For Investment Professionals only

M&G INSTITUTIONAL

M&G Sustainable Total Return Credit Investment Fund

Monthly fund report

January 2024

The value of investments will fluctuate, which will cause prices to fall and rise and investors may not get back the original amount they invested. There is no guarantee the objective will be achieved.

The M&G Sustainable Total Return Credit Investment Fund ('the fund') aims to maximise total return principally by exploiting long-term risk premia. The fund will aim to provide investors with attractive returns from capital and income from a diversified pool of debt and debt like assets, and applies a number of ESG focused exclusions to ensure all securities meet our minimum ESG and sustainability criteria. These will include, but are not limited to, debt instruments with a fixed, variable or floating rate coupon. The investment manager will identify opportunities at the market, sector, issuer or security level to enhance returns amongst fixed income asset classes, such as investment grade and high yield corporate bonds and on occasion, government bonds. Duration, yield curve and currency investment strategies may also be used. There is no geographic limitation to the investment universe. The fund aims to outperform the benchmark 1– Month EURIBOR.

Key information

Fund manager	Richard Ryan
Fund launch date	14 October 2021
Fund type	Luxembourg SICAV (UCITS)
SFDR Classification	Article 8
Dealing and valuation dates	Daily (settlement t+2)
Annual Charge	0.35% of NAV (Institutional EI founder share classes) 0.48%/0.52% of NAV (Wholesale LI/L founder share classes)
Share class currencies	EUR, GBP and SEK
Minimum investment	€1 million* (AI/EI/L/LI shares) €500,000* (W/WI shares)
Fund size	€1,090,931,176.36
Number of issues	455
Number of issuers	347
Modified duration** **Spread duration**	0.02 3.06
PV01 **CR01** **IE01**	0.0000% 0.0310% 0.0000%
Average credit rating***	A-
Yield to worst****	7.19% (GBP), 5.90 (EUR), 7.36% (USD)
99% 20 day value at risk	1.42%

Source: M&G as at 31 January 2024. *Or Sterling equivalent. **Calculated to worst. ***Linear average credit rating.

Performance target

The fund seeks a total return of one month Sonia / Euribor +3 to 5% gross of fees p.a. over a cycle.

Risks associated with this fund

Market risk: The value of investments and the income from them will rise and fall. This will cause the sub-fund price, as well as any income paid by the sub-fund, to fall as well as rise. There is no guarantee the sub-fund will achieve its objective, and you may not get back the amount you originally invested.

Credit Risk: The value of the sub-fund may fall if the issuer of a fixed income security held is unable to pay income payments or repay its debt (known as a default).

Interest Rate Risk: When interest rates rise, the value of the sub-fund is likely to fall.

Derivatives Risk: The sub-fund may use derivatives to gain exposure to investments and this may cause greater changes in the sub-fund's price and increase the risk of loss.

Counterparty Risk: Some transactions the sub-fund makes, such as placing cash on deposit, require the use of other financial institutions. If one of these institutions defaults on their obligations or becomes insolvent, the sub-fund may incur a loss.

Below Investment Grade Debt Securities Risk: Such securities generally carry a greater risk of default and sensitivity to adverse economic events than higher rated debt securities.

Asset-Backed Securities Risk: The assets backing mortgage and asset backed securities may be repaid earlier than required, resulting in a lower return.

Contingent Convertible Debt Securities Risk: investing in contingent convertible debt securities may adversely impact the fund should specific trigger events occur and the fund may be at increased risk of capital loss.

Hedged share classes use currency hedging strategies to minimise currency exchange rate risk. There will be imperfections with any hedging strategy, and it cannot be guaranteed that the hedging objective will be achieved. The hedging strategy may substantially limit holders of the hedged share class from benefiting if the hedged share class currency fails against the reference currency.

Please note this is not an exhaustive list, you should ensure you understand the risk profile of the products or services you plan to purchase.

ESG Data Risk: ESG information from third-part date 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 sub-fund.

Fund performance

Past performance is not a guide to future performance.

Total returns	One month	Three months	Year to date	One year	Three years (p.a)	Five years (p.a)	Seven years (p.a)	Since inception (p.a.)*
EI share class € Acc (gross)	1.21%	4.23%	1.21%	7.75%	-	-	-	3.32%
EI share class € Acc (net)	1.18%	4.14%	1.18%	7.38%	-	-	-	2.96%
One month Euribor**	0.32%	0.96%	0.32%	3.40%	-	-	-	1.52%
EI share class € Inc (gross)	1.21%	4.23%	1.21%	7.75%	-	-	-	3.32%
EI share class € Inc (net)	1.18%	4.14%	1.18%	7.38%	-	-	-	2.96%
One month Euribor**	0.32%	0.96%	0.32%	3.40%	-	-	-	1.52%
EI-H share class £ Acc (gross)	1.31%	4.54%	1.31%	9.22%	-	-	-	4.69%
EI-H share class £ Acc (net)	1.28%	4.45%	1.28%	8.84%	-	-	-	4.33%
Sonia**	0.43%	1.28%	0.43%	4.76%	-	-	-	2.80%
EI-H share class £ Inc (gross)	1.31%	4.54%	1.31%	9.23%	-	-	-	4.70%
EI-H share class £ Inc (net)	1.28%	4.45%	1.28%	8.85%	-	-	-	4.33%
Sonia**	0.43%	1.28%	0.43%	4.76%	-	-	-	2.80%
EI-H share class SEK Acc (gross)	1.21%	4.20%	1.21%	-	-	-	-	7.18%
EI-H share class SEK Acc (net)	1.18%	4.11%	1.18%	-	-	-	-	6.83%
One month SEK Stibor**	0.34%	1.00%	0.34%	-	-	-	-	3.47%

The annual charge for this fund is 0.35% p.a. (E share class). This will affect the return investors will receive. Past performance is not a guide to future performance. *Please refer to Since Inception dates in pricing tables below. **Datastream, One month Euribor levels supplied by the European Banking Federation. SONIA levels are supplied by the Bank of England. One month STIBOR levels are supplied by the Swedish Financial Benchmark Facility.

Yearly return

Yearly return (gross of fees)	2015	2016	2017	2018	2019	2020	2021	2022	2023
EI share class € Acc	-	-	-	-	-	-	-	-1.23%	7.98%
EI share class £ Acc	-	-	-	-	-	-	-	0.22%	9.47%
One Month Euribor**	-	-	-	-	-	-	-	0.09%	3.24%
One Month Sonia**	-	-	-	-	-	-	-	1.40%	4.58%

The annual charge for this fund is 0.35% p.a. (E share class). This will affect the return investors will receive. Past performance is not a guide to future performance.

Pricing

Share class	Inception date	ISIN	Bloomberg code	Price per share	Fund NAV
EUR EI Acc	10/31/2021	LU2360510130	MGRCIEI LX	€ 106.97	€ 23,310,376.49
EUR EI Inc	10/31/2021	LU2360510056	MGRCEIE LX	€ 99.62	€ 10,415,275.93
GBP EI-H Acc	10/31/2021	LU2360509983	MGRCEIA LX	£110.27	£423,893,201.82
GBP EI-H Inc	10/31/2021	LU2360509801	MGRCEIG LX	£102.68	£362,737,738.40
SEK EI-H Acc	02/23/2023	LU2579192001	MGEISAH LX	SEK 1,068.35	SEK 657,694,438.55

Sustainability Metrics

Key Sustainability Characteristics	Fund	Reference Universe (50% Global IG Corporates / 50% Global High Yield Corporates)
WACI	57.56	238.31
MSCI ESG Score	7.10	6.26
% ESG Themed Bonds	15.06%	6.42%
Exposure to UNGC Breaches%	0.00%	0.71%
Exposure to Laggards %	0.37%	5.21%

*Weighted Average Carbon Intensity (WACI) (Tons of CO2e) (Scope 1+2 divided by US$ revenues).
Source: M&G as at 31 January 2024. Third party ESG rating providers may, in a small number of cases, have assigned a laggard rating to an issuer where our analysts may disagree with their rationale. If unchallenged, this would require our fund managers to exclude these bonds from certain sustainable/ESG funds. However, M&G fund managers and relevant analysts may appeal this issue to our independent ESG Governance Committee to present evidence to demonstrate why they believe the exclusion by the third party ESG rating provider was materially incorrect and/or was misaligned with other third party ESG providers. After reviewing submissions, the ESG Governance Committee will determine whether an override of laggard status can be made.

Sustainability Indicators

Indicators	KPI
Avoidance of controversial issuers: The fund excludes companies and countries with severe controversies (UNGC/ Freedom house). UNGC red flags exclusions are considered a house exclusion.	**Exclusion KPI:** 0% 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. **Exclusion KPI:** 0% exposure to government bonds from countries considered “Not Free” by the Freedom House organisation.
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 promotes the inclusion of issuers with better ESG characteristics where this is not detrimental to the pursuit of the investment objective.	**Exclusion KPI:** 0% Exposure to investments in ESG laggards. **Reporting KPI:** Weighted average ESG score of the portfolio using MSCI, compared to the reference investment universe of 50% Global IG Corporates / 50% Global High Yield Corporates.
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.	**Relevant KPI:** The fund will typically have a lower Weighted Average Carbon Intensity (WACI) (Scope 1+2 divided by US$ revenues) than the reference investment universe of 50% Global IG Corporates / 50% Global High Yield Corporates.
Positive impact to the environment, society and the climate: The fund will seek to identify climate transition leaders, and consideration will be made to include ESG Bonds, e.g. green bonds, social bonds, sustainability bonds, transition bonds, sustainability bonds or sustainability linked bonds.	**Reporting KPI:** Exposure (%) to investments in ESG Bonds, such as green bonds, social bonds, sustainability bonds, transition bonds, sustainability bonds or sustainability linked bonds.

Source: M&G as at 31 January 2024

Key risk guidelines

Key risk guidelines	Maximum
Interest rate risk (duration)	+ / - 3 years
Max sub-investment grade	50%
Single issuer: AAA to AA-	+ 5%
Single issuer: A+ to BBB-	+ 3%
Single issuer: below BBB-	+ 2%

Source: M&G as at 31 January 2024

Performance attribution

Position	One month (bps)
Asset allocation – corporate bonds	**98**
Industrial	63
Financial	32
Covered	0
Utility	-2
Securitised	5
Sovereign, Quasi & Government	0
Cash	2
Yield curve, duration and FX hedging	0
Residual	-11
Total	**89**

Source: M&G, Blackrock Aladdin ™, as 31 January 2024. Attribution based on the relative performance return of the Euro denominated EI share class gross of fees. Attribution is calculated arithmetically and may not map directly to geometrically calculated performance.

Positioning

Asset class*	%
Quasi and foreign government	1.13%
Sovereign	9.26%
Securitised	3.81%
Covered	4.97%
Financials	27.29%
Industrials	31.88%
Utilities	3.32%
Net cash and derivatives	18.34%
Total	**100.00%**

*Source: M&G as at 31 January 2024

Rating*	%
AAA	13.62%
AA	5.39%
A	5.54%
BBB	28.22%
BB and below	28.89%
Net cash and derivatives	18.34%
Total	**100.00%**

*Average of S&P, Moodys and Fitch or M&G internal rating

Currency of assets*	%
GBP	13.68%
EUR	77.53%
USD	8.81%
SEK	0.14%
Net derivatives	-0.16%
Total	**100.00%**

*Unhedged currency of assets in portfolio, all non-EUR investments are fully currency hedged

Key characteristics*	
WAL to worst	4.64
Coupon	3.97
Yield to maturity (EUR)	5.74
Yield to maturity (USD)	7.20
Yield to maturity (GBP)	7.03

*Source: M&G as at 31 January 2024

Top five corporate issues / issuers

By issue	%
SVEGNO 0.01 28-Jun-2027	0.50%
NDAFH 3.5 31-Aug-2026	0.50%
BPCECB 0.375 21-Feb-2024	0.43%
NAB 5.7183 04-Feb-2025	0.41%
TRIOD 2.25 05-Feb-2032	0.40%

By issuer	%
Bayerische Landesbank	0.58%
Sparebanken Vest	0.50%
Nordea	0.50%
Unicredit	0.46%
AIB Group	0.45%

Source: M&G as at 31 January 2024

Investment Commentary

The market has been debating the timing of the Fed's first interest rate cut for months. Investors are still expecting rate cuts fairly soon, however Powell's remarks following January's meeting led to markets dialling back on the likelihood that a cut will go ahead in March – the market implied probability fell to one-in-three. Generally, sovereign bonds across the US, Europe and UK lost ground as investors dialled back the prospect of rate cuts. Geopolitical concerns have also persisted into 2024, particularly as strikes from Houthi rebels on commercial shipping in the Red Sea led to significant supply-chain disruption. This saw oil prices rising again in January following three monthly declines, with Brent Crude up +6.1% to $81.7/bbl.

Investment Grade (IG) supply continued to beat expectations (and records) in January, as borrowers took advantage of rallying yields to refinance at lower rates. Strong demand continued as investors were eager to buy bonds with elevated yields before central banks start cutting base rates, leading spreads to continue to perform well in the month. Rates were volatile, driven by changing market expectations on the path of interest rates. The EUR IG and GBP IG indices tightened by 7bps and 4 bps respectively, however rising government bond yields resulted in EUR IG delivering slightly positive total returns of 0.09% and GBP IG delivering a negative return of -0.99%.

The European High Yield market started the year positively as spreads continued to grind tighter, ending January 12bps tighter than at the end of 2023. This resulted in Euro HY delivering total returns of 0.83%.

The Fund saw a continuation of several themes implemented by the investment team in prior months. The Fund de-risked into market strength, and opportunities were added on an idiosyncratic basis given spread dispersion across sectors.

We remained active in the primary market, increasing our exposure to selective financial bonds issued by Commerzbank, Iccrea Banca and New York Life which came to market at attractive levels.

In the secondary market, we marginally increased exposure to financial and covered bonds issued by Deutsche Pfandbriefbank, Rothesay Life and Credit Agricole. All purchases offered attractive compensation for risk relative to underlying credit fundamentals.

The manager reduced exposure to various industrial bonds including those issued by Elior, Sappi and Eurofins Scientific which had performed well.

Finally, a few relative value transactions were executed, switching out of shorter dated bonds issued by Crelan into slightly longer dated primary market equivalents as well as switching from shorter dated bonds issued by Unicaja Banco into slightly longer dated equivalents.

Investment process

The M&G Sustainable Total Return Credit Investment Fund (‘the fund’) seeks to add value through a fundamentally driven, “bottom up”, value-based approach to credit investing, which we believe results in lower volatility and higher returns. The fund removes all interest rate risk, and derives its returns principally from capturing credit risk premia, investing only where we have a strong conviction that the price at which we can transact more than compensates for the risk being taken. This is based on the belief that securities can become mispriced and over or undervalued as a consequence of a variety of issuer/sector factors, or wider events including social or political unrest and episodes of market greed or panic. M&G has a team of over 100 fundamental credit analysts, covering public and private debt markets, who analyse, monitor and independently rate issuers in the investible universe. As part of the research process, they will identify relevant and material ESG factors, which will be flagged to the investment team through our proprietary ESG scorecard. We then apply a layer of screening to the investable universe in order to exclude any companies that would not meet our minimum ESG and sustainability criteria.. Please see the following section on sustainability for further details on this. This analytical resource enables the fund manager to identify and select sufficient numbers of cheap bonds to generate consistent returns; these may include stocks where a change in market price does not reflect underlying credit fundamentals, or where a change in the fundamentals has yet to be reflected in the price. It may also include bonds that other investors are unsure about, or unable to analyse and value. The breadth of the universe that the fund is able to allocate to, and the depth of individual opportunities within each credit asset class, regularly provides the fund manager with significant numbers of investment opportunities to enable a high level of portfolio diversification.

Critically, we do not invest based on forecasts of the level and direction of interest rates, inflation, growth and other variables, which we believe do not represent a reliable or repeatable source of outperformance. Therefore we remove all of the underlying interest rate risks of the bonds held in the fund, and fully hedge all currency exposure.

Benchmark: 1-Month EURIBOR

The benchmark is a target which the fund seeks to achieve. The rate has been chosen as the fund's benchmark as it is an achievable performance target and best reflects the scope of the fund's investment policy. The benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction.

The fund is actively managed. The investment manager has complete freedom in choosing which assets to buy, hold and sell in the fund, subject to the investment restrictions set out in the fund's prospectus, and there are no restrictions on the extent to which the fund's performance may deviate from the one of the benchmark.

For unhedged and currency hedged share classes, the benchmark is shown in the share class currency.

Fund manager

Richard Ryan joined M&G in 2002 and has managed the multi-asset credit strategies since their inception in 2007. Richard has 24 years of experience managing institutional corporate bond funds. Richard is also able to draw on the strengths of M&G's specialist portfolio management and analyst teams within the Fixed Income business. Richard graduated from Southampton University with a degree in Economics.

Note on swing pricing effect

The fund operates partial swing pricing whereby the fund swings when net flows on any dealing day are above the pre-determined threshold. The NAV per Share may be adjusted upwards or downwards to reflect the costs attributable to the net inflows and outflows respectively. If net flows do not exceed the pre-determined threshold then the fund is mid-priced. The swing factor is determined monthly using the bid-mid spread of assets in the fund on a given day.

Taxonomy summary

In line with its ESG and Sustainability Criteria, the fund promotes environmental characteristics and intends to invest in one or more underlying investments that contribute to climate change mitigation. The ESG Criteria and Sustainability Criteria describe how the securities that the fund invests in are assessed and measured regarding their ability to contribute to climate change mitigation. At the date of this Report, it is however not yet possible to commit to the fund's minimum alignment with the Taxonomy Regulation, as it is currently not possible to accurately assess such investments in accordance with the EU criteria for environmentally sustainable activities. The "do no significant harm" principle applies only to those investments underlying the fund that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this fund do not take into account the EU criteria for environmentally sustainable economic activities. The Prospectus will be updated after it becomes possible to accurately disclose the extent the fund's investments are in taxonomy-aligned environmentally sustainable activities, including the proportions of investments in enabling and transitional activities selected for the fund.

Introduction to M&G's Approach to Sustainability

The **M&G Sustainable Total Return Credit Investment Fund** is designed to offer clients a flexible, floating rate (duration neutral) and, on average, investment grade focussed sustainable bond proposition. The fund combines M&G's long-running expertise in multi-asset credit investing with an assessment of environmental, social and governance (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.

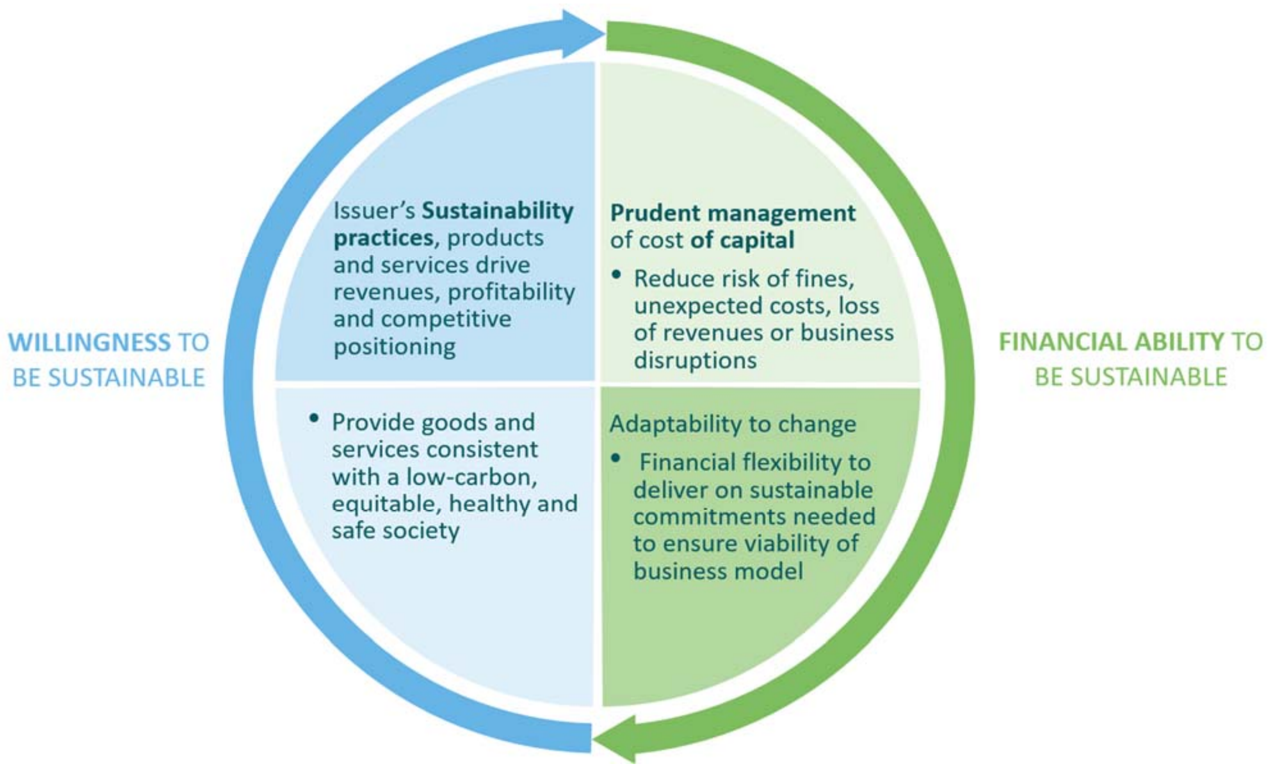
The fund's investment philosophy and investment guidelines are based on the M&G Total Return Credit Investment Fund, which has been managed by fund manager Richard Ryan and the Institutional Public Debt Team since its inception in 2013. At the heart of the investment strategy is a bottom-up, research-driven and value-based approach to individual credit selection. 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 remit; focussing on identifying attractive individual opportunities across the developed markets, from both investment grade and high yield issuers. However, the maximum exposure to high yield issuers is capped at 50% in aggregate. Furthermore, the overall duration of the fund will be maintained at close to zero throughout the cycle. All non-base currency risks are expected to be hedged back to the base currency of the fund, Euros.

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. 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 designed to achieving a sustainable outcome while ensuring that environmental and social safeguards are in place.

Defining sustainable investments

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.



Source: M&G

Sustainable investment screening

In order to identify securities that meet the fund's sustainability criteria, potential investments undergo a three-stage process (see Roadmap chart). The result is a sustainability themed investment universe, creating the opportunity set for the M&G Sustainable Total Return Credit Investment 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.

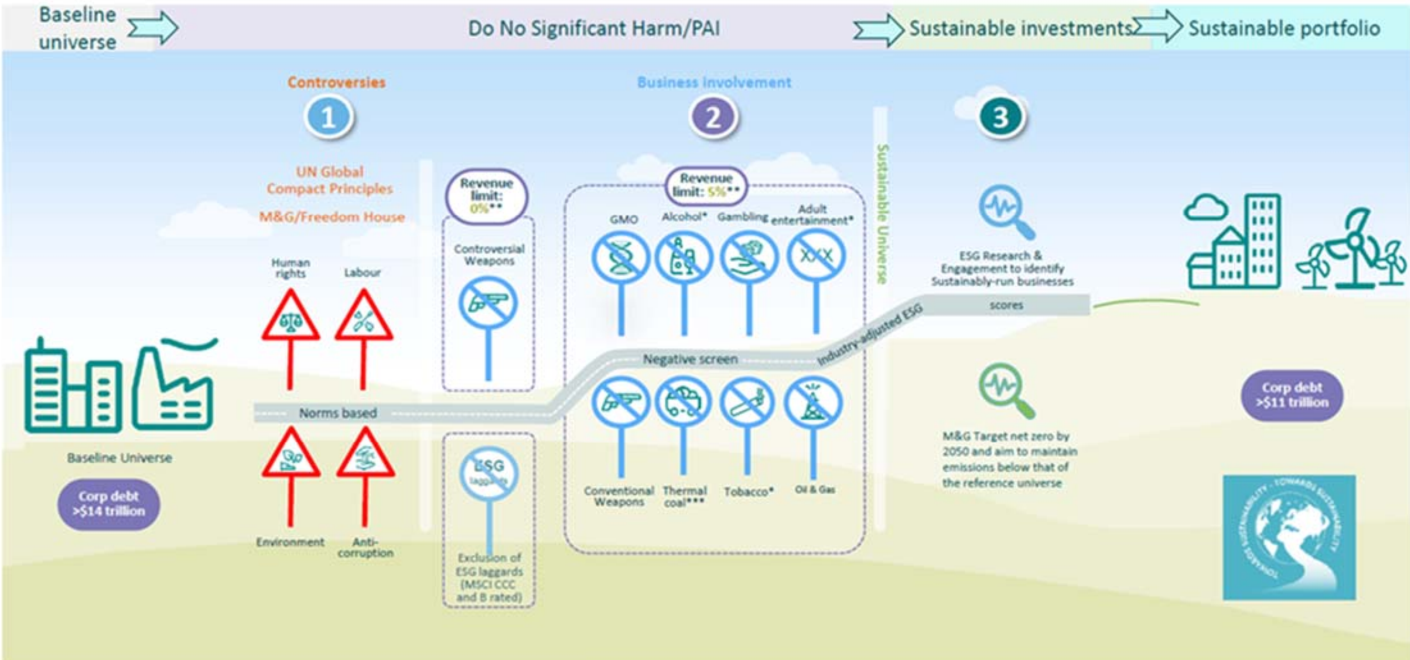
Stage 2 - the fund seeks to exclude companies with business activities deemed to be damaging to the environment and/or the wellbeing of society by virtue of the business activities they are engaged in. We seek to filter out companies that derive a material part of their revenues from the following activities, which can be grouped according to the relevant exclusion criteria: :

- **Social** - Tobacco, alcohol, adult entertainment, gambling, conventional weapons
- **Environmental** – Thermal coal, oil & gas, nuclear energy and GMO.

In addition to these exclusions, we also seek to exclude ESG laggards and companies that derive any of their revenue from controversial weapons .

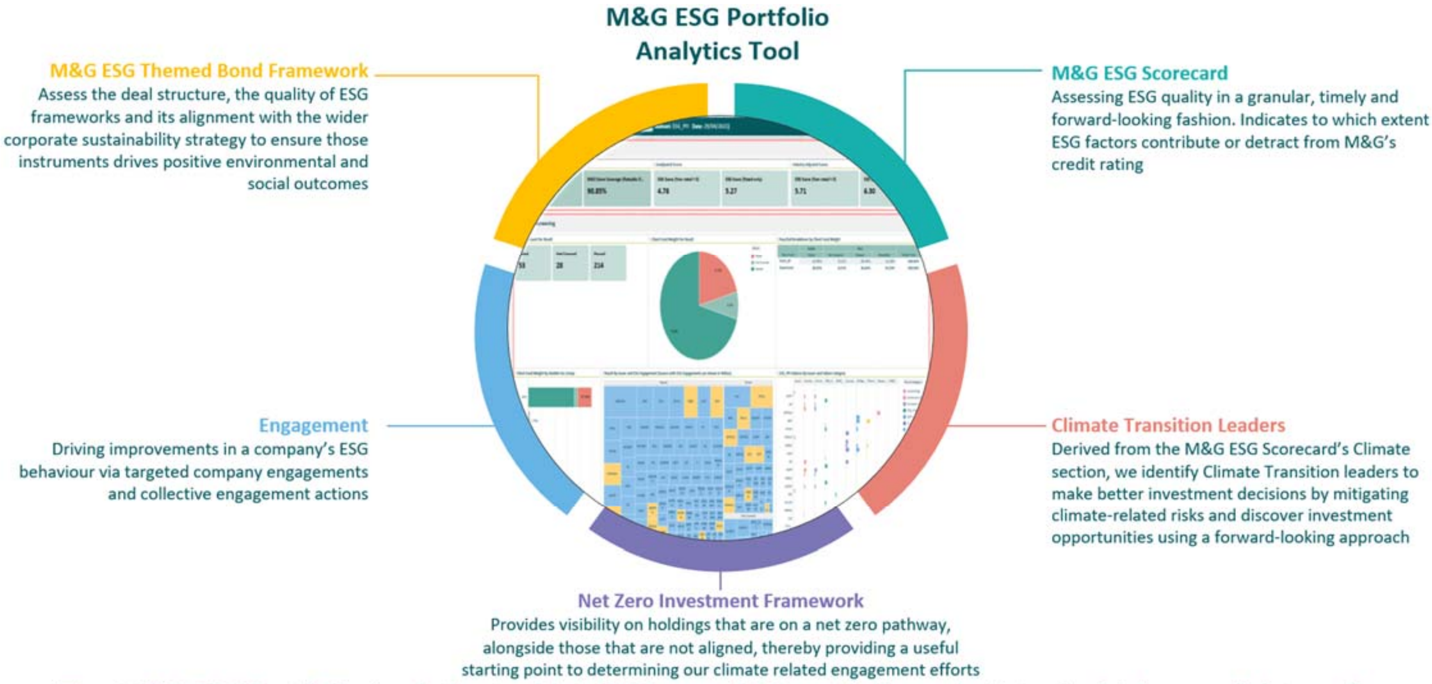
- **Identification of sustainable businesses and exclusion of ESG laggards**

Stage 3 – to ensure the minimum quality standards in how financially-material ESG risks are managed, the fund manager will give consideration to a range of sustainability factors with a focus on investments that meet environmental, climate and social sustainability.



Source: M&G, as at 31 December 2023 *Revenue threshold for retail distribution at 10%, ** Screening assessments are based on data from external specialist data providers, limit 5% unless indicated *** subject to M&G plc thermal coal policy exclusion

Actively driving sustainability in fixed income



The M&G ESG Portfolio Analytics tool is M&G's core ESG portfolio analysis tool which consolidates all the ESG Research into a single system

Source: M&G 2021

Once the sustainability-themed universe has been defined through the three-stage screening process outlined above, the fund manager seeks 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 manager has 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.

Below we outline some of the key elements in our ESG analysis process to ensure the optimisation of the fund's sustainably credentials.

M&G ESG Scorecard – a proprietary tool that quantifies a variety of ESG factors for individual companies, and indicates the extent to which they are contributing or detracting from an analyst's credit rating. As opposed to many third-party ESG data providers, who base their methodology on data processing and algorithms, we favour a more nuanced approach as we believe that ESG is a largely qualitative domain. The M&G ESG Scorecard therefore emphasises the qualitative aspects of ESG risks while aiming for a granular, forward-looking and timely output.

Climate Transition Leaders - the climate section from the M&G ESG Scorecard is used to identify climate transition leaders. We look at climate intent and disclosure and assess if companies can evidence a net zero transition via science based targets. We believe that identifying climate transition leaders can help us to make better investment decisions by mitigating climate-related risks.

M&G Net Zero Investment Framework - a portfolio screening tool that allows fund managers to better assess the climate risk of their portfolio through a forward looking lens. The tool provides visibility on holdings that are on a net zero pathway, alongside those that are not aligned, thereby providing a useful starting point to determining our climate related engagement efforts.

Engagement – company engagement forms a key part of the fund's investment approach. As well as helping us to gain a better understanding of a company's ESG characteristics and risks, the engagement process can also help to drive improvements in a company's ESG behaviour and performance. M&G's significant scale in fixed income markets, and the need for companies to maintain good relationships with their lenders, means that we are often able to gain valuable access to an issuer's senior management. As well as engaging with companies on an independent basis, M&G also utilises collective engagement alongside other lenders when this is expected to achieve a more fruitful outcome.

M&G ESG Themed Bond Framework - subject to valuations, the fund manager will look for opportunities to expand the fund's allocation to ESG themed bonds, such as green bonds, social bonds, transition bonds, sustainability bonds or sustainability-linked bonds. Within this Framework we assess a bond's deal structure, as well as the quality of its ESG framework and its alignment with a company's wider corporate sustainability strategy to help ensure positive environmental and social outcomes.

ESG Portfolio Analytics Tool - a core portfolio analysis tool which consolidates all the above ESG data into a single system. This allows the fund manager to slice and dice their portfolio using both external and proprietary ESG information, from which they can assess a range of information, such as portfolio ESG scores, enhanced climate information and the details on the companies we are engaging with.

Sustainability Indicators

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 we currently monitor can be grouped into the following categories:

Avoidance of controversial 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**: 0% 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**: 0% exposure to government bonds from countries considered "Not Free" by the Freedom House organisation

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.

Relevant Sustainability Indicator: No exposure to business activities deemed to be harmful to society and the environment (for further details refer to Stage 2 of the Sustainable investment screening process above).

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.

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.

Relevant Sustainability Indicator: Lower weighted average carbon intensity (WACI) (Scope 1+2 divided by US$ revenues) than the reference investment universe of 50% Global IG Corporates / 50% Global High Yield Corporates.

A core sustainable bond proposition

Combining M&G's long-running expertise in fixed income investing with in-depth ESG analysis, the fund is designed to offer clients a sustainable bond proposition which utilises our well established research-driven investment approach. By maximising sustainability elements while applying a value-based approach, we believe the fund strikes the right balance between achieving a favourable ESG outcome while delivering attractive investment returns.

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