. What are the fund management company's track record and principles when it comes to integrating SRI into its processes?

Since M&G's asset management business was founded in 1931, responsible ownership has been a constant – as a long-term investor, we are ideally placed to influence corporate behaviour. Beyond traditional governance issues, including remuneration and board composition, we also consider a wider range of factors that can have meaningful impacts on our investments. Environmental matters and social issues are important aspects of assessing an investment, and our approach

integrates environmental, social and governance (ESG) factors into our investment decision-making process across our business.

M&G believes that ESG factors can have a material impact on long-term investment outcomes. Our goal is to achieve the best possible risk-adjusted returns for our clients, taking into account all factors that influence investment performance. Consequently, ESG issues are integrated into investment decisions wherever they have a meaningful impact on risk or return. We apply this approach to ESG analysis across our active equity, fixed income and property strategies, and in all sectors in which we invest.

M&G is a long-term investor, and since ESG issues tend to evolve over the longer term, we consider such factors to be a fundamental component of our investment process. We regard it as part of our fiduciary responsibility to include ESG issues in our investment views, as we do for all factors that influence long-term investment results for our clients.

Part of our ESG focus includes actively engaging with companies to understand the issues affecting them, and, where appropriate, to encourage positive change. Our position as long-term investors makes this necessary, and as active investors possible.

M&G is a signatory to the United Nations Principles for Responsible Investment (UNPRI) and has committed to adhere to the Principles where they are consistent with M&G's fiduciary responsibilities. We believe the Principles are consistent with both M&G's longstanding values and the independence of the various investment teams' processes.

M&G is also an active member of a number of bodies and initiatives focused on responsible investment. These include the Investment Association, the Asian Corporate Governance Association, the Institutional Investors Group on Climate Change, the UK Sustainable Investment and Finance Association, the Better Buildings Partnership, the Green Bond Principles, Climate Action 100+ and the 30% Club, among many others. M&G regularly actively contributes to and leads policy discussions with our industry peers and governmental bodies.

In order to manage the complexities of M&G Investments' evolving ESG, sustainability and impact strategies, the ESG Governance Meeting (ESGGM) was created, which has delegated authority from the Investment Leadership Team. The purpose of this group is to provide first-line oversight of our ESG, sustainability and impact investment activities, taking into account inputs from quarterly ESG portfolio reviews, as well as items raised on a day-to-day basis. The group reviews and decides upon ESG issues and exceptions raised by the investment teams – such as differences in internal and third-party ESG views on a company – approves any new investment exclusions, and is responsible for the M&G Investments ESG Investment Policy, currently under development. It seeks to balance client investment outcomes with reputational risk.

The ESGGM comprises representatives from all investment teams, as well as members of the Stewardship & Sustainability team, and other functions, including compliance, operations and technology. The diverse membership is designed to ensure ESG decisions are well considered and have the appropriate inputs.

In conjunction with the ESGGM is the ESG Strategy meeting, which helps to formulate broad, strategic ESG-related considerations.

Further details on responsible investment at M&G can be found [here](#). Specific details of M&G's stewardship activities over the previous year can be found following the same link, under the 'Stewardship' tab.

2.3. How does the fund management company formalise its sustainable investment process?

ESG investment policy

M&G's approach to responsible investment is available publicly on the Responsible Investing webpage [here](#). We are active fund managers and consider ESG issues at various stages of our investment process: from company analysis and portfolio oversight to engaging with corporate management teams and exercising our voting rights at AGMs.

Voting policy

The M&G Investments Voting Policy is published on our website [here](#), and is regularly reviewed in consultation with our investment teams. M&G seeks to vote on all resolutions proposed at general meetings for its equity holdings. The voting policy outlines M&G's voting guidelines across environmental, social and governance resolutions

Engagement policy

Our engagement policy is in line with the UK's Shareholder Rights Directive II, and has been updated in line with the UN PRI guidelines. In addition, M&G is a signatory of the 2020 UK Stewardship Code, and has been supportive of the code since its inception in 2010. Please see further information on our engagements in our policy [here](#).

2.4. How are ESG risks and opportunities – including those linked to climate change – understood/taken into account by the fund management company?

We take ESG factors into consideration across our asset classes, whether investing in equities, bonds, real estate or infrastructure. Our proprietary methodology and tools use ESG data, analysis and interactions to give us an in-depth understanding of how ESG factors are likely to affect the expected risk and return of a potential investment opportunity.

We undertake constructive engagement with management of companies that aims to better understand ESG strengths and weaknesses and encourage better ESG practices and/or disclosures where appropriate.

Our research and engagement with companies is carried out on a case-by-case basis and by integrating ESG factors into traditional financial analysis. In terms of engagement specifically, we engage with companies on a 'bottom-up' basis, that is, reactive, company-specific engagements, as well as undertaking 'top-down' thematic engagements on a number of issues, including climate, diversity, and potential UNGC violations.

Climate change

In April 2020, M&G plc announced two new commitments to focus and accelerate our efforts, and those of our partners and investees, to address climate change:

- As an asset owner and asset manager, we aim to achieve carbon net zero investment portfolios by 2050 in line with the Paris Agreement and the UK Government's target.
- As a company, we have committed to reduce our own carbon emissions to net zero by 2030.

This approach is focused on the delivery of two primary outcomes. The first is a structured process for understanding and managing the climate-related risks to our investments across asset classes, incorporating a climate risk management programme that focuses on the largest emitters; this is derived from a mapping of high-carbon sectors and our holdings within them, based on portfolio carbon foot-printing and elements of climate change scenario analysis. The second broad outcome is the identification of investment opportunities that represent the solutions to tackling climate change.

We believe companies that clearly understand the risks to their business – and have put in place measures to mitigate and adapt to these risks, as well as capitalising on long-term opportunities – will be better positioned to deliver stronger, investment outcomes in the long run.

Our analysis provides the basis for a risk and opportunity evaluation and structured engagement programme, which prioritises greater transparency in corporate disclosures and a clearer demonstration of corporate decarbonisation plans. In this way, we will use our position as an investor to encourage the transition to a low-carbon economy. To build on this analysis and engagement activity, we are continuing to develop a voting approach that integrates an assessment of climate performance more structurally into our voting decisions for all companies.

We participate with other investors and stakeholders to push for improved climate-related disclosures and risk management and to encourage positive change. We collaborate with the Institutional Investors Group on Climate Change (IIGCC), we were a founding signatory of Climate Action 100+, are members of the IIGCC Paris Aligned Investor Initiative and are signatories to the Net Zero Asset Managers Initiative, among others. We will continue our participation in other industry-led collective engagement groups and climate change initiatives to help accelerate progress in investment approaches and wider policy direction.

M&G's Thermal Coal Investment Policy can be found [here](#). Further information on M&G's approach to climate change, as well as other sustainability measures, can be found in M&G plc's latest Sustainability Report, available [here](#). For our position

papers on coal investment, biodiversity, the ‘Just Transition’ et al, please see the sustainability tab on M&G’s corporate website: <https://www.mandgplc.com>

2.5. How many employees are directly involved in the company’s sustainable investment activity?

We have a 31-strong (and growing) Stewardship & Sustainability (S&S) team which acts as a dedicated central ESG resource across the firm. The team oversees M&G’s stewardship activities, including company engagement and voting at AGMs. The team consist of a variety of experienced members who cover voting, company engagement, environmental and social issues, company management, capital raising and governance, as well climate, ESG integration and policy. All analysts and fund managers have access to the breadth of M&G resources and capabilities, including the S&S team. Team members are listed below.

M&G’s Stewardship & Sustainability team

Name	Focus	Name	Focus	Name	Focus
Christopher Andrews	Engagement	Lee Kinsville	Voting	Nina Reid	Private assets
Freya Buck-Emden	ESG policy	Rupert Krefting	Corporate finance and stewardship	Guy Rolfe	ESG
Sarah Coble	Research	Marine Le Calvez	Climate	Sophie Rumble	Voting
Ben Constable-Maxwell	Sustainability and Impact	Rob Marshall	Research	Rayman Sandhur	ESG data
Hamish Duthie	ESG data	Annabel Nelson	ESG policy	James Smyth	ESG integration
Lucia Gibbard	Research	Matteo Novelli	Research	Max Stocker	Climate
Giorgis Hadzilacos	Climate	Laura O’Shea	Engagement	John Vercoe	ESG policy
Amy Harris	ESG policy	Hannah Pakravan	ESG policy	Victor Winberg	Voting
Matthew Johnston	Climate	Kushal Patel	Climate	Agata Wolk-Lewanowicz	ESG policy
Caitlin Joss	ESG	Gitesh Patil	Research		
Nishita Karad	Research	Francesco Proietti	Climate		

M&G also has a Central Analyst team, which consists of experienced career analysts, specialised in complex or technically challenging sectors, including insurance, banks, technology, pharmaceuticals, energy, industrials and retail. The team aims to support fund managers with high-quality, objective research to help them make informed decisions, adapted to their specific fund mandates and objectives. ESG factors are integrated within investment research across asset classes. There are approximately 50 analysts covering fixed income and 10 covering equities, as well as additional analysts embedded within specific investment teams.

2.6. Is the fund management company involved in any RI initiatives?

The following are a selection of membership bodies and industry initiatives with which M&G Investments is involved.

General Initiatives	Environmental / Climate Initiatives	Social Initiatives	Governance Initiatives
PRI – Principles for Responsible Investment	NZAMI – Net Zero Asset Managers Initiative	30% club	The Stewardship Code 2020
The Investment Association	Climate Action 100+	Find it, Fix it, Prevent it	ICGN – International Corporate Governance Network
SIFs – Sustainable Investment Forum	IIGCC – Institutional Investors Group on Climate Change	Access to Medicine Foundation	ACGA - Asian Corporate Governance Association
GIIN – Global Impact Investing Network	CDP – Carbon disclosure Project	FAIRR – Farm Animal Investment Risk and Return	All Party Parliamentary Corporate Governance Group
IMP – Impact Management Project	Climate Bond Initiative		EFAMA – European Fund and Asset Management Association
IMP+ACT Alliance	Green Bond Principles		Investor Forum
	TPI – Transition Pathway Initiative		

2.7. What is the total number of SRI assets under the company's management?

SRI AUM	€27.0bn (as at 31.12.22)
Search engine link	Our Funds (mandg.com)

3. The SRI fund

Name of the fund(s) to which this Code applies and its (their) main characteristics.

Name	M&G (Lux) Positive Impact Fund
Asset class	Equity
ISIN	LU1854107221
Legal form	SICAV
Fund domicile	Luxembourg
Inception date	29 November 2018
AUM	€272.3m (as at 31.12.22)
Strategy	Global Large-Cap Growth Equity

3.1. What is the fund aiming to achieve by integrating ESG factors?

The M&G (Lux) Positive Impact Fund seeks to identify companies that are producing a net positive impact on society and/or the environment via their products and services, as well as having sound and sustainable business models. We believe that by investing in companies with a positive impact the fund has the potential to deliver both societal and financial returns. We

also want to open up impact investing to a broader audience than previously possible by offering a daily liquidity fund accessible to all types of investors.

3.2. What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund?

All fundamental analysis is done in-house using our proprietary 'Triple I' (or III) methodology to analyse the Investment case, Intentionality and Impact of a company. Three embedded analysts are dedicated to this. Conducting our own due diligence is important, particularly considering our five-to-ten-year time horizon, with portfolio turnover kept to a minimum.

Once a company has been analysed through the III process and has been deemed potentially appropriate for the watch-list, the wider Positive Impact team will debate its merits. Purposefully, the team draws on the experience of people from across the business in order to challenge the research from multiple perspectives, including specialists on smaller companies, emerging markets and multi asset investing, together with Ben Constable Maxwell leading on impact and John William Olsen, on investment.

Only once the team is unanimously convinced of the appropriateness of the company will it be added to the watch-list.

3.3. What ESG criteria are taken into account by the fund?

The fund takes into account a company's intentionality, additionality, materiality and measurability.

Intentionality measures the specific intent of a company to deliver a particular social and/or environmental impact. This should be clear in the company's mission statement, strategy and day-to-day operations, and cannot be inadvertent.

Additionality measures how much a company adds to a specific societal and/or environmental challenge. It asks whether the world would be different if that particular company did not exist or was inadequately funded, as well as how replicable its products or services would be.

Materiality measures the level to which a company helps solve a given societal and/or environmental challenge or contributes to a particular UN Sustainable Development Goal, generally as a percentage of revenue.

Measurability assesses how measurable the impact of a company is. This is one of the most challenging aspects of impact investing – particularly in public markets where impact tends to be less direct than in private markets. To achieve measurability, we have assigned each company in the portfolio a key performance indicator (KPI) to measure its impact.

3.4. What principles and criteria linked to climate change are taken into account in the fund?

Three out of six impact areas in which the fund seeks to invest are related to climate. These are:

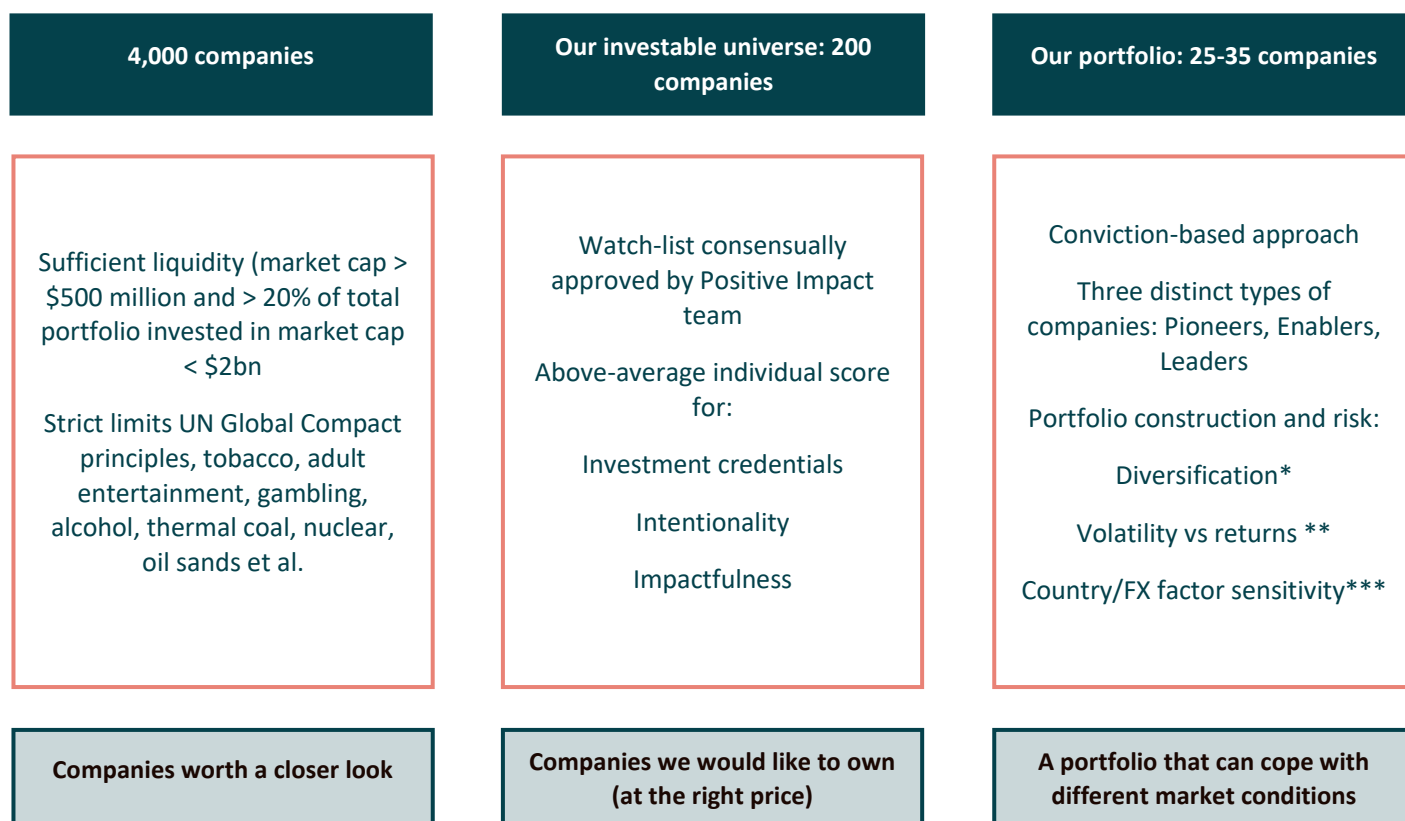
- Climate action – investing in companies that have a direct positive impact in mitigating the effects of climate change, most notably through the production of renewable energy, or by increasing the efficiency of renewable energy being produced.
- Environmental solutions – investing in companies that are delivering direct and indirect solutions to the environmental challenges the world is facing. This includes companies helping to reduce energy use, improve energy efficiency and provide environmental diagnostic solutions.
- Circular economy – investing in companies that are helping to create a more circular economy and effectively dealing with the ever-growing accumulation of waste that we as a society are producing.

3.5. What is the ESG analysis and evaluation methodology of the fund manager/fund management company?

Selection begins with a global universe of over 4,000 stocks, which is then initially screened for minimum liquidity and market-cap criteria, as well as screening out any companies deemed to be in breach of the UN Global Compact Principles on human rights, labour, the environment and corruption, as well as companies involved in the production of tobacco, alcohol, adult entertainment, controversial weapons, oil sands, nuclear power or coal-fired power, or the provision of gambling services (i.e. companies that are not capable of delivering demonstrable positive impacts to society). Companies involved in non-medical testing on animals are also excluded, as well as companies involved in genetically modified crops.

From this remaining pool of stocks, the team ‘screens in’ a watch-list of some 200 impactful companies that can be purchased if the timing and price are right. These companies are analysed under the team’s aforementioned III approach, examining the Investment case, Intentionality and Impact of a company to assess its suitability for the fund. As part of this analysis, it scores companies on these III credentials, and requires above-average results for consideration within the watch-list, as well as consensus agreement of a company’s merits from the entire Positive Impact team.

A summary of this selection process is included below:



*Diversification is the practice of investing in a variety of assets, which typically should perform independently of each other. This is a risk management technique where, in a well-diversified portfolio, a loss from an individual holding should be offset by gains in other holdings, thereby lessening the impact on the overall portfolio. **Volatility is the degree to which the price of a given security, fund, or index changes. It is calculated as the degree of deviation from the norm for that type of investment over a given period of time. The higher the volatility, the riskier the security tends to be. ***The relative exposure to specific country or currency risks.

3.6. How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?

We update the III reports if a company controversy, or other material factor, has occurred that could alter the III score. We report on the fund’s impact on an annual basis.

As active and long-term shareholders, engagement with investee companies is an integral part of our investment approach and where possible we attempt to resolve controversies through engagement.

Ultimately, if a controversy materially changes a company’s III score or breaches any part of our exclusion policy, and engagement attempts have failed, we will divest from the company.

4. Investment Process

4.1. How are the results of the ESG research integrated into portfolio construction?

At a portfolio level, the fund seeks to be diversified across six separate impact areas. These are:

- **Better Health, Saving Lives** (covers pioneering medical technology and products as well as affordable quality healthcare)

- **Better Work and Education** (covers companies whose products and services support safe working practices and access to quality education for the underserved)
- **Social Inclusion** (covers financial, communications inclusion and activity aimed at tackling inequalities)
- **Climate Action** (covers renewable energy)
- **Environmental Solutions** (covers energy efficiency, sustainable transport and green technology)
- **Circular Economy** (covers businesses which promote the sharing, reuse and recycling of products and services)

Within these impact areas, we invest in three categories of positive impact companies:

- **Pioneers** – companies whose products or services have a transformational effect on society or the environment
- **Enablers** – companies that provide the tools for others to deliver positive social or environmental impact
- **Leaders** – companies that spearhead and normalise sustainability and impact in their industry.

We will buy a company from our watch-list when we believe the timing is right and its valuation is attractive. The fund has a long-term, high-conviction and low-turnover approach.

4.2. How are criteria specific to climate change integrated into portfolio construction?

As mentioned previously, three of the six impact areas in which we seek to invest are related to climate. These are:

- **Climate action** – investing in companies that have a direct positive impact in mitigating the effects of climate change, most notably through the production of renewable energy, or by increasing the efficiency of renewable energy being produced.
- **Environmental solutions** – investing in companies that are delivering direct and indirect solutions to the environmental challenges the world is facing. This includes companies helping to reduce energy use, improve energy efficiency and provide environmental diagnostic solutions.
- **Circular economy** – investing in companies that are helping to create a more circular economy and effectively dealing with the ever-growing accumulation of waste that we as a society are producing.

For the remainder of the portfolio, which focuses on social areas, climate change is evaluated as part of the business model assessment.

4.3. How are issuers that are present in the portfolio, but not subject to ESG analysis evaluated?

All issuers held in the portfolio are subjected to an Impact analysis.

4.4 Has the ESG evaluation or investment process changed in the last 12 months?

Although the investment process has not changed in the last 12 months, the fund incorporates all of the continuously evolving ESG research tools that M&G uses to aid with ESG evaluation. This includes M&G's ESG Portfolio Analytics Tool (PAT), which allows fund managers to visualise their portfolios against their respective or prospective ESG rulesets and benchmarks and perform a range of ESG analysis and investigations. This integrates M&G's proprietary ESG Scorecards for individual companies, as well as a range of external and internal ESG and climate-related datasets.

4.5. Is a part of the fund invested in entities pursuing strong social goals/social enterprises?

Every investee company pursues strong social and/or environmental goals, and have been validated for their intention to deliver a positive impact either to society or the environment. Inadvertent impact does not count. Having a social and/or environmental objective needs to be part of the company's mission statement, strategy and actual day-to-day operations.

4.6. Does the fund engage in securities lending activities?

The fund does not engage in securities lending activities.

4.7. Does the fund use derivative instruments?

Derivatives may solely be used for efficient portfolio management and hedging.

4.8. Does the fund invest in mutual funds?

The facility to invest in mutual funds is included in the fund prospectus purely for liquidity management purposes: more specifically, to cater for the exceptional circumstance where the fund would need to accommodate large flows that could not

be managed in small tranches. In this situation, the allocation would be temporary and replaced as quickly as possible by underlying stocks.

5. ESG Controls

5.1. What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund as defined in section 4?

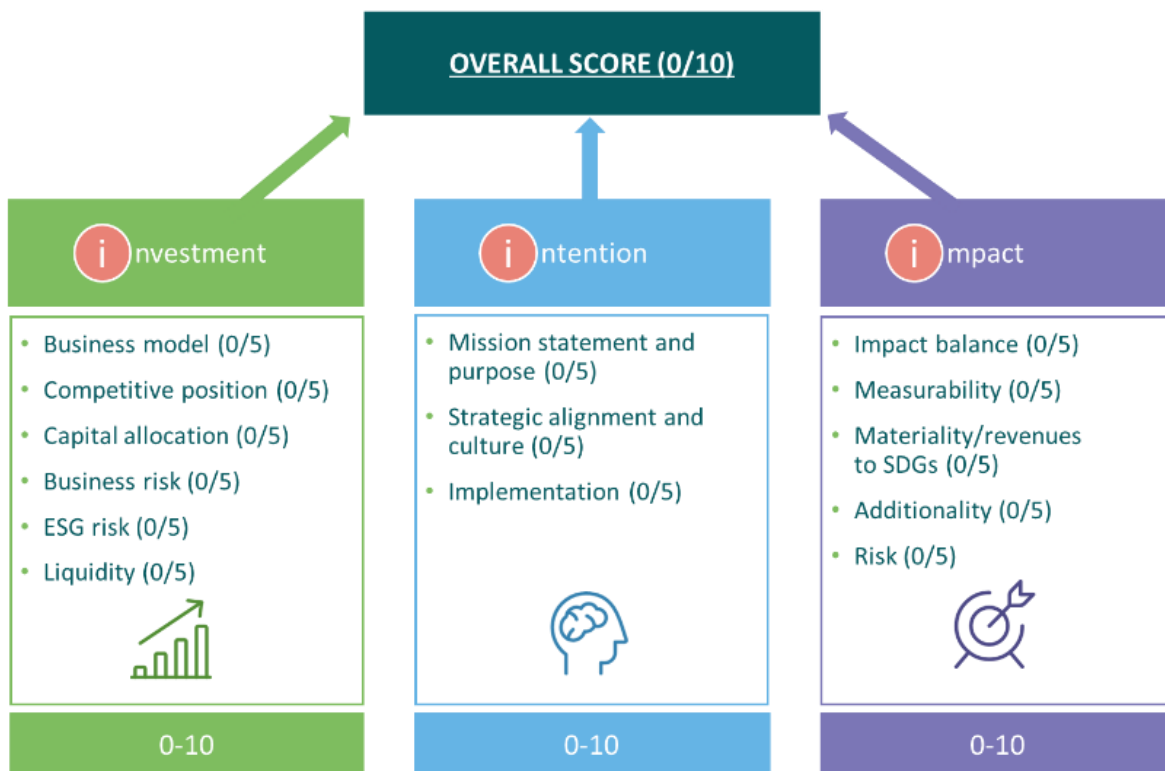
Adherence to the fund's exclusions is monitored on a daily basis using third-party providers ISS and MSCI. In addition, the fund undergoes an internal ESG review every quarter. This is performed by the S&S team and includes climate evaluation.

6. Impact Measures and ESG Reporting

6.1. How is the ESG quality of the fund assessed?

The III methodology is designed to robustly and consistently apply set criteria and standards for rating the impact and investment case of companies considered for inclusion in the investment universe. Only companies that score an above-average rating are included in our watch-list. This consists of impactful companies that we can buy when the timing and price are right.

Each 'I' score is derived from the assessment and rating of its key drivers, fully outlined below. We aim to achieve an optimal balance of quality companies, with a solid, established culture that is consistent with management's vision and strategy. We believe that this will enable a company to effectively create positive environmental, social or economic impact for the regions and people it serves.



The overall III impact score is derived in the following manner:

- Each of the criteria within an 'I' category is assigned a score from 0-5
- We then generate a total score for the 'I' category by summing up the (0-5) scores and generating a percentage, which is represented as a score out of 10
- The final III score is the average of each category (Investment, Intention, Impact)

Each company must score above 5 in each of the three categories to be eligible for addition onto the watchlist. For example, a company that scored 8/10 on Investment, 4/10 on Intention and 7/10 on Impact would not be considered as all three categories failed to score above 5/10, even though the average III score is 6.3/10.

Furthermore, if a company has a 1/5 score for...

- The net impact subcategory category within the impact bucket, and;
- The measurability subcategory within the impact bucket,

...they would automatically be rejected as we view these subcategories to be critical to the impact case.

Investment score (out of 10)

There are five broad areas we explore when considering a company's investment score:

Quality of the business model (out of 5)

- We ascertain the strength of the business model, by assessing elements such as: the sustainability of the business model; health of the industry in which it operates; the avenues to grow (organic and inorganic); and the company's 'moat' (ie, competitive advantages). Performance track record is also key in proving the business case. This helps us establish whether the company is built for longevity and growth and how sustainable its moat is. Ultimately, we aim to invest in strong business models operating in disciplined industries.

Competitive positioning (out of 5)

- We are generally interested in companies that have a strong competitive position (ie, in the top five in terms of market share) in the business areas in which it operates, or has scope to grow this. Points of strong differentiation (eg, customer relationships, distribution channels, economies of scale, brand strength) versus peers are also key. We tend to favour disciplined companies with strong positions in industries with high barriers to entry.

Capital allocation (out of 5)

- Here, we consider the management's track record on capital allocation by assessing M&A appetite and execution; the overall strength of the company balance sheet (growth and leverage balance); dividend policy and cash and capital management.

Business risk (out of 5)

- We aim to consider business and industry-specific risks that the company might face. This also challenges the strength of the moat, the business model and possible risks to it. Ultimately, we want to understand how material the effect of internal and external risks could be to the sustainability of the business model over a 10-year period.

ESG risk (out of 5)

- We consider a range of material environmental, social and governance issues that represent potential risks to the long-term sustainability of a company. This is separate to a company's impact case, and includes areas like board composition, climate target setting and employee satisfaction.

Liquidity (out of 5)

- The liquidity of the company is essential when establishing the investability of the candidate stock. We aim to reach a healthy balance of impactful, while also commercial, companies.

Intention score (out of 10)

There are three broad areas we explore when considering a company's Intention score:

Mission statement and purpose, strategic and economic alignment (out of 5)

- The group's mission statement, vision or purpose should generally talk to the impact case. This indicates that the company's intention is heavily aligned to driving impact and is therefore likely to operate with this in mind over the long term.

- However, there are several cases in which a company's mission or vision may not overtly mention the positive impact case, but the business model is heavily aligned to positive economic, social or environmental impact. 'Enablers' (companies who help the end-customer achieve positive impact), tend to fall into this category. Given this, the alignment of the business model is key in giving some credit to companies whose mission statement might fall short of including the impact case, but whose daily activities and business strategy generates significant positive impact anyway.
- We also assess companies whose mission statements may have impact-related elements, but whose business model or strategy may not entirely fulfil this mandate. In such a case, a call is made on whether the intentions of the company are genuine and consistent with the business' strategy/vision.

Governance/culture (out of 5)

- We probe the track record of the management team, by assessing business performance under its leadership, consistency of the strategy and general market and our perceptions of the management team. We also consider remuneration, and how management is incentivised, both in terms of overall salary and targets for variable pay.

Implementation (out of 5)

- Execution on the group's impact case and business alignment to this is another measure we use to ascertain the candidate company's intentionality. This may include the plans set forth to reach impact targets and the progress or impact already created by the business model. This helps us understand whether the company has fully committed to driving positive change.

Impact score (out of 10)

There are five areas we explore when considering a company's impact score:

Primary impact (out of 5)

- The primary Sustainable Development Goal (SDG) and key performance indicators (KPIs) the candidate company is addressing – the SDG on which it has the most material impact.

Net impact (out of 5)

- The primary SDG and KPI it is addressing, as well as other secondary SDGs and KPIs it is addressing.
- We also investigate any negative impacts the company may have. This should either be non-existent or immaterial to overall group revenues or profitability (less than 10%).

Measurability of the impact (out of 5)

- This looks at the ability to measure the impact generated by the company (ie, carbon footprint reduced/number of people saved by drug created by company etc). This generally represents the number of people impacted by a company's activities or how far-reaching the impact is.
- This may be more difficult to get from 'enablers', as their contribution to the positive impact case is likely more indirect, since it depends primarily on the end-market user. In general, published disclosure may not fully give us a sense of this. Therefore, dialogue with management tends to provide greater colour on the impact generated.

Materiality of impact (out of 5)

- This represents revenues that relate to the impacts being measured (i.e., revenues to SDGs). We believe that if the revenues stemming from SDGs are material in the context of the group operations, this will likely be a major driver of the strategy and represent sustainability of the positive impact created.

Additionality (out of 5)

- We consider the question of how the world/region would look if the candidate company did not exist or were inadequately funded. Here we consider elements such as the scale of the company (market share) and reach (number of regional and global offices), valuable aspects of the business model that are difficult to replicate (eg, the strength and scale of the distribution network).

6.2. What ESG indicators are used by the fund?

As fundamental stockpickers, we focus on company-specific impact indicators. In addition, as the fund is diversified across quite disparate impact areas, we feel that attempting to aggregate our companies' impact at a portfolio level would be not be practical or meaningful.

We have therefore decided to assess how each company's business activity is aligned to specific societal impact challenges that need investment, and are investable. Revenue alignment is often a good proxy. In the case of earlier stage companies, we may use asset mix and investments in research and development. For insurers and financials, we map the proportion of low-end market customers to evaluate the impact.

We believe that the SDGs provide a solid, accepted framework for determining material impact areas, and help frame the measurement of how those positive impacts are being achieved. We assign all of our investments a primary SDG that we believe they are addressing, and determine specific, SDG aligned key performance indicators (KPIs), against which we measure the materiality of the impacts they are achieving. We track these KPIs on an annualised basis.

6.3. What communication resources are used to provide investors with information about the SRI management of the fund?

We publish a Monthly Fund Review, an Annual Impact Report and an Annual Report and Accounts. These documents are available on our website.

6.4. Does the fund management company publish the results of its voting and engagement policies?

M&G's Stewardship & Sustainability team oversee our stewardship of the companies in which we invest. Active voting is an integral part of our investment approach. M&G has a robust voting policy in which we seek to exercise our principles and stewardship responsibility. We believe exercising our votes adds value and protects our interests as shareholders. Proxy voting records are published quarterly on M&G's website, which can be found [here](#).