

Investing in Alternatives Video Transcript:

The M&G Alternatives team is part of the Private and Alternative Assets Business of M&G. We are responsible for managing assets within three areas. Private Equity, Real Assets, Diversifying Strategies. The team currently manages £7.3 billion pounds. Our mission is to provide customers with access to alternative asset classes and the associated benefits of enhanced returns and diversification, sustainably and in a format that works for them. The term 'Alternatives' covers a broad range of strategies and sub strategies with different return drivers and risk characteristics. These opportunities are typically in the private markets and are less liquid than say listed equities. We think about each opportunity in terms of risk and reward and we are thinking about what we're going to get in terms of a pick up from the illiquidity premium associated. Some asset classes bring enhanced returns For example, private equity. We would expect to get about 2-300 basis points per annum over public market equivalents. Other strategies bring us more of an absolute return flavour and tend to have a very low correlation with, say, public market equities or corporate credit and therefore the diversification benefits that that can bring to the portfolio can be quite substantial. Our royalty strategies whether that's music or pharmaceutical, have return drivers that are distinct from the broader macroeconomic trends. The final point worth noting is alternative strategies give investors exposure to emerging strategies or earlier stage growth companies that are perhaps not prevalent in public markets. These more nascent opportunities can give rise to outsized returns to investors. The opportunity set is global, and our program looks to exploit opportunities wherever they arise. We seek to leverage expertise across the globe, access the best opportunities, which means partnering with market leading funds or direct investing alongside our partners. Or through entering into JVs. This allows us to move quickly and to gain access to local markets and specialist expertise and what can be quite complex transactions. M&G has a long track record of investing in alternative assets. In fact, it's over 20 years in this current guise. Our institutional approach, our brand and our scale affords us a preferred investment terms and a strong negotiating hand with our partners. This ensures we enter into what are long term relationships with a strong alignment and the appropriate legal protections. Our ability to be a cornerstone investor of size allows us to access scarce and differentiated opportunities. Our flexibility and scale and willingness to look at innovative and newer opportunities has allowed us to be an early adopter of emerging trends. We believe that alternative assets can lead the way in meeting global sustainability targets. All of our new investments are ESG assessed pre-investment and continually monitored. We're actively engaging with managers to share feedback from our systematic proprietary scoring model, to help our partners to improve their processes. A large part of what we have been investing in recent years has an environmental or sustainable angle already. We've been investing in renewable energy for close to a decade. As an example of this. In 2016, we established a vehicle alongside a specialist investor, an operator of European solar assets, to invest in operating solar plants in Italy. We looked to the market and we saw that it was highly fragmented and quite inefficient. And at the point of investment, there was a need for consolidation and to improve generation, to reduce the cost of capital, really to create a large scale operation that other investors would be interested in buying in the future. We felt the higher returns were on offer, than in other parts of Europe and there was the opportunity to create something significant and that we through to create scale within that platform. So what we've actually done with our partners, we've acquired 100 plus individual assets, that's been over a period of five years and with generation capacity of 150 megawatts. And that makes us one of the largest holders of Italian solar in the marketplace. As an example of what that translates into in the financial year 2019 to 2020, that created 59 kilotons of CO2 offset. And so effectively, what that means is the equivalent to taking 19,000 cars off the road. Or in an alternative

sense, powering 66,000 UK homes. In addition to this, we've recently deployed capital within an emerging markets specialist, bringing sustainable energy solutions to Latin America, Asia and Africa. And we are investing in onshore wind, solar and battery storage in the US and we're currently funding the development of offshore wind opportunities globally. We continue to see interest in alternative assets grow, but at the same time, we see increased demand for capital across each of our strategies, which is allowing us to deploy into exciting opportunities. We're seeing many opportunities to invest in a sustainable, impactful way, which specifically target a number of the UN Sustainable Development Goals. We've reviewed quite a number of different opportunities in the recent past, but just to go through a couple of them; hydrogen production, we've been looking at a facility to produce hydrogen from waste. This has the potential to create a zero carbon solution for long haul transportation. We're looking at vertical farming, it's an extremely land efficient way of producing agricultural products, but it also uses approximately 95 percent less water in the production of those products. We'll be looking at timberland and carbon sequestration. The afforestation in Latin America, replanting native species to rehabilitate deforested land. We've also been looking at subsea fibre to support the increase in data traffic across the globe and to connect populations. We've been looking at low carbon ships, circa 50 percent reduction in carbon and sulphur emissions from these vessels. And there also is no nitrous emissions. And then finally, we've been looking at alternative protein. A significant reduction in environmental and ecological footprint versus the traditional protein production for pet food.