

# M&G’s approach to responsible investment



Contents	
Contents.....	1
Introduction .....	1
Environmental, social and governance (ESG) factors .....	1
Responsible investment bodies and initiatives ....	2
M&G – applying ESG across asset classes .....	2
Equities .....	2
Fixed Income .....	3
Real estate .....	3
Multi Asset .....	3
Our approach to exclusions .....	4

## Introduction

When M&G Investments was founded in 1931, it had a single purpose: to help its customers prosper by putting their savings to work. Some 85 years later, we are an international business with offices and clients around the world, yet our purpose remains unchanged – a focus on creating wealth for our customers.

Throughout this time, responsible ownership has been a constant. As a long-term investor, we are ideally placed to influence corporate behaviour. At a time when the typical holding period of an investment can be measured in months rather than years, our willingness to support companies throughout their business and market cycles gives us great credibility with the management of those companies.

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 becoming increasingly important aspects of assessing an investment, and our approach is to incorporate environmental, social and governance (ESG) factors into our investment decision-making process by putting them at the heart of what we do.

M&G takes its responsibilities as an investor seriously. Investment teams share an acute awareness of their duties as stewards of our clients’ assets, and this perspective informs all investment decisions.

Across the asset classes, M&G’s investment teams are given a high degree of autonomy in the design and implementation of their respective investment processes. Investment teams are not directed by top-down ‘house’ views, but rather by rigorous fundamental analysis of individual investment opportunities.

## Environmental, social and governance (ESG) factors

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.

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.

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.

## Responsible investment bodies and initiatives

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 teams' investment 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 and the Green Bond Principles, among others.

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. Attended by two main board directors of M&G and 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.

## M&G – applying ESG across asset classes

We believe we should both implement responsible investment principles in the funds we manage and apply the spirit of those principles in our business operations. By driving environmental enhancements in our own offices, we can reduce our own impact and operating costs. Through engagement with our staff, we can improve satisfaction, and attract and retain employees.

In the following sections, we cover our approach to responsible investment with specific reference to the equities, fixed income and real estate investment capabilities of M&G. More detailed responsible investment policies for individual asset classes are available on the responsible investment pages of M&G's website.

## Equities

M&G understands the importance of our role as stewards of our clients' assets and as an active manager, both for the benefit of our clients as demonstrated by our investment returns, and for society as a whole by providing capital to those companies that need finance to expand and create jobs and wealth.

We believe that the long-term success of companies is supported by effective investor stewardship and high standards of corporate governance. We think that if a company is run well, it is more likely to be successful in the long run. Social and environmental issues can also have an important impact on a company's performance and successful development. We therefore look at how companies address these issues when we analyse them.

M&G's Corporate Finance and Stewardship team are advocates of responsible share ownership and oversee our stewardship of the companies in which we invest. Regular meetings with company directors allow us to identify whether a company's strategy is aligned with our interests as long-term shareholders. Our active engagement with companies helps us to understand the issues affecting them and, where appropriate, to encourage positive change.

Active voting is also an integral part of our investment approach, which is why we believe exercising our votes adds value and protects our interests as shareholders.

For **M&G Infracapital**, as owners of essential infrastructure assets, responsible investing is critical to our strategy. Importantly, by taking controlling equity stakes in 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 a variety of 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.

**And 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.

## Fixed Income

We believe we will do our best for our fixed income clients if we give all the factors influencing investment performance appropriate consideration. Our fixed income fund managers recognise that environmental, social and governance (ESG) issues can have an influence on investment outcomes and hence ESG factors play a key role in investment decision-making.

Given the limited upside and significant possible downside of fixed income investment, the focus of our ESG analysis is on understanding downside risk, in particular understanding the tail-risk of significant loss due to ESG concerns. M&G is a long-term investor with substantial holdings of private and illiquid debt. Since ESG issues often develop over the longer term and given the long-term and illiquid nature of many of our investments, we believe it is essential for M&G to integrate ESG issues into our investment process.

The scale of M&G's resources and our participation in European debt markets enable us to recognise that we are well placed to influence ESG initiatives.

This influence can range from responding to public consultations to acting as a sounding board for, and consulting with, government departments and supra-governmental entities. M&G also engages directly with corporates to encourage better practices that enhance value for our investors. We are very aware of the responsibility that comes with our market position and always seek to represent the best interests of our clients.

As an example of our practical commitment, M&G is a significant lender to the social housing sector, where we have continued to provide much-needed long-term financing, at a time when banks have withdrawn their support. In addition, M&G has provided financing for a range of socially or environmentally beneficial investments in areas including affordable housing, education, green property developments and renewable energy. All investments in these areas must meet our usual requirements for providing appropriate risk-adjusted returns for our clients.

## Real estate

We recognise that as one of the world's largest real estate fund managers, our business activities have wide-ranging social, environmental and economic impacts. By being at the forefront of identifying and influencing the drivers of change, and shaping our investment strategies accordingly, we will continue to deliver strong returns to our investors in the long term and support creation of positive environmental and social outcomes. Our approach to RPI also enables us to safeguard and future-proof our assets, ensuring they have enduring appeal as workplaces, homes and leisure destinations, benefiting communities and economies around the world.

In order to deliver our RPI vision and objectives, M&G Real Estate seeks to embed responsible investment considerations into all investment activities and decision making. We are focused on performance in four key areas:

**Environmental Excellence:** Driving environmental improvements at our assets reduces operating costs, carbon emissions and the use of natural resources. This helps attract and retain occupiers, and ensure that we appropriately manage environmental risks.

**Health, wellbeing and occupier experience:** People want to work, live and spend time in places that make them feel happier, healthier and productive. Considering health, wellbeing and experiential factors in how we design and manage buildings supports our occupiers to have happy productive employees; our retail destinations to attract customers and creates homes where people want to live.

**Socio-economic benefit:** Ensuring positive socio-economic outcomes by being an active participant in communities. Creating high quality places where people want to be, driving economic growth, and supporting employment opportunities and skill development.

**Smart, secure and connected:** Smart physical and digital infrastructure is crucial to the competitiveness and success of countries, cities and buildings, as well as positively benefiting inhabitants. Understanding connectivity solutions means we can more effectively identify investment opportunities and future-proof investments.

We ensure our business conduct exceeds legislative requirements and other standards and, where possible, we seek to achieve best practice standards. We will continually seek to improve our performance in these four key areas, which we consider to be most material to our funds under management. We have put in place long term objectives to drive improvement over time and performance indicators to monitor our performance. Full details of how we are managing and responding to these issues can be found in our Responsible Property Investment Report, which we publish on an annual basis.

Ultimately, all our employees are responsible for ensuring the delivery of this Policy, and its implementation is governed through our global Responsible Property Investment Forums that provide representation from across the business.

## Multi Asset

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.

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 (ie, 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.

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.

## Our approach to exclusions

In response to the UN Convention on Cluster Munitions, and to ensure adherence with country-specific legislation on such munitions, M&G does not invest in securities issued by companies directly involved in the manufacture of cluster munitions for the actively managed M&G OEIC, SICAV, FCP and Guernsey property unit trust fund range.<sup>1</sup>

M&G uses an exclusion list based on a combination of the list endorsed by the Belgian Asset Managers Association (BEAMA) and the list used by the Authority for the Financial Markets (AFM) in the Netherlands.

For direct real estate investments, M&G will not make any new lettings to companies on the exclusion list, and we will not acquire any buildings where companies on the exclusion list are already in occupation. For indirect (including fund of funds or multi-manager) mandates, we will make the other fund managers aware of our policy, but we cannot guarantee full compliance as the underlying fund managers will have responsibility for acquisitions and lettings.<sup>2</sup> If companies are added to the exclusion list, we cannot apply the policy retrospectively, but will apply it to future lettings.

Our cluster munitions policy is the only hard screen applied across M&G. In our ESG focused funds, however, we operate a broader range of exclusions which are provided to investors in those funds as part of the prospectuses.

<sup>1</sup> This policy does not apply to the M&G European Index Tracker Fund or M&G Index Tracker Fund.

<sup>2</sup> We will apply this policy as far as we are able within the context of national and local regulations regarding landlord and tenant relations. For example, in the UK, the Landlord and Tenant Act requires landlords to grant new leases on expiry and restricts our ability to prevent leases being reassigned to companies on the exclusion list.

Issued by M&G Securities Limited, which is authorised and regulated by the Financial Conduct Authority in the UK and its registered office is at Laurence Pountney Hill, London EC4R 0HH. MAR 18 /269804 287005