

European SRI Transparency Code

FOR INVESTMENT PROFESSIONALS ONLY

M&G Global Select Fund/M&G Pan European Select Fund

1 November 2018 – 31 October 2019



Statement of Commitment

Sustainable and Responsible Investing is an essential part of the strategic positioning and behaviour of M&G Investments. We have invested responsibly since 1931 and welcome the European SRI Transparency Code. This is our first statement of commitment and covers the period 1 November 2018 to 31 October 2019. Our full response to the European SRI Transparency Code, found below, can be accessed through the retail fund pages 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.

Main risks associated with these funds:

- The value of investments and the income from them will rise and fall. This will cause the fund price, as well as any income paid by the funds, to fall as well as rise. There is no guarantee the funds will achieve their objective, and you may not get back the amount you originally invested.
- Changes in currency exchange rates will affect the value of your investment.
- These funds hold a relatively small number of investments and, as a result, may experience larger price rises and falls than a fund which holds a larger number of investments.
- Where market conditions make it hard to sell the funds' investments at a fair price to meet customers' sale requests, we may temporarily suspend dealing in the funds' shares.
- Some transactions the funds make, such as placing cash on deposit, require the use of other financial institutions (for example, banks). If one of these institutions defaults on their obligations or becomes insolvent, the funds may incur a loss.
- The M&G Global Select Fund will invest in emerging markets which are generally smaller, more sensitive to economic and political factors, and where investments are less easily bought and sold. In exceptional circumstances, the fund may encounter difficulties when selling or collecting income from these investments, which could cause the fund to incur a loss. In extreme circumstances, it could lead to the temporary suspension of dealing in shares in the fund.

A more detailed description of the risk factors that apply to these funds can be found in the respective fund's Prospectus.

Other important information:

The funds invest mainly in company shares and are therefore likely to experience larger price fluctuations than funds that invest in bonds and/or cash.

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 Investments
 Governor's House
 5 Laurence Pountney Hill
 London
 EC4R 0HH
www.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.

Since M&G 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 incorporates 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 incorporated into investment decisions wherever they have a meaningful impact on risk or return. We apply this approach to ESG analysis across all asset classes and 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 as 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 others. M&G regularly actively contributes to and leads policy discussions with our industry peers and governmental bodies.

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. Chaired by M&G's Head of Corporate Finance and Stewardship, the Forum includes among its members a representative from each business unit involved in investment management.

Further details of responsible investment at M&G:

<https://www.mandg.com/about-us/responsible-investment>

Further documentation of M&G's responsible investment policies and principles:

<https://www.mandg.com/about-us/responsible-investment/policies-and-principles>

Specific details of M&G's corporate finance and stewardship activities over 2017:

<http://docs.mandg.com/docs/corporate/Corporate-Finance-and-Stewardship-Report.pdf>

1c Describe/List your SRI products and the specific resources allocated to your SRI activities.

M&G incorporates ESG factors across our range of wholesale equity, fixed income and multi-asset funds, with M&G Real Estate as a market leader in Responsible Property Investment. M&G's institutional funds incorporate ESG factors across the range, with individual funds – including the M&G Impact Financing Fund, launched in 2017 – specifically aiming to deliver demonstrable societal impact.

M&G also runs ESG-focused segregated mandates for individual institutional clients, and offers an increasing range of retail funds with a specific focus on ESG factors written into their official investment approaches – this includes a degree of negative screening, beyond the M&G-wide exclusion of cluster munitions ([M&G Cluster Munitions Policy](#)).

The current range of specific ESG-focused retail funds includes:

Equities: M&G Global Select Fund; *M&G (Lux) Global Select Fund; M&G Pan European Select Fund; *M&G (Lux) Pan European Select Fund; M&G Pan European Select Smaller Companies Fund; M&G Positive Impact Fund; *M&G (Lux) Positive Impact Fund

Fixed interest: *M&G (Lux) Global High Yield ESG Bond Fund

Multi-asset: *M&G (Lux) Sustainable Allocation Fund

*Luxembourg-authorized funds

Resources

M&G equity 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 – the team supports M&G's fund managers on a range of ESG issues that can affect investments. The team coordinates M&G's Stewardship and Responsible Investment activities, engaging with investee companies on issues including corporate governance, board composition, shareholder rights, remuneration, social responsibility and environmental sustainability. The team discharges M&G's voting responsibilities at shareholder meetings and maintains a constructive dialogue with company management teams, believing these to be central responsibilities of long-term shareholders. Beyond this, the team is responsible for coordinating M&G's participation in external initiatives and investor collaborations, including the UK's Investment Association, the Investor Forum and the Asian Corporate Governance Association. In addition to regular interactions with fund managers on ESG matters, the team provides a more formal oversight of ESG risks in investment portfolios, as well as helping to monitor ESG engagements with companies.

M&G's Central Analyst team – M&G's sector analysts work with the fund management teams to gain a full understanding of the risks and opportunities of a particular stock or industry. This goes beyond looking merely at traditional financial metrics and includes analysis of the underlying ESG factors that may drive the long-term sustainability of a business or sector, or damage a company's long-term prospects.

The Central Analyst team consists of:

Edward Booth – global banks
Jasmeet Chadha – technology
Catherine Farrant – consumer
Joseph McGann – energy
Martin Wales – pharmaceuticals & healthcare
Angela Gu – insurance
Mark Wilson – industrials
Gregor Morris – TBA

External providers – M&G also makes use of external data providers to help inform ESG views, including identifying potential ESG risks and to aid with proxy voting. These include MSCI ESG, Institutional Shareholder Services (ISS) and Sustainalytics.

In addition, M&G's fixed interest fund managers are aided by M&G's team of **credit analysts**. Underlying ESG data is generally sourced from issuer reports and publications, although other data suppliers such as Bloomberg may be used where necessary. M&G has a large and experienced team of credit analysts who conduct in-house analysis on underlying ESG data. Third-party analysis from brokers, rating agencies, industry associations and other sources may be used as an input by M&G's credit analysts when researching ESG issues and forming in-house views about an issuer's credit quality. Internal ratings and research produced by M&G's credit analysts is published on an internal credit intranet and portfolio managers refer to this information when making investment decisions. The credit intranet contains an ESG flag that enables our credit analysts to indicate if posted commentary contains any ESG information or analysis. It is then possible to search or filter information according to the ESG flag to view all ESG commentary that relates to an issuer or sector/industry.

Responsible investment across M&G is overseen by M&G's Responsible Investment Advisory Forum, as described in question 1b.

1d Describe the content, frequency and resources allocated/used by the fund management company to inform investors about the ESG criteria taken into account.

M&G publishes a range of documentation within the responsible investment section of our 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>

Individual ESG-focused investment teams also produce regular briefing notes for investors, including ESG case studies and explanations of ESG integration in practice.

The SRI Fund(s)

1e Provide the name of the fund(s) to which this Code applies and its (their) main characteristics.

Name	M&G Global Select Fund
Asset class	Equity
Legal form	OEIC
Fund domicile	United Kingdom
Inception date	19 December 1967
AUM	£734.82m*
Strategy	Concentrated core global equity fund. Long-term investment in companies with sustainable business models. Consideration of ESG factors embedded in all stages of the investment process, including active engagement with companies on relevant ESG issues. Some negative screening.

Name	M&G Pan European Select Fund
Asset class	Equity
Legal form	OEIC
Fund domicile	United Kingdom
Inception date	29 September 1989
AUM	£289.04m*
Strategy	Concentrated core European (including UK) equity fund. Long-term investment in companies with sustainable business models. Consideration of ESG factors embedded in all stages of the investment process, including active engagement with companies on relevant ESG issues. Some negative screening.

* As at 30 April 2018

1f **What is (are) this (these) fund(s) trying to achieve through taking into account ESG criteria?**

The M&G Select fund management team focuses on long-term, sustainable investments. For the team, sustainability refers to the long-term durability of a business, and factors affecting that durability include the competitive landscape, industry structure and how a company is run, as well as how it treats its customers, the communities in which it operates, its employees and the environment. Because of this, ESG considerations are embedded in every stage of the investment process.

The team believes that these considerations are a matter of stewardship, and a sensible part of any investment strategy aimed at maximising long-term economic returns. They believe that social consciousness and responsible management are important elements in many companies' ability to generate economic value in the future, and that disregarding ESG factors could affect a company's performance – as well as its share price.

Section 2 – Approach to ESG Evaluation of Companies

2a What fundamental principles underlie the ESG research methodology?

Sustainability: long-term durability of a business. The investment team identifies quality companies with competitive advantages that help to protect their business from competition and the erosion of profitability. Sustainable products and services, as well as effective governance and responsible corporate behaviour, can play an important role in supporting these advantages over the long term. ESG considerations, therefore, run through fundamental research – both preliminary and ongoing – stock selection and company engagement.

Long-termism: not short-term speculation. For short-term investors, ESG considerations (from an investment viewpoint) are largely inconsequential, as ESG issues tend to develop over longer time frames. These can include operational risks – such as environmental incidents and reputational damage – structural headwinds and tailwinds that could shape a company's outlook and management's ethics and behaviour. For investors seeking to create long-term wealth, these issues are fundamental – sustainable companies build value over years, or even decades.

2b What internal and external resources are used to carry out this research?

Most of the funds' ESG analysis is conducted within the Select team, as ESG consideration is integrated at every stage of the investment process. Fund Manager John William Olsen is head of the Select team, with 20 years' experience. He joined M&G from Danske Bank where he managed Global and European equity portfolios using the same ESG integrated approach. He is supported by fellow Select Fund Manager Michael Oliveros, Senior Analyst and Deputy Portfolio Manager Kasper Mikkelsen, and investment specialist Veronique Chappelow (responsible for articulating the views of the portfolio management team to investors). There are also three embedded analysts within the team; Nathaniel Clark, Thembeke Stemela and Jasveet Brar (the latter of whom leads the ESG engagement programme for the team).

As in question 1C, the Select team is provided additional support by M&G's Central Analyst team and M&G's Corporate Finance and Stewardship team. Resources used to carry out research include:

- **Company financial reports and sustainability reports:** primary source of information to draw up initial company ESG profiles
- **NGOs; Litigation reports; industry body / trade association reports:** multi-stakeholder approach used to validate or invalidate initial ESG assessments
- **ISS:** norms screening – exclusion of companies deemed to be in breach of the UN Global Compact principles / sector screening – exclusion of companies involved in tobacco and controversial weapons
- **MSCI ESG - Company reports:** cross-check measure to ensure that all material ESG issues have been identified
- **MSCI ESG - Portfolio reports / Carbon Footprint:** used for client-reporting purposes
- **Sustainalytics:** cross-check measure to ensure that all material ESG issues have been identified
- **Thomson Reuters Eikon:** company-specific ESG metrics

2c Which ESG analysis criteria are used?

Proprietary research focuses on stocks within the Select team's watch-lists and integrates ESG considerations as an integral part of the process, with a focus on materiality for the company or sector in question. These considerations can include:

Environmental

- Carbon emissions as a percentage of revenue
- Water intensity
- A product or service's carbon footprint
- Sourcing of raw materials
- Toxic emissions and waste

Social

- Labour management
- Health and safety
- Human capital development
- Supply chain issues
- Product safety
- Chemical safety
- Privacy and data security

Governance

- Board composition
- Remuneration
- Ownership structure
- Accounting practices
- Corruption

2d What is your ESG analysis and evaluation methodology (how the investment universe is built, rating system...)?

ESG analysis – prior to and on the watch-list

For each company considered for inclusion in the funds' watch-lists, (companies we would like to own when the timing and price are right), we establish if there are any sustainability issues that might impair the business permanently. If so, we examine this issue in detail by engaging with relevant stakeholders: companies, communities, governments, industry experts, etc. If we determine there is no internal willingness to address the problem or that structural issues are insurmountable, we will exclude the company from the watch-list.

In all other cases, we conduct extended fundamental research and produce a 'deep dive' report. This report, at a high level, consists of three 'pillars', and integrates ESG within each of these: sustainability of the business model; delta drivers on a ten-year investment horizon; and valuation.

Pillar one: Sustainable business models and strategic moats

The sustainability of a business model will be tied to its economic moat: much like a castle's moat protected it from invaders, a company's moat will protect it from competitors. In many cases, a company's strong ESG profile will be part of its moat through better business culture, ability to attract and retain talent, brand building and preservation, etc.

Pillar two: Delta drivers – ESG opportunities and risks

To assess the sustainability of the moat, we map out external and internal drivers. This will include ESG factors such as:

- Operational risks from potential worker safety issues, environmental accidents, reputational damage, regulation and litigation risks, for example.

- Operational opportunities derived from investments into energy efficiency measures, waste reduction efforts, employee satisfaction initiatives and so on.

- Structural headwinds or tailwinds depending on the type of company/industry.

Pillar three: ESG and Valuation

We use probability-based scenario modelling to estimate the intrinsic value of a company. This will incorporate 5-6 different scenarios ranging from best to worst case, with probabilities applied to each. This helps avoid behavioural pitfalls and helps us stay focused on actual fundamental valuation rather than share price noise.

ESG is incorporated into our valuation models in several areas, including:

- ESG-related risks and potential impact on cashflows

- Long-term effect on funding cost – with potential increased cost of capital to account for risks that cannot easily be modelled in companies' forecasts: exposure to policy shifts, regulations and stranded assets, for example.

ESG analysis for companies in the portfolio

When a company is held in the portfolio, we monitor its ESG credentials on an ongoing basis. We do so by compiling ESG briefing notes that summarise the relevant sustainability issues for each company. The first step is a thorough review of a company's own reports and accounts, sustainability reports and ESG research provider company profiles. We then investigate further through a range of publicly available information including, but not limited to; NGO and trade association reports; specialised industry reports; academic studies; CDP reports; Sustainalytics scores; employment monitoring services, i.e. Glass Door; regulatory, civil or criminal investigations; articles / information from a variety of media resources. At this stage, any ESG-related risks are flagged, as are doubts concerning a company's sustainability or uncertainty over the information used to evaluate it.

We then engage with management teams, either through meetings or calls. Engagements normally include investor relations, the head of sustainability, directors within the central group function in charge of health and safety or environmental issues, the chairman or the company's lead independent director. Engaging with businesses allows the team to initiate dialogue with the company, understand the ESG issues it is facing from the company's perspective, and question management on how they manage them. Normally engagement is the key step in assessing whether a company's ESG strategy is genuine, or simply a marketing exercise. The team, where appropriate, also offers input to companies on their targets, disclosures and incentive structures, and will recommend examples of best practice, where management seeks guidance. However, because of the team's innate bias towards responsibly run businesses, we do not consider ourselves to be 'ESG-activists'. In most cases, engagement will not be aimed at solving problems, but rather better understanding the company, and increasing the level of confidence that it is being run sustainably.

Post engagement, we produce an ESG briefing note on each holding summarising our key findings. We also ascribe each holding an ESG score from 0 to 5, calculated as the average of its Environmental, Social and Governance scores. This score reflects our independent opinion of a company's ESG credentials, how we believe the company is addressing its material ESG risks, and how it compares to other analysed companies in the same industry.

2e How frequently is the ESG evaluation reviewed?

Ratings will be reviewed on an ongoing basis, as part of the team's regular monitoring of companies held within our portfolios.

Section 3 – Fund Management Process

3a How do you take into account ESG criteria when defining the universe of eligible investments?

We apply three screens to ensure that 20% of issuers are excluded from the investment universe on ESG grounds:

1. Norms-based screen: where we exclude companies deemed to be in breach of the UN Global Compact Principles.
2. Sector screens: where we exclude companies involved in the production of tobacco, controversial weapons (biological weapons, chemical weapons, cluster munitions, nuclear and depleted uranium) and gambling. These screens are monitored daily, except for gambling which is checked monthly.
3. Having applied both norms and sector-based screens, we then use MSCI ESG-adjusted scores to remove the lowest-rated companies within MSCI's ratings bands, ultimately excluding 20% of the investible universe on ESG grounds, when combined with our initial screens. The MSCI ESG screens are checked monthly, while quarterly oversight is undertaken by the Corporate Finance and Stewardship team to ensure ESG criteria are applied consistently. Furthermore, if the Select team wishes to invest in a company whose MSCI ESG score is lower than the agreed threshold – justified by our in-house ESG analysis – the stock purchase will be subjected to dedicated ESG oversight by M&G's Sustainable and Responsible Investment Oversight Forum.

3b How do you take ESG criteria into account in portfolio construction?

ESG criteria is taken into account in portfolio construction as part of the fundamental research carried out on individual companies, which includes characterising a stock by 'investment bucket': Stable Growth or Opportunities. Stable growth companies are those that have a proven track record of producing stable earnings, generally perceived as the long-term 'winners' by the market. Opportunities companies sit in out-of-favour corners of the market where change is not appreciated, or risk is overstated, tending to be less predictable, but with significant upside potential. The funds are usually equally divided between the two buckets, which tend to perform differently in different market conditions, allowing for diversification.

3c Does (do) the fund(s) have a specific ESG engagement policy?

Yes. This is included in the document MG Select_Long-term-sustainability-ESG_Dec-2018.pdf (see question 4b).

3d Does (do) the fund(s) have a specific voting policy integrating ESG criteria?

The funds are aligned with M&G's wider voting policy, available on our [website](#)

3e Does (do) the fund(s) engage in securities lending activities?

No

3f Does (do) the fund(s) use derivative instruments?

No

3g Is a share of the fund(s) invested in unlisted entities pursuing strong social goals?

No

Section 4 – Controls and ESG Reporting

4a 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?

As described in question 1b, 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.

As described in question 1c, M&G's Corporate Finance and Stewardship team reviews the team's portfolios on a quarterly basis, helping to identify ESG risks and opportunities.

As highlighted in question 2b, ISS monitors companies in relation to the UN Global Compact, as well as providing our sector screens for tobacco and controversial weapons. These exclusions are hardcoded into M&G's compliance monitoring systems.

In addition, M&G's Investment Transformation team uses proprietary responsible investment tools to ensure that the exclusion of 20% of the investible universe on ESG grounds – in terms of the number of issuers in the universe - is adhered to. This control is performed on a monthly basis.

4b 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).

Please find attached below an overview of the Select team's sustainability approach and links to fund reporting. The most recent list of the funds' holdings can be found within their Reports and Accounts, available through the link below.

For the most recent reports and accounts, at time of completion of this Code, please visit: http://docs.mandg.com/AR/MandG-Investment-Funds-1_Annual-Report-and-Accounts_GB_ENG.pdf

For the latest M&G Global Select quarterly report please visit: http://docs.mandg.com/QR/MandG-Global-Select-Fund_Quarterly-Review.pdf

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M&G December 2018

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