

## Barings ASEAN Frontiers Fund

### SUMMARY

This section sets out information in relation to the Fund, which is an Article 8 financial product. The Fund promotes environmental characteristics and/or social characteristics as set out in further detail below. The Fund will achieve this by investing at least 50% of its Net Asset Value in issuers which exhibit any of these characteristics.

### NO SUSTAINABLE INVESTMENT OBJECTIVE

This Fund promotes environmental and/or social characteristics but does not have as its objective sustainable investment.

### ENVIRONMENTAL OR SOCIAL CHARACTERISTICS OF THE FINANCIAL PRODUCT

The Fund promotes positive or improving resource intensity, environmental footprint, employee satisfaction and societal impacts of products/services. The Fund will achieve this by investing at least 50% of its Net Asset Value in issuers which exhibit any of these characteristics. The Investment Manager assesses the environmental (“E”) characteristics of an issuer by reviewing an issuer’s resource intensity and environmental footprint. The social (“S”) characteristics are assessed by reviewing an issuer’s employee satisfaction and societal impacts of its products/services.

The E and S evaluations are established using proprietary research based on issuer knowledge and regular management interaction. For all investment opportunities, a thorough ESG assessment is conducted using a proprietary scorecard of nine ESG topics, and a quality score, management score, and ESG cost of equity (“CoE”) adjustment is assigned to each investment.

### INVESTMENT STRATEGY

#### a.) Investment strategy

The Fund will seek to achieve its investment objective by investing at least 70% of its Net Asset Value at any one time in equities and equity-related securities of issuers incorporated in, or exercising the predominant part of their economic activity in, countries which are members of the Association of South-East Asian Nations (ASEAN) or quoted or traded on the stock exchanges in those countries. The members of ASEAN include (but not to be limited to) Singapore, Thailand, the Philippines, Malaysia, Indonesia and Vietnam.

The Fund will invest at least 50% of the Fund’s Net Asset Value in equities of issuers that exhibit positive or improving ESG characteristics. Furthermore, the Fund may also invest up to 50% of its Net Asset Value in equities and equity related securities of issuers that exhibit less positive ESG characteristics.

The Fund may also invest up to 30% of its Net Asset Value, either directly or through depositary receipts, in equities and equity-related securities of issuers that are (i) incorporated, or (ii) exercising the predominant

part of their economic activity, or (iii) quoted or traded on the stock exchanges, in (a) other markets in the Asia Pacific region including, but not limited to, Korea, Hong Kong, China, Taiwan, India, Australia, New Zealand, Pakistan, Sri Lanka and Bangladesh but excluding Japan, or (b) other markets which the Manager believes would have the potential to benefit from the economic growth and development from the Asia Pacific region excluding Japan, when and if they consider it appropriate. The Fund may also invest in cash and ancillary liquidities.

The Fund may also invest in collective investment schemes in accordance with the requirements of the Central Bank up to a maximum of 10% of the Net Asset Value of the Fund.

With regard to investment in China, no more than 20% of the Net Asset Value of the Fund at any one time may be invested directly or indirectly in China A shares and B shares. It is anticipated that this exposure will be obtained either directly through investment in China A shares listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange via the Connect Schemes and/or through the QFI regime or indirectly through investment in other eligible collective investment schemes or participation notes.

The Fund may invest in various FDIs as detailed in the Prospectus for investment purposes or for efficient portfolio management in accordance with the requirements of the Central Bank. When FDIs are used the Fund will be leveraged through the leverage inherent in the use of FDIs.

The Fund adheres to the investment restrictions required to qualify as "equity fund" pursuant to section 2 paragraph 6 GITA and continuously invests more than 50% of its Net Asset Value in equity participations within the meaning of section 2 paragraph 8 GITA.

The Investment Manager believes that equity markets contain unrecognised growth potential and seeks to identify this through the analysis of an issuer's business model whilst incorporating wider ESG trends often referred to as fundamental analysis. ESG trends may evolve over time and may include environmental footprint, societal impact of products/services and effectiveness of supervisory/management boards. Equity investment teams at the Investment Manager share a common investment approach, best described as Growth at a Reasonable Price ("GARP").

GARP seeks to identify reasonably priced growth issuers whose qualities are unrecognised by market participants by performing structured fundamental analysis with a disciplined investment process. Based on the region, country or sector bias of the Fund, analysis of potential growth issuers includes their future financial performance as well as their business model and management style, while focussing on long-term earnings growth of three to five years.

The Investment Manager's strategy favours issuers with sustainable or improving business franchises, profitability focused management and strong balance sheets that enable the issuer to execute its business strategy. The Investment Manager regards these issuers as higher quality as they provide transparency and allow investment professionals to forecast earnings with greater confidence. This is further strengthened through the incorporation of a dynamic and forward-looking approach to ESG analysis, with the aim to identify sustainable business practices. This empowers the Investment Manager to better assess both the potential risks facing the issuer and the opportunities presented to it, particularly those not apparent or included in traditional fundamental analysis, and facilitates in propagating better ESG practices. The Investment Manager believes that ESG integration, a focus on forward-looking dynamics and active engagement is key to unlocking long-term returns in equity investments.

Issuers that exhibit positive or improving ESG characteristics are assessed through the Investment Manager's proprietary research. Proprietary research is based on issuer knowledge and regular management interaction, which is the basis to assess each issuer against nine key ESG topics:

- Employee Satisfaction;
- Resource Intensity;
- Traceability and/or Security in Supply Chain;
- Effectiveness of Supervisory and/or Management Board;
- Credibility of Auditing Arrangements;
- Transparency and Accountability of Management;
- Environmental Footprint;
- Societal Impact of Products and/or Services; and
- Business Ethics.

This assessment is captured within a standardised framework, and is dynamic, monitoring the attitudes of investee issuers for improvements or deteriorations toward ESG topics and reflected in the scoring of an issuer's quality and its valuation. With respect to issuer valuations, the Investment Manager's approach allows for ESG research to directly affect the discount rate (Barings CoE) applied to its 5-year earnings and dividend forecast for the issuer. By explicitly quantifying the ESG impact on the valuation of investee issuers, ESG is integrated into decision-making, issuer selection and the management of the portfolio.

This approach enables the Investment Manager to rate issuers on the basis of their dynamic ESG behaviour rather than making a static judgement based on historical ESG practices and is consistent with forward looking analysis and the intention to reward progress and improvement. Before investing, the Investment Manager considers internal recommendations regarding growth, quality and valuation, all of which reflect ESG issues and opportunities, alongside external issuer-specific data. Once invested, the Investment Manager continues to monitor each issuer to ensure that the thesis remains intact and that an investment's risk and return profile remains attractive relative to other opportunities available in the market.

For all investment opportunities, thorough ESG assessment is conducted using a proprietary scorecard of nine ESG topics, and a quality score, management score, and ESG CoE adjustment is assigned to each investment.

1. Quality Score – The quality score is a rating from 1 to 5 (1 = strong, 5 = weak), which is an expression of the Investment Manager's evaluation of an issuer's franchise, management, and balance sheet.
2. Management Score – The management score, which also carries a rating of 1 to 5 (1 = strong, 5 = weak), is an expression of the Investment Manager's evaluation of the strength of the issuer's management and corporate governance. Issuers with sound management structures, diverse and accessible executive teams, and remuneration policies aligned with the long-term interests of minority shareholders would generally be assigned a stronger management score.

3. ESG CoE Adjustment - Finally, each of the nine ESG topics in the proprietary scorecard is rated as one of the following: Exemplary, Improving, Not Improving, or Unfavourable. The sum of the nine ratings corresponds with an ESG discount or premium, which is added to the CoE. The CoE is the rate of return required from the issuer by the Investment Manager. An Exemplary rating will result in an ESG reduction to the issuer's CoE. Conversely, an Unfavourable or Not Improving rating will result in an ESG addition to the issuer's CoE.

Pre- and post-trade checks are carried out on a daily basis to ensure the Fund continues to meet the minimum threshold of 50%.

**Screening Criteria**

Companies the fund invests in are classified as either:

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

The below tables illustrates the criteria used to classify companies

Company Classification		Quality Score*	Management Score*	ESG CoE Adjustment
Green	Positive ESG	Less than 2	Less than or equal 2.5	Less than or equal to 1%
Green	Improving ESG Characteristics	Less than 3	Less than or equal 2.5	Less than or equal to 1%
Green	Improving ESG Characteristics	3	Less than or equal 2.5	Less than 1%
Company Classification		Quality Score	Management Score	ESG CoE Adjustment
Brown	Brown	More than 3		
Brown	Brown		More than 2.5	
Brown	Brown			More than 1%

\* (1= strong, 5 = weak).

Investments with a Quality Score of more than 3 or Management Score of more than 2.5 or ESG CoE adjustment of more than 1% will always be considered as “brown”.

Issuers defined as having positive or improving ESG characteristics must have a higher than average quality score, and not exceed a maximum adjustment to its Barings CoE threshold.

The Investment Manager also believes that it can use its influence to effect positive change and improve ESG disclosure through active engagement with investee issuers. These formal engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG public disclosure, which in the opinion of the Investment Manager, is material to the sustainability of the issuer's business model, aiming to enhance the performance of investments.

b.) Policy to assess good governance practices of the investee issuers

The Investment Manager assesses the corporate governance of issuers, with respect to, but not limited to, sound management structures, employee relations, remuneration of staff and tax compliance. An internal management score ranging from 1 (strong) to 5 (weak) is assigned. Issuers which have a management score of 5 are excluded from the Fund. Where the Investment Manager determines that a holding in the Fund's portfolio does not meet its good governance thresholds, the Investment Manager will engage with the relevant issuer in order to seek to bring it into compliance. If engagement with the relevant issuer is not deemed appropriate or engagement subsequently proves unsuccessful, the Investment Manager will consider its

position and shall, if necessary and to the extent possible based upon market conditions and any specific investment considerations, attempt to divest the holding from the Fund.

## PROPORTION OF INVESTMENTS

The Fund will invest at least 50% of its Net Asset Value in equities of issuers that exhibit positive or improving ESG characteristics whilst the remaining assets (including cash, cash equivalents, hedging instruments and other assets) which are not aligned with the Fund's E and/or S characteristics and/or have no minimum environmental or social safeguards.

The Fund may invest up to 50% of its Net Asset Value in equities and equity related securities of issuers that exhibit less positive ESG characteristics.

Derivatives are not used to attain the environmental or social characteristics promoted by the Fund.

## MONITORING OF ENVIRONMENTAL OR SOCIAL CHARACTERISTICS

The sustainability indicator used to measure the attainment of the environmental and social characteristics promoted by the Fund will be the percentage of the Fund's Net Asset Value invested in equities of issuers that exhibit positive or improving resource intensity, environmental footprint, employee satisfaction or societal impacts of its products/services. Issuers defined as having such characteristics must be assessed as having a higher than average quality score, and not exceed a maximum adjustment to its Barings CoE threshold.

The Fund is monitored on each business day to ensure it continues to meet the minimum threshold of 50%. Where the Fund falls below this threshold, due to market movements or because the issuers it holds no longer meet the criteria of a "green" investment, then the passive breach will be corrected at the earliest opportunity.

## METHODOLOGIES

The Fund will invest at least 50% of its Net Asset Value in equities of issuers that exhibit positive or improving ESG characteristics.

Issuers the Fund invests in are classified as either:

- "Green" – by exhibiting "Positive" or "Improving" ESG characteristics; or
- "Brown" – by not meeting the criteria illustrated below.

The below tables illustrate the criteria used to classify issuers

Company Classification		Quality Score*	Management Score*	ESG CoE Adjustment
<b>Green</b>	Positive ESG	Less than 2	Less than or equal 2.5	Less than or equal to 1%
<b>Green</b>	Improving ESG Characteristics	Less than 3	Less than or equal 2.5	Less than or equal to 1%
<b>Green</b>	Improving ESG Characteristics	3	Less than or equal 2.5	Less than 1%
Company Classification		Quality Score	Management Score	ESG CoE Adjustment
<b>Brown</b>	Brown	More than 3		
<b>Brown</b>	Brown		More than 2.5	
<b>Brown</b>	Brown			More than 1%

\* (1= strong, 5 = weak).

Investments with a Quality Score of more than 3 or Management Score of more than 2.5 or ESG CoE adjustment of more than 1% will always be considered as “brown”.

The criteria the Investment Manager uses to determine if an issuer exhibits positive or improving ESG characteristics are described below. A full explanation of the criteria can be found in the Investment Manager's [Public Equities: ESG Integration and Active Ownership policy](#).

### Quality Score

The Quality Score is a rating from 1 to 5 (1 = strong, 5 = weak), which is an expression of the Investment Manager's evaluation of an issuer's:

- Franchise;
- Management; and
- Balance Sheet

Each of these categories is assessed under nine ESG topics – as set below:

Franchise	Management	Balance Sheet
1. Employee satisfaction	4. Effectiveness of supervisory/management board	7. Environmental footprint
2. Resource intensity	5. Credibility of auditing arrangements	8. Societal impact of products/services
3. Traceability/security in supply chain	6. Transparency and accountability of management	9. Business ethics

### Management Score

Three of the nine key topics (4, 5 and 6) focus specifically on assessing the issuer's management. The Management Score, which also carries a rating of 1 to 5 (1 = strong, 5 = weak), is an expression of the Investment Manager's evaluation of the strength of the issuer's management and corporate governance.

Issuers with sound management structures, diverse and accessible executive teams, and remuneration policies aligned with the long-term interests of minority shareholders would generally be assigned a stronger Management score.

#### ESG CoE Adjustment

Finally, each of the nine key topics outlined above are rated as one of the following:

- Exemplary
- Improving
- Not Improving
- Unfavourable

Each key topic rating is equally weighted. The sum of the nine ratings corresponds with an ESG discount or premium, which is added to the CoE. The CoE is the rate of return required from the issuer by the Investment Manager. An Exemplary rating will result in an ESG reduction to the issuer's CoE. Conversely, an Unfavourable or Not Improving rating will result in an ESG addition to the issuer's CoE.

## DATA SOURCES AND PROCESSING

### **a) the data sources used to attain the fund's environmental and social characteristics promoted by the Fund;**

The Investment Manager's investment decisions are based on internal research, which encompass both its proprietary financial forecasts and ESG assessment. The Investment Manager aims to meet with all issuers in which it seeks to invest at least annually and discuss a range of topics including ESG issues with management.

Use of external sources of research remains limited and they are mainly utilised to understand market consensus and as one of the ways to gather data. To supplement the Investment Manager's own ESG research, it also has access to third-party resources such as Bloomberg ESG, MSCI ESG and Sustainalytics, which provide institutional investors with issuer-specific ESG data.

### **b) the measures taken to ensure data quality;**

The Investment Manager looks to gather information from multiple sources, which include direct interactions with issuers and utilising multiple third-party research datasets. This allows the Investment Manager to create a fuller picture of an issuer's ESG dynamics, gain insight on its practices and assess data quality and consistency.

The Investment Manager does not rely on third party research providers' conclusions to make investment decisions. The Investment Manager merely uses their research as one way to access data and as a challenge mechanism to its own views.

### **c) how data are processed; and**

The investment professional responsible for evaluating and valuing the issuer in the Investment Manager is also responsible for the ESG assessment: this is an integral part of the Investment Manager's analysis.

**d) the proportion of data that are estimated.**

The Investment Manager uses data from multiple data sources, including from direct interactions with issuers, financial statements and external ESG data providers. There may be instances where the Investment Manager may perform internal calculations of ESG metrics to obtain a fuller understanding of an issuer's ESG performance and to enable comparison between issuers.

## LIMITATIONS TO METHODOLOGIES AND DATA

**a) any limitations to the methodologies referred to in “METHODOLOGIES” and “DATA SOURCES AND PROCESSING”; and**

The inconsistent quality, availability and timeliness of ESG data presents both a challenge and an opportunity for the Investment Manager's investment professionals. Interacting directly with issuers allows the Investment Manager to generate its own insights and exploit such market inefficiencies, whilst attempting to mitigate the risks that come with them.

**b) how such limitations do not affect how the environmental and social characteristics promoted by the Fund are met.**

Many ESG considerations are challenging to assess quantitatively, making the judgement of investment professionals within the Investment Manager key. The Investment Manager looks to gather information from multiple sources, which include direct interactions with issuers and utilising multiple third-party research datasets. This allows the Investment Manager to create a fuller picture of an issuer's ESG dynamics, gain insight on its practices and assess data quality and consistency.

## DUE DILIGENCE

The Fund is monitored by Barings Guideline Management team, which is part of the compliance function, on each business day to ensure it continues to meet the minimum threshold of 50%. Where the Fund falls below this threshold, due to market movements or because the issuers 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, the Investment Manager ensures that the trade will not lead to the Fund falling below the 50% threshold and if so, the trade will be stopped and the portfolio manager in the Investment Manager will be notified.

## ENGAGEMENT POLICIES

The Investment Manager applies the PRI's definition of engagement, which is “...*Interactions between an investor (or an engagement service provider) and current or potential investees (e.g., issuers), conducted with the purpose of improving practice on an ESG issue, changing a sustainability outcome, or improving public disclosure.*” Engagements can also be carried out with non-issuer stakeholders, such as policymakers or standard setters.

Engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosure. Through engagement, the Investment Manager aims to enhance the performance of its investments, for the benefit of its clients in line with its stewardship responsibility. The Investment Manager does not, however, attempt to impose an inflexible approach that ignores local norms and contexts. The Investment Manager believes that value is derived from transparent communication with the issuers in which it invests, coupled with the expertise and discretion of its experienced analysts and portfolio managers, and



that a one-size-fits-all approach should not and cannot be applied across the wide range of assets that it manages across the globe.

A full explanation of the Engagement Policy can be found in the Investment Manager's [Public Equities: ESG Integration and Active Ownership policy](#).

## **DESIGNATED REFERENCE BENCHMARK**

The Fund does not use a reference benchmark to measure the attainment of its environmental and social characteristics.