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M&G INSTITUTIONAL

Investment intelligence

Q&A: A closer look at ESG

M&G INVESTMENTS

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- An integrated approach to ESG prevents isolation of what we see as key extra-financial analysis
- The scale of our network helps us originate ‘impact’ investments from a variety of sectors
- By considering international investment opportunities, greater portfolio diversification can be achieved

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The value of investments will fluctuate, which will cause prices to fall as well as rise and you may not get back the original amount you invested. Wherever past performance is shown, please note that this is not a guide to future performance.

What is your new role and plans for the Asia business?

I’m leading the business of M&G across Asia including Japan. This involves overseeing a broad distribution team covering wholesale and institutional markets for all asset classes as well as a strong investment team across the region.

The aim is to grow our business in Asia and expand our client base, which is increasingly investing outside the region as well as domestically. Although I am based in Singapore, more than half of my time will be spent in other cities across the region such as Seoul, Sydney, Hong Kong and Tokyo.

Nine staff are currently based in Tokyo across our real estate and investment businesses and we plan to increase this number. Our AUM in Japan totals JPY140 billion, covering investments managed by M&G, as well as capital committed.

Both individuals and institutions, such as banks and pension schemes, have growing investable savings and are looking for high-quality investments to help provide for longer, more prosperous retirements. Our goal is to support them in meeting these long-term goals with attractive investment opportunities that can offer exposure to investment markets across the world. Building on our well-known brand in the UK and Europe, we are strengthening our recognition in Asia to help people get to know our breadth in strategies.

What can M&G offer investors?

We have significant capabilities in areas such as public and private credit and infrastructure equity and debt, in which we are one of the largest and most established managers in Europe. Our broad network of relationships across Europe with borrowers and banks help us originate assets in private markets and locate the best value for our clients. We have one of the largest teams of credit analysts in Europe, which perform vital due diligence upfront and during the investment period and create proprietary internal ratings, avoiding reliance on external ratings.

As stewards of our clients’ assets, investing responsibly is a key facet of our strategy to better manage risk and generate sustainable, long-term returns alongside making a positive contribution to society. Consideration of ESG factors is fully embedded into the investment process, which is ensured by research conducted by analysts across the group rather than a specific research team. This more integrated approach prevents the isolation of what we see as key extra-financial analysis. There is also a long-established sustainability team in the real estate business that deals with the specialist and tangible nature of this asset class that needs management throughout the lifecycle.

We allocate long-term capital to responsibly-managed businesses and as active, engaged shareholders, challenging the environmental, social and corporate governance practices of companies. In addition, we have been financing ‘impact’ investments, which target a direct positive benefit as well as a competitive financial return, on behalf of our clients since the 1930s. The first ‘impact’ investment was the Carsfad hydroelectric dam in Scotland, made in 1935.

The scale of our network helps us originate such private investment opportunities to build diversified exposure to ‘impact’ investments from a variety of sectors. Today M&G has circa £22 billion invested in impact assets across fixed income.[1]

We have been signatories to the United Nations Principles for Responsible Investment (UNPRI) since 2013. In 2018, we secured at least an A rating from UNPRI for our approach to responsible investment across all our reported asset classes, including listed equity, fixed income and property.

In 2015, we worked with one of Europe’s leading solar companies by providing nearly £250 million in debt refinancing for a large portfolio of fully operational solar plants in the UK. Another example is our participation in 2018 in an Australian green residential mortgage transaction, financing a pool of green mortgages to buyers of efficient homes. Both of these deals aim to support the global transition towards a low-carbon economy.

In terms of active engagement, we met with Chinese search engine Baidu regarding a transaction that could cause potential conflicts of interest, and we engaged with other shareholders and

[1] Source: M&G Investments, as at April 2018. Figure includes public and private assets.

the Asian Corporate Governance Association. Baidu subsequently announced that the proposal had been withdrawn. We believe this reflects well on both the company's special committee that was established to consider the transaction and its approach to external shareholders.

What are the biggest opportunities in Europe?

Given where we are in the market cycle, with low yields in many asset classes, we see demand for high, stable income and defensiveness in portfolios to protect against a change in market conditions.

European leveraged loans are an attractive investment opportunity that can offer secure income, limited correlation with other asset classes and defensive characteristics that can help to minimise credit losses.

Private European real estate debt also has the potential to supply defensive features, such as security against real assets and tailored financial covenants. Attractive levels of income from interest payments ensures that investors are more than fairly compensated for the relative illiquidity of asset classes such as these.

Direct property investment in Europe is also benefiting from the expansionary phase of the economic cycle. Sourcing high-quality assets relies on our extensive relationships across Europe, where for real estate equity around two-thirds of our assets are sourced off-market.

What is your message to international investors?

By considering investment opportunities outside their domestic market, institutional asset owners can bring greater diversification to portfolios. There are considerable opportunities to enhance returns in countries and sectors that may offer higher yields or attractive value for the risk. It's important to do so with a manager that understands local markets and the risks involved, which has solid investment capabilities within each asset class, and with developed ESG capabilities, enabling an integrated responsible approach to investment.

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