

European SRI Transparency Code

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



January 2022



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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 fourth statement of commitment and covers the period 31 December 2021 to 31 December 2022. 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) Sustainable Global High Yield Bond 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 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 checked="" 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	<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	€61.8 as at 31 December 2020. €109.8m as at 31 December 2021	<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 type="checkbox"/> FNG Label <input type="checkbox"/> Austrian Ecolabel <input type="checkbox"/> Other (please specify)	- KIID 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 ESG Review here - ESG Policy and Process found here

	denominated in euro <input checked="" 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)			
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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 21st October 2019 the demerger took place.

M&G plc is a leader in the provision of retirement income, savings and investments, 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?

Responsible 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 new 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.

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 an 18-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
Katie Allan	ESG	Annabel Nelson	ESG policy
Christopher Andrews	Communications	Michael Posnansky	ESG integration
Matthew Beardmore-Gray	Corporate finance and stewardship	Jeremy Punnet	Corporate finance and stewardship
Freya Buck-Emden	ESG policy	Guy Rolfe	ESG
Phil Cliff	Climate	Sophie Rumble	ESG
Ben Constable-Maxwell	Sustainability and Impact	James Smyth	ESG integration
Caitlin Joss	ESG	John Vercoe	ESG policy
Lee Kinsville	Voting	Victor Winberg	Voting
Rupert Krefting	Corporate finance and stewardship		

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	€19.6bn (as at 31.12.21)
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) Sustainable Global High Yield Bond Fund
Asset class	Fixed Income
ISIN	LU1665235914
Legal form	SICAV

Name	M&G (Lux) Sustainable Global High Yield Bond Fund
Fund domicile	Luxembourg
Inception date	5 October 2017
AUM	€109.8m (as at 31.12.21)
Strategy	Global Bond

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

The M&G (Lux) Sustainable Global High Yield Bond Fund is designed to offer clients a sustainable, high-conviction and benchmark-unconstrained bond proposition. 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.

At the heart of the investment strategy is a blended approach of top-down and bottom-up credit investing. From a top-down perspective, global macroeconomic conditions are assessed to identify market dislocations and potential opportunities. This analysis is enriched by bottom-up analysis of company fundamentals and individual bond characteristics. Combined, this forms the core of our research-driven and value-based credit selection. We select investments based on the in-depth analysis of M&G's proprietary credit research expertise, while a disciplined portfolio construction process ensures the proper management of active risks. We aim to capture risk premia through credit cycles, investing only where we have a strong conviction that a bond's price more than compensates for its associated risks.

The fund has a global focus and seeks to take advantage of a wide opportunity set, with a view to capturing the best relative-value ideas across the high yield fixed income universe, provided issuers meet our ESG and sustainability investment criteria. The strategy has the ability to adjust duration and geographic positioning throughout the economic cycle. Furthermore, all non-base currency risks are expected to be hedged back to the base currency of the fund, which is the US dollar (USD).

The M&G (Lux) Sustainable Global High Yield Bond 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. This results in a dual-target approach, combining a financial return objective with a commitment to run the portfolio in line with measurable Sustainability Indicators seeking to achieve a sustainable outcome while ensuring that environmental and social safeguards are in place. The fund maintains a higher weighted average ESG rating and lower weighted average carbon intensity than the global high yield market as represented by the ICE BofA Merrill Lynch Global High Yield Index USD Hedged.

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

When assessing companies in terms of their ESG credentials, the fund managers draw on internal research from M&G's team of credit analysts, along with third-party ESG analysis from MSCI.

M&G have more than 50 in-house credit analysts based in London and Chicago with deep coverage of the global high yield market. As part of their assessment, the analysts consider all factors that could have an impact on a company's financial performance, covering areas such as business risk (e.g. management, market position and product strategy), financial risk (e.g. cashflow, debt, profit margins) and bond structure and covenants. While they do not focus exclusively on ESG factors, these do form an important input into their overall credit assessment.

However, teaming up with MSCI provides additional specialist expertise and allows us to construct a portfolio that has a measurable and independently assessed ESG score. We consider MSCI to be the leading provider of ESG research in the high yield fund space, covering around 80% of the global high yield market (by issuer weighting) and with a clear and quantifiable ESG methodology.

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

The fund managers take all material ESG issues into consideration when forming their opinion of an investment opportunity. The following is a list of some of the ESG factors that may be considered when we invest in companies:

- The company's environmental policy (issues of relevance might include assessment of the risk of pollution of land, air and water; awareness of natural resource scarcity and/or effects of climate change).
- The status of company compliance with relevant laws/standards/regulations, including carbon emission management.
- Whether initiatives are in place to reduce use of resources – energy, water, paper and packaging.
- Whether there are any product development opportunities being explored (e.g. green products, initiatives with environmental sustainability).
- The status of compliance with local labour laws, standards, regulations (health and safety, fair labour).
- Whether the company exhibits appropriate supply chain management.
- Whether the company has an equality and diversity policy.
- The adequacy of the corporate governance policies.
- Whether anti-corruption policies and procedures are in place.
- Whether the company is the target of any enforcement investigation.
- Whether there are any ESG 'red flags' and if there are incident-reporting procedures in place.
- Whether the company benchmarks itself against peers.
- Whether ESG is a regular Board agenda item for the company.
- In the case of Private Equity-owned companies, whether sponsors regularly attend Board meetings.

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

We publish the fund's weighted average carbon intensity (WACI) (Scope 1+2 divided by US\$ revenues) in monthly factsheets.

The fund seeks to identify climate transition leaders, and consideration will be made to include ESG bonds, e.g. green bonds, social bonds, transition bonds, sustainability bonds or sustainability linked bonds.

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

To be considered a sustainable investment, we believe businesses need to demonstrate both a willingness to embrace sustainability and the financial ability to deliver on those commitments. The fund screens bond issuers to identify companies whose sustainability practices drive its capital allocation decisions, with a focus on companies that provide goods and services consistent with creating a low-carbon, healthy and safe society.

However, we only consider a company as being a sustainable investment where its business model is backed by sound financials. Companies need to demonstrate an appropriate level of financial flexibility in order to achieve their sustainable commitments and to ensure the viability of the business over the long term. This includes the prudent management of its cost of capital and the careful management of financially-material ESG risks to reduce the likelihood of fines, unexpected costs, loss of revenues or business disruption.

Sustainable investment screening

In order to identify securities that meet the fund's sustainability criteria, potential investments undergo a three-stage process. The result is a sustainability themed investment universe, creating the opportunity set for the M&G (Lux) Sustainable Global High Yield Bond Fund.

Assuring environmental and social safeguards

The first two stages seek to assure environmental and social safeguards by excluding companies or countries engaged in harmful or unsustainable activities.

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.

Identification of sustainable businesses and exclusion of ESG laggards

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.

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

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 breaches any part of our exclusion policy, and engagement attempts have failed, we will divest from the company. Whenever a breach is identified, the aim is to divest within 5 business days of the disclosure of the breach. Where it is in the best interest of investors, divestment may take longer in order to properly authenticate the nature of the breach and/or to avoid adverse impact on price execution. However, divestment will not be delayed unduly unless such circumstances apply.

4. Investment Process

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

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.

The fund takes an active approach to ESG investing, based on in-depth ESG research and company engagement. We consider ESG analysis to be a vital complement to more traditional credit research, as it allows us to gain a more comprehensive picture of the investment case, while ensuring a more systematic assessment of the risk/reward metrics of a particular fixed income security.

The fund managers have access to a range of external ESG data providers, which ensures that the investment team have sufficient ESG data and research when undertaking their analysis. This is complemented by a range of proprietary tools to help optimise the fund's sustainability credentials.

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

The Fund recognises the critical nature of climate change. Enabling lower carbon intensity economic activities is important now and in the future for the physical environment and for society as a whole. Please see information on our relevant Sustainability Indicators in section 6.2.

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

All issuers are subject to 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?

The Fund's investment approach combines credit analysis with an assessment of environmental, social and governance (ESG) factors. Sustainability considerations are fully integrated in the investment process and ESG credentials are measured through a range of sustainability indicators

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?

The Fund may use derivatives for investment purposes, efficient portfolio management and hedging. These instruments may include, but are not limited to, spot and forward contracts, exchange traded futures, credit default swaps, interest rate swaps, total return swaps and credit linked notes.

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 fund's ESG performance is comprehensively 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 global high yield bond market (as represented by the ICE BofA Global High Yield Index, referred to as the 'benchmark' in the key performance indicator (KPI) graphics). Please note that for some KPIs, data is not available on 100% of the fund holdings or the benchmark. 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. We highlight four key performance indicators (KPIs) in our ESG KPI Performance Indicators Review 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. These are:

- Carbon emissions
- Labour rights
- Independent board majority
- Human rights concerns

6.2. What ESG indicators are used by the fund?

We continuously monitor a range of Sustainability Indicators to ensure that all our investments are compatible with our definition of a sustainable investment, and to ensure we can evidence enhanced sustainability outcomes at the portfolio level. The Sustainability Indicators that are currently monitored can be grouped into the following categories.

Avoidance of harmful issuers

The fund excludes companies and countries with severe controversies as defined by the UN Global Compact Principles and the Freedom House organisation.

- Relevant Sustainability Indicator: no exposure to companies deemed to be in breach of the UN Global Compact Principles of human rights, labour, the environment and anti-corruption. 0% is determined as any issue with a “red” flag as determined by UNGC.
- Relevant Sustainability Indicator: no exposure to government bonds from countries considered “Not Free” by the Freedom House organisation

Less harmful to the climate

The fund recognises the critical nature of climate change. Enabling lower carbon intensity economic activities is important now and in the future for the physical environment and for society as a whole.

The fund maintains a lower weighted average carbon intensity (WACI) than the global high yield investment universe.

- Relevant Sustainability Indicator: lower weighted average carbon intensity (WACI) (Scope 1+2 divided by US\$ revenues) than the global high yield market as represented by the ICE BofA Merrill Lynch Global High Yield Index USD Hedged.

More sustainable, better run and less harmful businesses

The fund focuses on businesses which have superior ESG risk management practices and are less harmful to society and the environment. ESG laggards are deemed incompatible and excluded when initially defining this more sustainable universe. The fund also promotes the inclusion of issuers with better ESG characteristics where this is not detrimental to the pursuit of the investment objective. The fund will typically have a higher average ESG score than the global high yield market.

- Relevant Sustainability Indicator: no exposure to issuers considered to be ESG laggards based on the analysis of M&G’s external research providers and M&G’s in-house assessment.
- Relevant Sustainability Indicator: higher weighted average ESG score of the portfolio using MSCI, compared to the global high yield investment universe, as represented by the ICE BofA Merrill Lynch Global High Yield Index USD Hedged.

The fund also commits to having no exposure to business activities deemed to be harmful to society and the environment as outlined in Stage 2 of the sustainable investment screening process.

The fund will seek to identify climate transition leaders, and consideration will be made to include ESG bonds, e.g. green bonds, social bonds, transition bonds, sustainability bonds or sustainability linked bonds.

- Relevant Sustainability Indicator: % investments in ESG bonds, such as green bonds, social bonds, sustainability bonds, transition bonds, sustainability bonds or sustainability linked bonds.

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 ESG Review 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](#).

