BlueBay Asset Management LLP

Environmental, Social and Governance (ESG)
Investment Policy

Introduction and Scope

This Environmental, Social and Governance (ESG) Investment Policy ("Policy") outlines the approach we take to incorporating ESG considerations within our investment management practices at BlueBay. This Policy sets out our approach to ESG factors and ESG risks, how these considerations fit within our investment philosophy, our approach to the investment strategies we manage, how we resource and manage this from a governance perspective, as well as how we communicate our efforts and progress. It applies as standard to all investments made within pooled funds ("Funds"), separately managed accounts[1] ("SMAs") and where BlueBay provides investment advice. Information on BlueBay's wider corporate ESG efforts ('Corporate Responsibility') beyond what is applied to our investments falls outside the scope of this Policy. However, details of how this is managed are provided publicly elsewhere by BlueBay[2].

The information in this Policy outlines BlueBay's[3] compliance with the requirements under the EU Sustainable Finance Disclosure Regulation[4] ("SFDR") to disclose BlueBay's approach to integrating ESG, and therefore 'Sustainability Risks' into our investment decision-making. All BlueBay managed assets (Funds or SMAs) integrate 'Sustainability Risks' into the investment decision-making process. 'Sustainability Risks'[5] mean an ESG event or condition that, it is occurs, could cause an actual or potential material negative impact on the value of the investment and 'Sustainability Factors'[6] mean environmental, social and or governance matters such as employee matters, respect for human rights, anti-corruption and anti-bribery matters. All references to 'ESG risks' and 'ESG factors' within this Policy are equivalent to 'Sustainability Risks' and 'Sustainability Factors' as defined in SFDR.

Review

This Policy will be reviewed annually, or more frequently than this, where a material change occurs and, if appropriate, updated to reflect changes in circumstances and practice. The Policy is owned by the ESG Investment function, with oversight and approval provided by the BlueBay ESG Investment Working Group.

Last policy update: May 2021

1 Clients with separately managed accounts can create a custom ESG investment strategy if they require this.

2 For information on this, visit our corporate website: www.BlueBay.com

3 BlueBay Funds Management Company SA and BlueBay Asset Management LLP ("BlueBay") are required to comply with the requirements set out under the EU Sustainable Finance Disclosure Regulation ("SFDR") as Financial Market Participants ("FMPs") and a Financial Adviser. BlueBay Asset Management LLP is categorised as an FMP to the extent that it distributes products to EU investors. Article 3 SFDR requires disclosure on BlueBay's policies on integration of Sustainability Risks in their investment decision-making process.

4 REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability-related disclosures in the financial services sector.

5 Article 2(22) SFDR.

6 Article 2(22) SFDR.

ESG Investment Factors

Investment analysis of ESG factors – whether investment material or not in terms of representing negative ESG risks – encompasses those aspects of an issuer's operations, which may influence its ability to meet its financial obligations in the long term. Some ESG factors or risks – such as corporate governance practices, legal compliance, human capital management and climate change – are applicable to most issuers. However, some will vary by country, industry, as well as by characteristics specific to an issuer such as size and geographical footprint. An exhaustive or definitive list of ESG factors does not exist nor is it necessary, however the table provides examples of such issues for guidance purposes.

Environmental	Social	Governance
Issues relating to the quality and functioning of the natural environment and natural systems	Issues relating to the rights, well-being and interests of people and communities	Issues relating to the governance of companies and other investee entities
• Climate change	• Child labour	• Board diversity and structure
• Deforestation	• Employee relations	• Bribery and corruption
• Pollution	• Human rights	• Executive pay
• Resource depletion	• Modern slavery	• Political lobbying and donations
• Waste	• Working conditions	• Tax strategy

Source: PRI

Increasingly investors are also starting to think about ESG factors as part of a more holistic framework such as the United Nations (UN) Sustainable Development Goals (SDGs)[7]. Whilst BlueBay does not currently manage strategies using the UN SDGs as an investment filter, we may take into account the extent to which the issuer's activities economic activities and/or conduct contribute to promoting this and may look to report alignment to these goals for strategies it managed.

Source: www.globalgoals.org/

[7] The UN SDGs are a collection of 17 global goals designed to be a 'blueprint to achieve a better and more sustainable future for all'. Set in 2015 by the UN General Assembly, they are intended to be achieved by the year 2030. However, it should be noted that the SDGs were developed as a framework for governments rather than investors – and need to be viewed in this context.

ESG Investment Philosophy and Policies

BlueBay is an active fixed income specialist, structured to deliver outcomes tailored for investors seeking to enhance the returns of their portfolios. We are committed to delivering attractive risk-adjusted returns for our clients over the long term. BlueBay's investment approach to generate this is governed by a style incorporating the following investment principles:

- Focus on absolute returns across our portfolios;
- Strong emphasis on capital preservation;
- Dynamic, research driven approach;
- Disciplined, risk-controlled environment; and
- Active management (both top-down and bottom-up inputs).

We believe ESG factors, and specifically ESG risks, are relevant to the returns of the assets we manage as they can potentially have an impact on an issuer's long-term financial performance and could cause an actual or potential material negative impact on the value of investments. Given the limited upside and potentially significant downside of fixed income investments, the focus of ESG analysis is on understanding downside risks. Poorly managed ESG risks can lead to inefficiencies, operational disruption, litigation and reputational damage, which may ultimately impact an issuer's ability to meet their financial responsibilities. Incorporating ESG analysis (in particular ESG risks) into traditional financial analysis by reviewing ESG-related management practices and performance is, therefore, not only prudent, but also in line with BlueBay's fiduciary duty to optimise investor returns.

Impact of ESG risks on investment returns

BlueBay aims to consider ESG factors and specifically ESG risks when investing on behalf of any portfolio. This is considered an important element in contributing towards long-term investment returns and an effective risk-mitigation technique. However, there is no guarantee that the measures implemented by BlueBay to assess and manage ESG risks will prevent products from incurring losses as a result of these risks.

The impact of ESG risks on a portfolio and its returns may be significant and may materially vary depending on a number of factors, including but not limited to:

- Those associated with the specific issuer and its characteristics (including but not limited to the industry, the geographies in which it is present (for instance those in emerging markets as compared with developed markets), the credit rating (for example investment grade as compared with a sub-investment grade issuer), ownership structure or the maturity term);
- Those related to the specific ESG factor(s) which are relevant to the issuer given their characteristics (including but not limited to the extent to which the impact is instant as opposed to being incremental and spread out over time, such as in the case of a health and safety accident as compared with rising carbon emissions); as well as,
- The specific investment strategy of the portfolio and its characteristics (including but not limited to the extent to which it is diversified across sectors, geographies, or credit ratings).

ESG investment related policies

ESG factors and risks are incorporated through a variety of approaches, depending on whether strategies are ESG focused or not. Since 2013, BlueBay has had an ESG investment management framework in place firmwide to incorporate ESG factors and risks into its investment decisions. Alongside this Policy, BlueBay has adopted several complementary ESG investment related policies on specific topics. These include the following[8]:

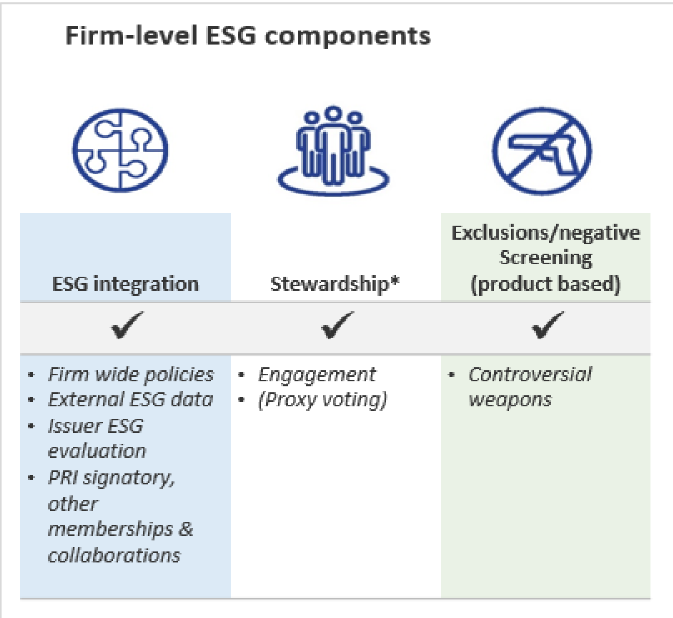
- A Controversial Weapons Investment Policy, which applies to all Funds;
- A Proxy Voting Policy;
- A Statement detailing our position on the UK Stewardship Code 2020; and
- A Transparency Statement on the UK Modern Slavery Act.

ESG Investment Approach

In framing our ESG investment management approach, we have built on the guidance[9] from The Investment Association (IA), to promote clarity and consistency in client communications within the industry, as well as to make it easier for all investors to meet their differing investment needs[10]. Accordingly, we have differentiated between ESG 'components' applied by BlueBay either at a firm or strategy level. 'Strategy-level' is an umbrella term and refers to individual Funds and SMAs. It is important to note that ESG components are not mutually exclusive, and they will typically be used in combination with one another. Furthermore, some ESG components can be adopted at both a firm and a fund level: where firm level refers to its adoption as a firm wide policy, and strategy level, where the practical application of that ESG component may differ for specific Funds or SMAs.

Firm level ESG components

At the firm level, there are three ESG components, as illustrated in the following graphic.



[8] These are as of March 2021 and are publicly available on our corporate website: www.BlueBay.com/ESG

[9] This is a framework outlined by The Investment Association, in their paper '*IA Responsible Investment Framework: Final Report*', 18th November 2019, the Investment Association.

[10] We have then provided signposting as to the extent to which this is aligned with the SFDR and given explanations.

**BlueBay has embedded stewardship principles into its investment process but has not been a signatory to the 2012 UK Stewardship Code. We have a pending application to become a UK Stewardship Code 2020 signatory which is currently under consideration by the FRC.*

ESG integration

ESG integration can be described as the systematic and explicit inclusion of material ESG factors and risks into investment analysis and investment decisions. ESG related risk factors are formally embedded into BlueBay's investment decision-making process. We have adopted ESG integration firmwide as part of this Policy, reflecting our commitment to incorporating ESG factors, which typically includes both risks and opportunities. However, given we are debt investors, our primary focus and emphasis is on capital preservation and risk management, although opportunities do exist where ESG risks are either not priced by the market, or are mis-priced. In the case of non-ESG focused strategies, any ESG risk identified in relation to an issuer does not necessarily preclude investing in such issuer if any ESG risk identified is not material from an investment perspective, or if BlueBay believes any such ESG risk can be mitigated in some form, or if the investment risk-reward analysis adequately reflects and compensates for this. However, in the case of ESG focused strategies, the results of the ESG analysis of ESG factors may result in an issuer being excluded independent of whether they represent an ESG risk or not, and whether investors are being compensated for the risks in terms of valuation.

The scope of our firmwide ESG integration approach considers ESG factors and risks at different levels:

- **Issuer:** in August 2018, BlueBay introduced a formal issuer ESG evaluation framework for both corporate and sovereign issuers that explicitly involves both our credit analysts and the ESG investment function working together. The issuer evaluation framework results in the generation of two proprietary ESG metrics[11]:
  - a *Fundamental ESG (Risk) Rating* which indicates our view of the ESG risks/opportunities faced by an issuer (resulting from the risk exposure it faces and the quality of mitigation efforts). There can only be one Fundamental ESG Rating per issuer across BlueBay; and
  - an *Investment ESG Score*[12] which reflects our investment view on the extent to which the ESG factors are considered relevant to valuations, as well as the nature of that materiality (i.e. positive, negative, neutral). This is a security/instrument specific assessment and as such there may be multiple Investment ESG Scores for a single issuer depending on the held security.

Fundamental ESG (Risk) Rating
Very high ESG risks
High ESG risks
Medium ESG risks
Low ESG risks
Very low ESG risks

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

[11] The issuer ESG evaluation framework was rolled out across all public debt investment teams for held investments in August 2018. Efforts remain ongoing to develop a more systematic approach for our Structured Credit team.

[12] At the time of the ESG analysis, the Investment ESG Score is an 'indicative' one which is more reflective of the investment materiality of the ESG factors at the issuer level. When there is a specific investment at a security/investment level, this becomes an 'actual' or 'security level' Investment ESG Score to be more specific to the trade.

Our approach to determining which ESG factors may present the most investment material ESG risks is a function of 1) inherent risk exposure dynamics, and 2) the nature and quality of the issuer's management and response (e.g. in terms of the policies, systems, practices and actual performance), which can act to mitigate or improve resilience of the issue to the risks, or exacerbate it. For instance, in terms of risk exposure characteristics:

- **Environmental**: for corporate issuers, specific environmental issues will be influenced by risk exposures as a function of sectoral and geographical footprint considerations. For instance, climate change is considered more of a material risk factor for companies in the extractives sector but may be less of an issue for a support service company. In the case of sovereigns, the extent to which environmental factors are likely to be material will vary depending on the extent to which the economy is dependent on agriculture or the extractive sector, their geographical location in terms of vulnerability to natural disasters, as well as the availability of natural resources such as forests. Hence, an island state is likely to be more vulnerable to the physical risks of climate change than one which is landlocked, or an economy highly reliant on exports of fossil fuels for income will be more exposed to global regulation to lower carbon emissions.
- **Social:** in the case of corporate issuers, specific social issues will be influenced by inherent risk exposure as a function of sectoral and geographical footprint considerations. For instance, employee talent management is considered more of a material risk factor for companies in the service-based, technologically driven industries, but may be less of an issue for a manufacturing company, where health and safety, human rights or community relations may be more pertinent. It is also important how a company's management is mitigating any of these risks. With regards to sovereign issuers, the nature and quality of education, social and healthcare provisions will influence the extent to which a country has access to a skilled workforce and suffers from high income inequality, whilst the extent to which freedom of opinion and expression are protected as human rights will contribute to social unrest. A country which lacks quality social care provisions or weak labour standards may experience more widespread and ongoing labour or civil unrest than which does not.
- **Governance:** for corporate issuers, specific governance issues will be influenced by the ownership and business structure of the company as well as their corporate governance and financial reporting practices. For instance, conflicts of interest and board independence are considered more of a material risk factor for founder-owned companies but may be less of an issue for a company with a large free float). In the case of sovereign issuers, the degree to which there are geopolitical and governance issues will depend on factors such as whether there is a well-established rule of law in operation, or government and regulatory effectiveness. Where there is widespread corruption, and weak regulations in a country, this can undermine trust in the government by the electorate or deter foreign investment in the country.

While we consider a range of ESG factors in our ESG credit analysis, in practice we pay particular consideration to governance as, in the fixed income context, our experience has been that governance (and political in the particular case of sovereigns) factors tend to have most investment relevance and can be a key contributing factor in an investment decision. Lenders of capital need to have confidence and trust that the issuer can and will repay their debt.

In recognition of the fact that materiality of ESG factors can vary by issuer type (e.g. corporates and sovereigns), the issuer ESG evaluation template outlines specific aspects of environmental, social and governance factors that varies in content between the two. This allows us to arrive at an overall assessment of each issuer's ESG risk profile whilst differentiating between corporates and sovereigns and allowing for a focus on material ESG issues linked to their business activities, geography and so forth.

In formulating our assessment, our formal issuer ESG evaluation incorporates data and insights from a range of external and in-house resources, knowledge, and expertise to enable us to arrive at a holistic view of the issuer. The process we have involves both credit and ESG analysts working together to ensure a credible approach firm wide. However, it should be noted that conducting such analysis is not without its challenges, for instance given the variability in ESG data availability from issuers depending on their size (large or small), geography (developed markets or emerging markets), nature (public or private), and lack of consistency in what is reported and how frequent.

- **Sector:** this level of integration is complementary to our issuerlevel analysis. In the context of corporate issuers, we leverage off externally available initiatives, which provide guidance on the materiality of ESG factors depending on sectors and geographies among others and are also maintaining internal sector level ESG guidance materials through ESG sector briefings. Each ESG sector briefing does not only cover materiality, but also outlines how material ESG factors could play out in terms of investment impact, as well as how we can focus our engagement efforts as a result. For sovereigns, the distinction made on ESG materiality is also an area of focus.
- **Portfolio/sub-asset class level:** our ESG analysis also considers ESG risk characteristics at a portfolio level and across portfolios within a specific strategy. Doing so, enables us to identify concentration of ESG risks at a sectoral, geographical, or issuer level.
- **Firm:** this level of ESG analysis involves evaluating potential concentration of ESG risks across the organisation.

Exclusions / Negative Screening

The use of 'exclusion' in this context refers to exclusions that are non-legal[13]. Exclusions prohibit certain investments applied at the firm level in relation to our pooled Funds where we control the investment strategy. These are usually applied on a variety of issues, which may be driven by a need to align with client expectations, and can be broadly categorised into two groups:

- Product-based which applies ethical/values-based/religious exclusions (e.g. sector or business activity, product, or revenue stream for example for gambling, alcohol), or exclusions based on poor sustainability (e.g. fossil fuel companies due to concerns about climate change); or
- Conduct-based such as norms-based exclusions (e.g. resulting in restrictions of specific issuers due to non-compliance with international standards of conduct such as the UN Global Compact) or based on poor ESG assessment (e.g. excluding the worst performing issuers relative to peers).

Of these two types of approaches, in relation to our Funds, BlueBay applies a product-based exclusions policy[14] on controversial weapons, which restricts investments in corporate issuers involved in the production of certain types of such weapons[15]. Formally known as the '1997 Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction', or as the Ottawa Convention; or the Mine Ban Treaty.

[13] BlueBay follows all applicable laws, regulations, and economic sanctions as they are relevant to the investment vehicles we manage. These are what we would refer to as legal exclusions imposed by regulators.

[14] In some jurisdictions, the scope of our negative screening may be legal requirements e.g. investments in producers of cluster munitions.

[15] Details on BlueBay's Controversial Weapons Investment Policy, and what is within scope for this can be found on the BlueBay corporate website (www.BlueBay.com/ESG)

Stewardship

The definition of stewardship we have adopted is that according to The UK Stewardship Code 2020 of the Financial Reporting Council (FRC) where stewardship 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”. Whilst this definition captures the complete investment process, there are two stewardship mechanisms which are the most common areas of focus for investors: engagement and proxy voting. It should be noted that, as specialist debt investors, the extent to which we have access to these differs in comparison to equity owners. BlueBay is committed to stewardship and has embedded stewardship principles into its investment process[16].

Engagement

Complementing our ESG integration approach is ESG engagement, which describes the interaction between investors and issuers and other key stakeholders. BlueBay believes that providers of debt do have a role in engaging with issuers and other relevant stakeholders on matters with the potential to impact investment returns, which may include ESG-related ones. In general BlueBay may engage with issuers on ESG factors if these are deemed to represent ESG risks, although ESG focused strategies may engage on such factors independent of them necessarily representing ESG risks. We view such activities as being part of our broader stewardship responsibilities, which is about protecting and enhancing our clients’ assets for the long term. However, client expectations of the scale and effectiveness of such engagement – particularly at the issuer level – should be made in recognition of the fact that as debt investors, we are not owners and as such have more limited legal mechanisms to influence issuers. Furthermore, engagement with a non-corporate issuer such as a sovereign is potentially more challenging than compared to a corporate entity.

An engagement activity – on ESG or conventional debt-related matters - naturally occurs as part of the investor/issuer interaction process. For investors this usually occurs to gain insights into the issuer’s business practices. In more limited instances, engagement may occur with the specific aim of using influence to bring about a perceived required change in the issuer’s business strategy and/or management practices, usually in order to mitigate specific investment risks. Engagement is an ongoing dynamic activity, with aims potentially alternating between insight or influence, or being about both at any one time. It may occur as a one-off event or form an ongoing series of interactions. Whilst issuers are usually the primary focus of engagement for corporate investment strategies, engagement with non-issuer stakeholders (such as politicians, financial institutions, industry associations, and/or specialist political advisers / consultants) are more of a common feature for sovereign debt investing.

As part of the routine investment research process, our investment teams meet issuers (particularly with primary issuances) and can raise questions. Given BlueBay’s core focus on ESG integration, actions to mitigate investment relevant ESG risks are raised by investments teams where considered necessary and appropriate. Where ESG engagement is deemed necessary, this will be prioritised using a risk-based approach. This means considering factors such as the issuer’s investment relevant / material ESG risk exposures and the quality of its ESG mitigation efforts and ESG performance trajectory, as well as the size of BlueBay’s investment exposure, whether it is a core / long-term or opportunistic position, and where the bond sits within the capital structure.

BlueBay may proactively initiate dialogue with issuers on ESG matters or we may act in response to an external event or development. We may conduct such activities on a unilateral basis, or work in collaboration with investors and other key stakeholders. Whilst engagement may be directly linked to specific issuers on ESG matters, BlueBay is also involved in sectoral or thematic ESG engagement, which may take more of a public policy dimension (e.g. engaging on policies or initiatives, which promote ESG disclosure generally or climate change specific to issuers) or engage in efforts that advance ESG investment practice at the industry level.

[16] The 2012 UK Stewardship Code was not applicable to BlueBay given its focus on equity investors; however, the 2020 Code revision now brings fixed income formally within scope.

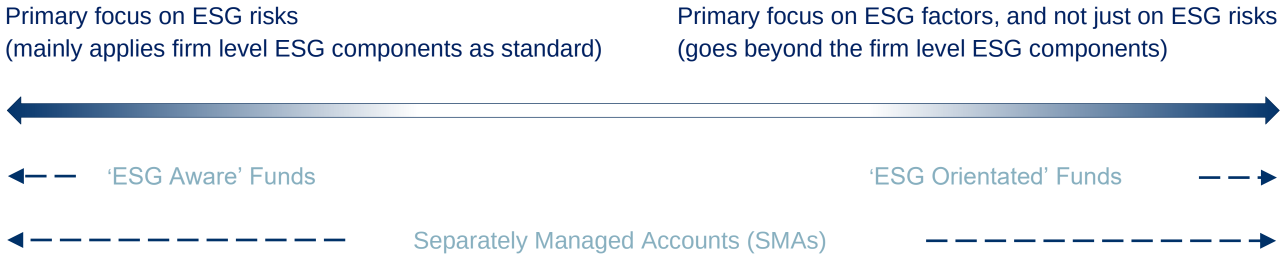
Once engagement efforts have commenced, these need to be monitored and reviewed. The outcome of ESG engagement efforts (e.g. the degree to which we are reassured and/or successful in our change facilitation efforts) input into our investment thinking and decisions, and may ultimately influence whether we have exposure to the issuer, the nature of our positioning and / or whether further action is required.

Exercising rights and responsibilities (proxy voting)

Given BlueBay's focus on fixed income investing, we have limited scope to participate in proxy voting, which is a legal mechanism available to equity investors for communicating and influencing management at their Annual General Meetings (AGMs). However, this can potentially occur, and is more likely to take place, with our Convertible (e.g. holdings in exchangeables) and Leveraged Finance (as they represent higher risk investments as compared with Investment Grade ones) bond strategies, where our investment may take on an equity element making us shareholders with formal voting rights. In such cases, BlueBay will ensure we make appropriate use of our voting rights on matters of corporate governance (CG) and corporate responsibility (CR) when the opportunity arises[17]. Whilst our Policy on this does not explicitly set out guidelines on how we may vote, we do take consideration of international/national standards of best practice, whilst being pragmatic about issuer specific circumstances.

Strategy-level ESG components

BlueBay is committed to ensuring we offer compelling investment solutions which incorporate some level of ESG consideration for our clients. Such offerings are continually reviewed, so that in the future we may further develop and expand on these. The graphics below illustrates how to think about the BlueBay product range in terms of how ESG is applied; this includes our Funds, as well as SMAs, with further details on each provided thereafter.



[17] Details can be found on the BlueBay corporate website (www.BlueBay.com/ESG).

Strategy level ESG components

	ESG integration	Stewardship*	Exclusions / negative screening – product based	Exclusions / negative screening – conduct based	Thematic / impact
Pooled funds - 'ESG Aware' strategies *These strategies focus on ESG integration and identifying investment material ESG risks*	✓	✓	✓	*Potentially*[2]	
Pooled funds - 'ESG Orientated'[1] strategies *These strategies have an ESG focus and ESG considerations take priority when investing, independent of investment materiality*	✓ (with further exclusions based on ESG assessment (minimum ESG requirement)	✓	✓	✓	*Potentially*[3]
Separately managed accounts (SMAs) *These strategies could be 'ESG Aware' or 'ESG Orientated'*	✓[4]	✓	*Potentially*[2]	*Potentially*[2]	*Potentially*[2]

Notes: **1** For BlueBay pooled funds, there are two types of ESG Orientated strategies: type 1 are focussed on 'responsibility' strategies and type 2 are focussed on 'sustainability' strategies. **2** The specific screens may vary depending on the Fund / SMA in question. **3** This would apply to type 2 'sustainability' strategies. **4** Where these relate to ESG Orientated mandates, exclusions based on ESG assessment may apply.

*BlueBay has embedded stewardship principles into its investment process but has not been a signatory to the 2012 UK Stewardship Code. We have a pending application to become a UK Stewardship Code 2020 signatory which is currently under consideration by the FRC.

'ESG Aware' Funds

Consistent with our belief that ESG factors can be important drivers of investment value, we proactively apply a standard set of ESG investment strategies to our conventional (or 'ESG Aware') Funds, where ESG incorporation is part of an enhanced investment risk management framework.[18] In this context, the focus is on investment relevant and material ESG factors, and primarily those that are risk related given our focus on capital preservation. For such funds, the ESG components are the firm-level ones we have already outlined, namely:

[18] Under SFDR, the fund would be categorised as 'other' under SFDR and meets the conditions set out in Article 6 of SFDR as Sustainability Risks are integrated into the investment decision-making process. Its investments do not take into account the EU criteria for environmentally sustainable economic activities.

- **ESG integration:** ESG factors are taken into consideration to enhance investment analysis and inform on the investment decision-making process at varying levels. Specifically, the outcome of the issuer ESG evaluation framework enables credit and ESG analysts to express their ESG view on an issuer, and for this to be used by portfolio managers to inform on portfolio construction decisions.
  Any ESG risk identified in relation to an issuer does not necessarily preclude investing in such an issuer if any ESG risk identified is not material from an investment perspective, or if BlueBay believes any such ESG risk can be mitigated in some form, or if the investment risk-reward analysis adequately reflects, and compensates for this;
- **Stewardship:** the focus of ESG engagement efforts is on investment material ESG risk factors. Depending on the sub-asset class there may also be voting exposure; and
- **Exclusions / negative screening:** the product-based restriction in place for all Fund is in line with the Controversial Weapons Investment Policy, with the scope being to corporate issuers involved in the production of specific types of controversial weapons. In limited instances, some Funds in this category may also apply additional product- or conduct-based screens.

'ESG Orientated' Funds

'ESG Orientated' pooled Funds differ from the 'ESG Aware' Funds in being ESG focused strategies[19]. For these Funds, ESG considerations directly influence investment decisions, where the results of the analysis of ESG factors may result in an issuer being excluded independent of whether they represent an ESG risk. We have developed these strategies to meet the needs of those investors who seek to more proactively and consciously incorporate ESG considerations into how they manage their assets, resulting in instances where investment is either excluded or avoided due to concerns about ESG factors alone.

There will be clear reference to the nature of the ESG investment policy for such Funds to help investors better differentiate which of our pooled Funds apply this approach. We currently offer two broad categories of 'ESG Orientated' strategies:

- **'Responsibility'** strategies which address ESG considerations by ensuring a base level of expectation of appropriate ESG practices in terms of ESG factors[20;] and
- **'Sustainability'** strategies which address ESG considerations through applying environmental and/or social thematic filters, or impact themes[21].

Whilst we aim for such Funds to apply a common set of ESG approaches within each ESG component wherever possible (e.g. applying the same product-based exclusions), this may not be appropriate depending on the specific nuances of the sub-asset class[22].

[19] Under SFDR, the fund would be categorised as either meeting the conditions set out by Article 8 as it promotes environmental or social characteristics (and follows good governance practices) through binding requirements; or meeting the conditions set out by Article 9 as it has Sustainable Investment as its investment objective. Such funds also have Sustainability Risks integrated into the investment decision-making process.

[20] Under SFDR such funds would be categorised as meeting the conditions set out by Article 8 as it promotes environmental or social characteristics (and follows good governance practices) through mandatory/binding requirements as a key feature. Such funds also have Sustainability Risks integrated into the investment decision-making process.

[21] Under SFDR such funds would be categorised as meeting the conditions set out by Article 9 as it has Sustainable Investment as its investment objective. Such funds also have Sustainability Risks integrated into the investment decision-making process.

[22] For instance, some ESG components (e.g. ESG best-in-class approach) are better suited to Investment Grade strategies than Leveraged Finance ones.

These Funds build on the firm-level ESG components, either by applying an existing approach in a different way or featuring a new component:

- **ESG integration – enhanced** (i.e. exclusions based on ESG assessment with minimum ESG requirement): ESG factors are taken into consideration to enhance investment analysis and inform the investment decision-making process. There is a nuanced approach in that depending on the outcome of the issuer ESG evaluation, some issuers may be prohibited from investment independent of whether they represent an ESG risk. This relates to the issuers assigned the worst ESG metrics[23]. This is applied for both types of 'ESG Orientated' strategies ('responsibility' and 'sustainability'). Such Funds may also potentially seek to adopt non-investment ESG specific goals in relation to their portfolio carbon profile, or their alignment to the UN Sustainable Development Goals (UN SDGs);
- **Stewardship – enhanced:** ESG engagement efforts are not limited to a focus on ESG risks but can also encompass ESG factors more generally. This is applied for both types of 'ESG Orientated' strategies ('responsibility' and 'sustainability'). Depending on the sub-asset class there may also be voting exposure;
- **Exclusions / negative screening – enhanced:** there are more extensive restrictions in place for such Funds, with the scope going beyond that applied at the firm level. A combination of product-based[24] and conduct-based[25] screens are applied. This is applied for both types of 'ESG Orientated' strategies ('responsibility' and 'sustainability'); and
- **Sustainability focussed:** this is applicable to the 'ESG Orientated' strategies which are 'sustainability' focused, in terms of specifying investments on the basis of a sustainability theme, for example those whose economic activities (what they produce/what services they deliver) address an environmental or social problem[26].

Separately Managed Accounts (SMAs)

For portfolios where investment requirements are set directly by the client rather than BlueBay, unless we are explicitly required to apply a set of requested ESG components, we will employ ESG integration and stewardship elements as standard (but not exclusions). Such mandates may be classed as either 'ESG Aware' or 'ESG Orientated strategies'[27].

ESG Governance and Resourcing

To support and steer our ESG investment approach at both the firm level and strategy level, BlueBay has a dedicated in-house ESG team of specialists which sits within the investment function[28].

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 investment factors across its investment teams. BlueBay's aim is to empower its investment teams to use their ESG knowledge and incorporate this into the investment decision-making process. As the ultimate risk takers, BlueBay believes these individuals are best placed to make the valuation and portfolio construction decisions, informed by the ESG risk analysis.

23 For example, in our current process, this means automatically excluding issuers with a 'Very High' Fundamental ESG (Risk) Rating, and a potential exclusion for those rated 'High' (where there is a case-by-case assessment).

24 Currently an extended approach is applied to controversial weapons producers, which includes screens on nuclear weapons, as well as tobacco and fossil fuel related screens (e.g. thermal coal).

25 Currently the conduct-based exclusion applied is norms-based per the UN Global Compact compliance status.

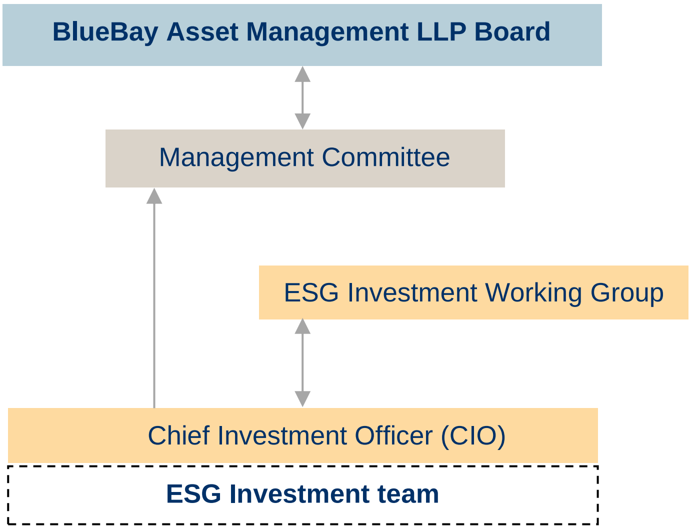
26 We use this term as defined by The Investment Association. In the context of SFDR, such strategy would be categorised as meeting the conditions set out by Article 9 as it has Sustainable Investment as its investment objective. Such funds also have Sustainability Risks integrated into the investment decision-making process.

27 Under SFDR, SMAs may be either categorized as Article 8 or 9 or 'other' depending on their nature. All SMAs integrate Sustainability Risks into the investment decision-making process.

28 Up until January 2020, the ESG investment team was formally part of the Investment Risk function.

Formal oversight of BlueBay's ESG investment efforts occur at various levels:

- Regular interactions with the ESG Investment Working Group (ESG IWG)[29] which has the remit to promote ESG incorporation among investment teams, and is primarily comprised of representatives from each of the different investment functions; and
- Periodic updates to the Management Committee and LLP Board on ESG investment practices and performance.



To aid our ESG investment efforts, BlueBay subscribes to ESG data, analysis and insights from several specialist third-party ESG research vendors, as well as from other external stakeholders (such as sell-side brokers, regulators, academia and not-for-profits), which help inform on ESG investment decisions. These complement BlueBay's in-house investment team's knowledge and insights as well as our proprietary issuer ESG analysis. Our engagement with non-issuer stakeholders also represents an important source of ESG investment insights.

Collaboration and Promoting Best Practice

The development of this Policy and BlueBay's ESG practices have been informed by reference to, and consideration of, current best practice with regards to ESG investing. Being an iterative and dynamic process, our approach and strategy with regards to ESG investing will evolve over time as we build on, and learn from, our own efforts as well as from others. BlueBay is committed to working with peers and other stakeholders on promoting incorporation of ESG into investing. We view our ongoing and active membership of the (UN-supported) Principles for Responsible Investment (PRI)[30] as an important mechanism for achieving this, although we also have membership or participation in a range of other ESG investment related industry initiatives.[31]

[29] This Group is focused on promoting ESG integration among the investment teams. Members include: Director of Investment Operations (Chair, representative of the CIO office), representatives from the ESG Investment team (secretariat), representatives from investment professionals (representatives from heads of strategies, portfolio managers and credit analysts, as well as Global Business Development).

[30] BlueBay has been a signatory of the PRI since July 2013. Visit our website for the latest information on our ESG investment related industry memberships and collaborations.

[31] Details on industry ESG participation can be found on the BlueBay corporate website (www.BlueBay.com/ESG).

Transparency and Accountability

BlueBay is committed to providing timely and relevant external communication and reporting of our ESG investment efforts, including in line with regulatory requirements.[32] Where possible, ESG information will be made publicly available, including on the BlueBay corporate website (www.BlueBay.com/ESG). We also produce annual ESG investment reports, which summarise our practices and performance for the relevant reporting period. BlueBay also formally fulfils the reporting requirements that being a PRI signatory entails, in the form of the annual Transparency Report, which is available on the BlueBay and PRI website (www.UNPRI.org).

Contact Details

For more information about ESG investment management at BlueBay, please contact: ESG@BlueBay.com

[32] We will produce relevant reporting where applicable, in line with the requirements of SFDR.