For Qualified, Sophisticated
and Professional Investors only

ESG at M&G

Focused on sustainable returns

M&G INVESTMENTS

ESG at M&G

M&G ESG credentials

- UNPRI **A+ Strategy & Governance score** (July 2017)
- Tier 1 UK Stewardship code (2016)
- 4th ranking (out of 50) in AODP (Asset Owners Disclosure Project) Global climate index for asset managers (April 2017)
- 11th ranking in Share Action survey (March 2017)

Equity

154 holdings where M&G owns 5% or more of the company **equity** (August 2017)

Infracapital

Infracapital's majority or significant equity stakes allows us to drive the ESG agenda and promote ESG best practices (2017)

Fixed income

Significant funder of UK solar energy capacity (July 2017)

Fixed income

One of the largest non-bank lenders to the **UK social housing sector** (2017)

Growing suite of ESG focused funds

- **Equity**, global, pan-European, infrastructure
- **Fixed income**, high yield, impact financing

The 3 Rs

Responsibility to enhance
Returns and minimise
Risks when putting our customers' investments to work

Senior Advisory Committee dedicated to ESG

- 1 Chair head of corporate finance and stewardship
- 2 M&G board members
- 1 representative from each asset class

Real Estate

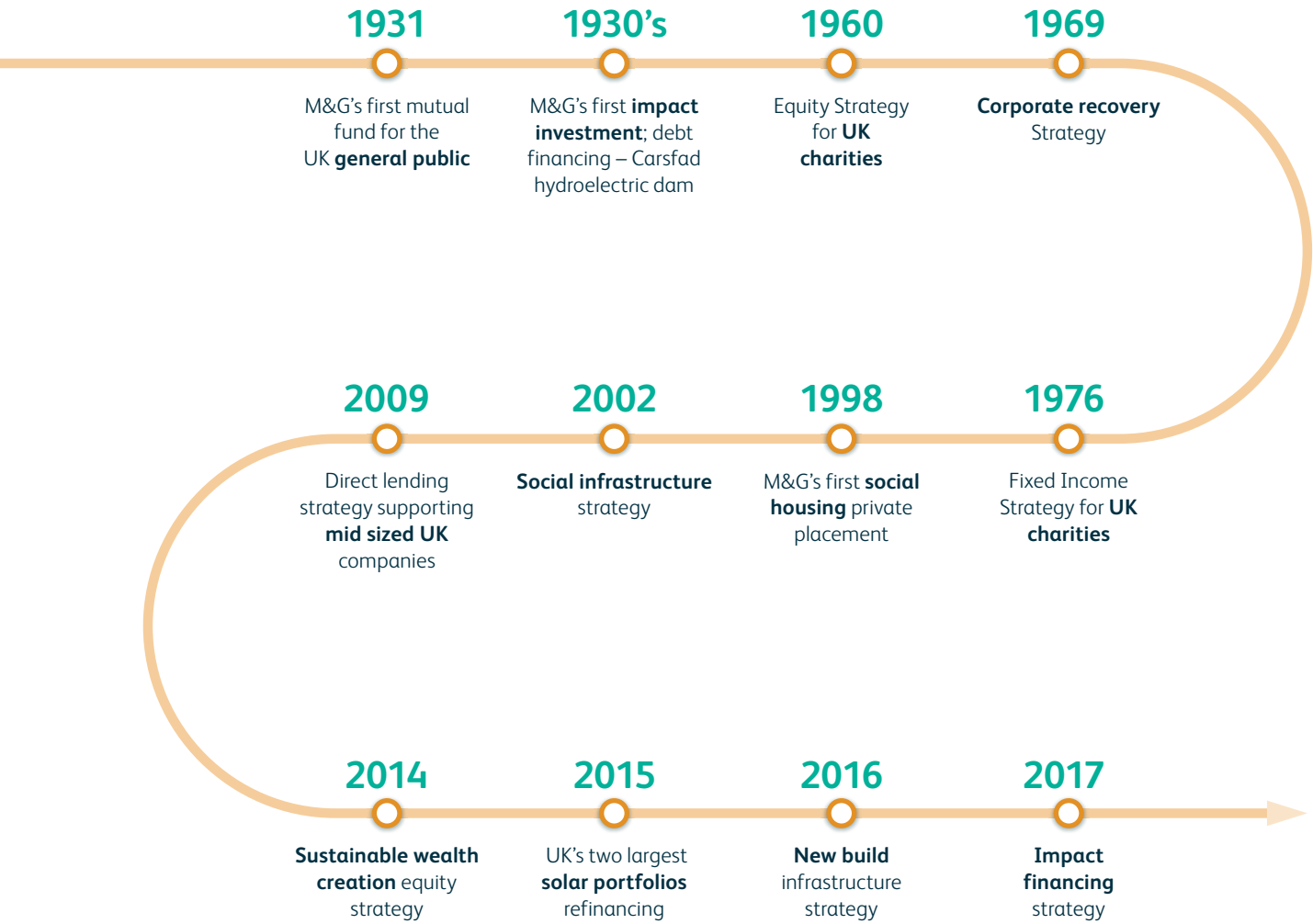
7 funds awarded Greenstars in the 2017 Global Real Estate Sustainability Benchmark survey

80 years of Responsible Investment at M&G

Responsible investment is growing rapidly in importance among investors looking for ways to **promote positive outcomes and more effectively mitigate risk** in the investments they make.

This approach takes into consideration a broad set of environmental, social and governance factors that can affect an investment, alongside more traditional financial factors such as profitability, assets and liabilities. These 'ESG' factors can be both positive and negative and there is increasing awareness that they can have a material effect on how an investment performs, particularly over the long term.

The principles underlying ESG investment are not new, but in recent years it has emerged as **a dominant framework for assessing the long term sustainability of a company or organisation**. As of July 2017, €392 billion was invested in ESG investment strategies in cross border and domestic Europe, according to Broadbridge up from €179 billion in 2010.*



The value of investments will fluctuate, which will cause fund prices to fall as well as rise and you may not get back the original amount you invested.

*Source: Broadridge FundFile, data as at end July 2017 in EUR.

Unless otherwise stated, source of all information: M&G Investments, October 2017.

ESG in practice

M&G's overarching ESG principles

Long termism

Stewardship

Active ownership

ESG incorporation

Customer focus

Equities

We believe in ESG integration for long term investment decisions and the significant impact our engagement with company management can have on corporate behaviour.

Fixed income

The integration of ESG factors into credit analysis and investment decisions is central to our approach.

In addition, we engage where relevant and often provide financing for a range of socially or environmentally beneficial investments.

Real estate

Our sector leading approach to Responsible Property Investment (RPI) enables us to manage and respond to the growing range of environmental and social issues that can impact property values, helping us protect and enhance fund and asset performance for our clients.

Infrastructure

As long term investors in essential infrastructure assets, we believe a responsible approach is critical to building sustainable value. We take a holistic approach to ESG factors across our investment activities.

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M&G's responsible investment framework

Consistent structure; flexible implementation

At M&G, we have been investing money for individual and institutional clients for more than 80 years and **our principles of investing for the long-term, responsible stewardship of our assets and active fund management** have been the bedrock of our approach throughout.

We consider it our responsibility to support our customers' investment and savings goals by generating sustainable returns over the long term. Since ESG issues tend to evolve over time, we consider such factors to be a fundamental component of our investment processes.

In practice, this means that we take ESG factors into consideration in our investment decision-making across our business. Our approach shares a number of common principles:

Incorporation

We take ESG factors into consideration in every one of our asset classes: whether investing in equities, **bonds**, real estate and infrastructure. This gives us an **in-depth understanding** or how ESG factors are likely to affect the expected risk and return of a potential investment opportunity.

Engagement

We undertake **constructive engagement** with management of companies and organisations that aims to better understand ESG strengths and weaknesses and encourage better ESG practices. Our analysts and portfolio managers will question and challenge management on even difficult topics, feeding the outcomes back into our view of the investment opportunity.

Voting

We consider active and informed voting as an integral part of our responsibility to our clients. By exercising our votes, we seek both to add value and protect our interests as shareholders.

Inclusive thinking

We believe that ESG investing is a much more **complex and nuanced process** than simply screening out companies or industries perceived to be unsavoury – the world is rarely black and white, and our research and engagement with companies is carried out on a case-by-case basis. Because of this, we think that the positive effects of ESG incorporation are one of the elements that make active investing so powerful.

Oversight of Responsible Investment at M&G

Our cohesive, but flexible, approach to ESG requires appropriate governance and oversight, particularly across a business as broad as M&G. **Our Responsible Investment Advisory Committee** oversees the governance and management of our responsible investment activities, monitors external ESG developments and coordinates internal and external responsible investment communications.

The Committee's members include representatives from each business area involved in investment management, as well as communications and marketing. The Committee is chaired by M&G's Head of Corporate Finance & Stewardship, and contains two of M&G's main board members, reflecting the **level of prioritisation** with which this is considered at M&G.

Consistent structure; flexible implementation

While we share a common set of principles, resources and infrastructure across M&G, we do not impose 'top down' house views and we do not manage by consensus.

This is equally true for the ESG strategies fund managers adopt. Indeed, individual investment teams have the autonomy, flexibility and experience to design and implement investment processes in a manner they consider most appropriate to their investment strategy and their customers.

M&G Equities:
a holistic approach to ESG and engagement

At M&G Equities 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.

These activities are overseen by M&G's Corporate Finance & Stewardship team, who work closely with our fund managers and analysts to assess how investee companies are managing their risks, while helping them to improve performance on a variety of ESG issues.

Constructive, but challenging

M&G has for many years been engaging with companies in order to deliver outcomes that serve the combined interests of our customers and the companies in question. **Meeting with company management teams is key to our Equity strategies**, and across M&G's equity funds, we are well placed to engage in discussions with companies on a range of financial and ESG matters.

These include: management strategy, acquisitions and disposals, capital allocation and refinancing activity, board composition, executive remuneration, shareholder rights, and social/environmental policies and impacts. **We also maintain an active voting policy** as an integral part of our investment approach. By exercising our votes, we seek both to add value and to protect our interests as shareholders.

The often significant stakes we take in companies tends to be supportive of this active approach. **The collaborative nature of our discussions** is also something that stands us in good stead with our investee companies. For these businesses, we aim to be supportive investors, but are willing to challenge management if we consider that the interests of our customers are being disadvantaged.

Putting it into practice – ESG Incorporation

At M&G Equities each fund manager is encouraged to think about ESG in a way that is appropriate to their investment mandate. There are, however, a range of consistent elements to the approach:

1. We use company-reported information as our primary source to conduct our own research of potential ESG issues, and also third party ESG specialists to do further work.

2. We actively **engage** with company management to see how companies are managing these risks.

3. We focus on all ESG issues that can **impact** our investments.

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M&G Multi-Asset: leveraging M&G's expertise in ESG

The M&G Multi Asset team's **disciplined decision-making process** considers all factors that could have an impact on the long-term risk and return profile of our investments, including the **full range of ESG issues**.

Complex but relevant

However, as top-down asset allocators, the extent to which we can analyse specific factors at an individual security level is limited. Most of our views are formed at the macroeconomic (i.e. asset class and regional) level. We believe derivative instruments are usually best suited to implementing such views, lending to greater efficiency, liquidity and cost efficiency of transactions.

Customising M&G's knowledge

A relatively small proportion of our portfolios may be invested in '**sector baskets**', either in company shares or **fixed income securities**, where, for example, we see a compelling opportunity within a particular sector. We are **assisted in the construction of these baskets by M&G's equity and fixed income teams**, who apply the same approach to assessing ESG issues in selecting securities for our portfolios as they do for their own.

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M&G Fixed Income:
ESG awareness at the heart of our decision-making

Consistent structure; flexible implementation

At M&G Fixed Income, ESG analysis is integrated into our investment research and decisions. **Our primary aim is to protect against** downside risk, the major concern associated with fixed income investment – but also to help identify investment opportunities with particularly good ESG characteristics, which may outperform.

We invest for the long term both through our **significant participation in bond markets** and as a substantial holder of private and illiquid debt, which is usually held to maturity. Assessing all likely ESG issues in the companies we cover, and engaging with management where a material ESG risk develops, can safeguard and enhance the value of our investments.

Rigorous credit research

Our credit analysts take all material ESG issues into consideration when forming their opinion or 'view' of an investment opportunity. **Our approach is flexible**, to allow for the differences between fixed income borrowers and markets, and we apply it across all forms of fixed income including corporate and government bonds, securitised debt, real estate debt, infrastructure debt, leveraged finance, direct lending and private placements.

Encouraging best practice

We continually monitor the companies and organisations that are issuing debt and will engage with them about their ESG practices. Though debtholders typically have less direct influence than shareholders over a corporate's strategy, **engaging actively to encourage better ESG practices** helps us understand, manage and potentially reduce the ESG risks of investments for the benefit of our clients, but also the wider market.

When we lend privately, we often engage with the management about ESG issues before we invest, as it is typically harder to exit a private debt investment than to sell a bond. However, since we are often an important source of finance for the borrower, **we can have significant scope to influence positive change**.

Investing for impact

M&G Fixed Income also undertakes 'impact' investment: providing debt finance to companies, projects or organisations that generate a **measurable environmental or social benefit alongside a financial return**. We finance a wide range of these including social and affordable housing, education, healthcare, green transport and renewable energy.

All our impact investments must meet our usual requirements of providing our customers with appropriate risk-adjusted returns, but they also create direct positive outcomes on our environment or local community, such as generating electricity from a solar park or building social houses.

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M&G Real Estate:
our approach to responsible property investment

We believe that by adopting a **responsible approach to property investment**, we can manage and respond to the growing range of environmental and social issues that can impact property values, helping us protect and enhance fund and asset performance for our customers.

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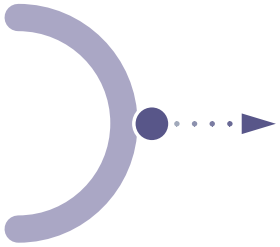
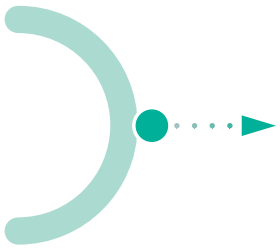
Our strategy focuses on three key areas:

Ensuring portfolio resilience through stock selection and risk management



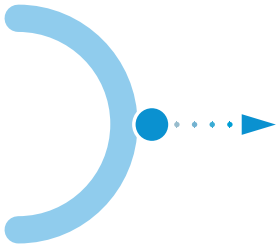
We systematically identify and manage environmental, social and economic risks in the stock we buy and hold. **This ensures that funds have resilience to growing regulation, as well as physical and societal changes**. By integrating these considerations into stock selection and asset management, we can protect long-term returns.

Driving improvements in the environmental performance of held assets



Driving environmental improvements in our properties reduces operating costs, carbon emissions and the use of natural resources. This helps to attract and retain tenants, and to ensure that we appropriately manage environmental risks.

Actively develop relationships with occupiers, visitors and communities



Local support is important to the long-term success of buildings and development projects, and to ensure this, **we must develop good relationships with visitors and communities**. By also developing proactive relationships with our occupiers, we can better understand their business needs and property requirements, helping to maximise occupancy rates and enhance returns.

We also ensure that our business conduct exceeds legislative requirements and other standards and, where feasible, **we seek to achieve best practice standards**. We continually seek to improve our performance against these issues, which we consider to be most significant to the funds under management and our own business operations. We have put in place indicators and targets to monitor our performance and to enable us to improve over time.

Full details of how we manage and respond to these issues is published in our **Annual Responsible Property Investment Report** each year.

M&G Infracapital – responsibly investing in long-term infrastructure assets

As owners of essential infrastructure assets, **responsible investing is critical to our strategy**. Importantly, by taking controlling equity stakes in all our investments, we are able to actively drive our responsible investment approach throughout the lifecycle of our ownership.

Our responsible investment approach is fourfold:

Infrastructure by its essential nature can meet many social and environmental needs

Through our investment strategy we see many attractive investment opportunities in which **we can make a positive impact on society**. Equally, we may negatively screen investments in sectors and countries where these factors are lacking and long-term value may suffer.

A key component of our investment process and due diligence is ESG

We review potential investments for ESG issues through **our own hands-on due diligence** and by engaging specialist advisers, seeking mitigations where appropriate.

We apply an active asset management approach

Through **taking controlling or significant minority stakes** in our investee companies, we can manage risks effectively, improving ESG standards across our portfolio to ultimately enhance value.

We ensure strong governance and oversight of our business

Through **regular reporting** on relevant key performance indicators and ESG metrics, we maintain robust governance and oversight.

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Fulfilling our responsibilities as an investor

The fund management industry has a primary duty to serve the economic interests of its customers. It is also eager to adopt a responsible stance when managing – and engaging with – customers' investments as an ever-greater proportion of individuals and institutions seek to invest along responsible lines. We aim to balance these dual responsibilities by taking a long-term approach that integrates consideration of ESG factors into the heart of our decision-making alongside financial considerations.

Encouraging best practice in ESG has wide benefits beyond seeking financial return or mitigating risks for an investor. Quality tends to flow right through a company – from decisions taken in the boardroom all the way to the stringency of safety procedures at the mine-site or on the factory floor. A business with integrity in its overall corporate culture is more likely to be consistently responsible when faced with tough strategic decisions. Cutting corners may reduce costs and boost earnings in the short term, but often to the detriment of the future value of the business. It is this latter factor that is overwhelmingly our priority at M&G as we invest for the long term, and why we take our role as responsible investors so seriously.

As we look forwards, we anticipate an ever-growing role for active asset managers in contributing to supporting both financial and non-financial best practice. It is crucial that we are at the forefront of this trend.

To help us create a framework for our ESG efforts, we envisage making use, where relevant, of the Sustainable Development Goals designed by the United Nations.

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UN Sustainable Development Goals

UK MADE

Active members of leading ESG initiatives and organisations

Using our influence to raise ESG Standards

At M&G we are fully engaged members of a number of initiatives to promote responsible investment, and the importance of raising ESG standards across the investment industry. We are actively involved in these initiatives, believing that their aims represent real benefits for our industry, our clients and society as a whole – for us this is not simply a 'box ticking exercise'.

Climate change

Climate Bonds Initiative

The Green Bond Principles

IIGCC
Institutional Investors Group on Climate Change

Real Estate

Revo
Retail. Property. Community.

IPF Investment Property Forum

BBP BETTER BUILDINGS PARTNERSHIP

BPF
BRITISH PROPERTY FEDERATION

Governance

THE INVESTOR FORUM

FRC Financial Reporting Council

UKSIF
UK Sustainable Investment and Finance Association

Responsible Investing

PRI Principles for Responsible Investment

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