For Investment Professionals only

M&G INSTITUTIONAL

Impact investing in action

Australian green mortgages

The value of investments will fluctuate which will cause prices to fall as well as rise and investors may not get back the original amount they invested.

Expected environmental impact

16,500 MWh annual electricity savings[1]

- M&G participated in the financing of a pool of Australian green residential mortgages
- Expected return premium: 0.5% to 0.75% p.a. over equivalent-rated, liquid public bonds[2]
- Key M&G impact theme and expected metrics[1]:
  - Green buildings:
    1. 16,500 MWh annual electricity savings
    2. 8,700 tCO_2e emissions avoided per year

This investment aligns with the following UN Sustainable Development Goals (SDGs):

Investment impact overview:

In Q1 2018, M&G participated in an Australian green residential mortgage transaction. The deal finances a pool of green mortgages to buyers of energy efficient homes, helping the transition towards a low carbon economy.

The transaction is a Certified Climate Bond, so each mortgage in the pool has been assessed against the Climate Bonds Initiative (CBI) low carbon buildings standard criteria for Australian residential properties – and is the first of its kind in Australia to meet the criteria for certification. This places underlying properties in the pool in the top 15% of energy-efficient residential buildings in their respective regions, which translates to a reduction of CO_2 emissions of approximately 60% compared to average homes.

The transaction qualified as an impact investment under the category of green buildings, according to our thematic impact eligibility criteria[3].

Environmental impact theme: Green buildings

The 1,500 green mortgages financed by the pool are expected to save an estimated 16,500 megawatt hours (MWh) of electricity per year, while the amount of emissions avoided is estimated to be at 8,700 tonnes of CO_2 equivalent per year, compared to average residential properties.

Buildings are responsible for more than 40% of global energy used and contribute around one third of greenhouse gas (GHG) emissions globally[4] – homes use large amounts of energy for heating, cooling, lighting, and other functions. Electricity generation in Australia is very carbon-intensive with a significant proportion generated by coal. Australia's GHG emissions per capita are the second highest in the developed world, behind only the US.

The relative impact of making buildings more energy and resource efficient in Australia, in terms of avoiding carbon emissions, is therefore high compared to other countries.

[1] Impact metrics are intended to provide an indication of expected outcome. tCO_2e = tonnes of carbon dioxide equivalent. Expected metrics are based on assessments made relative to average residential properties in their respective regions.
[2] Source: M&G, as at February 2018. Given the AAA rating assigned by M&G credit analysts and rating agencies Moody's and Fitch respectively, comparable liquid public bonds are largely issued by development banks and supranationals.
[3] At M&G we assess impact investments against criteria developed in conjunction with a leading sustainability adviser.
[4] Source: International Organization for Standardization (ISO). "Measuring the carbon footprint of buildings in a simple way", 7 July 2017.

Attractive expected returns

In addition to generating positive environmental impact, the investment targets a competitive financial return. The investment is expected to generate a return premium in the range of 0.5% to 0.75% p.a. over similar-rated, liquid public bonds, and benefits from long-term, secure cashflows.

GIIN MEMBER

M&G Investments is a member of the Global Impact Investing Network (GIIN). Our membership signifies a commitment to deepening our engagement in the impact investing industry.