



BARINGS

EMERGING MARKETS

# Sovereign Debt Fund



# Environmental & Social Characteristics

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

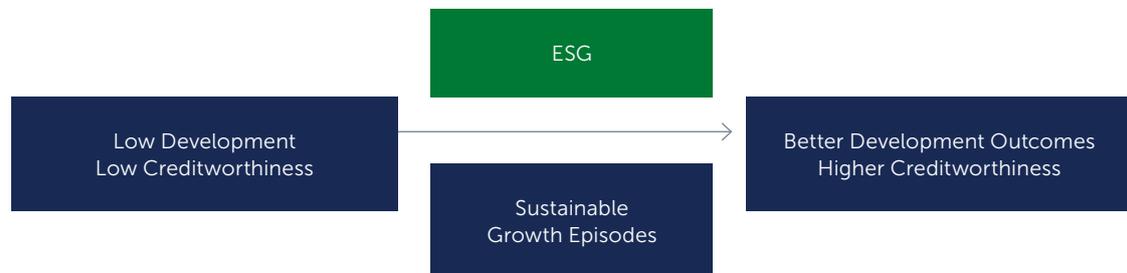
## Screening Criteria

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### PRINCIPLES

#### SUSTAINABILITY IS THE KEY

Sustained economic growth is the driver of both improving creditworthiness and improving ESG indicators.



#### CAUSES NOT OUTCOMES

We focus on government policies and their efficiency at improving ESG metrics.

#### MULTI-DIMENSIONAL COUNTRY SCORES

- Environmental, social and governance indicators have different nature, coverage and scale, therefore normalizing and aggregating them into a single score would lead to significant loss of information and consistency.
- ESG single scores prevents us from identifying the most pressing ESG issues for each country, spotting improving trends by area and focus on relevant engagement opportunities.

#### ONE SIZE DOES NOT FIT ALL

Each country is in a different developmental stage, requiring different set of optimal policies, including on how to most efficiently improve on the ESG dimensions; ESG sovereign evaluation should take that into account.

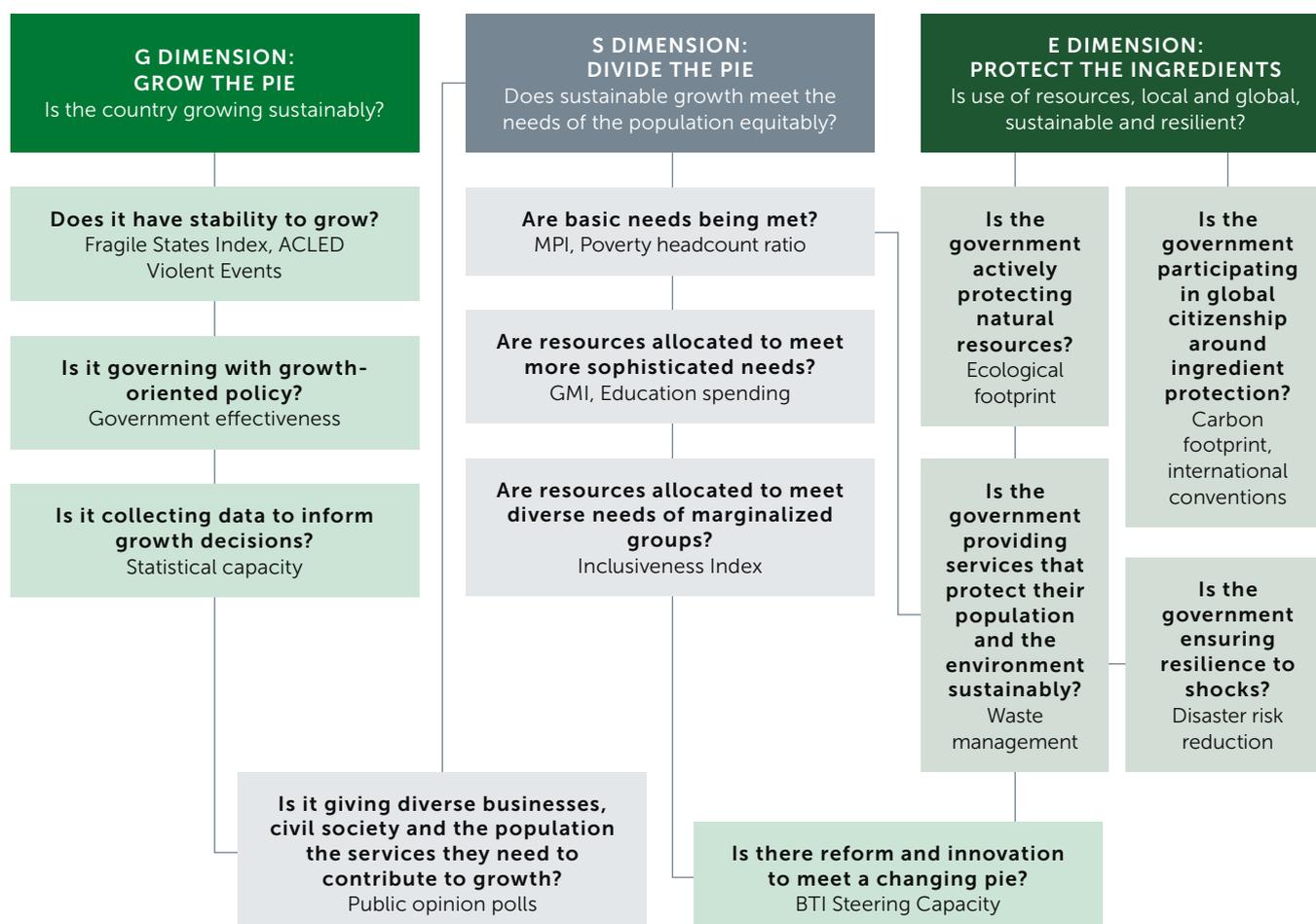
# TOOLS

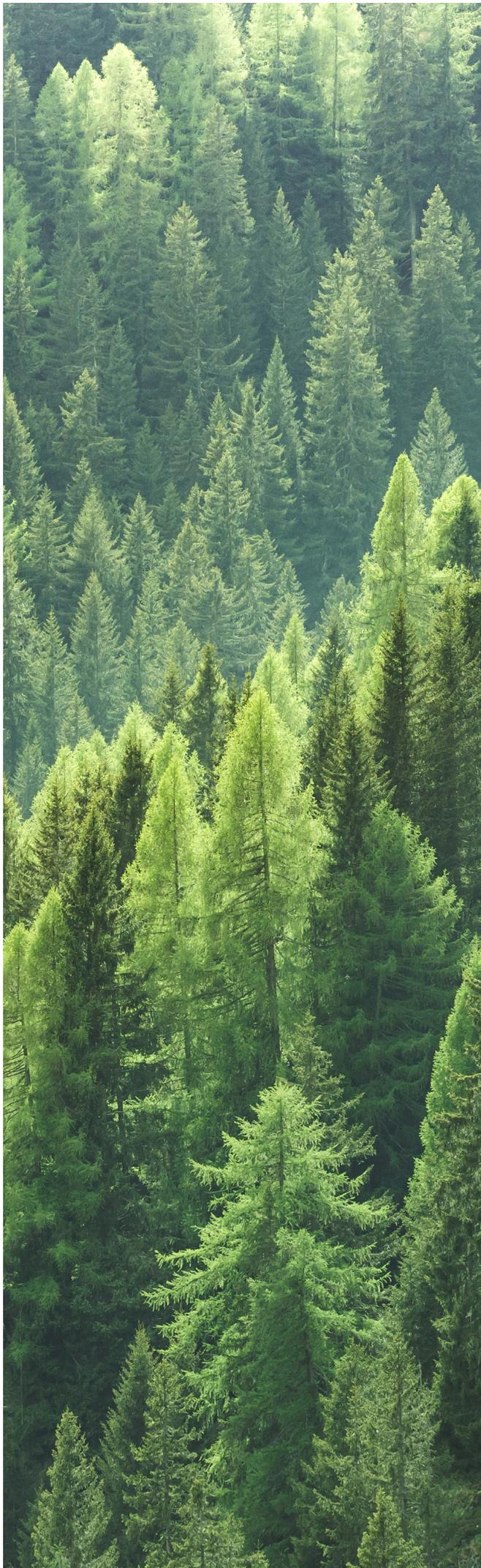
## SOVEREIGN ESG INDICATOR DATABASE

Dimension	G: Grow the Pie	S: Divide the Pie	E: Preserve the Ingredients
Objective	Sustainable Growth	Comprehensive Poverty Reduction	Preserve the natural resources in the country and participate in protecting the global environment
Measurable Outcomes	<b>Two Legs:</b> <ul style="list-style-type: none"> <li>Growth Accelerations</li> <li>Stability</li> </ul>	<b>Two Legs:</b> <ul style="list-style-type: none"> <li>Multidimensional Poverty</li> <li>Capabilities</li> </ul>	<b>Three Legs:</b> <ul style="list-style-type: none"> <li>Decrease sensitivity to international shocks</li> <li>Participate to international effort</li> <li>Domestic effort at preserving the environment</li> </ul>
Indicators	<ul style="list-style-type: none"> <li><b>Growth:</b> Experimental policies, conducive political settlements, anticipation/coordination</li> <li><b>Stability:</b> W/S, state fragility indicators</li> </ul>	<ul style="list-style-type: none"> <li><b>Capabilities Approach:</b> Difficult unless through subjective surveys (WVS, OECD social satisfaction data) otherwise measures outcomes more than policies</li> <li><b>Poverty Reduction:</b> Effective distributive policies: fiscal data quality, social spending efficiency WB, milex</li> </ul>	<ul style="list-style-type: none"> <li><b>Increase Resilience:</b> Disaster risk reduction</li> <li><b>International Effort:</b> Signatory of intl conventions, protection of intl envt as a public good</li> <li><b>Domestic Effort:</b> International policy, execution of those policies</li> </ul>

## ESG DIAGNOSTICS & COUNTRY ANALYSIS

Each sovereign analyst performs an ESG assessment of the countries under their coverage and identifies the most pressing ESG issues to monitor, and potentially engage on.





## SOVEREIGN ESG RESEARCH COMMITTEE

The sovereign ESG research committee gathers country analysts and portfolio managers, along with other team members to review country ESG assessments using qualitative and quantitative ESG criteria.

## OUTPUT

### ESG ASSESSMENT INCLUDING PROPRIETARY STOCK & TREND SCORES

- Each analysts rate each country's current performance on ESG (strong, neutral or weak on a scale one to five, one being best score) and whether the trend is improving (1), neutral/steady state (2) or deteriorating (3); a rationale for the rating is written for each country.
- ESG scores that are considered positive or improving consist of:
  - a. Stock scores that are three or better, or
  - b. Trend scores of once, where the stock score is also not worse than four
- This rating is reviewed by Barings Sovereign ESG research committee and rating is given to each country.

### FREQUENCY OF UPDATE OF THE ESG ASSESSMENT

- Sovereign analysts review the ESG assessment in-line with assigned country updates.
- The ESG research committee gathers twice a year to formerly review country scores, however changes can be made at any time.

### INVESTMENT IMPLICATIONS

- Countries with the lowest ratings are put on an Exclusion list and new positions cannot be initiated across sovereign accounts.
- If a country is on the Exclusion list, it must be upgraded and reviewed by the Sovereign ESG Committee prior to being eligible for purchase.



## Guideline Monitoring

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

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

The Human Development scores will be reported and measured quarterly using the above methodology/ framework and should there be a downgrade or upgrade it will be reflected in the scoring for that country and any sells will be executed to bring the Fund back in-line with guidelines. Should the Fund need to sell positions due to an internal downgrade to a black list, we will sell down that position at the earliest opportunity.

## Data Sources

Our investment decisions are based on internal research, which encompass both our proprietary financial underwriting and ESG assessment. We aim to meet with all countries in which we seek to invest and or carry out a thorough underwriting of the country and discuss a range of topics including ESG issues. The investment professional responsible for evaluating and underwriting each country is also responsible for its ESG assessment which is subject to a team review: this is an integral part of our underwriting process.

Use of external sources of research remains limited and are utilized to mainly understand market consensus and as one way to gather data. To supplement our own ESG research, our team also has access to third-party resources such as Bloomberg ESG, MSCI ESG and Sustainalytics, United Nations Human Development Index, Haver Analytics, the World Bank and International Monetary Fund which provide institutional investors with country-specific ESG data.

## Sustainability Indicators

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

## Reference Benchmark

The Fund is not managed to a benchmark, however the Manager uses the JP Morgan EMBI Global Diversified Index to assess the Fund’s performance.

The index’s constituents are not required to exhibit positive/improving ESG characteristics. The index calculation methodology can be found on JP Morgan’s website at [www.jpmorgan.com/insights/research/index-research/composition-docs](http://www.jpmorgan.com/insights/research/index-research/composition-docs).