

European SRI Transparency Code

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

January 2020



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 in the annual report on our website.

Compliance with the Transparency Code

M&G 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.

Section 1 – Basic Details

The Fund Management Company

1a Provide the name of the fund management company managing the fund(s) to which this code applies.

M&G Luxembourg S.A.
 16, boulevard Royal,
 L 2449, Luxembourg
<https://global.mandg.com/>

1b Describe the general approach of the fund management company with regards to how it takes environmental, social and governance (ESG) criteria into consideration.

We see ESG as central both to our role as an investor and to our responsibilities as a steward of our clients’ savings and investments. The analysis and evaluation of ESG risks and opportunities is of vital importance in generating an accurate and holistic picture of the range of the factors (both financial and extra financial) that affect corporate performance. As long-term investors, and in line with our objective to achieve superior risk-adjusted returns for our clients, we recognise that ESG factors have a material influence on long-term investment outcomes. Such an approach improves the quality of investment-decision making, hence we regard it as part of our fiduciary responsibility to incorporate ESG issues in our investment considerations, as we do for all factors that influence long-term investment results for our clients.

We recognise the importance of collaboration and partnership in Responsible Investment and Impact Investing, both in amplifying our voice in company engagements alongside other responsible investors, and in promoting more sustainable practices across the investment chain. Hence, we actively participate in numerous responsible investment initiatives, including relevant committees of the Investment Association (e.g. Stewardship Committee and Sustainable & Responsible Investment Committee), the UK Investor Forum, Climate Action 100+ / IIGCC (various working groups), Climate Bonds Initiative and the PRI.

Engagement is also extremely important to our investment processes. Our fund managers believe that the long term success of companies is supported by effective stewardship and high standards of corporate governance. We believe that if a company is run well, it is more likely to be successful in the long term. Social and Environmental issues can also have an important impact on company performance. Well-managed companies take these issues into consideration as part of their successful development. We use the SASB framework to help frame engagement topics and our Corporate Finance and Stewardship team (in conjunction with the analyst team) coordinates M&G’s stewardship activities, fulfilling this role on behalf of our clients across different markets.

While we consider it essential to include ESG issues in our investment analysis, we do not make investment decisions based solely on our ESG views. Rather, investment decisions are made after giving appropriate consideration to all factors that influence an investment’s risk or return.

Further details of responsible investment at M&G in policy form and reports can be found here:
<https://global.mandg.com/our-business/mandg-investments/responsible-investing-at-mandg-investments>

M&G has been a signatory of the UNPRI since January 2013 and in line with principles 2,3, and 4 of our commitment, we seek to encourage best practices in the interest of both our clients and the wider market. In

	<p>our most recent PRI submission, we obtained an above median rating across all of our reported asset classes. The PRI has been fundamental in encouraging greater integration of responsible investment practices within our industry and, as an asset manager with a long-term view of our investments, we believe being a signatory and supporting the PRI's efforts is of the utmost importance. We believe we have an important role to play in supporting the growth of ESG across the investment industry – as both a signatory and investor we adhere to the principles of the UNPRI.</p> <p>We currently have representation on the PRI Fixed Income Engagement sub-committee and are involved in the engagement working group on tax. We have also been invited to join the deforestation and single-use plastic sub-committees.</p> <p>In addition to the PRI, M&G is a signatory of the UK Stewardship Code (a tier 1 firm) and has been supportive of the code since its inception in 2010; we recognise the importance of accountability to our clients for the stewardship of their assets and comply fully with the Code's principles in respect of UK-listed equity investments.</p> <p>We are also supportive of collaborative engagements organised by representative bodies such as the Investor Forum and are a member of the Investment Association (IA), with M&G representatives actively participating on the Association's remuneration, corporate governance and sustainability committees.</p> <p>Additionally, we are signatories of the Green Bond Principles and are Climate Bond Initiative (CBI) Partners. M&G is an active contributor to the CBI through our involvement in the following CBI initiatives:</p> <ul style="list-style-type: none"> • EU Green Securities Steering Committee • Industry Working Group for Marine Renewable Energy Investments • Industry Working Group for Hydropower Investments • Climate Bonds Industry working group for bioenergy <p>As previously mentioned, M&G is also a member of the Institutional Investors Group on Climate Change (IIGCC) which provides investors with a collaborative platform to encourage public policies, investment practices and corporate behaviour that address the long-term risks and opportunities associated with climate change. We are also founding signatories of Climate Action 100+ working with other major investors globally to push for improved transparency and reduced GHG emissions at companies operating in high carbon industries, and recently co-filed a shareholder resolution with BP.</p> <p>In the UK, we have responded directly, or through industry bodies such as the IA and the European Fund and Asset Managers Association (EFAMA), to consultations covering a broad range of UK and EU regulatory topics. These have included: the integration of sustainability risks into MIFID II; the development of a sustainable taxonomy to define sustainable economic activities; the EU Ecolabel for financial products; the future of carbon reporting; and the CRC Energy Efficiency Scheme. We have also directly engaged with government regarding the introduction of regulations to ban the letting of property with a poorly rated Energy Performance Certificate. We believe it is indicative of our commitment to addressing environmental risks that M&G ranked 4th on the AODP Global Climate Asset Manager Index</p>
1c	<p>Describe/List your SRI products and the specific resources allocated to your SRI activities.</p> <p>Through our active approach to investment management and our extensive deployment of research resources, we are able to assess ESG issues as part of our investment process wherever these have a meaningful impact on risk or returns and integrate ESG factors into all investment analysis.</p> <p>M&G also runs ESG-focused segregated mandates for individual institutional clients, and offers an increasing range of mutual funds with a specific focus on ESG factors written into their official investment approaches –</p>

this includes a degree of negative screening, beyond the M&G-wide exclusion of cluster munitions (M&G Cluster Munitions Policy).

The current products within our ESG family of funds is as follows:

- Equities: M&G (Lux) Global Select Fund; M&G (Lux) Pan European Select Fund; M&G (Lux) Positive Impact Fund
- Fixed Income: M&G (Lux) Global High Yield ESG Bond Fund and M&G (Lux) Emerging Market Corporate ESG Bond Fund.
- Multi-Asset: M&G (Lux) Sustainable Allocation Fund

Resources

M&G fund managers, in addition to analysts and investment specialists embedded within individual investment teams, are aided by:

M&G's Corporate Finance and Stewardship team – As noted previously, M&G's Responsible Investment Advisory Forum (RIAF) has broad oversight of Responsible Investment at M&G, coordinating and reviewing ESG-oriented initiatives/activities at the firm across asset classes. The RIAF consists of representatives from each asset class, who report progress on responsible investment initiatives to the RIAF. RIAF is chaired by M&G's Head of Corporate Finance and Stewardship, with regular communication of key agenda items up to the Executive Committee and Board where appropriate. We have also have a dedicated ESG Investment Oversight Meeting to approve M&G's ESG-labelled funds.

For day-to-day investment activities, our responsible investment team (within the Corporate Finance & Stewardship team) acts as a dedicated central ESG resource for the whole of M&G. It works closely with our analysts across equities and fixed income and accompanies portfolio managers to company meetings. The team hosts regular in-house seminars on the latest trends and developments, publishes internal research on key sustainability themes and helps analysts with deep ESG engagements. The team is made up of 10 individuals, specialising in Governance and ESG specifically. Alongside this team, M&G has several other embedded Responsible Investment specialists, including a Head of Responsible Real Estate and Head of ESG for Infracapital.

As a central resource, the RI team has the ability to look across asset classes to understand M&G's overall positions with companies – for both shareholdings and bond holdings. This allows us to not only understand the risk implication for a specific fund, but also for the firm as a whole. We use this capability to help steer our engagement priorities, based on the overall size of our holdings and the length of ownership. Collaboration across asset classes, in relation to ESG-related issues, helps ensure that we are able to achieve the best outcomes from each engagement and manage risks from an all-asset perspective.

The RI team does not force action onto managers, but rather collaborates both directly and via the analysts to equip managers to make better-informed decisions, knowing the full spectrum of ESG risks that could impact their portfolios, as well as where these risks may be concentrated within certain issuers or holdings. By working in conjunction with the credit and equity analysts on ESG, the RI team is able to ensure that ESG risks are considered throughout the full investment process, as well as in the monitoring of companies.

To have an integrated approach to ESG requires all our investment professionals to understand their role in delivering our strategy – for example, all investment managers are expected to consider sustainability risks and opportunities as part of the due diligence process. Everyone involved in the asset strategy process (e.g. property, asset, investment and fund managers) is expected to consider the sustainability performance of the asset, and have a strategy in place through the asset plan to manage any risks.

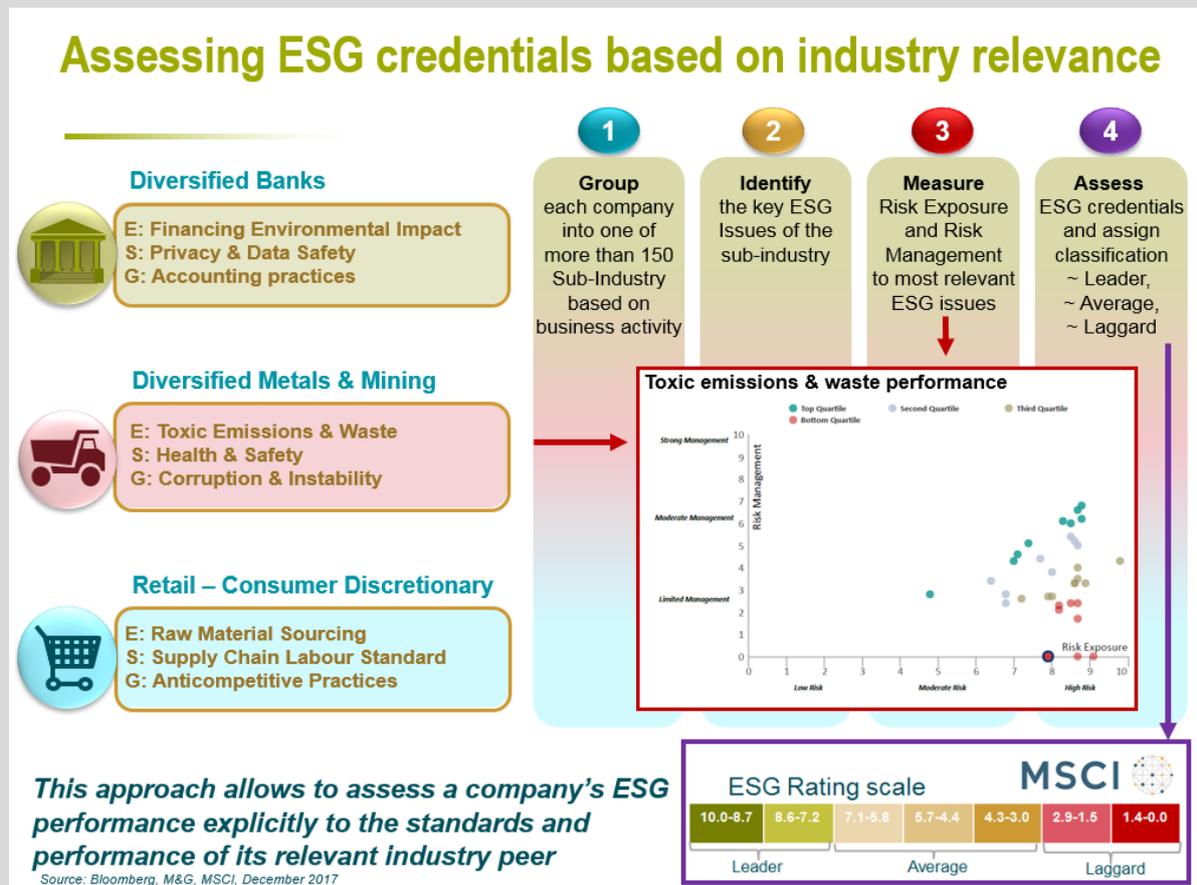
	<p>ESG Research – At a firm level across all asset classes, we have access to the following data tools to aid our ESG analysis and to act as a quantifiable in the management of certain products:</p> <ul style="list-style-type: none"> • MSCI ESG Research and Sustainalytics (to help rank names along ESG lines) • RepRisk Used by certain funds) • Examination of company sustainability reports when they are available, probing management to verify their content. <p>More broadly, across asset classes we adopt the Sustainable Accounting Standards Board (SASB) framework to structure our research and engagement activity, allowing us to incorporate ESG factors into the investment process for our holdings at all stages. The adoption of the SASB framework by our equity and fixed income analysts alike allows them to engage on the key ESG issues for each sector, focusing their research on a few areas and therefore increasing the likelihood of a beneficial outcome for clients. Furthermore, we have recently trialled implementation of an internal ‘ESG scorecard’ which builds on proprietary insights and the SASB framework to expose – in a rigorous and standardised way – the impact, direction and mitigation of ESG issues for subject companies.</p>																
1d	<p>Describe the content, frequency and resources allocated/used by the fund management company to inform investors about the ESG criteria taken into account.</p> <p>M&G publishes a range of documentation within the responsible investment section of the website. This includes the company-wide approach to responsible investment, detailed overviews from the perspective of individual asset classes, reports on engagement activity, case studies, our voting record and more. https://www.mandg.com/about-us/responsible-investment</p> <p>Individual ESG-focused investment teams also produce regular briefing notes for investors, including ESG case studies and explanations of ESG integration in practice.</p>																
<p>The SRI Fund(s)</p>																	
1e	<p>Provide the name of the fund(s) to which this Code applies and its (their) main characteristics.</p> <table border="1" data-bbox="199 1375 1259 1749"> <tr> <td>Name</td> <td>M&G (Lux) Global High Yield ESG Bond Fund</td> </tr> <tr> <td>Asset class</td> <td>Fixed income</td> </tr> <tr> <td>ISIN</td> <td>LU1670727715</td> </tr> <tr> <td>Legal form</td> <td>SICAV</td> </tr> <tr> <td>Fund domicile</td> <td>Luxemburg</td> </tr> <tr> <td>Inception date</td> <td>5 October 2017</td> </tr> <tr> <td>AUM</td> <td>\$53.1m (as at 31 Dec 2019)</td> </tr> <tr> <td>Strategy</td> <td>Exclusion of holdings/ESG integration</td> </tr> </table>	Name	M&G (Lux) Global High Yield ESG Bond Fund	Asset class	Fixed income	ISIN	LU1670727715	Legal form	SICAV	Fund domicile	Luxemburg	Inception date	5 October 2017	AUM	\$53.1m (as at 31 Dec 2019)	Strategy	Exclusion of holdings/ESG integration
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1f	<p>What is (are) this (these) fund(s) trying to achieve through taking into account ESG criteria?</p> <p>The M&G (Lux) Global High Yield ESG Bond Fund combines M&G’s long-running expertise in high yield investing with a rigorous assessment of environmental, social and governance (ESG) factors. Drawing together M&G’s internal credit analysis capabilities with leading ESG research from MSCI, the fund provides investors with a measurable assessment of its overall ESG impact and we believe represents a genuinely distinctive proposition in the high yield fund space.</p>																

	<p>Changing attitudes have helped to drive a steady increase in the number of responsible investment and ESG-related strategies over the past few years. Growth has been especially strong in the fixed income space, although these strategies have tended to focus on investment grade issuers, with high yield bond funds so far making up only a small part of the ESG universe.</p> <p>While the high yield bond market contains a relatively small number of companies which display the very strongest ESG credentials (the so-called 'industry leaders'), we firmly believe that ESG considerations can nevertheless play an important role in high yield investing.</p> <p>A thorough consideration of ESG factors can, in our view, help ensure a more comprehensive credit analysis which should ultimately lead to a more informed investment decision. With the right approach and sufficient expertise, we believe it is possible to construct a well-diversified high yield portfolio that also displays positive ESG credentials.</p>
<p>Section 2 – Approach to ESG Evaluation of Companies</p>	
<p>2a</p>	<p>What fundamental principles underlie the ESG research methodology?</p> <p>We believe we will do our best for our clients if we consider every factor that can have a meaningful impact on the long-term performance of the investments we make on their behalf. This includes the full range of environmental, social and governance (ESG) issues.</p> <p>We embed responsible investing into our fixed income investment processes so that all of our investment professionals have a duty to assess and evaluate risks and the role of ESG issues in any given investment. Such assessments are factored into credit analysis and investment decision making and are a contributing component of valuations.</p> <p>We assess all issues that could impair their future creditworthiness and interrupt expected future investment returns. ESG risks, which often develop over the longer term, are assessed in conjunction with all other risks. The fund managers factor such analysis into their investment decision making, determining whether an investment offers good long-term value to our clients in the light of present and future risks.</p>
<p>2b</p>	<p>What internal and external resources are used to carry out this research?</p> <p>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.</p> <p>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.</p> <p>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.</p>
<p>2c</p>	<p>Which ESG analysis criteria are used?</p>

	<p>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:</p> <ul style="list-style-type: none"> • 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.
2d	<p>What is your ESG analysis and evaluation methodology (how the investment universe is built, rating system...)?</p> <p>The fund applies a clear and quantifiable ESG methodology with potential investments filtered through a three-stage ESG screen. We believe this approach strikes the right balance between maintaining a large and diverse selection of high yield credits and achieving a favourable ESG outcome.</p> <p>UN Global Compact The first stage excludes any companies that are assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment and anti-corruption. Companies in breach are defined as institutions that have been implicated in one or more controversy cases (both ongoing cases as well as those concluded in recent years) and have been judged to have inflicted serious large-scale harm.</p> <p>Sector screening The second stage implements a sector screen which seeks to filter out companies that derive more than 5% of their revenues for producers, or 10% of their revenues for distributors, from the following sectors or sub-sectors: tobacco, alcohol, adult entertainment, gambling or thermal coal. In addition, and on a best-efforts basis, subject to source/s and MSCI data, we seek to exclude companies that derive any of their revenue from defence and weapons.</p> <p>ESG integration The third stage filters companies according to their ESG credentials, based on ratings provided by MSCI. The fund focuses on both the industry leaders (ESG rating 7.2-10) and companies with an average rating for their industry (ESG rating 3.0-7.1), but excludes the industry laggards (ESG rating 2.9 or lower).</p> <p>Compared to the narrower focus of the first two screens, this stage involves a sophisticated analysis of a wide range of complex issues, which might cover everything from energy efficiency and pollution to working conditions and product safety. Companies are assessed on an industry-adjusted basis, taking into account</p>

the key issues which are relevant for that sector and with comparison to the standards and performance of its industry peers.

Since ESG factors can vary in importance depending on the sector, companies are assessed on an industry-adjusted basis. This allows us to focus on the issues that are most relevant for a particular sector and to ensure that companies are being compared with the standards and performance of their industry peers.



2e **How frequently is the ESG evaluation reviewed?**

The portfolio's ESG performance is comprehensively monitored on an ongoing basis including the use of MSCI ESG that covers over 80% of the high yield universe. At a top-down level, the fund managers review the portfolio's average ESG score (based on MSCI scores) both at an absolute level and compared with the global high yield bond market on a daily basis. They also track the ESG performance of individual companies held within the fund, paying close attention to any companies which have had their ESG score downgraded, or are at risk of being downgraded in the future.

At a more granular level, the managers monitor a variety of more specific ESG metrics, including measures related to carbon emissions, labour rights controversies, independent board composition and human rights concerns.

Section 3 – Fund Management Process	
3a	<p>How do you take into account ESG criteria when defining the universe of eligible investments?</p> <p>Please refer to the 3-stage ESG screening process referred to in the response to 2d.</p>
3b	<p>How do you take ESG criteria into account into the portfolio construction?</p> <p>The fund’s three-stage ESG screening process outlined in point 2d excludes approximately one third of the global high yield market. To decide which of these eligible bonds should be included in the portfolio, the fund managers and credit analysts then carry out a more in-depth ESG analysis. They focus on the ESG-related activities that are most relevant to a particular company or sector, and also look out for companies that are showing signs of improving ESG metrics.</p> <p>While favourable ESG attributes are a necessary, they are not sufficient on their own. We will only consider investing in a company where we also see a compelling business case, and where the bonds offer the prospect of delivering attractive returns. Above all, we want to be comfortable that bondholders are being adequately compensated for any potential risks. When constructing the portfolio, we therefore pay equally close attention to traditional financial metrics, in particular a company’s earnings prospects, its ability to service its debt, and the growth prospects for its sector in the current economic environment.</p>
3c	<p>Does (do) the fund(s) have a specific ESG engagement policy?</p> <p>We continually monitor the companies and organisations that are issuing debt and will engage with them about their ESG practices as required. 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.</p>
3d	<p>Does (do) the fund(s) have a specific voting policy integrating ESG criteria?</p> <p>No</p>
3f	<p>Does (do) the fund(s) use derivative instruments?</p> <p>Derivatives may be used to invest indirectly in bonds, to manage risks, reduce costs, and to offset the impact of currency exposures. Please note that the fund is not able to hold CDS index positions, due to the fact that some of the underlying components will not meet our ESG criteria. The fund, however, may hold single name CDS provided the underlying names meets our ESG criteria.</p>
3g	<p>Is a share of the fund(s) invested in unlisted entities pursuing strong social goals?</p> <p>No</p>

Section 4 – Controls and ESG Reporting	
4a	<p>What internal/external control procedures are in place to ensure the compliance of the portfolio with the ESG rules defined in section 3 of this Code?</p> <p>The M&G Responsible Investment Advisory Forum oversees the governance and management of responsible investment activities as part of M&G's UNPRI signatory status. RIAF is chaired by M&G's Head of Corporate Finance and Stewardship, with regular communication of key agenda items up to the Executive Committee and Board where appropriate. We also have a dedicated ESG Investment Oversight Meeting to approve M&G's ESG-labelled funds.</p> <p>In addition, M&G's risk analysis team has fully access to the daily ESG data of our portfolio to ensure full compliance with the mandate. In the event that an existing holding no longer meets the fund's ESG criteria, we are required to sell this position within six months.</p>
4b	<p>Please list all public media and documents used to inform investors about the SRI approach to the fund, and include URLs. This should include a link to the detailed, no more than 6 months old, list of holdings of the fund(s).</p> <p>Please see attached the fund factsheet from December 2019 and our annual ESG report.</p> <div style="display: flex; justify-content: space-around; align-items: center; margin-top: 10px;"> <div style="text-align: center;">  <p>MandG-(Lux)-Globo</p> </div> <div style="text-align: center;">  <p>FACTSHEET - M&G</p> </div> </div> <p style="font-size: small; margin-top: 5px;">I-High-Yield-ESG-Bo(LUX) GLOBAL HIGH</p>

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