Sustainability-related disclosures

Specialist Investment Funds (1) PLC - M&G SLK European Loan Fund

549300UFV3MAYSMVT057

Website disclosure provided in accordance with Article 10 of the Regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial services sector. Information on how the environmental and social characteristics have been met can be found in the Annual Report of the Fund. This document summarises the information about this Fund in relation to the Sustainable Finance Disclosure Regulation. It is not marketing material. The information is required by law to help potential investors understand the sustainability related characteristics and/or objectives and risks of this Fund. You are advised to read it in conjunction with other relevant documentation on this Fund so you can make an informed decision about whether to invest.

Summary

The Fund principally invests in a diversified portfolio of Leveraged Loans and sub-participations in Leveraged Loans. The Fund may also invest in senior secured floating rate notes.

The Fund will not invest in activities that are considered to be harmful to the society or the environment. The Fund screens out any issuers that are in breach of international standards and/or are operating in sectors deemed not complying with ESG principles. This includes companies deemed to be in breach of United Nations Global Compact Principles, involved in controversial weapons, tobacco, cannabis or coal and pre-defined list of restricted companies. Detailed definitions of these exclusions are in the prospectus.

The Fund also excludes any issuer with ESG risk factors that have potential material financial impact on the Fund. This is based on analysis of broad range of environmental, social and governance factors, such as climate, diversity and inclusion, board composition, disclosure.

A minimum of 70% of the Fund's Net Asset Value are investments aligned to the environmental or social characteristics promoted. None of the assets that are committed to qualify as sustainable. A minimum of 0% (and a maximum of 30%) of the Fund's Net Asset Value are other investments not aligned to the environmental or social characteristics.

Investment selection, due diligence, ongoing portfolio monitoring and data collection follow a structured process. Fund's methodology to assess attainment of promoted environmental and social characteristics includes analysis of Sustainability Indicators, adherence to the Fund's binding elements, scores on in-house ESG scorecard and/or third party ratings. Engagement with the issuers is part of the Fund's strategy.

No sustainable investment objective

This Fund promotes environmental or social characteristics but does not have as its objective sustainable investment. The Fund does not target investments in sustainable investments as defined by Sustainable Finance Disclosure Regulation (SFDR).

Not applicable. The Fund does not commit to make sustainable investments.

Environmental or social characteristics of the financial product

The Fund will not invest in activities that are considered to be harmful to the society or the environment. The Fund screens out any issuers that are in breach of international standards and/or are operating in sectors deemed not complying with ESG principles. This includes companies deemed to be in breach of United Nations Global Compact Principles, involved in controversial weapons, tobacco, cannabis or coal and pre-defined list of restricted companies. Detailed definitions of these exclusions are in the prospectus.

The Fund also excludes any issuer with ESG risk factors that have potential material financial impact on the Fund. This is based on analysis of broad range of environmental, social and governance factors, such as climate, diversity and inclusion, board composition, disclosure.

Investment strategy

The Fund principally invests in a diversified portfolio of Leveraged Loans and sub-participations in Leveraged Loans. The Fund may also invest in senior secured floating rate notes. The investment approach is based on the fundamental analysis of each transaction.

In addition to the above, the AIFM integrates environmental, social and governance (ESG) analysis into its investment decisions by implementing two ESG layers. The first layer takes place in the initial credit analysis, excluding any issuer with ESG risk factors that have potential material financial impact on the Fund. The second layer follows sectorial guidelines, screening out any issuers that are in breach of international standards and/or are operating in sectors deemed not complying with ESG principles.

Qualitative and quantitative analysis is combined to assess a company's ESG risk management and value-creation abilities. An in-house ESG research dashboard is used, leaning on the Sustainability Accounting Standards Board's risk-mapping framework and supplemented by the leveraged finance team's investment experience, to identify material ESG risks to investigate. Climate-related risks are also assessed using the AIFM's proprietary carbon emission tool which estimates portfolio companies' carbon intensity levels. In addition, the leveraged finance team conducts an engagement program with borrowers and sponsors to attest to their governance models, their environmental and social operating guidelines and where appropriate, to engage on key issues such as climate, diversity and inclusion, single use plastic and lobby for greater disclosure of ESG issues. Specific ESG commentaries are incorporated in all credit papers prior to initial investment and are revisited regularly, including at each six-monthly review of the entire portfolio.

Good governance practices of investee companies are assessed prior to making an investment and monitored during the holding period as part of initial and periodic due diligence. Governance factors considered include, but are not limited to: sound management structures, employee relations, remuneration of staff and tax compliance. The Fund does not invest in issuers that do not pass good governance test performed as part of initial due diligence. Material governance issues arising from periodic due diligence are considered for engagement with issuers.

Proportion of investments

A minimum of 70% of the Fund's Net Asset Value are investments aligned to the environmental or social characteristics promoted. None of the assets that are committed to qualify as sustainable. A minimum of 0% (and a maximum of 30%) of the Fund's Net Asset Value are other investments not aligned to the environmental or social characteristics.

None of Fund's investments are expected to be aligned to EU Taxonomy because the Fund does not currently take into account the EU criteria for environmentally sustainable economic activities as defined in the Taxonomy regulation.

Typically, all of the Fund's assets provide direct exposure to investee companies.

Monitoring of environmental or social characteristics

Investment selection follows a structured process that includes systematic consideration of ESG factors. The Investment Manager's Private Credit analysts are responsible for the initial analysis of investments. They verify compliance with Fund's exclusions and assess ESG characteristics using an in-house ESG rating system together with inputs from third party ESG rating providers, where relevant. Specific ESG commentaries are incorporated in the credit papers, which is ratified at the Credit Committee, prior to investment. Fund Managers must ensure that the acquisitions align with the environmental and social characteristics promoted by the Fund.

For existing investments, progress is monitored against the Fund's promoted environmental and social characteristics with use of an in-house ESG Scorecard, Sustainability Indicators and PAI indicators. At least annually, ESG Scorecard assessment is reviewed to reflect an updated view of ESG factors. Performance of the Fund in relation to ESG is reviewed during annual reviews of the entire portfolio, which includes assessment of Sustainability Indicators and PAI Indicators to determine if environmental and social characteristics promoted are being attained and checks of the portfolio against the Fund's exclusions.

Methodologies

Sustainability Indicators, PAI indicators and adherence to the binding elements of the Fund are used as metrics to measure attainment of environmental or social characteristics promoted by the Fund.

The Fund uses a proprietary ESG scorecard to assess ESG credentials of potential and existing investments. See a summary of the ESG topics it covers and its methodology here: https://www.mandg.com/proprietary-esg-ratings.

Data sources and processing

Data Sources

The Fund implements a systematic approach to ESG data collection. ESG data is gathered before each investment and periodically for existing investments to measure the attainment of promoted environmental or social characteristics.

M&G has access to external ESG data providers which supply data to inform ESG research performed by the analysts. The Private Credit team utilises third party ESG data providers to source ESG data required to meet Sustainable Finance Disclosure Regulation requirements. Where loans are covered by third party providers, e.g. MSCI, this data is used in the screening process. Due to the private nature of some investments, data coverage by third party providers may be limited. It is initially sourced from the third party provider and supplemented by data requested directly from issuers.

Scope 3 emissions are included in the PAI analysis and the M&G ESG scorecard, but only if reported by the company. The availability of Scope 3 data is often limited due to the complexity of collecting data and resources required for sufficient data quality. This data is used but due to potential low coverage, the WACI KSI focuses only on Scope 1 and 2 emissions.

Data Quality and Processing

Data received from the issuers typically comes from reputable and, in some cases, audited sources, such as annual reports or sustainability reports. Upon receipt, the analysts perform reasonableness checks of the data, considering factors such as whether datapoints are in line with their broader understanding of the company, reliability of the data sources etc. To ensure that interpretation of the data is consistent, benchmarking exercises are performed where appropriate. Collected ESG data is evaluated via use of a proprietary ESG scorecard.

Estimated Data

Use of estimated data is limited. If a portfolio company does not disclose its greenhouse gas emissions, a third party estimate may be used.

Limitations to methodologies and data

ESG information from third party data providers and/or obtained directly from the issuers may be incomplete, inaccurate, stale or unavailable. As a result, there is a risk that the Fund may incorrectly assess an issuer. This in turn can result in the incorrect inclusion or exclusion of a company in the portfolio of the Fund. Incomplete or inaccurate or unavailable ESG data may also act as a methodological limitation to a non-financial investment strategy (such as the application of ESG risk and opportunity characteristics). Where identified, the AIFM will seek to mitigate this risk through its own assessment and use of its internal tools. The Portfolio Manager also undertakes an active engagement programme with issuers to improve data collection. Due to the mitigants described above, such limitations do not affect how the environmental or social characteristics of the Fund are met.

Due diligence

ESG due diligence is carried out before each investment and periodically for existing investments. Appropriate consideration of ESG factors is a mandatory objective in the due diligence process for analysts and Fund Managers. For corporates, it is typically performed with use of a standard checklist that covers checks against excluded activities and evaluation of PAIs, as well as, an proprietary ESG scorecard. Analysis can also be based on third party ESG ratings, where available. Additionally, ESG considerations in credit analysis focus on material ESG risks that the issuer is exposed to and are incorporated into the credit paper. Controls associated with the components of due diligence listed above are outlined in the 'Monitoring of environmental or social characteristics' section above.

Engagement policies

Where applicable, as an active fund manager, M&G engages with companies to add value to the investment process, to increase our understanding, or provide feedback to a company. Engagements, are focused on achieving real world outcomes. M&G focuses on the underlying substance of engagement, delivery of engagement objectives and the relevance for the investment decision when assessing the quality and effectiveness of an engagement. If this is an ESG engagement, the aim is to influence company behaviour or disclosure. For further information on engagement policies, please refer to the M&G Investments Engagement Policy available on the M&G website.

The Private Credit team conducts an engagement program with borrowers and sponsors to attest to their governance models, their environmental and social operating guidelines and to address key relevant issues such as climate, biodiversity, diversity and inclusion and to lobby for greater disclosure. Engagements are planned in accordance with the Principles for Responsible Investment (PRI) definition, meaning purposeful dialogue with an objective. They will also have an investment outcome expressed. This activity is undertaken jointly by

fund managers and analysts and in consultation with M&G's Sustainability & Stewardship team. All formal engagement notes include ESG objectives, engagement key takeaways, outcomes as well as envisaged next steps are recorded.

Designated reference benchmark

No reference benchmark has been designated to determine whether this Fund is aligned with the environmental and social characteristics that it promotes.

Additional Information

The Fund does not consider PAI indicators at the product level.
List of ESG exclusions that the Fund applies is provided in Annex 1.

Annex 1. ESG Exclusions

The Fund will not invest in activities that are considered to be harmful to the society or the environment. The Fund screens out any issuers that are in breach of international standards and/or are operating in sectors deemed not complying with ESG principles. To achieve this the Fund applies ESG exclusions outlined below.

The AIFM, or its delegate, acting on behalf of the Fund, may not make an investment in any company or corporate which, at the time of purchasing an asset, is within scope of the following:

Exclusion Criteria	Threshold
Controversial Weapons Any company assessed to be involved in anti-personnel mines, cluster munitions, chemical and biological weapons, nuclear weapons outside the non-proliferation treaty, depleted uranium and white phosphorous munitions, blinding laser, non-detectable fragment weapons. A 0% revenue threshold for such companies is applied.	0%
Tobacco Companies involved in the production of tobacco, or companies with an ownership in these companies. A 5% revenue threshold for tobacco producers is applied.	5%
Cannabis Companies or corporations which earned any revenue from producing or selling cannabis for non-medical or recreational purposes, which shall include production and sale of end products containing cannabis for the same purposes . A 5% revenue threshold for such companies is applied. Any revenue derived from medical cannabis must be explicitly permissible under applicable legislation.	5%
Coal Any company or corporation that derives more than 5% of its annual revenues directly from the extraction of thermal coal and/or any company or corporation that derives more than 25% of its annual revenues directly from coal power production.	5% CE 25% CP
Global Norms Companies assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment protection and anti-corruption.	Breach

After the purchase of an investment, the Investment Manager will continue to monitor the limits listed above but they may be exceeded for reasons beyond the control of the Manager. If they are exceeded after purchase the Manager will record such matters and adopt as a priority objective to resolve that situation, but it will not be considered a breach. The Investment Manager shall be under no obligation to dispose of the assets in the event that limits in respect of a particular asset are infringed after the acquisition of the asset where it believes that to do so is in the best interests of the Shareholders but no further acquisitions of such asset will be made while the limits are infringed.

The Fund may not invest in an asset where the issuer / borrower is an entity which is listed as restricted company in the Appendix at the time of purchase of the loan.

The investment restrictions applying to thermal coal, as set out in The Investment Manager's Thermal Coal Investment Policy, apply to the Fund and may have an effect on the assets in which the Fund invests.

M&G Investments

For investment professionals only. Issued by M&G Luxembourg S.A. in the EU and M&G Investment Management Limited elsewhere (unless otherwise stated). M&G Investment Management Limited, registered in England and Wales under number 936683, registered office 10 Fenchurch Avenue, London EC3M 5AG. M&G Investment Management Limited is authorised and regulated by the Financial Conduct Authority (the "FCA"). For the purposes of AIFMD, M&G Luxembourg S.A. will act as Alternative Investment Fund Manager of the proposed fund(s) cited in this document. The registered office of M&G Luxembourg S.A. and is 16, boulevard Royal, L-2449, Luxembourg. M&G Luxembourg S.A. may terminate arrangements for marketing under the new Cross-Border Distribution Directive denotification process.