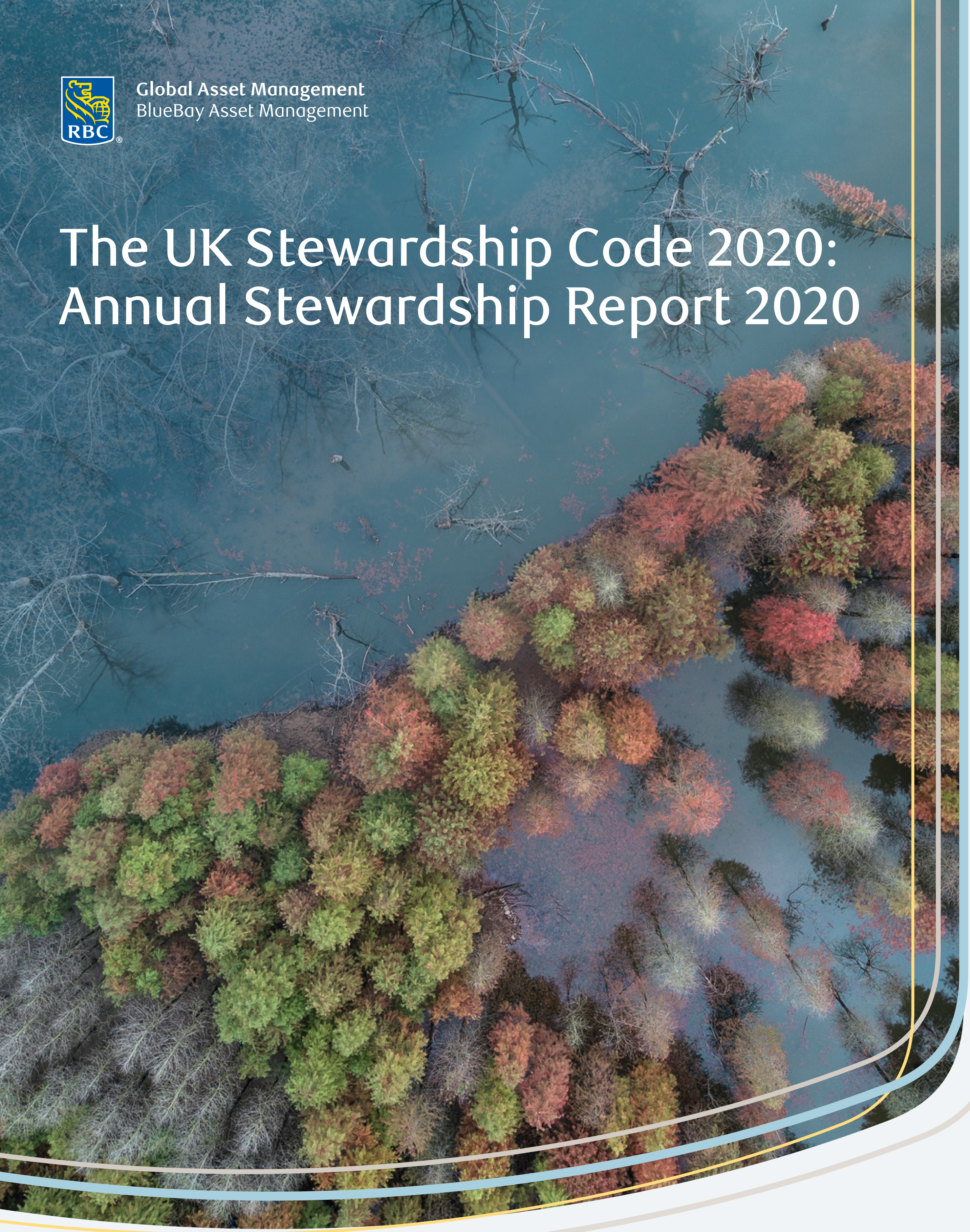
Global Asset Management
BlueBay Asset Management

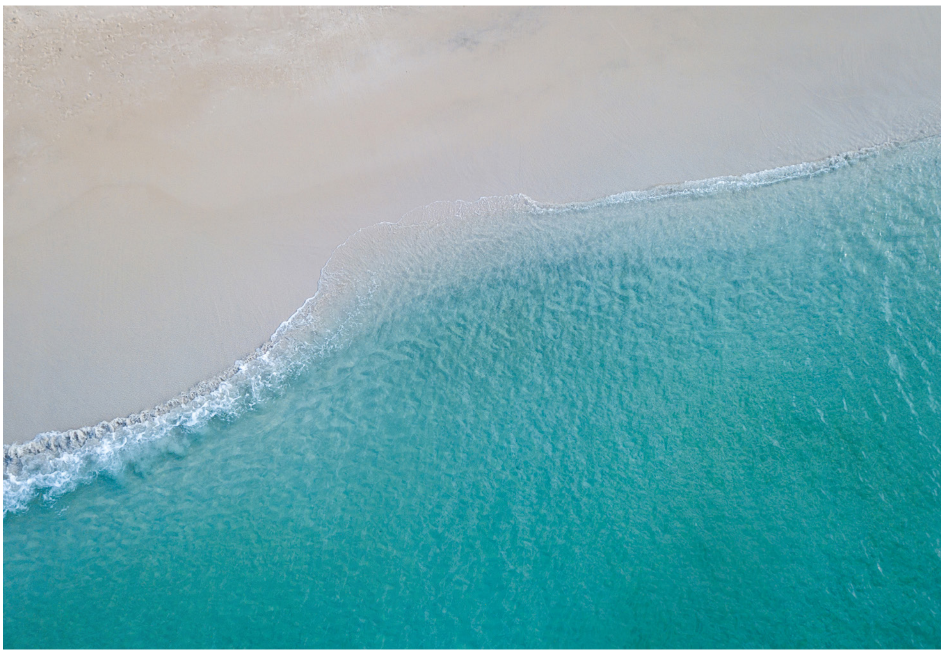
The UK Stewardship Code 2020: Annual Stewardship Report 2020



Signatory of:

Principles for Responsible Investment

The principles content index



Stewardship definition

We have adopted the definition of stewardship according to The UK Stewardship Code 2020 of the Financial Reporting Council (FRC), where it is defined as:

"the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environmental and society".

We apply the above definition throughout our investment process in terms of our allocation of capital from pre to post investment activities and the consideration of traditional financial metrics, as well as those which are broader and encompass environmental, social and governance (ESG) (or sustainability related) matters. Specifically, in terms of our ESG investment management framework, this incorporates a number of different approaches including, but not necessarily limited to, the application of formal ESG exclusions, ESG integration efforts, as well as ESG engagement and proxy voting activities. However, we observe that the market generally tends to bias thinking, practice and disclosure on stewardship more narrowly in the latter two areas – namely engagement and proxy voting.

While as a specialist fixed income investor, there may be some scope to utilize these tools, it is important to understand that the extent to which we have access to these mechanisms differs in comparison to equity owners. For instance, proxy voting is an immaterial activity for us given we are lenders and not owners, although there are instances in which it can occur.

In addition, while there may be structural challenges, there are also opportunities resulting from evolving market developments for fixed income investors to exercise stewardship responsibilities, and throughout this document, we have sought to raise awareness of both these dimensions.

The stewardship approaches and activities detailed in this document relate to those occurring over the calendar year ending December 31, 2020. Unless otherwise stated, information provided in this document is as of December 31, 2020.

About BlueBay

BlueBay Asset Management ('BlueBay') is an active fixed income specialist, structured to deliver outcomes tailored to clients' needs.

- **Over US75bn in AuM (as of 31 December 2020)**
- **6 sub-asset classes (Investment Grade, Emerging Market, Leveraged Finance, Convertibles, Structured Credit, Multi-Asset Credit)**
- **38 specialist strategies**
- **439 employees and partners**
- **8 offices globally (UK, US, Luxembourg, Japan, Germany, Italy, Switzerland and Australia).**

More information about BlueBay can be found on our corporate website.

BlueBay is a wholly owned subsidiary of Royal Bank of Canada (RBC) and part of the RBC asset management division, RBC Global Asset Management group of companies.

More information about our investment strategies and client base can be found in the 'Investment Approach' Principle 6 section within this document.

Figure 1: History and evolution of BlueBay

2001
BlueBay is established at the inception of the euro to capitalise on inefficiencies in the growing pan-European corporate bond market, and in response to evolving opportunities in emerging market debt

2002
Launched flagship European credit long-short hedge fund strategy and the first long-only emerging market debt fund in UCITS format

2003
With a focus on capital preservation BlueBay pioneered the use of credit default swaps in traditional benchmark funds, applying short positions and other hedge fund investment techniques in both long-only and long-short strategies

2008
BlueBay launched an EM corporate strategy to capitalise on pricing anomalies in a largely under-researched asset class and launched a global convertible bond strategy

2010
BlueBay is bought by RBC and launches a sovereign debt strategy to capitalise on new total return opportunities as a result of European peripheral stress

2015
Launched a financial capital bond strategy to capitalise on the new sub-asset class of bank contingent capital debt instruments and also launched a global macro fund

2017
Launch of a unique environmental, social and governance ("ESG") high yield strategy to meet the growing demand for ethical investment strategies

2018
BlueBay adds structured credit team to launch a range of strategies across this large and expanding asset class

Source: BlueBay Asset Management, as at 31 January 2021

Purpose and governance

Principle 1: Purpose, strategy and culture

Our purpose, values and culture

BlueBay's purpose is to protect and grow our clients' assets and redefine best practice in asset management. Our core values are respect and collaboration, individual excellence, and integrity, which are reflected in how we act internally and with our stakeholders.

We are committed to recruiting and developing talented and diverse individuals at all levels of their careers. We believe in engagement; nurturing and supporting an inclusive and diverse workplace results in better team dynamics and decision making. We believe this leads to superior outcomes for our clients and business.

As part of our values, BlueBay believes in respect and collaboration, which extends to how we conduct ourselves both internally and externally. We demonstrate accountability for our actions through transparency, operating with strong governance and ensuring we operate under an ethical framework, with all our stakeholders.

Our investment beliefs and philosophy

Our investment philosophy is based on the belief that financial markets are inefficient and continuously provide new and different investment opportunities. We believe these inefficiencies can be identified through proprietary research and resultant mispricing can be exploited via active management.

Our value proposition

Our aim is to be one of Europe's leading fixed income managers. BlueBay is an active fixed income specialist, structured to deliver outcomes tailored to the needs of investors seeking to enhance their portfolio returns. We embody the best of alternative and traditional asset management:

1. **A diverse team of highly skilled risk-takers, focused on alpha generation with a single investment process:**
   a. Proprietary research drives our investment process: risk-takers conduct their own direct research with companies and policymakers in macro, credit and ESG to generate insights and deliver alpha.
   b. Long/short mindset maximizes our ability to deliver alpha.
   c. Personally invested to align risk-taker and client interests.
   d. Entrepreneurial culture enables us to attract and retain strong investment talent.
2. **A robust investment process based on proprietary research, producing outcomes consistent with portfolio design:**
   a. Full transparency, collaboration and intellectual honesty about investment decisions mean we can identify problems early and spot and develop talent within the team.
   b. Risk management and compliance are central to our culture, ensuring a controlled environment to protect clients' interests.
   c. Proprietary technology supports both our qualitative, judgmental investment process and our ability to deliver tailored client outcomes.
3. **Collaborative approach driven by active client engagement:**
   a. Frequent and transparent communication with risk-takers strengthens client understanding of markets and portfolios.
   b. Dialogue beyond product enables us to innovate and deliver outcomes tailored to client needs.

Our strategic filters

1. Offer a compelling investment proposition based on relevant products, superior performance and a bias to alternatives
2. Make life easier for clients and prospects at every stage in the client journey
3. Manage business complexity in an efficient and innovative manner, utilizing the full scope of organizational resources including RBC
4. Utilize ESG principles in both corporate and investment decisions

These views underpin our investment process, supported by a deeply resourced team of specialists, across our investment platform. Proprietary macro, credit and ESG research is drawn together in a single investment platform to identify both long and short opportunities across a universe of alpha sources. We believe these inputs provide a holistic and more nuanced analysis to support our investment views and confirm the value we place on taking a collaborative team approach to investment decision making, particularly around stewardship.

We have outlined examples of how stewardship has guided our investment decisions in Principle 1, 4, 9 and 11 and provided more detail regarding this process in Principle 7.

ESG investment philosophy and approach to stewardship

BlueBay's ESG investment approach is rooted in our belief that ESG considerations can potentially impact an issuer's long-term financial performance. Therefore, ensuring our investment management approach provides holistic oversight of risks by integrating ESG factors alongside conventional credit analysis is not only prudent but also in line with BlueBay's fiduciary duty. Beyond an investment case for incorporating ESG into our investment practices, we also increasingly recognize our investors are looking to incorporate their own organizational stewardship principles and values into the management of the assets they have entrusted to us on their behalf.

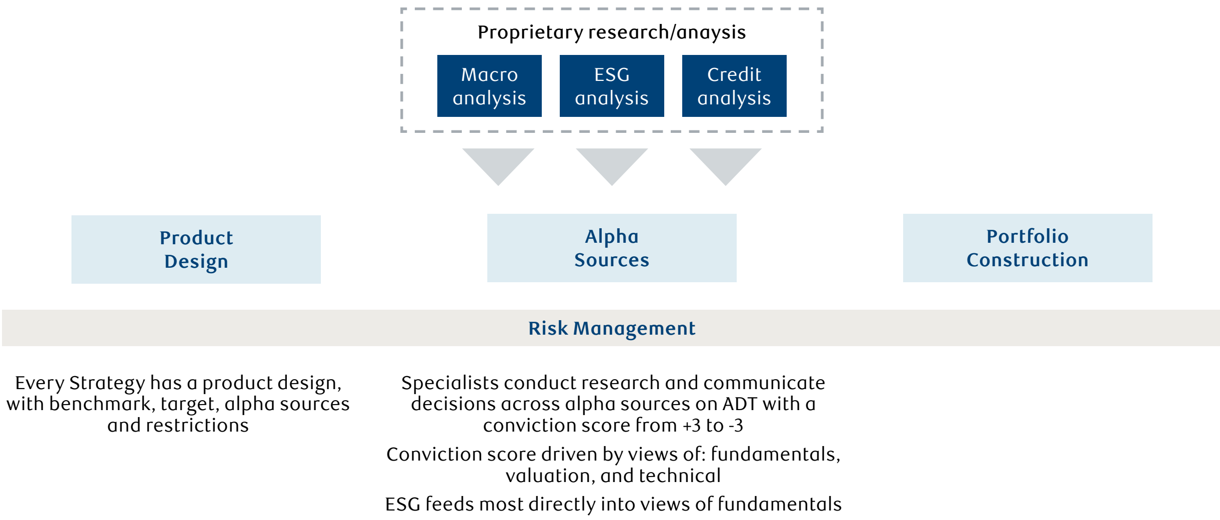
Accordingly, we have adopted a firmwide ESG investment management approach across all our managed assets. This enables us to deliver superior risk-adjusted returns over the long term while meeting our clients' wider societal expectations. As part of this, we have a firm level set of ESG approaches we apply for all managed assets as standard, whether they relate to pooled funds (funds) or separately managed accounts (SMAs). For specific investment strategies, which can be funds or SMAs, we may vary the resulting investment action we take as a result of the ESG considerations or apply additional approaches.

As a minimum, our ESG investment management framework focuses on integration (the identification and assessment of investment material ESG risk factors), supplemented by active engagement (process of dialogue with issuers on ESG matters) and proxy voting activities (the latter, where relevant, which is in very limited instances). More information about our ESG investment management framework and approaches can be found in the 'Investment Approach' Principle 6 section within this document.

Our approach to ESG investment management continues to evolve over time. Since 2013, when we began to take a more strategic and formal approach to incorporating ESG analysis, ESG has grown in importance. It became a strategic priority for the firm in 2019, moved to being adopted as a strategic pillar in 2020, meaning it has now become embedded in our standard practice. At the same time, it is being formalized within our investment process as a potential source of alpha generation.

To drive our ESG investment strategy, we set an annual work program at the firm level that provides the framework and priorities against which we measure progress. Below, we have outlined our 2020 focus areas as part of our ESG work program and progress made during the year.

Figure 2: Building blocks of BlueBay's investment process



Source: BlueBay Asset Management LLP

Figure 3: 2020 work program and progress

2020 focus area	2020 progress	Comments
Ensuring we continue to offer a compelling product offering and enhance investment choice	**Achieved**	▪ We have continued to engage with our key stakeholders to ensure BlueBay has a compelling ESG product offering to meet investors' needs. ▪ In response to growing demand for more dedicated ESG fund offerings, we will be looking to launch some of these over the course of 2021.
ESG investment related policies	**Partially achieved**	▪ We updated our Proxy Voting Policy in December 2020 and our ESG Investment Policy in June 2020 (note: this Policy was updated on March 10, 2021, in line with SFDR requirements). ▪ We began planning our response to the new 2020 UK Stewardship Code (i.e. this document) (see Principle 5 for more details on our policies).
Governance and resources	**Achieved**	▪ We reviewed the effectiveness of the ESG IWG, including refreshing the work programme and membership as appropriate to ensure it remains effective and efficient in its remit (see Principle 2 for more details on our policies).
Continuing to embed ESG into credit research and building the knowledge and understanding of our investment teams	**Achieved**	▪ We continued to provide ongoing ESG training and support to our investment professionals to further develop their understanding, knowledge and awareness of ESG related matters. ▪ We maintained over 95% coverage of our holdings across corporates and sovereigns in terms of our issuer ESG evaluation framework (see Principle 7 for details on this framework). ▪ We continued to work more closely with portfolio managers to better document the incorporation of our proprietary ESG metrics into portfolio construction and allocation decisions.
Strengthening our ESG infrastructure and systems and developing tools to enhance investment team support	**Partially achieved**	▪ We continued to develop our ESG investment data infrastructure, firstly migrated our corporate issuer ESG evaluations into our centralised credit research platform, the Alpha Research Tool (ART), and secondly launching a centralised tool on ART to document firmwide stakeholder engagement activities and those pertaining to ESG specifically (see Principle 7 for more details on our infrastructure). ▪ We finalized the work to include ESG data in monthly Fund Newsletters, and initiated work to implement enhancements to our current ESG reporting capabilities (see Principle 6 for more details on our client reporting). ▪ We performed market research on data and tools available to support climate and carbon risk analysis and reporting, securing a dedicated third-party provider towards the end of the year, as well as an impact/sustainable research provider to analyse the alignment of our holdings with the UN Sustainable Development Goals (SDGs).
Continuing to play our role in driving industry collaboration	**Achieved**	▪ We continued to play an active role at the industry level to advance ESG thinking and practice in fixed income investing through collaborations, partnerships and initiatives. We also participated in industry events and conferences as a speaker, sharing learning and insights on ESG in fixed income. ▪ In terms of collaborative engagement, we formally joined the Climate Action 100+ and have been engaging with a Mexican state-owned oil and gas company, on a range of ESG issues, with a view to encouraging improved ESG disclosure and to address key social impacts. We have also been engaging with an emerging market sovereign on deforestation risk (see Principle 10 for more details on ur collaborations).

Principle 2: Governance, resources and incentives

Firm level governance and resources

BlueBay is a wholly owned subsidiary of Royal Bank of Canada ('RBC'), a leading diversified financial services companies. As a member of the RBC Group, BlueBay is subject to additional oversight on Corporate Governance matters via RBC's Subsidiary Governance Office.

BlueBay is a limited liability partnership, domiciled in the United Kingdom and regulated and authorized by the Financial Conduct Authority (FCA). BlueBay is also registered with the US Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission.

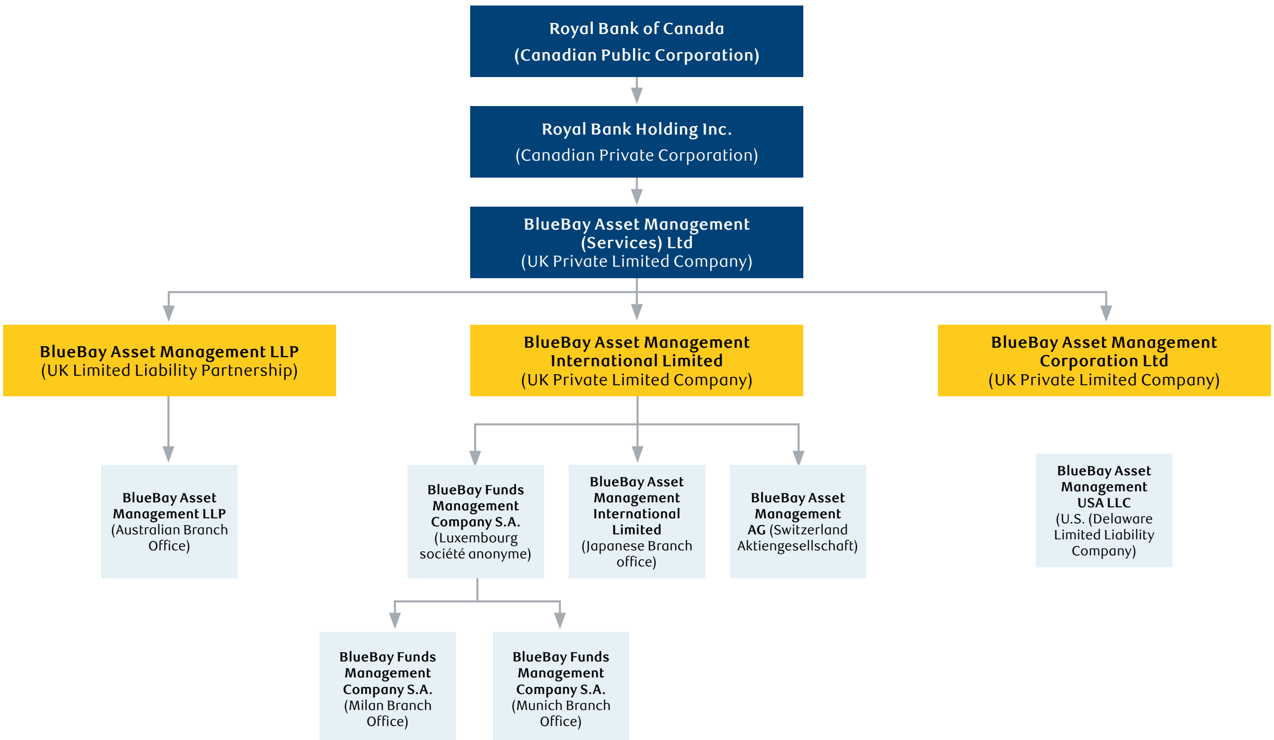
The Partnership represents the senior body of key managers and decision makers of the LLP. BlueBay only does business with professional clients and eligible counterparties.

The board is responsible for reviewing the adequacy and effectiveness of the internal controls, the risk management processes and the legal, regulatory and compliance functions. It meets on a quarterly basis, agrees BlueBay Group's strategic direction, and approves the group annual budget and multi-year financial plan. Regular financial information is provided to the board in addition to the board packs, in the form of a monthly management accounting pack. For more information about our board members, visit our corporate website.

The board has established two group committees to oversee certain aspects of BlueBay's business activities; the Remuneration Committee and the Management Committee. For more information about the members of our Management Committee, and our remuneration policy visit our corporate website.

At an operational level, we have committees who ensure appropriate accountability and oversight across BlueBay.

Figure 4: BlueBay Group entity structure



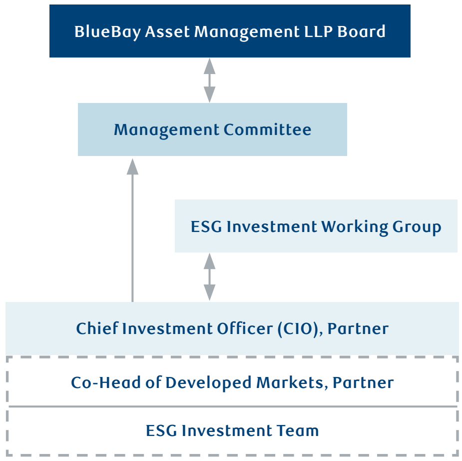
Source: BlueBay Asset Management LLP

ESG investment governance and resources

Since 2013, BlueBay has employed an in-house ESG investment specialist to lead and implement its ESG investment efforts across the firm. As of December 2020, there were four dedicated ESG investment professionals within our ESG investment function, who serve as full time resources.

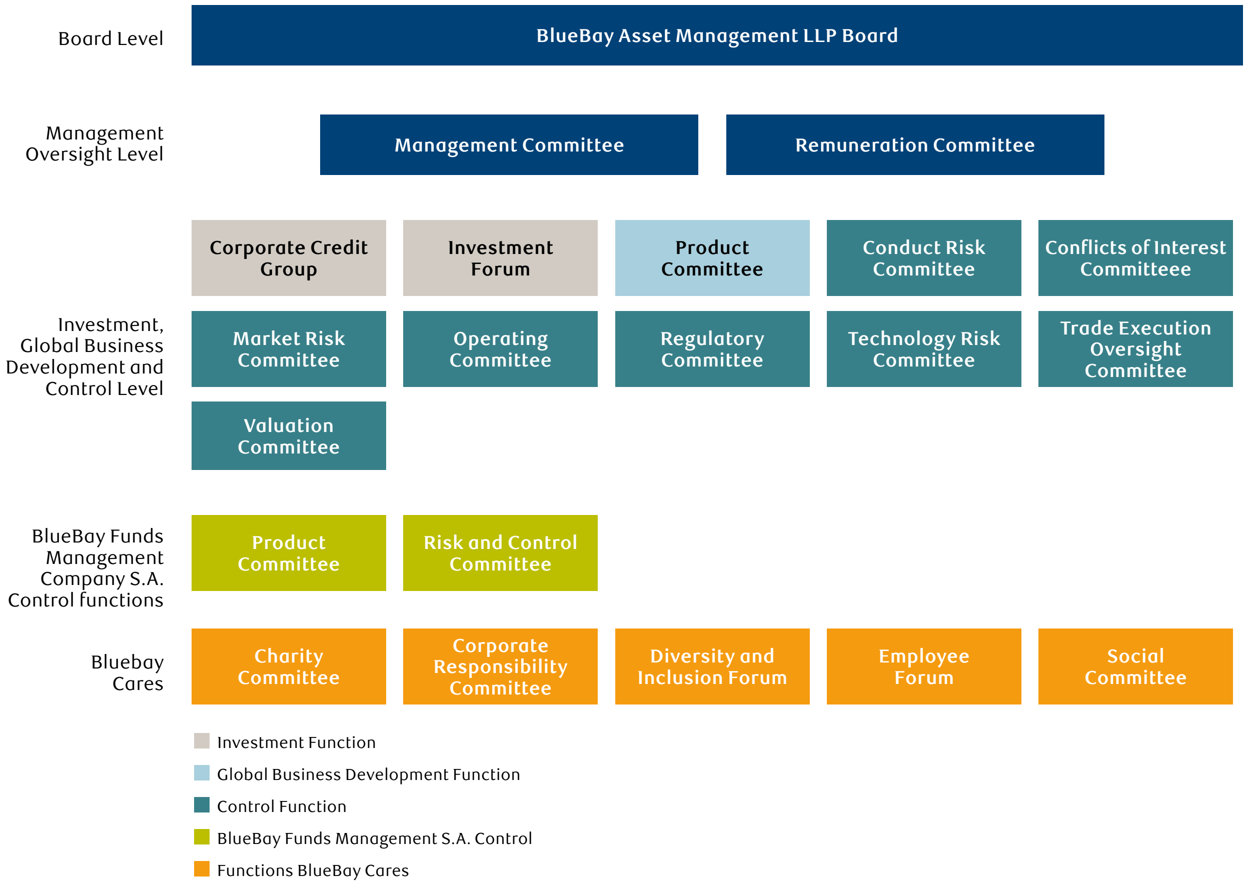
Having been part of the investment risk function, acting as a centralized resource for all our investment teams, since January 2020, the ESG investment team sits within the investment function. From a governance reporting perspective, this change means the ESG team reports to the Co-Head of Developed Markets, who in turn reports to the Chief Investment Officer (CIO).

Figure 5: Governance of the ESG team and stewardship at BlueBay



Source: BlueBay Asset Management LLP

Figure 6: Overview to BlueBay's committees



Source: BlueBay Asset Management LLP

Members of the ESG investment team

Our ESG investment team comprises individuals with a range of expertise across sustainability and investment industry experience. Collectively, this ensures the team has the necessary understanding to design and implement an ESG framework that promotes holistic risk management across the firm's managed assets.

My-Linh Ngo

Head of ESG Investment

My-Linh joined BlueBay in July 2014 and leads on ESG integration across the firm's global assets. She was previously from Schroders Investment Management Ltd where she was an ESG Analyst in the Responsible Investment department and responsible for ESG analysis and engagement. Prior to this, My-Linh was in the Sustainable & Responsible Investment team at Henderson Global Investors. She holds a Masters in Leadership for Sustainable Development from Middlesex University/Forum for the Future, an MSc in Environmental Management Systems and Auditing as well as a degree in Environmental Sciences, both from the University of East Anglia.

Lucy Byrne

Senior ESG Analyst

Lucy has been at BlueBay since July 2018, joining initially as an ESG Analyst, becoming a Senior ESG Analyst in January 2020. Her responsibilities are to support the integration of ESG analysis across the firm, working closely with the investment teams. She also assists in our ESG engagement efforts. Prior to this, Lucy was an Assistant Sustainability Manager at KPMG where she worked with companies across a range of sectors and geographies, as well as investors, on their sustainability strategies and reporting and assurance activities. Previous to that she was a waste management and environmental consultant. Lucy has an MSc in Environmental Technology and an MSci in Environmental Geoscience, both from Imperial College London.

Camille Lancesseur

ESG Analyst

Camille joined BlueBay in June 2017 as an intern to support our ongoing ESG investment efforts and was made a Junior ESG Analyst in April 2018, becoming an ESG Analyst in January 2020. Before coming to BlueBay, she was a Research Analyst and then Project Manager at GuidePoint. Camille holds a MSc in Environmental Policy and Regulation from the London School of Economics and Political Science, and a BA (Hons) in Business and Management with International Study from the University of Exeter.

Guy Shearman

Junior ESG Associate

Guy joined as an ESG Intern in January 2020. He has completed a Bachelor of Commerce (Finance and Accounting) at Macquarie University in Sydney, Australia and has previously worked as an ESG Consultant at ESG Responsible Investments, with a focus on developing ESG reports for international businesses within the commercial real estate sector. Prior to this, he interned at Varna Capital.

Formal oversight of BlueBay's ESG investment efforts happens at various levels to promote effective stewardship and integration of our ESG framework across the firm:

- The board has ultimate responsibility for ESG as it is a strategic filter for the firm.
- Periodic updates are provided to the Management Committee and board on ESG investment practices and performance, including ESG integration and stewardship activities.
- Regular (monthly) meetings are held by the ESG IWG. Set up in 2019, this group is specifically charged with providing further governance and oversight across our ESG investment process and investment teams, including ESG integration and stewardship activities. The ESG IWG is chaired by a member of the CIO's office and is comprised of representatives from the investment teams and the ESG team. In 2020, the ESG IWG convened monthly and monitored progress against its 2020 work program, including our ESG integration efforts and coverage of ESG analysis. Going forward, the monthly meetings will include reporting on both stewardship activities and ESG engagement undertaken by the investment and ESG investment teams.
- Regular meetings also occur between the Head of ESG Investment and the Co-Head of Developed Markets regarding the day-to-day operation of ESG activities across the firm and progress against the annual work program, ESG integration and stewardship activities.

While we consider the effectiveness and appropriateness of our governance and oversight mechanisms with regards to ESG on an ongoing basis, there are a number of mechanisms in place resulting a more formal review of this on an annual basis. For instance, at the end of each year, we review our progress against the annual ESG investment work program (see Principle 1 for details on our progress during 2020), and as part of that we look to identify areas for improvement not just in terms of our activities but processes.

The ESG IWG work program also includes a specific focus area on governance. During 2020, this related to developing and integrating ESG within individuals' performance objectives (see below for details). There is also a review of the membership composition of the ESG IWG itself to ensure the group has representation from the relevant parts of the business enabling our ESG and stewardship efforts to be focused on areas that meet the needs of the business and our clients. This led to the addition of two credit analysts at the beginning of 2020, to ensure representation from those directly involved in incorporating ESG into credit research. Going forward, membership will be widened to include representatives from our Global Business Development team, to ensure investors' expectations and needs are captured as part of the ESG investment efforts.

Linking ESG to remuneration

BlueBay's incentive structures have been designed to support the business strategy, objectives and values – including prudent risk management – by attracting, retaining and motivating key talents to achieve these outcomes. Our compensation philosophy ensures all awards are fairly and objectively made for performance. We undertake regular reviews and benchmark analysis to ensure employees are rewarded appropriately for their roles, and to attract, develop and retain talent.

In April 2020, we formally adopted ESG investment related objectives for the following roles/functions:

- CEO
- Board (excluding Management Committee)
- Management Committee (executive)
- CIO/Head of Strategy
- Investment function (e.g., portfolio managers, credit analysts, institutional portfolio managers)
- Client facing roles.

The nature of ESG related objectives that have been adopted vary depending on the specific role to ensure they are relevant and appropriate. Broadly speaking, however, they are divided into those that demonstrate 1) understanding of ESG risks including reputationally and 2) integration of ESG and specific outputs relevant to the role.

Performance against these objectives is intended to be considered as part of the broader annual performance review of an individual, with it informing decisions about the discretionary element of remuneration.

We believe explicitly incorporating ESG investment objectives into an individual's performance agreements promotes accountability and ownership. We believe it encourages and incentivizes employees to ensure discussions on idea generation include ESG considerations, where deemed credit relevant.

More particularly, our credit analysts need to be able to demonstrate examples where ESG factors have been a material discussion topic in their engagements with issuers, as part of their performance objectives. However, there is not explicit weighting assigned to these objectives for these roles with the decision at the discretion of the individual's line manager. The exception to this relates to the objectives of the ESG investment team, who have explicit weightings of their annual performance agreement linked to specific areas.

ESG capacity building and training

The role of our ESG investment specialists is to lead on BlueBay's ESG investment strategy and develop internal tools and resources that promote awareness and understanding of ESG risks among investment teams. BlueBay's aim is to empower its investment teams to use their ESG knowledge and incorporate it into the investment decision-making process and raise potential concerns when analysing and engaging with issuers in which we may invest. As the ultimate risk takers, BlueBay believes these individuals are best placed to make the valuation and portfolio construction decisions, informed by ESG risk analysis and further stewardship.

While formal professional courses and qualifications on ESG matters may be helpful in building our investment teams' awareness, knowledge and understanding, we believe there is value in ongoing, practical hands-on interactions with our ESG investment team on ESG matters as they relate directly to investment exposures. In particular, this involves working with our credit analysts to build their ESG capacity for the sectors, companies or countries they cover.

Most directly, through the joint responsibility for conducting investment ESG analysis (see Principle 7 section for more details on our investment approach), there is active sharing of knowledge and views. Another is through our cross-desk sector analyst networks, which were set up in 2015 to promote the sharing of insights on the latest market developments and investment ideas between analysts covering the same sector. Specifically,

Employee conduct

BlueBay believes in respect and collaboration, which extends to how we conduct ourselves both internally and externally. We demonstrate accountability for our actions through transparency, operating with strong governance and ensuring we operate under an ethical framework, with all our stakeholders.

BlueBay's Global Compliance Handbook addresses regulatory requirements as well as arrangements designed to promote regulatory compliance. The handbook is updated and made available to all employees annually. BlueBay employees are required to acknowledge receipt and understanding of the Manual's contents as well as commit to complying with its guidelines. In addition to BlueBay's Compliance Manual, BlueBay employees are further required to acknowledge receipt and understanding of RBC's code of conduct.

our ESG engagement activities can involve both our ESG and investment professionals working together, or individually, depending on the nature of the specific initiative.

Corporate responsibility

While the primary focus of this report is on how BlueBay exercises its stewardship responsibilities and commitments in the context of our investment activities, we recognize how we promote this within our business as a whole is also important. BlueBay is committed to corporate responsibility and we believe such actions can add value to an organization's activities by ensuring we have a positive impact on society, the environment and the wider economy.

Under the 'BlueBay Cares' name, BlueBay's Corporate Responsibility framework is overseen by a Corporate Responsibility Committee and comprises four pillars

- Responsibility to our people
- Responsibility for our conduct
- Responsibility to our communities
- Responsibility to our environment.

Further details relating to our corporate responsibility are detailed on our corporate website.

Diversity and inclusion

As part of our broader approach to diversity and inclusion, we continue to attract talented individuals at all levels and pay our employees fairly for their role. We provide all employees with supportive policies, leave allowances and flexible working arrangements. We also promote a healthy work/life balance and support employee wellbeing through annual benefits roadshows.

Several internal forums and networks support our people and provide a voice for a variety of groups across BlueBay. These include the Employee Forum, the Diversity and Inclusion (D&I) Forum and the Social Committee. The D&I Forum provides the opportunity to share ideas, strengthen leadership networks and support junior to intermediate diverse talent. Regular events, open to all staff, include panel debates,briefings and networking opportunities.

Monitoring diversity representation is a key objective of the D&I Forum and continued support from its members to engage further in enhancing a diverse talent population across BlueBay has encouraged the development of monthly reporting to the Management Committee.

We also produce a Gender Pay Gap Report annually, which is publicly disclosed on our corporate website.

Principle 3: Conflicts of interest

BlueBay is committed to ensuring the highest standards of ethics and integrity within our operations. We are required by global regulators to identify conflicts of interest between ourselves and our clients and between a client and another client, prevent or manage such conflicts of interest, record conflicts of interest and implement a conflicts of interest policy.

BlueBay has established numerous systems and controls to effectively manage conflicts of interest and safeguard our clients' interests. Policies and procedures have been adopted throughout the business to manage conflicts of interest and are reviewed on an annual basis, or sooner if a material change occurs. Specifically, BlueBay has in place a Conflicts of Interest Policy, Conflicts of Interest Register, Conflicts of Interest Statement (publicly disclosed on BlueBay's website) and a Conflicts of Interest Framework and Controls document, which together identify and address conflicts of interest at the firm. A summary of the policy is also included within BlueBay's Front Office handbook, which provides guidance and the framework for day-to-day activities within the investment function and applies to all individuals within the investment teams. BlueBay also has a Conflicts of Interest Committee, which is responsible for the oversight of our conflicts of interest management framework, including the identification, management and monitoring of conflicts of interest across the BlueBay Group.

Identification of a potential conflict of interest

The following situations are examples of where a potential conflict of interest could arise, however, this does not represent an exhaustive list of potential conflicts of interest that may arise during the course of BlueBay's business. It is important to note that a conflict of interest may arise even where no improper or unethical behaviour occurs.

- Transactions with affiliates where affiliated entities may have direct and indirect interests in the financial instruments and markets in which BlueBay invests for its clients. BlueBay is a subsidiary of RBC, a global financial services company with a number of affiliated entities. RBC group entities may have direct and indirect interests in the financial instruments and markets in which BlueBay invests for its clients and may be used, where permitted by regulation and the client's contract, to effect transactions with those clients. RBC group entities may act in a variety of roles including those of proprietary trader, broker, underwriter, agent or lender in connection with transactions in which BlueBay's clients have an interest and will receive remuneration or other benefits in connection with these roles.
- Managing client accounts side-by-side may give rise to conflicts of interest.
- Offering a variety of fee schedules for investment products and performance-based compensation arrangements which may vary among clients and investment strategies.
- A conflict may arise where BlueBay manages client accounts side-by-side that have similar investment objectives and interests in the same investments, sectors or strategies and the investment opportunities are limited.
- Conflicts of interest can arise during the allocation and management of co-investment opportunities.
- Follow-on investment opportunities to clients to make investments in companies in which certain clients have already invested can create conflicts of interest, such as the determination of the terms of the new investment and the allocation of such opportunities among clients.
- BlueBay may, from time to time, effect "cross transactions" between two BlueBay clients, in which one client will purchase securities held by another client. Cross transactions may disproportionately benefit some clients relative to other clients due to the relative amount of market savings obtained by the participating clients.
- BlueBay's affiliates and clients, on the one hand, and a particular client, on the other hand, may invest in or extend credit to different parts of the capital structure of a single issuer. As a result, BlueBay's affiliates or different clients managed by BlueBay may take actions that adversely affect a particular client.
- The pricing of positions held by BlueBay accounts can give rise to potential conflicts of interest. Valuations generally represent a conflict of interest due to their effect on compensation received by BlueBay.
- Conflicts may arise when BlueBay employees transact in securities for their own accounts.
- Covered Persons may give or receive gifts and entertainment from time to time. The value and frequency of gifts and entertainment given or received may give rise to the appearance of conflicts of interest or impropriety.

- BlueBay may be required to exercise a vote in relation to holdings from time to time and this may be at variance with client wishes, leading to a potential conflict of interest.
- Conflicts of interest may arise where certain clients may wish to redeem their investments while other clients wish to maintain their investments.
- Trade and operational incidents may occasionally occur. BlueBay has policies and procedures that address the identification and correction of incidents, consistent with applicable standards of care and client documentation. An incident generally is compensable by BlueBay to a client when it is a mistake (whether by act or omission) in which BlueBay has in its reasonable view, deviated from the applicable investment guidelines or the applicable standard of care in managing a client account.

BlueBay may also restrict its investment decisions and activities on behalf of clients in various circumstances, including as a result of applicable regulatory requirements, information held by BlueBay, its affiliates, in particular RBC, RBC's roles in connection with other clients and in the capital markets (including in connection with advice it may give to such clients or commercial arrangements or transactions that may be undertaken by such clients or by RBC) and RBC's internal policies and/or potential reputational risk in connection with clients.

Prevention and management of a potential conflict of interest

BlueBay has processes in place to prevent and manage conflicts of interest fairly, both between itself and its clients, between one client and another client, when trading for multiple clients and between clients and partners or employees. BlueBay employees play an important role in identifying conflicts of interest and any potential conflict of interest that arises must be disclosed to BlueBay's compliance team for review.

BlueBay can use the following methods to manage conflicts of interest should they arise:

- Policies and procedures - BlueBay has adopted policies and procedures throughout its business to manage conflicts of interest. These policies and procedures are reviewed annually.
- Information barriers - BlueBay can use information barriers (physical and electronic) to restrict the flow of information within BlueBay and between entities within the same group.
- Boards and committees - BlueBay's boards (including those with independent directors) and committees provide scrutiny of transactions, products and clients to determine whether they give rise to conflicts of interest.
- Declining to act - BlueBay may decline to act in certain extreme scenarios where BlueBay is unable to manage conflicts of interest.
- Disclosure - BlueBay may make full and frank disclosures of relevant conflicts where there are no other means of managing the conflicts.

Further to this, BlueBay has the following controls in place to mitigate the risk of conflicts of interest arising:

- Embedding of FCA Treating Customers Fairly principles throughout BlueBay's culture, policies and procedures.
- Clearly defined and documented reporting lines and responsibilities.
- Segregation of duties to avoid conflicts wherever possible.
- Alignment of firm, partner and employee interests with client interests through linking of remuneration to client portfolio performance.
- Portfolio risk management arrangements to monitor levels of risk taking.
- Reporting to senior management of action taken to manage actual conflicts arising and to minimize the risk of recurrence of the conflict.
- Contractual obligation on all partners and employees to comply with compliance and HR policies designed to mitigate conflicts and to report conflicts arising.
- Training on regulations, and the policies implemented to promote compliance with those regulations.
- Recording of potential and actual conflicts and regular review of the effectiveness of BlueBay's management of conflicts.

Reporting and disclosure of conflicts and record keeping

Where a potential conflict of interest arises, it must be disclosed to BlueBay's compliance function in order to first identify and review the conflict and then determine the appropriate resolution and action to be taken. On disclosure, BlueBay's compliance function will review the circumstances of the potential conflict, determine whether an actual conflict exists and if so whether there are any reasonable steps that can be taken to manage the conflict. Compliance will consider the methods for managing conflicts of interest as outlined above and, where necessary, the conflict of interest will be disclosed to the client in the event that it cannot be managed or prevented. In addition, conflicts of interest are routinely reviewed on a quarterly basis by the Conflicts of Interest Committee.

The policies and procedures established at BlueBay with regard to conflicts of interest are updated on an ongoing basis and kept on record for seven years.

Principle 4: Promoting well-functioning markets

Risk management oversight

BlueBay's firm level risk management model relies on three components, specifically 'controls', 'oversight' and 'assurance' - often referred to as the 'three lines of defence'. As part of this model a Group Risk Register is maintained and shared with the LLP board on an annual basis for formal approval. The board is also made aware of any material risk issues as and when appropriate to do so. Risks are documented on the register under the categories of business risk, investment risk, group financial risks or operational risks, with a monthly dashboard used to track performance against each.

BlueBay also reports material risks to RBC, including those pertaining to ESG, as part of RBC's enterprise risk management and reputational risk management frameworks, which are reviewed and approved annually by the Risk Committee of the Board of RBC. RBC's Group Risk Management (GRM) team has oversight over the management of ESG risks, with a dedicated team responsible for identifying, assessing, managing and, where possible, mitigating those that may pose risks to RBC.

Investment risk management framework

BlueBay's investment risk function monitors risk exposure against BlueBay's investment risk management framework. Specifically, this includes market risk, counterparty risk, liquidity risk and ESG risk. The investment risk team monitors risk levels across these areas on a daily basis and interacts with the relevant teams as needed to ensure risk levels are appropriate, with the authority to request exposure reduction if risks are deemed excessive. In terms of ESG, this includes monitoring ESG risk exposure at the issuer level, as well as across portfolios and firmwide.

From a market and systemic risk perspective, the investment risk function undertakes ongoing monitoring using a range of risk measures to understand the risk exposure and resilience of BlueBay's investments to systemic market shocks, including scenario analysis and stress testing. Such analysis can be historical in nature (i.e., taking previous scenarios to test the resilience of investment holdings, such as the 2008 financial crisis), as well as predictive (i.e., to understand the potential outcomes of market changes on investment holdings). On the latter, during 2020, this included analysing BlueBay's investment holdings in terms of the outcome of the US elections. In 2021, the investment risk team will look to initiate efforts, working with our ESG investment team, to analysis carbon risk (including climate scenario and stress testing) across our investments.

Figure 7: BlueBay's risk governance framework

Governance	BlueBay Asset Management Board			
Executive management	Management Committee			
Policy and oversight	Market Risk Committee	Operating Committee		
Risk	Investment Risk and ESG	Business Risk	Company Financial Risk	Operational Risk
Assessment and monitoring	Performed by Business, Risk Function and Compliance Function			
Audit	Internal and external audits			

Source: BlueBay Asset Management LLP

Investment risk management oversight of ESG matters

As an active manager, managing assets on behalf of clients with long-term liabilities, BlueBay seeks to invest along similar investment horizons. This means understanding and anticipating long-term structural market or asset class developments and positioning our investments accordingly. Within this context, we believe ESG factors can potentially have a material impact on an issuer's long-term financial performance.

Given the above, BlueBay's ESG investment approach places strong emphasis on downside risk management, with in-depth proprietary credit research driving the security selection process and ESG analysis acting as a risk management filter. As fixed income investors, capital preservation is integral to our approach, although we believe opportunities exist where ESG risks are not currently being priced or are priced incorrectly by the market. Supplementing traditional financial analysis by reviewing such considerations in this way we feel is not only prudent, but also in line with BlueBay's fiduciary duty to optimize investor returns and enhance our ability to make more informed investment decisions.

Within our ESG investment management framework, ESG risk factors are reviewed and assessed at the following levels:

- Issuer: we look to understand BlueBay's ESG risk exposure at an individual issuer-by-issuer level as part of our fundamental credit analysis. What is considered investment relevant or material in terms of risk exposure for each issuer varies and is linked to the nature of their business activities, geographical footprint and other factors such as size, which we consider as part of our analysis. Primarily, this is achieved through our issuer ESG evaluation framework, which is applied across all public debt investments, both corporate and sovereigns, and provides a systematic and formalized framework for assessing ESG risks on an ongoing basis. It also identifies material topics for engagement (see Principle 7 for further detail on this process).
- Sector / issues & themes: we evaluate material ESG risks for industries and sectors and the extent to which we see commonalities across them. Since 2015, BlueBay has operated cross-desk sector analyst forums, where credit and ESG analysts covering the same sector for the different investment desks share insights on market developments, exchange views and investment ideas. Such a mechanism has proved invaluable in sharing the latest ESG industry/thematic developments and insights. Complementing this process, we have been developing ESG sector briefing documents outlining the consensus view on key ESG credit issues for each sector, acting as reference tools for credit analysts in their issuer ESG evaluation process and ESG engagement efforts.
- Portfolio: at the fund level we conduct ESG analysis across the portfolio to understand the extent of ESG investment risk exposure. BlueBay's portfolio managers (PMs) are empowered to leverage ESG data and insights within portfolio construction decisions and understand ESG investment risk exposure across their funds using the internal ESG metrics which feed into our in-house platforms. There is a combination of ongoing top-down (e.g. ESG market risks in terms of macro trends and development at a global/regional/country level in terms of the political, legal and regulatory, environmental and social megatrends shaping the operating environment of governments and economic development, which set the stage for corporate activities), and bottom-up ESG risk analysis (e.g. idiosyncratic risks unique to the issuer), which may identify and monitor cross-sectoral/regional ESG risks as a result and potentially lead to more strategic issuer/sector reviews of asset allocation.
- Firm: we assess BlueBay's ESG investment risk exposure at the firm level across all funds and investment desks, through continual analysis and monitoring of firmwide ESG risk exposure. This involves the ESG team interacting with investment risk colleagues, utilizing investment exposure data, as well as conducting ad-hoc ESG analysis as deemed appropriate on an ongoing basis.

Market risk committee

In addition to the ongoing monitoring of risk levels by the investment risk function, BlueBay's Market Risk Committee (MRC) provides further risk oversight. This includes setting policy relating to BlueBay's investment risk management framework, establishing mandates and guidelines for BlueBay fund products and providing ongoing review and oversight of investment risks, performance and financial risks assumed by BlueBay. The MRC meets weekly to discuss the investment risk exposure of BlueBay's portfolios, including that pertaining to ESG. Within the summary presented to the MRC, ESG factors are used as idiosyncratic risk indicators, leveraging qualitative data points from our proprietary ESG analysis and third-party data providers, as well as quantitative indicators, such as our internally developed proprietary ESG adjusted spread risk measure.

ESG risk analysis informing investment decisions

ESG risk analysis is undertaken on an ongoing basis as part of our fundamental credit research process, both pre and post investment. This includes the identification of material ESG risk factors as well as areas for potential engagement on ESG topics. This analysis feeds into all investment decisions to help inform portfolio construction and positioning.

An example of how this analysis can be fundamental to highlighting critical risks during the investment decision-making process occurred in 2020, where we identified significant concerns relating to governance and accounting for a leading German payment provider. As a result of this analysis, we decided not to participate in a new issue. Later in the year, this company went into insolvency, resulting in significant losses for investors that we managed to avoid.

We may also participate in industry collaborations focused on systemic market risks, where we perceive this to material to our investment activities.

In 2020, this included our continued efforts as part of the collaborative investor engagement on tailings dam management, led by the Church of England and the Swedish Ethics Council (see Principle 10 for details on this initiative). This collaboration has enabled us to help drive improvements within the industry to mitigate a risk we view to be critical to operators, as well as informed our ESG analysis and engagement activities with regards to investment decisions.

Another example relates to our involvement in industry efforts to ensure an appropriate response in light of the COVID-19 pandemic.

The COVID-19 pandemic

Impact on financial markets

The crisis in global financial markets resulting from the COVID-19 pandemic saw some of the most extreme market conditions in terms of both volatility and illiquidity. While the start of the weakness in global financial markets can be traced back to March 21, 2020, it was March 09, 2020 that constituted the first real shock to market participants given the extreme moves experienced.

On the morning of March 09, 2020, markets opened in full distress mode: 10-year US Treasuries were -40bps tighter (trading at a yield of 0.33%) and the iTraxx Crossover and European CDS index for high yield companies was +150bps wider (at around 525bps in spreads). When looking at value-at-risk – a risk metric commonly used by risk managers, including BlueBay, across the industry to monitor market risk, assess the worst case/tail-event scenario, extreme P&L losses in portfolios and, in some cases, to calibrate risk appetite in more quantitatively led investment strategies in the industry –moves were four times higher than the previous worst-case scenarios used by risk models. As a direct result of these volatile market conditions, we subsequently observed a dramatic deterioration of liquidity conditions.

Below we outline how we responded to such significant market moves from a risk management perspective.

Our investment risk management response and learnings

While working on improving the liquidity profile of our funds has been an ongoing area of work for BlueBay's investment risk team, very early during the pandemic it established a list of positions and trades the liquidity profile of which was not consistent with the liquidity term of the funds, or for which the trade conviction was not sufficient to justify taking the liquidity risk. This was done to help the investment teams focus on these positions in any risk reduction.

Portfolio managers also proactively increased their cash balances as a precautionary measure. These were subsequently increased, with the message that any stabilization in the market needed to be fully taken advantage of to sell cash bonds and improve the liquidity of our funds in anticipation of potential redemptions. This proactive approach proved to be timely given how limited liquidity has been in the market during the pandemic. It enabled our funds to meet the redemptions we received from clients throughout this difficult period.

From a market risk standpoint, the extreme and sudden moves in the market challenged the typical application of our internal monitoring protocols, which we use as part of our investment risk management framework across all funds, particularly due to the lack of market liquidity. Nevertheless, we did reduce risk across the funds successfully and the MRC was fully involved in monitoring risk levels of BlueBay's activities throughout the pandemic.

Emerging from this extraordinary period for financial markets, we learned several lessons that have both enhanced our risk management framework, as well as validated BlueBay's approach to managing market shock:

- Firstly, our investment risk philosophy is built on the belief that quantitative techniques and tools need to be complemented with an expert qualitative overlay. The limitations inherent to quantitative models when facing "irrational" markets have been compensated during the COVID-19 crisis by the more qualitative tools and reviews we utilize. These tools were already part of the standard

risk management framework we apply, but received greater weighting during this period in assessing risks to ensure an appropriate risk overview and level of support to Investment teams and the firm more broadly.
- Secondly, the abrupt and dramatic changes in liquidity conditions in the market have led the MRC to increase the frequency of its review of liquidity conditions, as well as its review of swing pricing calibration (i.e., liquidity protection for fund investors), to at least weekly going forward.
- Finally, as previously outlined, stress testing is a key pillar of BlueBay's approach to investment risk management, for both market and liquidity risks. The investment risk team had already been using a comprehensive set of scenarios as part of their risk monitoring tools (both historical as well as predictive), to assess risks dynamically and proactively in the market. Going forward, the March 2020 market conditions will constitute an additional key scenario within this suite, to further enhance our existing framework in this regard, particularly from a liquidity perspective.

Implications for ESG market dynamics
At the end of 2019, when we were looking ahead to 2020 and making predictions on how ESG market dynamics would evolve, we believed 2020 would be a pivotal year for ESG, with a continued focus on the environmental component and specifically, climate change. Unsurprisingly, as a result of COVID-19, which presents unprecedented challenges to stakeholders in all areas of the economy and society at large, there has been disruption to pre-agreed priorities as everyone responds and adapts to the new operating environment.

However, while there is a danger that ESG momentum will slow as the crisis-management mentality continues to take precedent, we would argue that the pandemic provides the perfect illustration of why we need to tackle global issues such as climate change, the disruptive impacts of which will be world-changing if not addressed, and how quickly governments and society can act in the face of a true public emergency. Rather than COVID-19 bringing ESG progress to a stop, we believe it should be viewed as a temporary delay, after which efforts should resume and accelerate to rebuild a world that is based on greener, more resilient and inclusive practices.

In terms of how we see the balance of emphasis going forward with regards to the individual ESG pillars, as a direct result of the pandemic, we expect focus will expand to become more balanced in terms of bringing social issues into sharper focus. These may include labour management and population demographics, illustrating the interconnectedness of people, the planet and prosperity.

Stewardship activities in response to COVID-19
In light of the pandemic, our response ranged from industry level, collaborative efforts, to issuer level, bilateral dialogue with companies and sovereigns.

We participated in a number of investment industry-level collaborations with other stakeholders to ensure a robust and coordinated response. This includes supporting efforts coordinated by the Principles for Responsible Investment (PRI) to facilitate signatory thinking and practice to develop a global response, and through our participation in the Emerging Markets Investors Alliance, where we engaged on developing thinking and practices around how to effectively respond as a sovereign investor to the pandemic in relation to emerging markets, which face a disproportionate burden. In May 2020, we also signed the Interfaith Center on Corporate Responsibility (ICCR) public investor statement, which called for increased protections for workers in the US meat packing industry, where the industry appeared to be a hotspot for infection transmission.

In terms of how this informed our ESG analysis and engagement activities at a company level, we developed a set of COVID-19 related questions that included topics aimed at better understanding how issuers were responding to the pandemic (such as health and safety measures implemented for employees, customers and the communities in which they operate). They also asked about changes to their operations (both in terms of current impacts and anticipated changes going forward, such as to future working patterns and increased flexible working). There were numerous instances of dialogue with companies across a range of sectors and regions. One example being a provider of secured lending and consumer finance in the US, which has been responding to the pandemic by providing customer support and helping enact borrower assistance programs to allow forbearance of up to 120 days for customers impacted by the crisis. In addition, the company is also offering loans in the communities where they operate, helping to connect people with online resources and providing access to financial literacy education for elementary, middle and high school students free of charge.

Principle 5: Review and assurance

Review of ESG investment related policies

BlueBay's ESG investment policies are reviewed and updated as necessary to reflect changes in circumstances (e.g., regulatory changes), updates on actual practice, as well as where we identify a gap through internal mechanisms. This process is led and overseen by the ESG investment team, with potential revisions presented to various functions within BlueBay for formal review and approval. This includes the ESG IWG, BlueBay's Management Committee and the compliance function. This ensures that there is senior oversight and accountability of the firmwide ESG investment policies and internal assurance mechanisms around their development and approval.

During 2020, we undertook a formal review of our ESG Investment Policy, which was finalized in June 2020. The revision was undertaken for the following reasons:

- To outline how we incorporate ESG into our 'ESG Aware' and 'ESG Orientated' strategies taking into account developments in our approach.
- Updating governance and oversight mechanisms following the development of the ESG IWG in 2019 and the move of the ESG team into the investment function in January 2020.
- To align with external national ESG investment regulations (e.g., UK Modern Slavery Act, UK Stewardship Code).

We believe, with the above revisions, our ESG Investment Policy provides a complete overview of our ESG investment management strategy, including recent developments and improvements around our approach. We will continue to build on this as we further develop our practices and continue our ESG journey.

In addition, during 2020 we also formally reviewed and updated our Statement on the UK Modern Slavery Act and our Statement on the UK Stewardship Code, with this report being our first formal submission of alignment to the code.

We also conducted a review of our Proxy Voting Policy during 2020. Our compliance function is leading on this review, and while our process for managing this process has not changed, our internal review has identified information updates that are required to ensure compliance with new regulation going forward. This is an example of where our internal assurance processes have identified an area of improvement, our policy in line to be updated as a result.

Internal and external assurance

Given the involvement of internal senior teams in providing assurance over our ESG investment policies and practices, we do not currently seek formal external assurance. As such, we believe this provides the necessary level of scrutiny that meets the needs of the business and the resourcing capacity we have for such external reviews, as well as providing a mechanism to ensure we are fair and balanced in our reporting. However, we will keep under review whether an external assurance process is required in future. It is likely that before we were to implement such a review process, we would seek to formalize a form of internal assurance, whereby an independent function, such as compliance, undertake a review of our policies and practices.

In terms of our internal assurance and review processes, our governance structures provide mechanisms through which our ESG integration and stewardship practices are reviewed and evaluated by senior teams on a regular basis. For example, the ESG IWG meets monthly to discuss integration of ESG and stewardship activities across the investment teams. This includes reviewing the coverage of ESG analysis and taking steps to rectify where this does not meet sufficient levels. Weekly automated reports including coverage statistics are also communicated across the investment teams. Our investment control team ensures any formal ESG exclusions we apply to our 'ESG Orientated' funds as part of our ESG and stewardship activities are formally coded into our internal systems. Our investment compliance function provides oversight of our ESG integration and stewardship activities through their policy reviews. Given the transparency of our ESG analysis, data and stewardship activities within our internal proprietary system, there is also interrogation of our efforts by the investment teams when reviewing funds against ESG metrics.

We also take comfort in the external benchmarking and annual assessment process of the PRI. Since our membership in 2013, BlueBay has consistently been evaluated as having above median average performance in the core PRI modules against which we are assessed (please see the following table for a summary of our results for the last three years). We make no distinction between our public and private PRI reporting to be as transparent as possible for our clients on our ESG and stewardship practices.

During 2020, our issuer ESG evaluation framework was shortlisted by the PRI in its annual awards in the category of 'ESG incorporation of the Year', evidencing the quality of our ESG integration framework. Furthermore our BlueBay Global High Yield ESG Bond Fund was awarded the LuxFLAG ESG label in October 2020, for the period ending September 30, 2021, providing further external validation of our ESG practices around our 'ESG Orientated' funds.

Figure 8: Overview of BlueBay's PRI assessment results

Module/ Assesment results	Score (A+ being highest and E being lowest)					
	2018 reporting cycle (2017 calendar year)		2019 reporting cycle (2018 calendar year)		2020 reporting cycle (2019 calendar year)	
	BlueBay	Median	BlueBay	Median	BlueBay	Median
Strategy & Governance	A+	A	A+	A	A+	A
Fixed income – SSA	A+	B	A+	B	A+	B
Fixed income – corporate financials	A	B	A+	B	A+	B
Fixed income – corporate non-financials	A	B	A+	B	A+	B

Source: BlueBay Asset Management LLP

Investment approach

Principle 6: Client and beneficiary needs

BlueBay is a specialist fixed income manager, investing in public markets globally, in both corporate and non-corporate issuers (primarily sovereigns), across the credit rating spectrum, and in both bonds and loans. We invest in a range of sub-asset classes within fixed income, the largest of which being investment grade. The majority of our assets are managed in long-only (benchmarked) investment strategies (in either funds or SMAs), although we also have non-benchmarked total or absolute return strategies, and also manage some hedge fund strategies.

Our client base spans both institutional and financial institutions, with the majority based in Europe.

Client relationships and engagement

Our clients lie at the heart of our business. They are core to how we conduct our business and our operations.

From a dedicated client perspective, BlueBay's client relationship management team is made up of experienced client directors, each with regional expertise. Every client is allocated a dedicated client director who works towards forming a trusted partnership with them, alongside handling day-to-day enquiries, organizing and attending client review meetings with the portfolio managers. They also provide regular portfolio reporting and thought leadership, as well as advising of any important developments at BlueBay and within the market. In addition, BlueBay has a team of institutional portfolio managers, who are strategy-dedicated client-facing specialists. Their role includes providing insightful client portfolio report content, conducting client review meetings and participating in portfolio enhancement or product development initiatives.

Surveys are an important tool for formally engaging with our clients and identifying ways we can enhance our offerings and communication. As well as taking part in several externally coordinated surveys, we commission our own bespoke survey to give us detailed knowledge of how clients view our investment, relationship management, operational capabilities and communication. Outside this, we receive direct investor feedback on our offering and performance on a continuous basis when we are prospecting for new business, engaging with existing clients and speaking with the market more broadly.

Incorporating investor ESG requirements into our product offering and investment approach

Our ESG investment management framework differentiates between the firm and strategy level in terms of the ESG components (i.e., ESG approaches) we apply to meet our client's investment and ESG needs. These two distinct levels can be described as follows:

- Firm level – how we approach ESG at the firm level and the primary ESG components we apply across all our managed assets, with some differentiation between funds and SMAs.
- Strategy level – how we apply ESG considerations to specific funds and mandates, with some differentiation between our 'ESG Aware' and 'ESG Orientated' strategies.

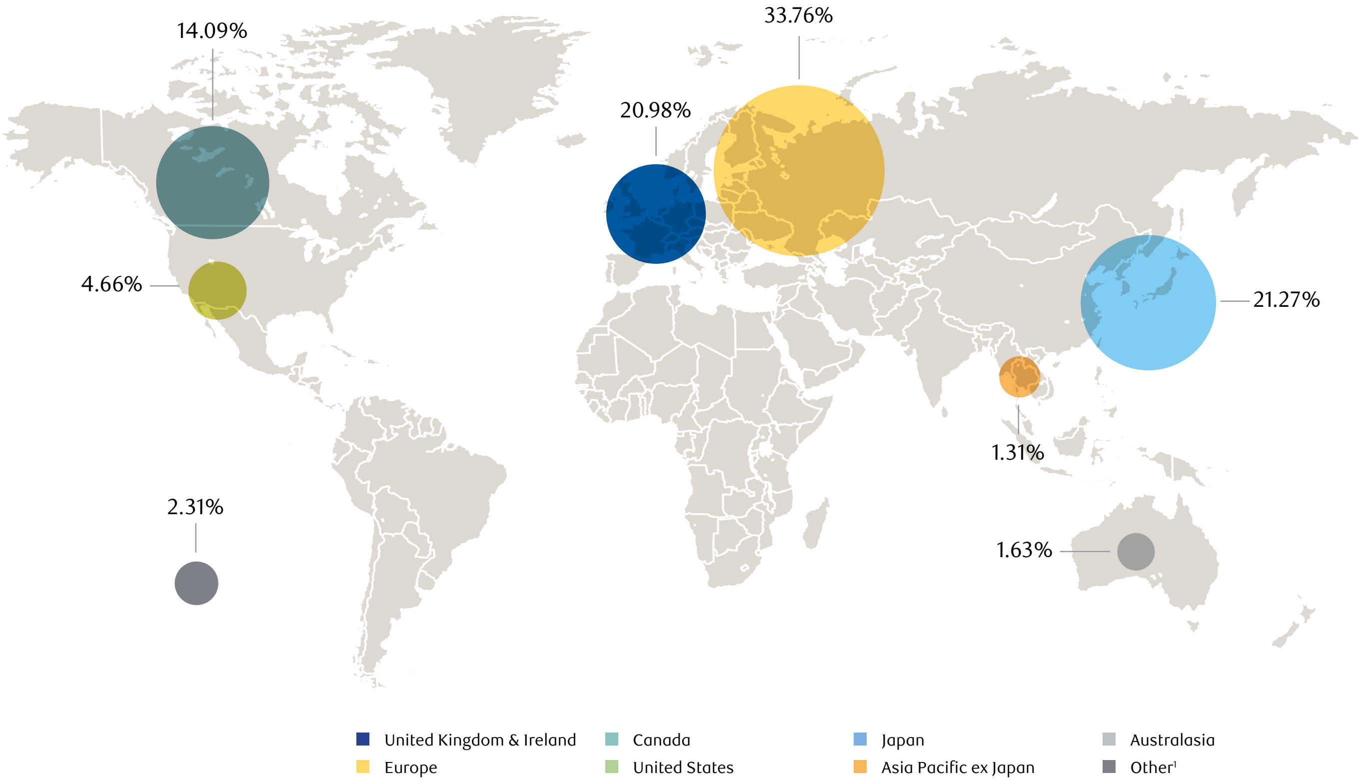
We use the terms 'ESG Aware' and 'ESG Orientated' to differentiate between our product offerings that follow our firm level ESG components. Our 'ESG Aware' products have an emphasis on ESG integration, which is about managing investment relevant/material ESG risks, whereas our 'ESG Orientated' products can go beyond this, and are more ESG focused, independent of investment materiality.

Annual ESG investment surveys

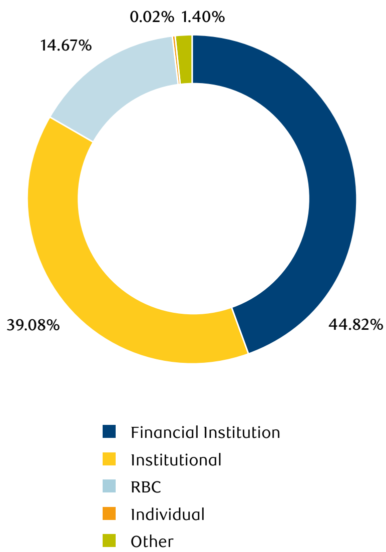
We launched our fifth RBC and BlueBay Annual Responsible Investment Survey in 2020, which sought the perceptions of over 800 institutional asset owners, investment consultants and professionals on ESG and responsible investment. For 2020, the survey also focused on COVID-19, how it is impacting investors and their views on ESG as a result. We view this as a key initiative in ensuring we provide our clients with timely and relevant information on ESG. The results can be found on the RBC corporate website.

Figure 9: Overview of our client base

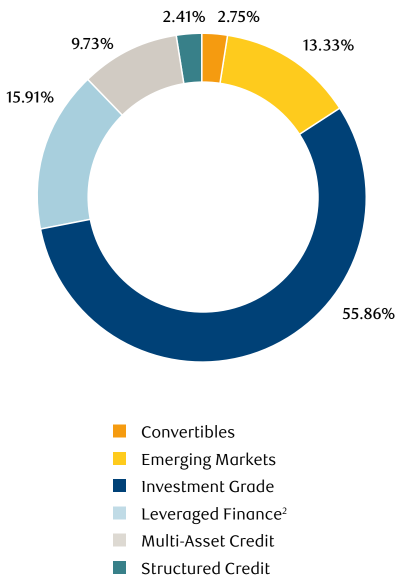
Clients by region



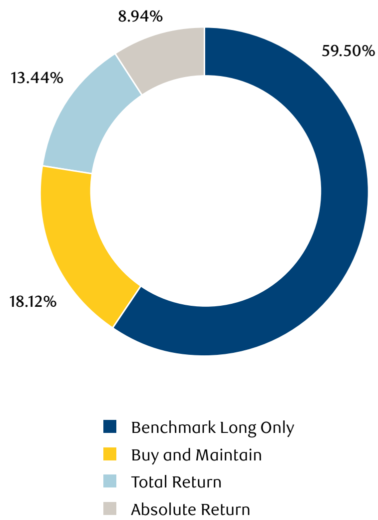
Client type



Asset groups



Strategy



Source: BlueBay Asset Management, as at 30 June 2021. Notes: [1] 'Other' includes South America, Africa and Middle East; 'Financial Institutions' includes private banks, wealth managers, fund platforms, fund of funds and asset managers; [2] Leveraged Finance consists of High Yield, Leveraged Loans and Distressed Credit

The specific ESG components we may apply at the firm or strategy level include:

- ESG integration and engagement: applied to all assets, including our funds and SMAs. ESG integration is focused on investment relevant/material ESG risks, which is applied as standard for the majority of our funds and is supplemented by ESG engagement. Our 'ESG Orientated' funds can go beyond investment materiality when it comes to the application of ESG integration, as depending on the outcome of the ESG analysis, issuers may be restricted for investment.
- ESG negative screening – product based: we apply this to our pooled funds only, and only those that invest in corporates: specifically, controversial weapons producers (the majority of pooled funds are within scope). Our 'ESG Orientated' pooled funds can go beyond this base level of restrictions with further product-based exclusions (e.g., tobacco producers).
- ESG norms-based screening: for example, this is applied to our 'ESG Orientated' funds and includes exclusions based on ESG conduct.
- Proxy voting: a limited activity for us, this can potentially occur in some instances.

To take into account the different client needs on ESG and stewardship for our product offerings, we continuously seek and receive feedback on investor expectations for how ESG considerations should be incorporated. This can include whether a focus on ESG integration is appropriate or whether they are seeking more ESG-focused solutions. We utilize this feedback to ensure our product offering is aligned to investor expectations on ESG and stewardship for our investment product design. For example, during 2020, we conducted a market research exercise to better understand investor demand for ESG/sustainability thematic and impact investing investment solutions in the context of public debt markets. As a result, we designed a strategy we are looking to launch over the course of 2021. We also consider feedback on the quality of our ESG investment efforts. Our success or failure in winning new business or retaining existing assets is equally important to understand our effectiveness.

Client ESG reporting and communication

BlueBay is committed to providing timely and relevant communication and reporting of our ESG investment and stewardship efforts, both at the firm and individual fund level. Since 2013, we have worked to build on and expand the areas we report on, and currently provide a combination of public and private disclosures to our key stakeholders. It is iterative process of continuous improvement, which we plan to further enhance into 2021.

Available publicly and updated on an ad-hoc/regular basis:

- A dedicated ESG investment website that details our approach and provides updates on our efforts and involvement in ESG related initiatives and stewardship.
- In May 2020, we published our fourth Annual ESG Investment Report, which covered our 2019 activities. It is available on our website.
- Formal PRI reporting requirements, with our PRI Transparency Reports available on our website (or via the PRI directly) and no distinction made between public and private PRI reporting.
- We publish bi-annual ESG investment newsletters for our 'ESG Orientated' funds. They are available on our website.

Privately: ad-hoc and regular basis:

- We meet with clients, prospects and consultants on a regular basis to share information and discuss our ESG approach, including providing examples of our practices, seek feedback on these as well as future priorities.
- We seek feedback through RFP selection processes including whether we are successful in bids because of our ESG practices and where there may be areas for improvement in instances where we are not.
- We source ratings and scores of our ESG approach at the firm and fund level from investment consultants to inform our methodology and understand our performance. This includes areas that may detract from an overall rating or score to identify areas for future focus.

Client ESG portfolio level reporting

In addition to the above firm level reporting, we believe providing our clients with ESG and stewardship reporting at the portfolio level is critical. Currently, for certain SMA clients, on a one-to-one basis, we provide quarterly and/or annual ESG reporting. This incorporates conventional quantitative ESG risk reporting (e.g., portfolio-level ESG scores, analysis of the top 5 issuers of worst/best ESG scores and worst/best contributions to portfolio ESG scores and highlighting the most ESG-controversial issuers). We complement this with qualitative ESG reporting on our wider ESG efforts within BlueBay, including engagement activities.

We plan to enhance our current client reporting offering at the portfolio level to provide further transparency and information on ESG to our clients in segregated mandates and pooled funds. This will include the distribution of our internal proprietary ESG metrics (see Principle 7 for details), carbon analysis, further granularity of our engagement and stewardship efforts (at the firm and fund level), and alignment to the UN SDGs. This is a key part of our ongoing improvements to enhance our infrastructure capabilities.

Principle 7: Stewardship, investment and ESG integration

ESG integration at the issuer level

In August 2018, BlueBay implemented an issuer ESG evaluation framework. This formally and systematically reviews issuers on ESG risk factors, considers the quality of ESG risk mitigation as well as outlines the extent to which we consider it all to be relevant to valuations. The ESG evaluation is conducted by our investment analysts as part of their fundamental credit research, working closely with our in-house ESG investment team, and is intended to inform portfolio investment decisions. This process enables the systematic quantification and documentation of ESG risks and the extent to which they are considered investment relevant/material and is undertaken for both corporate and sovereign investments. As part of this framework, the external third-party ESG data outlined above is an input into the process. It signals potential ESG risks but is not relied upon solely.

The issuer ESG evaluation framework results in the same two proprietary ESG metrics (see graphic below):

- A Fundamental ESG (Risk) Rating - indicates a view on the quality of management of material ESG risks/ opportunities faced by the issuer. This rating is co-owned by the credit analyst and ESG team. There can only be one Fundamental ESG (Risk) Rating per issuer across BlueBay.
- An Investment ESG Score - reflects an investment view on the extent to which ESG factors are considered relevant/material to valuations. This is a security/ instrument-specific decision. This score is solely owned by the credit analyst. As it is specific to a decision on a particular security/instrument, there may be multiple Investment ESG Scores for a single issuer.

The two derived ESG data points enable credit and ESG analysts to express their ESG view on an issuer. This can be used by portfolio managers to inform their portfolio construction decisions by taking these data points into account. Our investment teams have acknowledged the value of considering ESG risks separately to investment risk. By taking a more holistic ESG assessment of an issuer and considering not just ESG factors that are directly influencing the price of bonds, they identify potential blind spots that markets are potentially not observing or pricing correctly.

We believe our issuer ESG evaluation framework to be an innovative part of our ESG integration approach and have received consistent positive feedback since its launch, including the framework being shortlisted by the PRI in 2020 for the 'ESG initiative incorporation of the year' award.

Figure 10: Proprietary ESG metrics resulting from our issuer ESG evaluation framework

Fundamental ESG (Risk) Rating	(Indicative) Investment ESG Score	Description
Very high ESG risks	-3	Very high ESG investment related risks
High ESG risks	-2	High ESG investment related risks
	-1	Some ESG investment related risks
Medium ESG risks	-0	ESG considerations are unlikely to have an impact
Low ESG risks	+1	Some investment opportunities as a result of ESG considerations
	+2	High investment opportunities as a result of ESG considerations
Very low ESG risks	-+3	Very high investment opportunities as a result of ESG considerations

Source: BlueBay Asset Management LLP

How we identify material ESG factors

Our issuer ESG evaluation framework explicitly seeks to assign sustainability/ESG materiality and investment materiality separately. This enables us to better understand the extent to which ESG risks are indeed material to investment and in which circumstances. This level of transparency is especially important given we are focused on fixed income. The asset class operates differently to equity, and ESG factors may play out in different ways for various reasons. In addition, when comparing debt to equity, there may be more than one credit risk profile for an issuer, given they can issue multiple bonds with different characteristics. Consequently, while an issuer may have a fundamental set of ESG risks, investment relevance or materiality of these risks may differ depending on the maturity, yield and other qualities of the bond that we need to consider.

For example, as part of our ESG analysis, we take into consideration that some ESG risks may be more material for longer dated bonds (e.g., climate change) versus shorter dated bonds, whereas other ESG risks may be consistent across time horizons (e.g., health and safety). In such cases, our internal ESG metrics (specifically our Investment ESG Score, see below for details) is assigned depending on our view of the materiality of ESG risks versus the time horizon and the bond.

Generally, for corporate issuers, what ESG factors are considered most investment relevant or material in terms of risk exposure is linked to the nature of their business activities, geographical footprint and other factors, including size. We may consider cross-sectoral/regional/issuer-type themes and issues, such as climate change, cyber security, governance and business ethics and human capital management. For sovereigns, material factors can depend on the country's status of economic, social and political development, availability of and dependence on natural resources, and potential regional issues.

While we consider a range of ESG factors in our ESG analysis, we typically find those pertaining to governance tend to have the most investment relevance for both corporates and sovereigns and can be a key contributing factor in an investment decision. However, environmental and social factors can also be investment relevant, depending on the aforementioned characteristics of the issuer. For example:

- In terms of material environmental risk factors for corporates, climate change may be considered more of a material risk factor for the extractives sector, and less material for a support service company. On the social side, employee management may be considered more of an investment material risk factor for companies in service-based industries but less material for a manufacturing company.
- In the case of sovereigns, environmental issues such as availability of natural resources and the country's dependency on them for income can be important, including how such resources are managed and their quality. In addition, the country's resilience to drought and/or natural disasters linked to climate change can also be relevant issues. On the social side, the availability of a skilled workforce and nature of its demographics, particularly in terms of issues such as education, healthcare and labour standards and relations, can also be viewed as important.

Overall, across all ESG risk factors, where the risk is considered investment material, we would work with the credit analyst to understand the extent to which this could negatively impact credit parameters and so potentially influence investment decisions.

Stewardship is integrated for all assets under management, although the scope and objective of this differs for:

- ESG Aware' strategies: focus on investment relevant/material ESG factors.
- ESG Orientated' strategies: more explicit in the investment decision making process and ongoing monitoring once a position is taken, which goes beyond investment materiality, to determine suitability for investment in such strategies.

There is a difference between how we consider the materiality of ESG factors within the investment decision making process for our 'ESG Orientated' and 'ESG Aware' strategies. Given our focus on ESG integration, these factors are an input into our investment process for our 'ESG Aware' strategies, but are not necessarily the key determinant in the final investment decision-making process, which ultimately reflects the view of an investment's risk-return profile.

However, for our 'ESG Orientated' strategies, such factors play a more significant and overriding role in the decision-making process, given the philosophy of the strategy.

We also work with our third-party ESG data providers and provide feedback on their ESG analysis, including which ESG factors they highlight as material for specific sectors, given we utilize this data as part of our internal ESG analysis to highlight potential areas of focus. This can include querying ESG scores assigned to issuers (e.g., where a score may appear erroneously high or low versus peers) or where an ESG risk we view to be material is not captured within their analysis. See Principle 8 for further detail on our interaction with service providers.

Interactions between the ESG team and investment teams

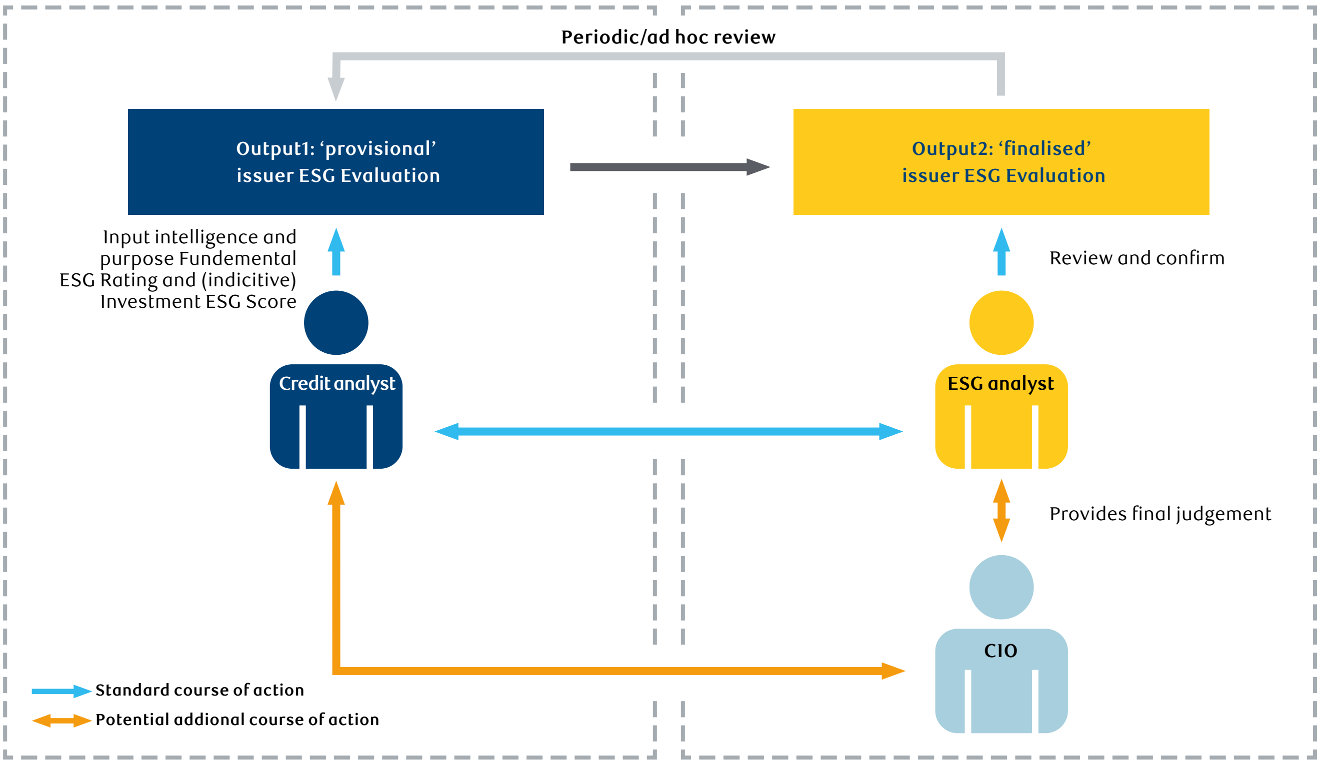
As previously outlined, the role of our ESG investment team is to lead on BlueBay's ESG investment strategy and develop internal tools and resources that promote awareness and understanding of ESG investment factors across our investment teams. Rather than have ESG analysis and stewardship reside solely with the ESG investment team, our model aims to empower our investment teams on ESG to fully incorporate it into the investment decision-making process, with the investment teams also leading on these areas. Consequently, there is ongoing dialogue and communication between the ESG investment team and the investment teams, as well as ongoing training on ESG.

Physically, our ESG investment team is in the same place as our portfolio managers and credit analysts on the investment floor in our London headquarters. This helps facilitate and enable interactions and dialogue. The move of our ESG investment team from the investment risk function into the investment function in 2020 also signals the cultural shift within the firm. ESG has moved from a risk management tool to an integral part of our investment processes, which has elevated the standing of the ESG resource we have.

Our operating model is to have ESG investment specialists, who lead on our ESG strategy, policies and processes and work on identifying emerging and cross cutting ESG issues. But we still want our investment professionals to have direct accountability and ownership of ESG considerations regarding their issuers/strategies, given their deep knowledge. In this way, we leverage the complementary skills and expertise of both parties.

With the introduction of our proprietary issuer ESG evaluation framework, we have formalized the accountability of ESG considerations by the investment teams (as previously stated, in April 2020, formalized ESG into performance objectives). The framework is a co-owned process whereby our credit analysts work together with our ESG team in undertaking ESG analysis, with both needing to agree on the outputs. Our investment teams conduct this analysis initially, which is then reviewed by the ESG investment team (please see below graphic of the process). This process has facilitated greater awareness and ownership of ESG by our credit analysts and enabled greater engagement between ESG and credit analysts and portfolio managers, as evidenced by the increased frequency of ESG debate and discussions. We have also found the investment teams are more proactively engaging with the ESG team on a variety of topics and are more active in discussing ESG matters as part of their engagement activities, both with and without the ESG team present.

Figure 11: ESG analysis is a co-owned process by the investment teams and ESG team



Source: BlueBay Asset Management LLP

Investment infrastructure and systems

While ensuring we have a robust framework in place for ESG investment analysis and engagement is critical, we believe a fundamental factor contributing to the effectiveness of such activities is having a fully accessible and integrated investment infrastructure system around ESG. This has remained a key focus for the ESG team for several years, with significant progress made during 2020 as part of our ongoing enhancements. More is planned for 2021.

Specifically, in 2020, this has included migrating our issuer ESG evaluation framework for corporate issuers onto our proprietary research platform, ART. As a result, ESG and credit research is held in one place, with the resulting proprietary ESG metrics and insights feeding through to Portfolio Insight (Pi). Our proprietary in-house tool, Pi, enables our investment teams to view ESG metrics for their portfolios and associated benchmarks alongside credit metrics. The metrics are also integrated into Alpha Decision Tool (ADT), our proprietary platform for capturing and monitoring trade ideas across the firm. During 2020, our initial priority was to migrate the corporate issuer ESG evaluations due to their quantum. We plan to migrate our sovereign issuer ESG analysis onto ART during 2021. We have also developed monitoring tools to ensure our coverage of ESG analysis remains at the targeted levels across our investment universe, with the ability to drill down from the firm level through to investment desks and individual strategies.

In terms of integrating our engagement activities within our infrastructure, during 2020 we rolled out a centralized engagement log, also on ART. This provides a firmwide platform for documenting instances of engagement with issuers and non-issuers – including that pertaining to ESG – which can be accessed by both the ESG team and the investment teams. ESG engagement activities documented on the engagement log feed through to the relevant issuer ESG evaluation on ART. This means we can evidence ESG engagement activities that have occurred alongside material ESG topics identified as potential areas for engagement during the analysis process.

Ultimately, we believe this infrastructure is critical to our ESG integration and engagement activities, as it enables us to widely disseminate and embed issuer ESG metrics within our investment platforms, and systematically undertake and document ESG analysis. This ensures our investment teams have access to ESG data when making investment decisions, as well as improving transparency and accountability of ESG considerations. It also facilitates efficient and effective internal and external ESG reporting and monitoring of stewardship and engagement activities, including highlighting areas for future engagement.

We aim for our ESG infrastructure to enable greater reporting of our engagement activities at a firm and fund level, including specific ESG risks and opportunities discussed, such as climate change. While the tool does not currently allow for monitoring the outcome of engagement activities, this is planned to be introduced in 2021.

Principle 8: Monitoring managers and service providers

External sources of ESG data and insights

BlueBay uses a variety of external managers and service providers to source third-party ESG data. Specifically, we source issuer (corporate or sovereign), sectoral or thematic ESG data from the following specialist third parties: Eurasia, MSCI ESG Research, Reprisk, Sustainalytics, TruValue Labs, Urgentem and Verisk Maplecroft. NOTE: while we subscribe to Broadridge's proxy voting platform, we do not subscribe to external proxy advice.

In addition, we have access to ESG intelligence and insights from additional resources such as:

- Company management contact/communications
- Sell-side brokers with ESG capabilities
- Industry reports, webinars written by specialist third-party providers
- Stakeholders such as regulators, non-governmental organizations, industry groups etc.
- Media channels specializing in ESG news flow
- In-house sector credit analyst knowledge of issuer, sector and region.

The above ESG data and information resources are made available to our investment teams and are, in some cases, integrated into our various internal proprietary systems and monitoring platforms. We view this data and associated insights as a valuable input into our investment decision-making process and research, but importantly it is an input rather than being relied upon solely. We believe it is critical to develop our own views, both on credit and ESG.

In terms of our issuer level analysis, such data points provide a signal for material ESG risks and potential engagement topics that are identified and documented within our issuer ESG evaluation framework. Regarding data coverage, we produce proxy scores for issuers not covered by our third-party providers, where we assign the average score resulting from all the issuers who are in the same sector/region classification that are covered. These tools are also used daily as part of BlueBay's ESG risk exposure assessment on an individual issuer by issuer level, as part of sector analysis, and at the fund level.

Reviewing external ESG service providers

We review our external ESG resources on an ongoing basis to ensure they continue to meet our needs as ESG practices advance. In doing so, we seek input from our investment teams on which they find the most useful and credible and trial providers as a result.

In the case of fee-based resources, the renewal cycle acts as a natural milestone in addition to our ongoing monitoring and feedback processes. In reviewing and selecting such providers, we consider several different factors, including but not limited to issuer/data coverage, quality of the data/methodology service offering and platform useability, as well as financial costs. In 2020, we undertook a strategic market review of climate/carbon and impact analytics providers, as well as those that could support our ability to meet upcoming European regulatory requirements for ESG portfolio reporting. This involved having an initial discussion with many different providers in the market, reviewing the coverage and data from each and how this might enhance both our reporting and stewardship activities. Following this, we narrowed the providers down to a shortlist, with whom we had a second detailed discussion to determine which would best suit our needs and that of our clients. As a result of this review, we secured agreements for new services in these areas, including with a new provider in one case.

During our interactions with third-party ESG providers, we work with them to help advance ESG data within the fixed income asset class. This can include improving coverage of issuers and relevance of their products to the nuances of the asset class and providing feedback on their offerings. For instance, in 2019 we undertook a pioneering collaboration with our sovereign ESG data vendor, Verisk Maplecroft, co-authoring a report entitled 'The role of ESG factors in sovereign debt investing'. This considered the extent to which ESG factors are material to investment dynamics in sovereigns. Both parties are committed to continuing this research and are exploring potential focus areas for the subsequent phase of our collaboration during 2020.

NOTE: as we are not asset owners, and do not outside the management of our assets to other managers, we have focused this section on our use of ESG service providers.

Engagement

Principle 9: Engagement

Our approach to ESG engagement

BlueBay believes that providers of debt have a role to play in engaging with issuers on matters that have the potential to impact investment returns, which includes ESG. Specifically, as part of the routine investment research process, investment teams meet issuers, particularly with primary issuances, and can raise questions. This provides a natural mechanism for stewardship and engaging with issuers on ESG matters.

Given BlueBay's approach of not automatically excluding issuers from investment solely based on their ESG performance (unless it is for an 'ESG Orientated' strategy, where this may occur), actions to mitigate such risks are raised with investment teams where appropriate. Where ESG engagement is deemed necessary, it will be prioritized using a risk-based approach, which focuses on material ESG risks facing the issuer and their specific ESG score, as well as the size of our investments (and whether it is a long-term position).

Further detail on our ESG engagement approach is included in our ESG Investment Policy.

Our engagement efforts are primarily aimed at generating insights to inform our investment decisions. However, in some instances, there may be a conscious decision to seek to influence the issuer on improved management of specific ESG issues to mitigate potential investment material risks and facilitate positive change. In these cases, where possible, we seek to define specific outcomes that we hope to achieve over a given timeline as a result of the engagement activity (e.g., improved disclosure as part of an issuers annual reporting cycle).

BlueBay may proactively initiate dialogue with issuers on ESG matters, or reactively in response to an external event or development. This is particularly relevant where there is a significant incident and we wish to gain greater understanding around how it came to pass and what measures are being implemented as a result. Engagement activities may occur bilaterally, but this can also be undertaken in collaboration with other investors. This can be the case where there is a collective focus on a specific issue/theme, either within a sector or more broadly where change is being sought and partnering with others could increase the effectiveness of the engagement effort. See Principle 10 for further details on our collaborative ESG engagement efforts.

In terms of the mechanism through which BlueBay might engage, this can be through various modes such as letters or meetings, both unilateral and with other investors, depending on the nature of engagement and which we deem to be the most effective and appropriate for the outcome we wish to achieve.

Understanding engagement in the fixed income asset class

While there are some common issues and challenges to the effectiveness of investor engagement efforts across different asset classes, some nuances are more specific to fixed income (and even within specific fixed income sub-asset classes) and are important to recognize to understand and identify appropriate approaches to maximize effectiveness of engagement. In some instances, they can represent challenges, and in others, they can be an opportunity. Some of these are structural in nature, while others are as a result of specific market dynamics. For instance, there are considerations such as how to engage with sovereign issuers versus corporates, the asset class of corporate issuers, such as investment grade and sub-investment grade (or high yield), accessibility to emerging market issuers as compared with developed markets, as well as taking into account nuances of structured credit investments. We have outlined some considerations below.

Figure 12: Engagement within the fixed income asset class

Corporates vs sovereigns	▪ Engagement with corporates and sovereigns is a natural part of the investment research process and can help investors better understand risks and opportunities. ▪ However, the method of engagement between corporates and sovereigns can vary in terms of access to the issuer, legal standing and issuer obligations. ▪ Barriers to engagement with sovereigns can also exist, such as concerns regarding political sensitivity, the relative size the investment position, the need to engage with development markets vs emerging markets, and the inclusion of sovereigns in passive indices. Whilst some can be overcome, typically, this can result in less engagement with sovereigns than corporates. ▪ BlueBay is part of the PRI working group, the Sovereign Debt Advisory Committee, which produced a report on ESG Engagement for Sovereign Debt Investors during 2020. ▪ We believe sovereign engagement activities are valid and can be meaningful for both the issuer and investor when managed well. Typically, we find the focus of sovereign engagement is for insight purposes, but there can be opportunities to engage for influence, such as improved fiscal transparency and ensuring an operating environment that gives investors confidence. For example, during 2020 we collaborated with other investors to engage with an emerging market sovereign on the issue of deforestation and its impact on climate change, biodiversity and indigenous communities (see Principle 10 for details).
Differences between asset classes (e.g. high-yield, investment grade)	▪ It may be possible to engage with issuers in investment grade more so than high-yield, due to the typically increased size and resourcing of the issuer and their ability, and need, to engage on such topics as a result. For the same reasons, it may also be possible to engage with investment grade issuers for influence purposes compared to high yield. ▪ However, engagement with high-yield issuers can be particularly helpful in terms of generating insights and better understanding ESG practices and risk management, particularly where there is a lack of disclosure by the issuer or coverage by third-party data providers.
Emerging markets vs developed markets	▪ Accessibility of issuers within emerging markets vs developed markets is one of the key challenges in terms of engagement, from both a corporate and sovereign perspective, given typically emerging markets issuers can be less accessible when compared to their developed market peers. ▪ There are also in some cases views that engagement with developed market issuers, particularly in terms of sovereigns, is less relevant than emerging markets, given the typically more advanced practices of issuers. ▪ We believe engagement is relevant across issuers in emerging markets and developed markets and make no distinction in this regard in terms our of approach to ESG engagement. However, what may vary is the topic we engage with the issuer on, given differences in what may be investment material. Whilst there can be challenges with regards to engaging with emerging markets, such engagement can be particularly useful to help us better understand ESG practices where disclosure is weak, as well as to influence for positive change and best practice.
Conventional public debt vs structured credit	▪ As previously outlined, engagement between investors and corporate issuers forms a natural part of the investment process, with the ability for investors to raise ESG matters during dialogue and interactions. ▪ In the case of structured credit, whilst engagement is still possible, the nuances of the asset class need to be taken into account in terms of the methods of ESG engagement applied, the level at which ESG engagement is possible and the degree to which there can be engagement for influence purposes. ▪ For example, when investing in a collateralized loan obligation (CLO), it is more likely that engagement will focus on the CLO Manager, in terms of understanding their ESG practices and the extent to which such considerations are incorporated into the entities within the collateral pool, than at the CLO Transaction level with issuers within the collateral pool directly.

Involvement of the ESG team and investment teams in engagement activities

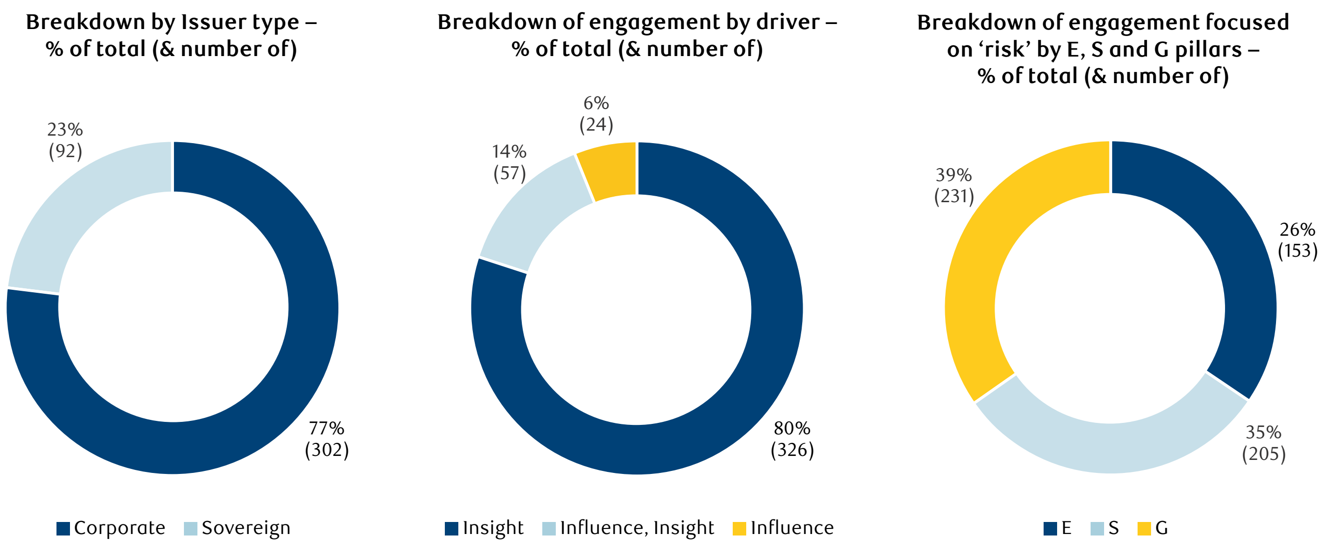
ESG engagement activities can involve both our ESG and investment professionals working together, or individually, depending on the nature of the specific initiative. We also participate in collaborative ESG engagement initiatives beyond bilateral activities. This may occur at the issuer, sectoral, issue or investment industry level, involving solely investors, or be multi-stakeholder in nature.

Issuer and sector level collaborative engagement usually involves investment and ESG team members, while issue or investment industry level ESG engagements primarily involve the ESG team. In some cases, however, our investment professionals may be involved. The rationale for involvement will be linked to considerations of investment exposure materiality and could be as part of a strategic work program or in reaction to an external event. See Principle 10 for further details on our collaborative ESG engagement efforts.

Firmwide ESG engagement reporting

As part of our ongoing infrastructure enhancements, in 2020 we rolled out a centralized engagement log on our proprietary centralized research platform, ART. This aims to document instances of engagement with issuers and non-issuers, including those pertaining to ESG. This engagement log can be accessed by both the ESG team and the investment teams to document instances of ESG engagement and is the source of our ESG engagement data and activities across the firm. Engagement details such as the method, topics raised and discussed, the view post-engagement and a summary of the engagement activities can be recorded on this log. As outlined within Principle 7, in 2021, we plan to implement further enhancements to this log that will enable more granular recording of the outcomes of our engagements including monitoring progress against objectives and timelines systematically.

Figure 13: 2020 ESG engagement summary



NOTE: As we launched our centralized engagement log in 2020, we were unable to systematically record ESG engagement efforts across BlueBay prior to this. As such, there is likely to be a degree of underreporting of our 2020 ESG engagement efforts.

Source: BlueBay Asset Management LLP, as at December 2020. Some engagements have been multiple risk opportunity pillars and so totals may not add up to 100%.

Examples of ESG engagement efforts during 2020

Below we outline some examples of our ESG engagement activities during 2020.

Leading global meat producer

- **Sector:** Consumer – food producers
- **Region:** Emerging markets
- **Aim:** Improve ESG practices and seek assurances from management on the strategy to mitigate future incidents following negative news flow
- **Engagement overview:** The company is one of the world's largest exporters of animal protein and a leader in beef, lamb and poultry processing and pork production. The company has had a poor ESG track record, specifically in relation to financial accounting irregularities and bribery/product safety practices. In 2017, this led us to sign up to a collaborative investor initiative, coordinated via the PRI, to engage with the company on concerns about its ESG practices and seek assurances on management strategies to mitigate future incidents. Initially, we gained some reassurance that corrective measures were being introduced but continued to seek further evidence that these were being implemented effectively across the organization. We also wanted to see the company demonstrate more leadership on critical environmental and social issues throughout 2017 and 2018. As a second phase to the engagement, investors were invited to sign a letter to seek dialogue with the company on the risks and opportunities that water management can pose to the food processing industry in the US. BlueBay signed this letter. Dialogue continued throughout 2020 through proactive collaborative investor engagement to discuss worker health and safety risks in light of COVID-19, given impact on US meatpackers industry, as well as the company's position on supporting a business sector statement on deforestation in the Amazon and its activities here. This remains ongoing.
- **Status and outcome:** Ongoing – we will continue to engage with the company via the collaborative investor initiative and/or directly and review how the company is progressing.

Specialized US steel and metals producer

- **Sector:** Industrials – steel
- **Region:** North America
- **Aim:** Insight into ESG efforts and risk management
- **Engagement overview:** The company is a specialized steel and metals producer based in the US. Given it is not a pure steel player, this lowered some of the inherent ESG risks more typically associated with such companies in this industry. Our concerns around ESG as a result, were predominantly focused on lagging disclosure versus leading peers. However, in multiple engagements with the company, management indicated a desire to strengthen external disclosure and confirmed an initiative was underway to achieve this. Discussion also shed light on the company's efforts to reduce carbon emissions and increase energy efficiency and enhancements made to health and safety in relation to COVID-19 risk management.
- **Status and outcome:** Ongoing – overall, our interactions with management were positive and enabled us to gain a greater understanding of the company's approach and efforts towards ESG, which we will continue to monitor.

European video game company

- **Sector:** TMT – media and entertainment
- **Region:** Europe
- **Aim:** Insight into governance changes and steps taken following harassment allegations
- **Engagement overview:** The company is a video game company located in France. We held a call with management to better understand governance changes the company had implemented following various allegations, what steps were being taken about culture and behaviour, what we could expect on investor communications and to ensure there was a sufficient roadmap of milestones to demonstrate that things have changed. During the discussion, management confirmed the allegations were extremely concerning and had resulted in various remedial efforts, including reviewing its code of conduct, implementing a dedicated training program and introducing performance criteria for managers on remuneration based on culture. On investor reporting, the company indicated it could report on the percentage of employees who attest to the code of conduct in the future. Every year, the company will update on female representation and gender diversity across the workforce.
- **Status and outcome:** Ongoing - overall, we felt the company had taken material and tangible steps to address the allegations. As a result, we expect overall governance and culture across the company to improve, although we expect this to take some time to embed and evidence. We will continue to monitor progress and changes.

Mexican real estate investment trust

- **Sector:** Financials – REITs
- **Region:** Emerging markets
- **Aim:** Insight into the company's ESG approach, COVID-19 and labour management and biodiversity controversies
- **Engagement overview:** The company is the largest Mexican real estate investment trust (REIT), operating and developing a range of assets. During the discussion, the company outlined the company's materiality assessment and how it had identified key ESG risks. In terms of labour management, the company confirmed it had not cut employees' salaries or let staff go because of disruption from the pandemic. Instead, it has maintained hiring, to the extent that is possible, to enable a faster recovery, as well as provided training on wellbeing and returning to work for its employees. We also discussed a controversy surrounding the alleged felling of trees for the construction of a new development. the company stated that it had complied with the relevant legislation and held the necessary licenses for the work. It said the tree felling was required to construct an underpass as part of the development. The company confirmed it had appealed the fine and won, and discussed the various mitigation measures the company had put in place as part of the development. In addition, the company highlighted its involvement with addressing deforestation more broadly, including working with the National Reforestation Committee and setting goals for the next 10 years to protect biodiversity.
- **Status and outcome:** Ongoing - overall, the meeting was positive, with the company providing transparent and detailed information. This included in areas on which it had been penalized by ESG data providers for weak disclosure, despite this being detailed within the company's annual sustainability report. We will monitor the progress of the annual targets the company has set and progress against its strategy.

Sovereign, emerging markets

- **Region:** Emerging markets
- **Aim:** Insight into government efficacy and Russian relations
- **Engagement overview:** The country operates an authoritarian regime under President Lukashenko, with little scope for genuine opposition parties to function effectively. Our concerns here were elevated during the 2020 elections, with the EU Delegation Chief asking for EU sanctions to be imposed on the country given their actions against opposition candidates. During an investor call led by the Ministry of Finance and Central Bank to discuss a new issuance into the market, discussion included the nature of Russian relations.
- **Status and outcome:** Closed - we were not sufficiently reassured by their response for relations to remain positive. We felt tensions had risen and that the country's response to COVID-19 has been poor, which had resulted in stalling efforts to secure financial support from the IMF. This resulted in us passing on the new issuance.

Sovereign, emerging markets

- **Region:** Emerging markets
- **Aim:** Insight into the government's environmental strategy
- **Engagement overview:** The country is rich in natural resources and biodiversity. It is also widely considered to have made meaningful progress in providing favourable conditions for business and investments since the current president came to office in 2014. However, for some time now, we have been monitoring the country in terms of its energy policy, particularly in light of its historical reliance on coal as a fuel source. The issue of deforestation has also been an emerging area of concern. Consequently, we wrote to the government minister with responsibility for the environment, to express our concerns and seek dialogue. We wanted to better understand the government's strategy on the environment, specifically on issues such as climate change, energy, transport, forests and the sustainable finance strategy.
- **Status and outcome:** Ongoing - government officials confirmed they had received our letter and would respond in due course, but they said they were challenged to do so at the time given challenges facing the country by the pandemic. We will continue to track developments with the government and follow up with them as appropriate.

Principle 10: Collaboration

Collaborative ESG engagement

BlueBay has opportunities to collaborate and engage with investors and other stakeholder groups on an issuer, sector and thematic basis. We are committed to working with others to promote ESG integration and stewardship within investment activities. Collaborative engagement activities offer a powerful mechanism for debt investors to influence issuers on improved ESG practices. This may be on broad or specific ESG issues, whereby a collective group can potentially have more leverage and sway than a sole investor. Consequently, we are committed to playing our role in collaborative engagement and driving forward ESG best practice through such stewardship activities. This is not to say we will not engage individually with an issuer, rather in certain circumstances, a collaborative approach can yield change that may otherwise not have been possible at all or would require a longer timeframe. In other instances, there may be bilateral engagement as well as collaborative efforts related to the same issuer (such as our engagement efforts with a leading global meat producer, see Principle 9 for details, and a Brazilian metals and mining company, see below for details).

Industry ESG investment related memberships and initiatives

BlueBay is involved in several ESG investment related industry memberships and initiatives, which serve a variety of purposes. It helps to inform and develop our own internal ESG practices as well as advance ESG practices and thinking in fixed income investing.

Some examples of our involvement within such initiatives are outlined in the below table.

Figure 14: Industry ESG investment related memberships and initiatives

Organisation	Level of involvement (basic/ moderate/ advanced)	Detail
The PRI	**Advanced**	We are actively involved in a number of the ESG fixed income working groups, as well as their collaborative engagement initiatives which have ranged from focusing on specific issues (e.g. cyber risk), to specific sectors (e.g. tailings dam management in extractives sector) to company specific engagement.
(The) Alternative Investment Management Association (AIMA)	**Advanced**	As AIMA members, we input into their ESG investment related initiatives via their Responsible Investment working group, and any further issue specific working groups. Since early 2019, this has involved providing input into AIMA responses to public ESG investment related consultations with regulators, as well as AIMA ESG research and briefings, and panel participation in AIMA convened ESG events.
Climate Action 100+	**Advanced**	This global investor initiative was launched in 2017 to engage with the world's largest corporate greenhouse gas emitters on their climate change practices. Specifically, it focuses on encouraging companies to curb their emissions, improve their governance practices, and strengthen climate-related financial disclosures. BlueBay joined the initiative in March 2020 and has been since engaging a Mexican state-owned oil and gas company as a lead investor alongside other organizations.
(The) European Leveraged Finance Association (ELFA)	**Advanced**	As an ELFA member, BlueBay formally joined their ESG Committee during December 2019, and in this capacity has supported and led on specific initiatives, including the investor ESG survey and associated briefing, and the subsequent initiative to encourage issuer ESG disclosure.

Organisation	Level of involvement (basic/ moderate/ advanced)	Detail
(The) Investment Association	**Advanced**	The IA represents investment managers in the UK. As a member of their Sustainability Distribution Group, we input into their ESG investment related activities such as IA responses to public consultations with regulators and other bodies. During February 2020, we joined their Responsible Investment Fund-Level Communication Working Group.
Investors Policy Dialogue on Deforestation (IPDD)	**Advanced**	BlueBay signed onto an open investor letter to government embassies of an emerging market sovereign expressing concerns about deforestation in June 2020. In July 2020, the engagement effort was formalized under the IPDD banner, with the goal of coordinating a public policy dialogue with the country's authorities and associations on halting deforestation. BlueBay is a co-chair of the initiative.
Verisk Maplecroft	**Advanced**	BlueBay has been working with our sovereign ESG data provider on a collaboration on ESG in sovereign investing, and the extent to which ESG factors are material to sovereign investment dynamics. A report on this was published in May 2019, which is available on our corporate website (https://www.bluebay.com/en/Insights/role-of-ESG-factors-in-sovereign-debt-investing/), with both parties committed to continuing this research and potential focus areas for subsequent phases of our collaboration.
(The) Emerging Markets Investor Alliance	**Moderate**	BlueBay joined this initiative during March 2020. The Alliance was started in 2010 and aims at enabling institutional emerging market investors to support good governance, promote sustainable development, and improve investment performance in the governments and companies in which they invest. It convenes various working groups which BlueBay is involved in, such as the Agriculture Working Group and the TMT Alliance Group.
(The FSB) Task Force on Climate Related Financial Disclosures (TCFD)	**Moderate**	In March 2020, BlueBay signed on as a TCFD investor supporter, formerly signalling our support for this initiative aimed at developing voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors as well as other stakeholders.
(The) Standards Board for Alternative Investments (SBAI)	**Moderate**	As a member of SBAI, BlueBay joined the Responsible Investment Working Group in March 2020 which aims to help institutional investors and alternative investment managers better understand how RI can be applied in different alternative investment strategies, as well as the specific challenges and questions that arise in these contexts. There are a few specific workstreams we participate in which are being pursued as part of the Working Group's activities.
CDP	**Basic**	BlueBay became a CDP (formerly the Carbon Disclosure Project) investor signatory in December 2016 to show support for increased corporate environmental public disclosure as such information is critical to ensuring informed investment analysis of credit relevant environmental risk factors where this is material for an issuer. CDP has gathered the largest global collection of self-reported environmental information by leveraging the power of shareholder and lenders to help increase disclosure from companies. Specifically, we have signed up to the following programmes: climate change, water, forests and carbon action.
Farm Animal Investment Risk and Return (FAIRR)	**Basic**	This initiative focuses on the risks associated with intensive agricultural systems and provides a range of tools and analysis which we will be leveraging off in our ESG analysis and engagements. BlueBay joined in Q3 2020 as a network member, demonstrating our increased focused on ESG issues associated with agriculture such as deforestation, antibiotic resistance, among other issues associated with intensive agricultural systems.
Green Bond Transparency Platform (GBTP)	**Basic**	The Inter-American Development Bank (IDB) announced the creation of the Green Bond Transparency Platform (GBTP) in December 2019, an innovative digital tool that brings greater transparency to the Latin American and Caribbean green bond market. The platform is currently in its testing stage with official launch scheduled for 2020. BlueBay is a supporter of the GBTP and has been providing input to the pilot for the platform.
Transition Pathway Initiative (TPI)	**Basic**	This UK led initiative was created by asset owners to help assess companies' preparedness for the low carbon energy transition. BlueBay joined this initiative in Q3 2020 as an investor supporter and has committed to using TPI's tools in our ESG analysis and engagements, which we had already been doing.

Examples of collaborative ESG engagement

Below we have outlined some examples of collaborative engagements undertaken by BlueBay during 2020.

Investors engagement on deforestation

- **Region:** Emerging markets
- **Aim:** Influence to improve practices around deforestation
- **Engagement overview:** This initiative has marked the start of an ongoing process of investor engagement with the country's authorities on the systematic and sustainable management of the Amazon rainforest. It has gathered support from 34 investors with over US$4.6 trillion in assets under management. The country is home to a third of the world's rainforests, which cover almost 60% of its landmass. Such assets function as carbon sinks, critical ecosystem services, contain an important source of global biodiversity and provide a home and livelihood for many communities that exist within and alongside it. However, they are at risk from deforestation due to agriculture, urbanization, infrastructure and logging activities. The country has a good record on combating deforestation in conjunction with providing favourable conditions for business and investments. However, in June 2020, a group of investors including BlueBay signed an open letter to embassies in their home countries expressing concerns over escalating deforestation. Dialogue was secured with Central Bankrepresentatives and discussions held with members of the Amazon Council, as well as key officials in the country's congress. The response and momentum generated by this engagement led to the formalization of a two-year engagement program, which BlueBay co-chairs, aimed at halting the rating of deforestation.
- **Status and outcome:** Ongoing - see Principle 11 for more details

Tailings safety and disclosure engagement

- **Sector:** Mining sector, tailings safety management
- **Region:** Global
- **Aim:** Influence tailings safety management and disclosure within the mining sector
- **Engagement overview:** BlueBay has been part of the collaborative investor engagement on tailings dam management, led by the Church of England and the Swedish Ethics Council. We have participated in meetings associated with this initiative in 2019 and 2020 and are involved in a smaller workstream focusing on companies that have not disclosed to the initiative. Complementary to this was a concurrent engagement effort with a Brazilian metals and mining company on its tailings dam management following its dam collapse in January 2019 as part of the UN PRI-coordinated response (see below for details). As part of this initiative, the Global Industry Standard on Tailings Management (the standard) was launching during August 2020. In December 2020, a partnership was announced to create an independent international institute to support the implementation of the standard during 2021.
- **Status and outcome:** Ongoing – we believe the achievement of the standard is significant. It will be critical to driving change in the mining sector and we continue to play our role in supporting the initiative.

PRI-coordinated investor response with a Brazilian metals and mining company

- **Sector:** Metals and mining
- **Region:** Emerging markets
- **Aim:** Influence for improved practices following dam collapse
- **Engagement overview:** We have had ongoing engagement with the company since 2019, following the Brumadinho disaster, as part of the UN PRI collaborative investor engagement initiative. As part of this initiative, we participated in a series of calls with the company's management throughout 2019 and 2020, focusing on a range of topics. These included the immediate aftermath of the disaster and how the subsequent reparation plan has evolved, tailings management and safety, governance and culture. The engagement has clarified the steps the company has taken following the disaster, including its immediate response. It has also shown how the company has strengthened its oversight of safety and related risks and tailings dam management, and overhauled its cultural and is trying to advance its overall ESG agenda to move towards best practice.
- **Status and outcome:** Closed - while the PRI collaborative engagement has since ended, we will continue to engage with the company and monitor its performance on tailings risk management and broader ESG risks.

Raising standards in the industry regarding ESG

BlueBay is supportive of efforts to ensure capital markets operate in an environmentally sustainable and socially responsible manner, and that investors have access to clear and appropriate information on ESG considerations. As such, where appropriate and feasible, we play our role in sharing knowledge and insights, to ensure standards are raised in an effective and appropriate manner that meets the needs of clients. We are committed to continuing to do so. Some examples are outlined below:

- Issuer ESG disclosure: We have sought to influence companies to ensure they have a formal approach to addressing ESG and improve the public reporting on their ESG efforts across material ESG risks. We also encourage reference/adherence to international standards of ESG related good/best practice. For instance, via the PRI and ELFA, we promoted issuer ESG disclosure (particularly in the European leveraged finance market).
- Advancing thinking on ESG and fixed income: We have shared our issuer ESG evaluation framework with peers and other key stakeholders and have consistently received positive feedback on its soundness and progressiveness. It has served an educational purpose to better understand how to think about integrating ESG in debt investing, by highlighting the similarities and key differences between integration in debt versus equities, as well as between debt asset classes and issuer types. Our PRI advisory committee membership of ESG fixed income related efforts has advanced ESG disclosure and practices of credit ratings agencies and informed thinking and practice on ESG integration and engagement in fixed income.
- Inputting into public policy: In 2020, we participated in several discussions with regulators and other key stakeholders, including but not limited to the Financial Reporting Council on the UK Stewardship Code and fixed income investors, and the Financial Conduct Authority, sharing our insights on matters such as how the UK could better promote an effective and efficient UK ESG-labelled bond market.

Principle 11: Escalation

While it is still possible to escalate our stewardship activities, in the context of fixed income, there are some particular challenges:

- Given BlueBay's focus on fixed income and position as debt investors, we are not owners and as such, have more limited legal mechanisms to influence issuers (e.g., limited access to proxy voting).
- Seeking to engage a non-corporate issuer, such as a sovereign, is potentially more challenging than influencing a company. Investors are not their primary stakeholder (this is the voting populace) and seeking change could be seen to be political interference or infringing on sovereignty. Therefore the scale and pace of change is often slower than for corporates.

More broadly, irrespectively of asset class, it can also be difficult to attribute our engagement activities with a direct outcome. Such challenges include the fact other investors may also be engaging with the issuer; issuers may not want to formally attribute an outcome or change to our engagement; and the timeframe between engagement taking place and the outcome can be considerable, particularly in emerging markets.

However, that is not to say it is impossible for us to engage for influence or to facilitate change. In recognition of this, we continue to review the best ways to carry out ESG engagement to maximize impact and use of resources. This includes partnering and collaborating with other investors and stakeholders.

Ultimately, where we feel we have been unsuccessful in our stewardship efforts, this may input into our investment decision, which could take different forms:

- Reduce position sizing e.g., below market weight
- Change nature of positioning (from long position to short)
- Divest completely
- In case where we have equity exposure, vote against management.

Below we have provided some examples of where we have undertaken engagement for influence and the outcome.

Mexican state-owned oil and gas company

- **Sector:** Oil and gas
- **Region:** Emerging markets
- **Aim:** Influence for improved practices across climate, health and safety and broader ESG practices and disclosure
- **Engagement overview:** In March 2020, BlueBay joined Climate Action 100+ (CA100+), agreeing to co-lead on engagement with a Mexican state-owned oil and gas company through this initiative. This followed our own bi-lateral engagement with the company in 2020, where we had a call with management to discuss how the company was addressing some of key ESG risks. We focused on its approach to corporate responsibility more broadly, sustaining improved health and safety performance, improving transparency and disclosure of ESG metrics and climate change. In July 2020, the co-leads of the initiative on the company engagement wrote to the board of the company to provide it with formal notice of their inclusion in the CA100+. The letter also advised that, alongside the co-lead investors, several supporting investors were keen to ensure a more progressive approach to climate change from the company. The company responded to this letter, stating it was reviewing the best way to respond and engage with investors.
- **Status and outcome:** Ongoing - we will continue to check in with the company to get an update on next steps. From an investment perspective, we feel that ESG issues create a much higher hurdle to owning the company. That said, we believe valuations are currently compelling relative to the sovereign, so we are holding the company as a core position in several funds. However, this gives us an increased ability to engage with management (as we are a financial stakeholder), a position we are using wherever possible to help influence the company on ESG improvements.

Sovereign, emerging markets

- **Region:** Emerging markets
- **Aim:** Influence to improve practices relating to deforestation
- **Engagement overview:** Following an open investor letter to the country's embassies in June2020, BlueBay and other investors were contacted by the governor of the country's Central Bank, Roberto Campos Neto. During a bilateral call, Neto stated that he welcomed the investor letter and sought to reassure us of his commitment to ensuring environmental issues are addressed, given their importance for financial flows. He reported that there is a task force within government

working on strengthening environmental policy, led by the vice president, and including the environment and agriculture ministers, the speaker of the lower house, and Neto himself. He proposed a video conference between members of the investor group with the task force in early July. This was an unusual and unique opportunity to ensure the most relevant and senior government officials heard directly from investors regarding their concerns and how these linked to investment risks. A positive development that occurred shortly after the exchange was the announcement by the government of a 120-day moratorium on forest fires. In addition to the dialogue with the members of the Amazon Council, the investor group met with members of the National Congress of the countryl to discuss the investor initiative and outline their views and actions. In our engagement efforts, the investor group has sought to advance the following five outcomes:
  - Reduction of deforestation rates to showcase efforts to comply with the country's climate law.
  - Enforcement of the country's forest code.
  - The ability of the country's agencies to carry out their mandates effectively, as well as any legislation that may impact forest protection.
  - Prevention of fires in or near forest areas.
  - Public access to data on deforestation, forest cover, tenure and traceability of commodity supply chains.
- **Status and outcome:** Ongoing - a decision has been taken to formalize the initiative, to ensure there is sustained engagement the country on this issue and to monitor performance against the five outcomes. The newly formed Investor's Policy Dialogue on Deforestation will have an initial focus on Brazil, although there is scope to expand to other countries, given deforestation issues are not limited to this country nor to the Amazon. There was also an opportunity to widen the investor base supporting this effort beyond the initial group behind the embassy letter. As of September, 43 investors – representing over USD5.6 trillion in assets under management – have joined, with BlueBay invited to act as one of the co-chairs of this initiative. From a credit perspective, we are long-term investors in the sovereign. While we view Brazil as very manageable, we recognize its current ESG profile has the potential to negatively impact its international standing and investor sentiment.

US oil and gas company

- **Sector:** Oil and gas
- **Region:** North America
- **Aim:** Insight regarding health and safety and broader ESG efforts
- **Engagement overview:** This company is a US-based petroleum refiner and supplier of unbranded transportation fuels and heating oils. While our initial investment thesis was positive, our ESG analysis identified some areas of concern, particularly around a lack of evidence of proactive ESG efforts. These concerns grew upon engagement with management, around weak health and safety performance and reputational risks associated with the company's use of hydrofluoric acid. Further research subsequently confirmed the company had negligible targets for ESG improvement measures, indicating a lack of awareness and willingness to improve.
- **Status and outcome:** Closed – as a result of our engagement, we decided to exclude the issuer from our 'ESG Orientated' strategies, which was ultimately based on our assessment of the company's high ESG risk exposure. This was compounded by the lack of mitigation efforts on managements behalf, and our view that a ban on the use of hydrofluoric acid was unlikely, despite valuations remaining compelling.

Sovereign, Eastern Europe

- **Region:** Eastern Europe
- **Aim:** Influence for maintaining high governance standards and reform momentum
- **Engagement overview:** We have held concerns around governance and corruption concerns in the country for some time, but in recent years there has been good progress with a government committed to a reformist agenda. This has returned it to a path of sustainable economic growth and should result in better living standards for its citizens. However, in recent months there has been news suggesting the country may be backtracking from hard-fought reforms, particularly in the banking sector, and we have seen a deterioration in the rule of law and physical safety of reformers. Both developments are of concern to investors. As a result, in December 2019, BlueBay, along with two other sovereign investors with a combined USD1.3 trillion in assets under management, sent a written communication to the country's President along with individuals from the various ministries. We sought to outline our concerns around the importance of maintaining high governance standards and reform momentum in the country.
- **Status and outcome:** Ongoing - as investors in the country's assets for a long time and believers in the country's long-term potential, we felt it was important to stress that the country is at a critical juncture. We also wanted to stress that key institutional strengths and high governance standards need to be maintained, and this is something we continue to monitor with regards to investment exposure.

Exercising rights and responsibilities

Principle 12: Exercising rights and responsibilities

Applicability of proxy voting activities for fixed income

Given BlueBay's specialist focus on fixed income assets, the number of occasions when BlueBay will be engaged in proxy voting will be limited. It is most likely to occur with convertible and high yield bond investments, where an allocation may take on formal voting rights. In such cases, BlueBay will ensure we make appropriate use of our voting rights on matters of corporate governance and responsibility, applying the same process and policy for voting across all geographies and instruments. There may also be instances outside of the AGM cycle (in the case of convertible bonds), where corporate issuers may seek BlueBay's support to authorize certain business decisions and quorum of investors is needed to be passed.

BlueBay, on behalf of itself and other entities within the BlueBay group (including BlueBay Funds Management Company S.A.), has established a series of principles to be applied when exercising voting rights attached to client securities within managed portfolios. These include the following:

- In reaching a recommendation on how a proxy should be voted, BlueBay must act prudently and in the best interests of the affected clients and will ensure that voting rights are exercised in accordance with the portfolio's objectives and investment policies.
- BlueBay may depart from the principles to avoid v oting decisions that may be contrary to clients' best interests in particular cases.
- BlueBay may choose not to vote where voting may be detrimental to the best interests of clients, such as due to high administrative costs associated with voting or share blocking requirements that "lock up" securities, which would limit liquidity or access to market opportunities.

The relevant members of BlueBay's portfolio management team are responsible for recommending how proxies relating to securities held by clients in managed portfolios should be voted. The relevant personnel will consider each exercise of rights and will take into consideration the best interests of clients when voting on specific events or issues associated with the board and its committees (e.g., such as board independence and diversity), shareholder rights, audit and internal control, executive remuneration, use of capital (e.g., M&As) and other business. This is done on a case-by-case basis. Ultimately, investment teams retain discretion on voting decisions but will consult with our in-house ESG function for advice and guidance.

We subscribe to Broadridge's ProxyEdge online platform, which alerts BlueBay to any upcoming proxies due to be voted on and provides a portal through which we can vote. However, this does not provide any background research or recommendations on how to vote the proxy. This maintains a record of the proxies in which we were eligible to vote, and our voting decision. Our operations function manages the process of coordinating and documenting decisions.

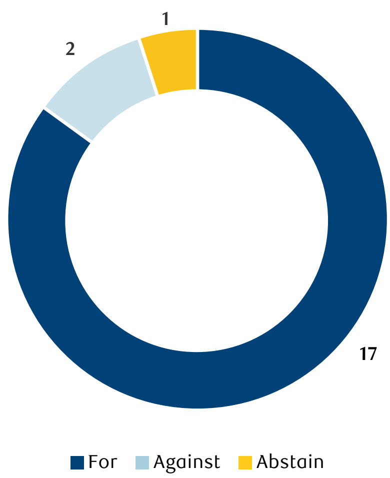
In 2020, we engaged in proxy voting at 20 meetings, relating to 17 companies. Please see below a breakdown of our proxy voting activities during 2020.

Further detail on our approach with regards to proxy voting can be found within our Proxy Voting Policy.

In terms of our approach to seeking amendments to terms and conditions in indentures or contracts, access to information provided in trust deeds, impairment rights and reviewing prospectus and transaction documents, where feasible, our investment teams will raise such topics with issuers, particularly in primary issuance. For example, in 2020, for a Turkish power producer, during restructuring negotiations we were successfully able to request information covenants. These included more frequent financial reporting, regular external valuation updates and capex due diligence, detailed related party exposures, anti-corruption and sanctions covenants that went beyond typical disclosure levels and additional requirements on environmental and social permits and laws.

Figure 15: BlueBay 2020 proxy voting activities

Breakdown of 2020 proxy voting activities (number of instances)



Source: BlueBay Asset Management LLP

Contact us

We hope you have found our Annual Stewardship Report useful.

To ensure we continue to meet our key stakeholder needs and interests, we welcome feedback on how we can improve our future efforts. Details of how to contact us are provided below.

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