Sustainability-related disclosures

Lion Credit Opportunity Fund PLC - M&G SRT Fund II

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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 Sub-Fund No.1 invests primarily, whether directly or indirectly, in residual and lower mezzanine ABS including Synthetic Credit Linked Assets and Other Eligible Investments.

The Sub-Fund No.1 invests in asset-backed securities (ABS) with positive ESG risk and opportunity characteristics that meet a minimum threshold based on proprietary ABS ESG score. The ABS ESG score considers a broad range of environmental, social and governance factors, such as environmental footprint and data, access and affordability, disclosure, legal, regulatory and structural features, as appropriate. Assessment is performed from three relevant perspectives, including transaction, assets and counterparty.

The Sub-Fund No.1 will not invest in activities that are considered to be harmful to the society or the environment. The Sub-Fund No.1 screens out key counterparties and underlying assets that are in breach of international standards and/or are operating in sectors deemed not complying with ESG principles.

A minimum of 70% of the Sub-Fund No.1'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.

Investment selection, due diligence, ongoing portfolio monitoring and data collection follow a structured process. Sub-Fund No.1's methodology to assess attainment of promoted environmental and social characteristics includes analysis of Sustainability Indicators, Principal Adverse Impact (PAI) indicators, adherence to the Sub-Fund No.1's binding elements and use of scores on in-house ESG scorecard. Engagement with companies is performed in line with M&G Investments Engagement Policy.

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

Positive ESG risk and opportunity characteristics

The Fund invests in asset-backed securities (ABS) with positive ESG risk and opportunity characteristics that meet a minimum threshold based on proprietary ABS ESG score. The ABS ESG score considers a broad range of environmental, social and governance factors, such as environmental footprint and data, access and affordability, disclosure, legal, regulatory and structural features, as appropriate. Assessment is performed from three relevant perspectives, including transaction, assets and a key counterparty.

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 key counterparties and underlying assets that are in breach of international standards and/or are operating in sectors deemed not complying with ESG principles.

Investment strategy

The Fund invests primarily, whether directly or indirectly, in residual and lower mezzanine ABS including Synthetic Credit Linked Assets and Other Eligible Investments.

The Fund incorporates consideration of ESG factors into its investment process, aiming to invest in ABS with positive ESG risk and opportunity characteristics. The Manager's ESG criteria is evaluated through proprietary analysis with use of ESG information sourced from third parties and/or the counterparties. ABS ESG scorecard expresses risk management and value-creation characteristics of the ABS in qualitative terms within the context of a structured and disciplined framework. Each asset is assigned a score from 1 to 100 (1 representing the highest ESG risk and 100 the lowest), which consolidates ESG assessment of transaction, asset and counterparty across core ESG factors relevant to all securitisations supplemented by key material bespoke issues.

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, where relevant. 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 counterparties.

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, 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 analysts are responsible for the initial analysis of investments. They assess the assets against a set of excluded activities, and, for most types of investments, they assess ESG characteristics using an in-house ESG rating system (ABS ESG scorecard). Outcomes of the ESG analysis are coded and monitored on a pre and post trade basis as investment restrictions to prevent and detect investments that would not be compliant with the promoted characteristics. Fund Managers must ensure as part of their investment selection that the acquisitions align with the environmental and social characteristics promoted by the Fund. Incidents are recorded, and resolved through an incident investigation process, and are reported as part of the SFDR reporting.

Progress is monitored against the Fund's promoted environmental and social characteristics with use of an in-house ABS ESG scorecard, Sustainability Indicators and PAI indicators. At least annually, ABS ESG Scorecard assessment is reviewed to reflect updated view of ESG factors and assets in the portfolio are checked against Fund's exclusions. Performance of the Fund in relation to ESG is reviewed at least annually, which includes assessment of Sustainability Indicators and PAI indicators to determine if environmental and social characteristics promoted are being attained.

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 employs an in-house ABS ESG scorecard to assess securitisation transactions using a structured and consistent methodology. 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 collected from third party vendors, counterparties or public sources before each investment and periodically for existing investments to measure the attainment of the promoted environmental or social characteristics.

M&G has access to external ESG data providers, such as MSCI, which supply data to inform ESG research performed by the analysts. Due to the private nature of many counterparties and structure of ABS assets, data coverage by third party providers may be limited. Data is initially sourced from the third party provider and supplemented by data requested directly from counterparties and accessed via public sources.

ESG analysis is supplemented with in-house carbon estimation tool, which is used for monitoring and encouraging reduction in direct and indirect carbon emissions within underlying assets pool where there is no disclosure.

Scope 3 emissions together with Scope 1+2 are considered in the PAI analysis and the M&G ESG scorecard, but only if reported by the issuer either on the assets or for the Key Counterparty (Originator). The availability of Scope 1+2+3 data is often limited due to the complexity and resources required for collection.

Data Quality and Processing

Data received from third party vendors and the counterparties typically comes from reputable and, in some cases, audited sources, such as annual reports or sustainability reports. Upon receipt, the data is checked by the analysts. 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 ABS ESG scorecard, which is populated by the analysts.

Estimated Data

Estimated data is utilised where actual data is not available. If there is no reported greenhouse gas emissions data, an estimation is made using the Investment Manager's proprietary carbon emission tool which estimates portfolio companies' assets' carbon intensity levels.

Limitations to methodologies and data

ESG information from third party data providers and/or obtained directly from the issuers counterparty may be incomplete, inaccurate, stale or unavailable. As a result, there is a risk that the Fund may incorrectly assess an issuer ABS Investment. This in turn can result in the incorrect inclusion or exclusion of an ABS Investment 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 positive ESG risk and opportunity characteristics). Where identified, the AIFM will seek to mitigate this risk through its own assessment.

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 securitised assets, it is typically performed with use of a standard checklist that covers checks against excluded activities and evaluation of PAIs, as well as, an in-house ABS ESG scorecard. 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 counterparties to add value to the investment process, to increase our understanding, or provide feedback to a counterparty. 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.

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

List of PAI indicators that the Fund considers at the product level is provided in Annex 1.
List of ESG exclusions that the Fund applies is provided in Annex 2.

Annex 1. Principal Adverse Impact indicators

PAI indicators that the Fund considers at the product level are shown in the table below.

Issuer	PAI	PAI Indicator	PAI Metric
Corporate Mandatory	GHG emissions	1a	Scope 1 GHG emissions
		1b	Scope 2 GHG emissions
		1c	Scope 3 GHG emissions
		1d	Total GHG Emissions
	Carbon footprint	2	Carbon footprint
	GHG intensity of investee companies	3	GHG intensity of investee companies
	Exposure to companies active in the fossil fuel sector	4	Share of investments in companies active in the fossil fuel sector
	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	10	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	Lack of process and compliance mechanisms to monitor compliance with UNGC principles and OECD guidelines for multinational enterprises	11	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance / complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for multinational enterprises.
	Unadjusted gender pay gap	12	Average unadjusted gender pay gap for investee companies
	Board gender diversity	13	Average ratio of female to male board members in investee companies
	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons	14	Share of investments in investee companies involved in the manufacture or selling of controversial weapons
Real Estate Mandatory	Exposure to fossil fuels through real estate assets	17	Share of investments in real estate assets involved in the extraction, storage, transport, or manufacture of fossil fuels
	Exposure to energy-inefficient real estate assets	18	Share of investments in energy-inefficient real estate assets
Corporate Optional	Investments in companies without carbon emissions reduction initiatives	Opt	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement
	Investments in companies without workplace accident prevention policies	Opt	Share of investments in investee companies without a workplace accident prevention policy
	Lack of a human rights policy	Opt	Share of investments in entities without a human rights policy
	Lack of anti-corruption and anti-bribery policies	Opt	Share of investments in entities without policies EN 22 EN on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption

Annex 2. 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 key counterparties and underlying assets that are in breach of international standards and/or are operating in sectors deemed not complying with ESG principles.

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

Exclusion Criteria	Threshold
Global Norms Companies assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment protection and anti-corruption.	See Note 1 below
Controversial Weapons Companies 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.	See Note 1 below
Thermal Coal Companies that engage in activities excluded under the Investment Manager's Thermal Coal Policy. This includes public companies that are in scope of the policy, as well as, privately held companies that engage in such activities.	See Note 1 below
Unconventional Oil and Gas extraction Companies that derive revenues from the unconventional extraction of oil and gas (defined as oil sands and Arctic drilling) are excluded. A 10% revenue threshold for such companies is applied.	See Note 1 below
Adult Entertainment Companies involved in the production and / or distribution of adult entertainment.	See Note 1 below
Gambling Companies involved in the provision of gambling-related services.	See Note 1 below
Tobacco Companies involved in the production and / or distribution of tobacco.	See Note 1 below

Note 1
Screening of the exclusions listed above is performed based on sector classification of the security supported by the qualitative analysis, where the data is available. If sector classification of key counterparty (being counterparty considered most relevant to the transaction, typically entity such as sponsor, originator, servicer etc.) represents excluded activity, such counterparty is excluded from investment. If market value of underlying assets with sector classification representing excluded activities exceeds 10% of market value of asset-backed security, that security is excluded from investment.

In addition, the aggregate value of the underlying assets classified within the oil and gas extraction sectors shall not exceed 5% of the greater of the Fund's Net Asset Value or the Committed Capital. Oil and gas extraction activities are represented by the NACE codes 0610 ("Extraction of crude petroleum") and 0620 ("Extraction of natural gas").

M&G Investments

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