

M&G Real Estate: ESG Investment Policy

May 2023



1. Introduction

1.1. Scope

- 1.1.1. This Policy document sets out the Environmental, Social and Governance (ESG) policy relating to all funds and mandates managed by M&G Real Estate. This Policy sets out how we consider ESG within our investment processes, responsibilities and how we will implement our ESG strategy.
- 1.1.2. The assets in scope are all the assets managed by M&G Real Estate on behalf of its clients including the internal asset owner, whether or not they are held within a fund with a specific ESG or Impact focus or objective.
- 1.1.3. The Policy is owned by Jose Pellicer, Head of Investment Strategy, who has M&G Real Estate Board responsibility for ESG.
- 1.1.4. This policy is approved by M&G Real Estate Board. The Policy will be reviewed at least annually.
- 1.1.5. The Policy is subject to and does not supersede M&G plc's ESG Risk Policy, M&G plc's Code of Ethics, the M&G plc Reputational Risk Policy, M&G Investments' ESG Investment Policy and all relevant regulation.

1.2. Context

- 1.2.1. This policy relates solely to the investments made on behalf of the funds M&G Real Estate manages on behalf of its clients. With respect to ESG as a corporate entity, M&G Real Estate adopts the policies and approach of M&G Plc (e.g. corporate governance, reputational risk, HR and diversity and inclusion, corporate environmental commitments). 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. Environmental and social issues are already influencing real estate market fundamentals including obsolescence, rate of depreciation, voids, operational costs and liquidity. 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.
- 1.2.2. We take a long-term, active approach to investing in property. Responsible investing is a key aspect of this and we aspire to create and manage exceptional places that enrich the lives of people and communities to deliver long-term value for our investors, society and the environment.
- 1.2.3. Through our ESG strategy for our real estate funds our long term aim is to deliver:
 - A. **Environmental Excellence** - Meet net zero carbon targets, drive environmental improvements, independently certify performance, future-proof our assets
 - B. **Social benefit** - Our assets should seek to deliver positive social outcomes for our occupiers, local communities and wider society, as appropriate for the fund, the asset type and market they operate in
 - C. **Good Governance** - Strong governance and accountability in relation to our ESG strategy through robust implementation and reporting of performance

2. Governance

- 2.1. Responsibility for ESG across M&G Real Estate resides with the M&G Real Estate Board. The M&G Real Estate Board discharges its responsibilities in respect of the implementation of the ESG principles and priorities set out in this policy below.
- 2.2. The operational oversight of this policy is provided by a number of internal committees and forums:
 - i. Investment Committee: The Chair of the M&G Real Estate Property Investment Committee's (PIC) and the Asia Property Investment Committee (APIC) has various delegated authorities from the

M&G Real Estate Board to take certain investment decisions, including those relating to ESG investment policy and practice. The PIC/APIC review fund performance against ESG objectives on, at least, a bi-annual basis, as well as reviewing ESG performance of acquisitions. PIC and APIC have a shared ESG sub-committee that meets bi-annually to support the strategic implementation of our ESG policy across all funds globally.

- ii. Asset Management Committee (UK and Europe only) has delegated responsibility from the board for the oversight of asset level ESG strategies and initiatives to be delivered by the Asset Teams, in support of the Fund and business initiatives and targets.

2.3. Attestation to this Policy and the M&G Investments' ESG Investment Policy is cascaded to the M&G RE Board annually.

3. ESG Investment Principles

3.1. We apply the M&G Investments' ESG Principles, as set out in M&G Investments' ESG Investment Policy , where appropriate.

3.2. These principles support and are considered alongside, and do not supersede, our fiduciary responsibility to our clients, to invest according to investment mandates, or as defined in fund documentation. Typically for funds other than those that are specifically ESG related, the overall objective will be to deliver a given financial outcome or to optimise investment returns in line with any level of risk defined in the fund documentation or client investment mandate.

Policy requirements

4. ESG Integration into the investment process:

- 4.1. M&G Real Estate believes that ESG factors can have a material impact on investment performance. Therefore, consideration of ESG issues is integral to our investment management process.
- 4.2. M&G Real Estate integrate ESG into the investment process as follows:

Fund strategy

- 4.3. To drive progress against the ESG characteristics promoted by a fund, long term ESG targets and short term targets and/or implementation plans are set at a fund level to enable the fund to demonstrate tangible achievement and progress year on year. These targets are set by the fund team in conjunction with the M&G RE ESG team, and where required, reviewed and approved annually by the fund boards and/or the client in the case of discretionary mandates. Progress against these targets are reviewed at least every six months at PIC and fund boards (where applicable).
- 4.4. For non-discretionary portfolios, ESG strategies are proposed through active engagement, considering the upstream commitments and aspirations of clients and beneficiaries, as well as downstream boundaries of assets/investments and investment strategy. Non-discretionary portfolio ESG strategies and ambition level commonly require client approval.
- 4.5. Portfolio construction is driven by top-down house views, bottom-up asset opportunities, as well as investment style. House views are updated on at least a six-monthly basis. The M&G RE's Research Team undertakes research to identify investment risks and opportunities, including those related to ESG and broad megatrends. The Research Team monitors these ESG trends and incorporates them into fund strategy recommendations as appropriate.

Investment selection and due diligence

- 4.6. Investment selection follows a structured process through selection, review and approval. The Chair of the M&G Real Estate Property Investment Committee's (PIC) and the Asia Property Investment Committee (APIC) has various delegated authorities from the M&G Real Estate Board to take certain investment decisions, including those relating to ESG investment policy and practice. PIC and APIC's require that a summary of ESG performance is provided in the investment paper for every acquisition.
- 4.7. Due diligence of assets shall include the following ESG considerations:
 - 4.7.1. Identification of material environmental, social and governance (ESG) risks and subsequent mitigation measures – these include but are not limited to:
 - 4.7.1.1. Environmental risks – e.g. net zero carbon alignment and climate transition risks; energy efficiency and performance ratings; green building certification, exposure to physical climate risks.
 - 4.7.1.2. Social risks – e.g. health and safety risks including fire; extent to which facilities support occupier wellbeing and satisfy occupier preferences and expectations.
 - 4.7.1.3. Governance risks – screening to ensure occupiers do not violate government sanctions, host country laws or other restrictions governing financial involvement with specified individuals, entities, companies or countries; screening to ensure occupiers do not violate M&G exclusions policies as applicable to real estate (e.g. cluster munitions or anti-personnel mines) or , where applicable, fund level occupier exclusions which are in addition to the M&G exclusions. Furthermore, where applicable, as part of due diligence we monitor the impact of any new acquisitions on Article 8 requirements of the Sustainable Finance Disclosure Regulation (SFDR).
 - 4.7.2. Compliance and overarching alignment with applicable laws (local, international and regulatory).

- 4.7.3. For assets being acquired as developments or major refurbishments (either as direct holdings or fundings) we will seek to achieve high ESG standards for a given asset type in a given market. In the UK and Europe only we will apply the Sustainable Development and Refurbishment Framework which sets out the minimum standards we seek to be achieved for these types of acquisitions. Wherever we are able, we will use accredited third-party systems to assess, certify and benchmark the ESG performance.
- 4.8. Where the fund has ESG objectives, the PIC and fund manager must ensure that any acquisitions align with the sustainability objectives being promoted by the fund or that any issues identified can be managed as part of the business plan with appropriate financial underwriting.

Portfolio management

- 4.9. For all portfolios, the following shall be undertaken:
- 4.9.1. Monitor progress against the fund sustainability objectives and/or pre-defined KPIs (e.g. carbon emissions).
- 4.9.2. Asset level ESG plans should be developed for all directly managed assets (where assets are managed externally by JV partners, they should be encouraged to develop appropriate ESG action plans). The fund and asset managers, together with external property managers and specialist advisors, should develop the action plan. The action plan should be on an assessment of an asset's/investment's ESG performance in relation to the fund ESG objectives, material ESG risks, as well as third-party frameworks (such as BREEAM, LEED, NABERS, and GRESB). Typically, the actions and targets should be embedded in the asset/investment business plan for execution. Asset plans should be reviewed at least annually.
- 4.9.3. Assets should be on-boarded onto our global sustainability data platform (managed by third party), and as far as possible, ESG KPIs should be monitored for all assets. Our ability to gather this data is influenced by the level of operational control and occupier cooperation. We continually seek to enhance the quality and quantity of the data gathered for each of funds.
- 4.9.4. Where assets are being redeveloped or refurbished, we will seek to achieve high ESG standards for a given asset type in a given market. In the UK and Europe only we will apply the Sustainable Development and Refurbishment Framework which sets out the minimum standards we seek to be achieved for these types of acquisitions. Wherever we are able, we will use accredited third-party systems to assess, certify and benchmark the ESG performance.
- 4.9.5. External property managers should be informed of their role and accountability in relation to the above. Appropriate KPIs and monitoring should be put in place to ensure that they are implementing these requirements.
- 4.9.6. Where possible, funds should use accredited third-party systems to assess, certify and benchmark the ESG performance of assets under management, such as GRESB Real Estate, BREEAM, and LEED
- 4.9.7. ESG performance of an asset should be a consideration in any hold or sell decisions
- 4.9.8. Performance of the fund in relation to ESG is reviewed at least every six months at PIC and fund boards (where applicable).

Reporting

- 4.10. M&G RE strives to provide consistent, clear and comprehensive client reporting. The reporting typically includes a comprehensive annual ESG performance report and quarterly updates, client meetings and ad-hoc updates.
- 4.11. Where appropriate, and as defined in fund documents or mandates, at least annual reporting occurs against ESG targets or pre-defined KPIs (e.g. carbon emissions). This provides a quantitative understanding of performance and management of material ESG risks. For financial products classified under regional Sustainable Finance Disclosure Regulations, such as the EU's SFDR, there will be clear ESG outcomes as defined by key sustainability indicators for each financial product.



Tony Brown

Global Head of M&G Real Estate

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Related policies and other documents:

- M&G Investments ESG Policy
- M&G Investments ESG Exclusion List
- M&G Real Estate Environmental Policy
- M&G Real Estate Health & Safety Policy Statement
- M&G Real Estate Sustainable Development and Refurbishment Framework