

Website Disclosure - SFDR

Product name : NN M&G Optimal Income Fund
Classification: article 8
Legal entity identifier (CODE LEI) : 549300P1862TXM0YEB58
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a) Summary

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.

b) No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

Sustainable investments that the Fund intends to make do not cause significant harm to any environmental or social sustainable investment objective as they are required to pass a series of tests, including:

- Whether they represent significant exposure to businesses the Investment Manager considers harmful
- 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)
- Other Principal Adverse Impact indicators form part of a materiality assessment to understand whether any exposures are compatible with sustainable investment

The Investment Manager's research process includes consideration of Principal Adverse Impact indicators for all investments where data is 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 are then subject to ongoing monitoring and a quarterly review process.

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

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

c) Environmental or social characteristics of the financial product

The Fund promotes the use of an Exclusionary Approach and a Positive ESG Tilt (as defined below):

The Fund excludes 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.

The Fund maintains a weighted average ESG rating that is higher than that of its investment universe (“Positive ESG Tilt”). In constructing a portfolio positively tilted towards investments with better ESG characteristics, the Investment Manager may nonetheless invest in investments across the full spectrum of ESG ratings. At an individual security level, the Investment Manager favours investments with better

ESG characteristics where this is not detrimental to the pursuit of the financial investment objective.

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

d) Investment strategy

Consideration of ESG Factors is fully integrated into analysis and investment decisions.

In order to identify securities for purchase, the Investment Manager reduces the potential investment universe as follows:

1. The exclusions listed in the ESG Criteria are screened out.
2. The Investment Manager then performs further analysis, including consideration of ESG factors, to identify and take advantage of investment opportunities. The Investment Manager favours issuers with better ESG characteristics where this is not detrimental to the pursuit of the financial investment objective. This process should result in a portfolio with better ESG characteristics. In constructing a portfolio positively tilted towards investments with better ESG characteristics, the Investment Manager may nonetheless invest in investments across the full spectrum of ESG ratings.
3. The Investment Manager then performs further analysis to consider the valuation of these companies and the appropriate time to purchase in consideration of the Fund’s financial objective.

The Fund’s ESG Criteria apply to at least:

- 90% of debt securities, money market instruments with an investment grade credit rating; sovereign debt issued by developed countries; and equities issued by large capitalisation companies in developed countries;
- 75% of debt securities and money market instruments with a high yield credit rating; sovereign debt issued by emerging market countries; equities issued by large capitalisation companies in emerging market countries; and equities issued by small and mid-capitalisation companies in any country.

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).

e) Proportion of investments

The Investment Manager expects at least 70% of the Fund to be aligned to the promoted E/S characteristics. At least 20% of the Fund will be in Sustainable Investments.

f) Monitoring of environmental or social characteristics

The Fund’s exclusions 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 stated exclusions. Incidents are recorded, and resolved through an incident investigation process, and are reported as part of the SFDR reporting.

The Fund's Positive ESG Outcome is monitored on a post trade basis as a reporting tool to assess whether or not the Fund's investment strategy is delivering the expected outcome. The relevant characteristic is reported on as part of the SFDR reporting.

g) Methodologies

There are a variety of methods that can be used depending on the asset class or information type:

- binary pass/fail test e.g. exclusion of sanctioned companies or countries
- meets or exceeds a specific threshold e.g. revenue to contributes to an environmental outcome, or more than % of board diversity
- industry certification evidencing sustainability performance e.g. Climate Bond Initiative (CBI) certified bond
- contributes a set % of revenue to a climate, environmental or social cause
- proprietary analysis to form an assessment of the sustainability characteristics e.g. net zero alignment

In the case that particular data points are not available or insufficient, it is expected that the Investment Manager's own assessment will be sufficient

h) Data sources and processing

Information can be sourced from third party data vendors including companies such as MSCI, Bloomberg or sourced from proprietary research and analysis.

Data received from third party vendors typically comes from reputable and, in some cases, audited sources, such as annual reports of sustainability reports. Upon receipt, the data is checked by the analysts. To ensure that interpretation of data is consistent, benchmarking exercises are performed where appropriate. Collected ESG data is evaluated via use of a proprietary ESG scorecard, which is populated by the analysts.

Data is processed through a combination of external and internal proprietary systems and digital platform tools which monitor the exposure of the funds both at fund and security level both pre and post trade.

Use of estimated data is limited. However when an estimation is needed proprietary analysis and tools are used. For example, if a portfolio company does not disclose its greenhouse gas emissions, an estimation is made using the Investment Manager's proprietary carbon emission tool which estimates portfolio companies' carbon intensity levels.

i) 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, 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 Investment Manager will seek to mitigate this risk through its own assessment and take any appropriate remediation as necessary.

Where limitations in the methodologies and data have been identified, the Investment Manager seeks to mitigate these through governance and oversight. Whilst, as with financial data, it is impossible to completely eliminate the risk of impact of an external data vendor error, the Investment Manager does conduct its own reviews and challenges where it believes investments have been misclassified. Where the methodologies and/or data are insufficient post mitigation to evidence that an investment is in compliance with the promoted characteristics, such investment may only be purchased if it is suitable for inclusion as an "Other" investment, and the Investment Manager will continue to consider what further information can be obtained through additional research.

j) Due diligence

ESG due diligence is carried out as a part of fundamental investment research. Research analysts assess the Principal Adverse Impact metrics and identify key sustainability risks in order to evaluate and express their materiality for the subject company or investment. Analysts reflect their assessments in either written research or an ESG Scorecard.

Where applicable, the analyst uses the ESG Scorecard to evaluate 15 mandatory and common factors and additional idiosyncratic factors deemed relevant to the subject company's risk profile and business mix. The mandatory factors for evaluation are as follows:

- Climate: Disclosure, Intensity, Footprint, Vulnerability, Intent
- Governance: Ownership & Control, Political Interference & Sovereign Concerns, Strategy and Financial policy, Disclosure and Transparency, Board, Regulation, Compliance and Oversight, Cybersecurity, Corporate culture and controversy
- Social: Modern Slavery, Diversity & Inclusion
- Sector-specific Key Issues determined from the SASB Materiality Map.

In addition to the proprietary assessments described above, investment decision-making may also take account of third party ESG ratings, where available.

Appropriate consideration of ESG factors is a mandatory objective in the due diligence process for analysts and fund managers.

The section above entitled 'Monitoring of environmental or social characteristics' details the controls associated with the components of due diligence listed herein.

k) Engagement policies

M&G believes that the long-term success of companies is supported by effective investor stewardship and high standards of corporate governance. We believe that if a company is run well, and sustainably, it is more likely to be successful in the long run. We undertake all investment stewardship engagements and proxy voting with the goal of protecting and enhancing the long-term value of client's assets, with engagement representing an integral part of how we integrate environmental, social and governance (ESG) considerations in our investment process. We are committed to being transparent about how we conduct investment stewardship activities in support of long-term sustainable performance for our clients. The precise nature of the engagement will vary depending on the investments held, but these overarching principles will inform M&G's conduct when engaging with companies, whether through voting equities in general meetings or in our participation in bondholder committees.

l) Designated reference benchmark

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

Sustainability information contained in this product document has been compiled by NN Insurance Belgium SA/NV to the best of its ability. However, NN is dependent on the information on the various sustainability aspects made available by the asset managers. However, the legislation requiring this information to be made available only came into force on 1 January 2023. The information in this document has therefore been compiled on the basis of the information made available to date and may be modified and/or supplemented in line with the information that will be provided by asset managers in the coming years.