

**Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

**Product Name:** M&G (Lux) Optimal Income Fund  
**Legal Entity Identifier:** 5493008ON3OV4FEXKY59

## Environmental and/or social characteristics

### Did this financial product have a sustainable investment objective?

**Yes**

   **No**

It made **sustainable investments with an environmental objective:**

- in economic activities that qualify as environmentally sustainable under the EU Taxonomy
- in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

It made **sustainable investments with a social objective:**

It **promoted Environmental/Social (E/S) characteristics** and while it did not have as its objective a sustainable investment, it had a proportion of 57.32% of sustainable investments

- with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
- with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
- with a social objective

It promoted E/S characteristics, but **did not make any sustainable investments**



### To what extent were the environmental and/or social characteristics promoted by this financial product met?

The Sub-Fund promoted the use of an Exclusionary Approach (as defined below):

The Sub-Fund excluded certain potential investments from its investment universe to mitigate potential negative effects on the environment and society. For securitised investments such as asset-backed securities (ABS), this also includes assessing them against the Investment Manager's proprietary scoring methodology ("Exclusionary Approach"). Accordingly, the Investment Manager is promoting environmental and/or social characteristics by excluding certain investments that are considered to be detrimental to ESG Factors.

No reference benchmark has been designated for the purpose of attaining the Fund's promoted environmental and/or social characteristics.

The Investment Manager operates a data-driven quantitative good governance test used to consider investments into companies. M&G excludes investments in securities that are considered as failing the Investment Manager's good governance test. When assessing good governance practice the Investment Manager will, as a minimum, have regard to matters it sees relevant to the four identified pillars of good governance (sound management structures, employee relations, remuneration of staff and tax compliance).

The alignment percentage indicated in the graphic below shows the allocation between such investments and "Other" Investments.

### Sustainability indicators

measure how the environmental or social characteristics promoted by the financial product are attained.

#### ● How did the sustainability indicators perform?

The Fund's sustainability indicators to test its compliance with its Exclusionary Approach were met at all times during the reporting period. Until 30 November 2023, the fund committed to maintain a weighted average ESG score higher than that of its investment universe ("Positive ESG Tilt"), which it did successfully. From 30 November 2023 this Positive ESG Tilt was removed.

Sustainability indicator name	Value	Eligibility	Coverage
<b>As at - 31 March 2024</b>			
Percentage (%) of ABS below the Investment Manager's threshold for alignment	0.00 %	0.04%	75.00%

Sustainability indicator name	Value	Eligibility	Coverage
<b>As at - 31 March 2023</b>			
Portfolio weighted average ESG score for the fund	6.83 ESG Score	65.38%	91.16%
Portfolio weighted average ESG score for the Investment Universe	6.11 ESG Score	64.60%	42.62%

- **...and compared to previous periods?**

During this reporting period, the Fund's proportion of sustainable investments of 57.32% was lower than in the previous reporting period when it was 61.81% .

With regards to the Fund's Positive ESG Tilt, which aimed to maintain a weighted average ESG score higher than that of the fund's investment universe, it is not possible to compare the current to the previous reference period as the tilt was removed at the end of November 2023.

- **What were the objectives of the sustainable investments that the financial product partially made and how did the sustainable investment contribute to such objectives?**

The Fund may allocate to sustainable investments of any type, i.e. investments with an environmental, and/or a social objective. The Fund is not required to favour any specific type of sustainable investment. The Investment Manager used a series of proprietary tests based on available data to determine whether and how an investment made positive contribution(s) towards environmental and social objectives.

The Fund held 57.32% in sustainable investments in the current reference period, lower than the percentage it held in the previous reference period (61.81%).

- **How did the sustainable investments that the financial product partially made not cause significant harm to any environmental or social sustainable investment objective?**

Sustainable investments that the Fund made did not cause significant harm to any environmental or social sustainable investment objective as they passed a series of tests, including:

1. Whether they represent significant exposure to businesses the Investment Manager considers harmful
2. Principal Adverse Impact indicators considered to render the investment incompatible with sustainable investment (violations of the UN Global Compact Principles or the OECD Guidelines for Multinational Enterprises, social violations by sovereigns such as being subject to sanctions, negative effects on biodiversity sensitive areas)
3. Other Principal Adverse Impact indicators form part of a materiality assessment to understand whether any exposures were compatible with sustainable investment

- **How were the indicators for adverse impacts on sustainability factors taken into account?**

The Investment Manager's research process included consideration of Principal Adverse Impact indicators for all investments where data was available (i.e. not just for sustainable investments), which allows the Investment Manager to make informed investment decisions.

The Fund's consideration of Principal Adverse Impact indicators is used as part of understanding the operating practices of the investments purchased by the Fund.

Investments held by the Fund were then subject to ongoing monitoring and a quarterly review process.

Further information on the Principal Adverse Impact indicators which were taken into account by the Investment Manager can be found in the Annex to the Investment Manager's website disclosures for the Fund.

**Principal adverse impacts** are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

- **Were sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:**

All investments purchased by the Fund passed the Investment Manager's good governance tests, and in addition, sustainable investments also passed tests to confirm they do no significant harm, as described above. These tests embed a consideration of the OECD Guidelines and UN Guiding Principles.

The EU Taxonomy sets out a "do no significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

*Any other sustainable investments must also not significantly harm any environmental or social objectives.*



#### **How did this financial product consider principal adverse impacts on sustainability factors?**

For sustainable investments, principal adverse impacts are a key part of assessing such investments do not do significant harm as explained above.

For other investments the Investment Manager's research process included consideration of Principal Adverse Impact indicators for all investments where data was available, which allows the Investment Manager to make informed investment decisions, as explained above.

Further information on the Principal Adverse Impact indicators which were taken into account by the Investment Manager can be found in the Annex to the Investment Manager's website disclosures for the Fund.



## What were the top investments of this financial product?

The list includes the investments constituting **the greatest proportion of investments** of the financial product during the reference period which is: 01/04/2023 to 31/03/2024

Largest investments	Sector	% Assets	Country
TREASURY NOTE	Public administration and defence; compulsory social security	2.94%	US
UK CONV GILT	Public administration and defence; compulsory social security	2.20%	GB
UK CONV GILT	Public administration and defence; compulsory social security	2.20%	GB
TREASURY NOTE	Public administration and defence; compulsory social security	2.15%	US
FRANCE (REPUBLIC OF)	Public administration and defence; compulsory social security	2.02%	FR
UK CONV GILT	Public administration and defence; compulsory social security	1.92%	GB
TREASURY NOTE	Public administration and defence; compulsory social security	1.81%	US
UNITED KINGDOM OF GREAT BRITAIN AN	Public administration and defence; compulsory social security	1.60%	GB
TREASURY BOND	Public administration and defence; compulsory social security	1.27%	US
FRANCE (REPUBLIC OF)	Public administration and defence; compulsory social security	1.17%	FR
FRANCE (REPUBLIC OF)	Public administration and defence; compulsory social security	1.03%	FR
TREASURY NOTE	Public administration and defence; compulsory social security	1.02%	US
TREASURY BOND	Public administration and defence; compulsory social security	1.01%	US
UK CONV GILT	Public administration and defence; compulsory social security	0.91%	GB
UK CONV GILT	Public administration and defence; compulsory social security	0.84%	GB



## What was the proportion of sustainability-related investments?

In the SFDR Level 2 Pre-Contractual Disclosure (annex to the Fund Prospectus) the Fund committed to a minimum of 70% of the Fund to be aligned to the promoted E/S characteristics and for a minimum of 20% of the Fund to be in Sustainable Investments.

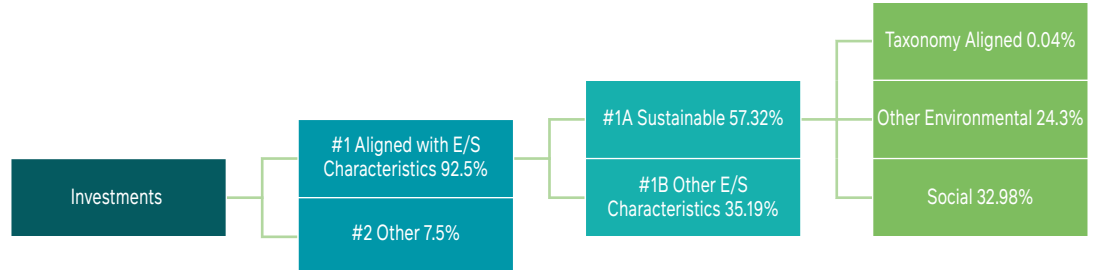
Asset allocations below are expressed as a percentage of Net Asset Value (NAV). The % of investments that were aligned to the environmental or social characteristic promoted was 92.50% of NAV as at 31 March 2024. This comprised 57.32% of NAV in sustainable investments, and the remaining 35.19% of NAV in investments with other environmental and or social characteristics.

The Fund did not commit to invest in investments aligned to the EU Taxonomy, 0.04% were aligned to the EU Taxonomy, while 24.30% related to investments with other environmental characteristics, and 32.98% related to socially sustainable investments.

**Asset allocation** describes the share of investments in specific assets.

### ● What was the asset allocation?

The graphic below provides an overview of the asset allocation.



**#1 Aligned with E/S characteristics** includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

**#2 Other** includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:

- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social objectives.
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

### ● In which economic sectors were the investments made?

The investment breakdown uses NACE (Nomenclature of Economic Activities) and is expressed as a % of Net Asset Value (NAV).

Economic Sector	% Assets
Financial and insurance activities	43.83%
Public administration and defence; compulsory social security	34.45%
Other	5.72%
Manufacturing	4.06%
Information and communication	3.78%
Electricity, gas, steam and air conditioning supply	3.34%
Activities of extraterritorial organisations and bodies	1.22%
Real estate activities	0.78%
Administrative and support service activities	0.71%
Accommodation and food service activities	0.50%
Transportation and storage	0.38%
Wholesale and retail trade; repair of motor vehicles and motorcycles	0.34%
Mining and quarrying	0.26%
Professional, scientific and technical activities	0.21%
Human health and social work activities	0.16%
Water supply; sewerage, waste management and remediation activities	0.15%
Construction	0.07%
Other service activities	0.04%
Arts, entertainment and recreation	0.00%



### To what extent were sustainable investments with an environmental objective aligned with the EU Taxonomy?

Whilst the minimum mandatory allocation to Taxonomy-aligned sustainable investments is 0%, the Fund is permitted to allocate to such investments, which would form part of its overall allocation to sustainable investments with environmental objectives.

The share of the Fund's investments that were aligned with the environmental objectives under the Taxonomy Regulation during the reference period was 0.04%. This percentage is determined by taking the quarter end figure for each quarter in the reference period and averaging it. The information was obtained from public disclosures.

No assurance from an auditor, third party or review was undertaken on the EU Taxonomy data.

The percentage of contribution to the taxonomy-aligned climate change mitigation in the current reference period was 0.37% while the percentage of contribution to the taxonomy-aligned climate change adaptation was 0%.

Taxonomy Environmental Objective	Percentage of Contribution
Climate Change Mitigation	0.37%
Climate Change Adaptation	0.00%

**Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.

**Transitional activities** are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

### ● Did the financial product invest in fossil gas and/or nuclear energy related activities complying with the EU Taxonomy<sup>1</sup>?

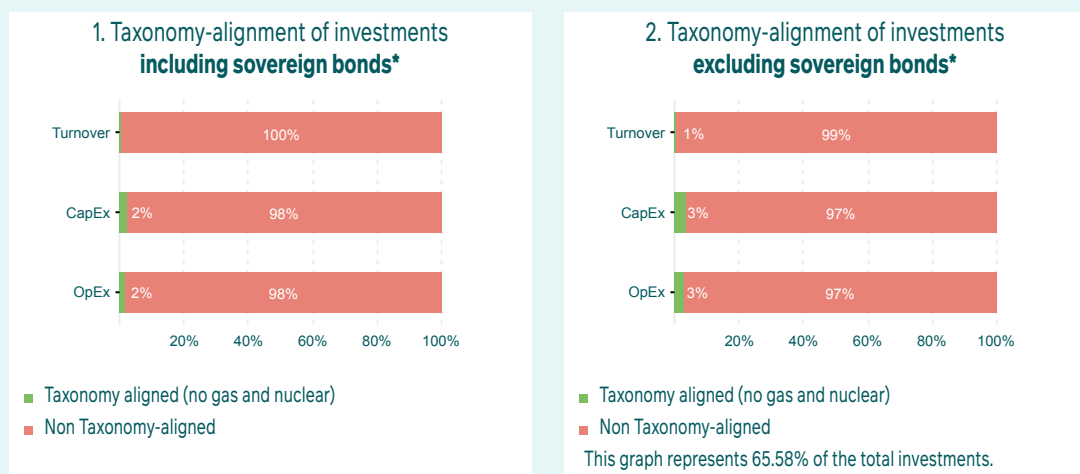
- Yes:  In fossil gas  In nuclear energy
- No

<sup>1</sup> Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do not significantly harm any EU Taxonomy objectives. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

Taxonomy-aligned activities are expressed as a share of:

- **turnover** reflects the “greenness” of investee companies today.
- **capital expenditure** (CapEx) shows the green investments made by investee companies, relevant for a transition to a green economy.
- **operational expenditure** (OpEx) reflects the green operational activities of investee companies.

The graphs below show the percentage of investments that were aligned with the EU Taxonomy. As there is no appropriate methodology to determine the taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.



\*For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures

● **What was the share of investments made in transitional and enabling activities?**

The share of the Fund's investments made in transitional activities over the period was 0.09% and to enabling activities was 0.12%. This compares to a minimum percentage commitment of 0% to both stated in the Sub-Fund's precontractual disclosure.

Activity	Percentage Investments
Share of Transitional Activities	0.09%
Share of Enabling Activities	0.12%

● **How did the percentage of investments that were aligned with the EU Taxonomy compare with previous reference periods?**

The percentage of investments aligned to EU Taxonomy was slightly lower than it was in the previous reference period. In the previous reference period, the share was 0.1%, compared to 0.04% in this reference period.

are sustainable investments with an environmental objective that **do not take into account** the criteria for environmentally sustainable economic activities under Regulation (EU) 2020/852.

**What was the share of sustainable investments with an environmental objective that were not aligned with the EU Taxonomy?**

The share of sustainable investments with an environmental objective that were not aligned with the EU Taxonomy was 24.30%. This compares to a minimum percentage commitment of 5% in environmentally sustainable investments (i.e., both aligned to the EU Taxonomy and not) stated in the Fund's precontractual disclosure.

**What was the share of socially sustainable investments?**

The share of socially sustainable investments was 32.98%. This compares to a minimum percentage commitment of 5% stated in the Fund's precontractual disclosure.



### **What investments were included under “other”, what was their purpose and were there any minimum environmental or social safeguards?**

During the reference period the Fund held securitised assets, credit default swaps, derivatives, cash, FX derivatives and money market funds and as “Other” investments, for any purpose permitted by the Fund’s investment policy. No minimum environmental or social safeguards were applied.

Derivatives used to take investment exposure to diversified financial indices (excluding technical trades), and funds (i.e. UCITS and other UCIs) may be held for any reason permitted by the Fund’s investment policy and will be subject to such minimum environmental or social safeguard tests as the Investment Manager considers appropriate, for example a minimum weighted ESG score test.

The Fund may also hold as Other investments those investments where insufficient data exists to determine the investments’ alignment with the promoted characteristics.



### **What actions have been taken to meet the environmental and/or social characteristics during the reference period?**

The Fund applied an exclusion policy to achieve its Exclusionary Approach. Its compliance with the same is reported in the sustainability indicators section above.



### **How did this financial product perform compared to the reference benchmark?**

N/A. No reference benchmark was designated for the purpose of attaining the Fund’s sustainable investment objective.

**Reference benchmarks** are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.

- **How did the reference benchmark differ from a broad market index?**

N/A.

- **How did this financial product perform with regard to the sustainability indicators to determine the alignment of the reference benchmark with the environmental or social characteristics promoted?**

N/A.

- **How did this financial product perform compared with the reference benchmark?**

N/A.

- **How did this financial product perform compared with the broad market index?**

N/A.