

## Environmental and Social Characteristics

The fund will invest at least 50% of its total assets in fixed income instruments of companies that exhibit **positive** or **improving** environmental, social and governance (“ESG”) characteristics.

## Screening Criteria

Companies the fund invests in are classified as either:

- “Green” – by exhibiting “**Positive**” or “**Improving**” ESG characteristics; or
- “Other” – by not meeting the criteria illustrated below

The below tables illustrates the criteria used to classify companies

Company Classification		Overall ESG Score*	Governance Score*	ESG Outlook Score
<b>Green</b>	Positive ESG	An average combined ESG score of 3 or better	A minimum Governance score of 4 or better	
<b>Green</b>	Improving ESG Characteristics	An average combined ESG score of 4 or better	A minimum Governance score of 4 or better	Improving ESG outlook score
Company Classification		Overall ESG Score*	Governance Score*	ESG Outlook Score
<b>Other</b>	Other	An average combined ESG score of 4 or better	A minimum Governance score of 4 or better	Stable or declining ESG outlook score
<b>Other</b>	Other	An average combined ESG score of worse than 4	A minimum Governance score of 4 or better	

\* (1 = Excellent, 5 = Unfavourable).

The Fund will not invest in Companies with a Governance Score of worse than 4.

The criteria we use to determine if a company exhibits positive or improving ESG characteristics are described below and is based on the Investment Manager’s proprietary ESG scoring methodology.

For every investment an ESG review is included in the credit underwriting process of each investment. The analyst will conduct proprietary research drawing on internal ratings, third-party ratings, due diligence provided as part of the transaction, and discussions with credit and sovereign issuers on matters with the potential to impact investment returns.

An ESG score between 1 (Excellent) to 5 (Unfavourable) is assigned in our credit analysis and portfolio management system to the issuers that captures both the current ESG performance relative to peers as well as the outlook, which rates the momentum of the entity’s ESG efforts.

Barings’ EM Corporate Debt analysts will look to rate issuers based on the following nine ESG factors relative to their industry peers:

ESG Pillars	ESG Factors	Data / Issues considered
Environmental	Resource Intensity	Water Usage / Sales ; GHG Emissions / Sales ; Energy / Sales
Environmental	Environmental Footprint	GHG Emissions; Carbon Intensity; History Of Environmental Fines / Sanctions; Reduction Programmes In Place For Water / Waste / Resource Intensity
Environmental	Traceability / Security In Supply Chain	Traceability Of Key Inputs ; Investments In Protecting The Business From External Threats, e.g. Cyber Security ; Backward Integration (Protection Of Key Inputs)
Social	Societal Impact of Products / Services	Health / Wellness implications of Consumption of goods / services; Product Safety issues ; Community Engagement
Social	Business Ethics	Anti-competitive practices; Bribery / Corruption; Whistle-Blower Policy; Litigation Risk
Social	Employee Satisfaction	Staff Turnover ; Strikes ; Fair Wages ; Injuries ; Fatalities ; Unionised Workforce
Governance	Effectiveness Of Supervisory / Management Board	Separation Of Chair & CEO ; Size Of Board ; Independence Of Board ; Frequency Of Meetings ; Attendance Record ; Voting Structure
Governance	Credibility Of Auditing Arrangements	Credible Auditor ; Independent Audit Committee ; Qualification To Accounts
Governance	Transparency & Accountability Of Management	Access To Management ; Financial Reporting; Tax Disclosure ; Appropriate Incentive Structure

### **Guideline Monitoring**

The fund is monitored on a daily basis to ensure it continues to meet the minimum threshold of 50%. Where the fund falls below this threshold, due to market movements or because the companies it holds no longer meet the criteria of a “green” investment, then the passive breach will be corrected at the earliest opportunity.

In addition, prior to each trade, we ensure that the trade will not lead to the fund falling below the 50% threshold and if so, the trade will be stopped and the fund manager notified

### **Data Sources**

Our investment decisions are based on internal research, which encompass both our proprietary financial underwriting and ESG assessment. We aim to meet with all companies in which we seek to invest and discuss a range of topics including ESG issues with management. The investment professional responsible for evaluating and valuing the company is also responsible for its ESG assessment: this is an integral part of our analysis

Use of external sources of research remains limited and are utilised to mainly understand market consensus and as one way to gather data. To supplement our own ESG research, our team also has access to third-party resources such as Bloomberg ESG, MSCI ESG and Sustainalytics, which provide institutional investors with issuer-specific ESG data.

### **Sustainability Indicators**

The percentage of the fund invested in companies that exhibit positive or improving ESG characteristics.

### **Reference Benchmark**

The Fund is not managed to a benchmark.