

Barings Developed and Emerging Markets High Yield Bond Fund

SUMMARY

This section sets out information in relation to the Fund, which is an Article 8 financial product. The Fund promotes environmental characteristics 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 such characteristics.

NO SUSTAINABLE INVESTMENT OBJECTIVE

This Fund promotes environmental 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 E and S current state score of an asset, (methodology discussed further below), are established by the Investment Manager using a proprietary scoring framework. The Investment Manager's consideration of factors when deriving a score is based on financial materiality and will encompass any number of E or S characteristics. Further information regarding the methodology is outlined below.

The Investment Manager undertakes initial and ongoing due diligence of the corporate governance structure of issuers. This analysis is presented to investment committees and incorporated into the governance component of Barings' ESG scores. The Investment Manager assesses whether the governance structure is commensurate with the ownership structure of the issuer and analyses key governance risk factors on a case-by-case basis. Governance risks assessed can include issuer ownership, the board and management structures, legal and tax compliance, quality of reporting and audits, employee retention and relations, and staff remuneration. If an issuer is rated 5 (unfavourable) under Barings' ESG current state score for governance, it will be formally excluded for investment. The Investment Manager tracks and monitors governance controversies and can take engagement action when they occur. An issuer with a low (but acceptable) governance score would also be tracked for commitments towards improvement over time as part of the internal ESG scoring process. 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.

INVESTMENT STRATEGY

The Fund will seek to achieve its primary investment objective by investing principally in a portfolio of high yield fixed and floating rate Corporate Debt Instruments and government debt instruments globally. The Fund may invest more than 20% of its Net Asset Value in emerging markets.

The Investment Manager will not invest more than 5% of the assets of the Fund in securities of any one corporate issuer rated Sub-Investment Grade by an internationally recognised rating agency or assigned an agency equivalent rating by the Investment Manager. Subject to that limit, and in order to achieve a high level of current income, the Investment Manager intends to invest principally in Sub-Investment Grade securities that are rated not lower than B-. The Investment Manager may also invest less than 30% of its Net Asset Value in Sub-Investment Grade securities rated lower than B-. The Fund may also invest no more than 10% of its Net Asset Value in CoCos.

Where an eligible asset is not rated by an internationally recognised rating agency, the Investment Manager may determine its own assessment of credit quality and assign an agency equivalent rating to the asset. In the case of new issuance, expected ratings may be used and further issuer level ratings may be applied, if available, where security issue level ratings are unavailable. Subordinated issuer level ratings may also be used for unrated subordinated instruments.

As part of its investment in emerging or developing markets, the Investment Manager may invest in securities of any issuer operating in any developing or emerging country listed in Appendix B which are listed or dealt in on a stock exchange or other regulated market in any such developing or emerging country. Where the country is a Member State of the European Union or the OECD, such securities will normally be in the form of Eurobonds which will be listed on the Luxembourg Stock Exchange or dealt in through the markets organised under the rules of the International Securities Market Association. The Fund generally aims to maintain a diversified portfolio and its exposure in securities of issuers operating in each such developing or emerging country, however, investments in securities listed or dealt in on stock exchanges or regulated markets in any such country will be less than 30% of its Net Asset Value.

Subject to the foregoing, the policy of the Investment Manager is to maintain diversification in terms of the countries to which investment exposure is maintained and there is no general limit to the proportion of the assets which may be invested in any one country or region.

The Fund is not expected to invest more than 10% of its Net Asset Value in securities issued and/or guaranteed by a single sovereign issuer (including its government, public or local authority of that country) which is rated Sub-Investment Grade.

The Fund will invest at least 50% of its Net Asset Value in assets which exhibit positive or improving environmental ("E") and /or social ("S") characteristics.

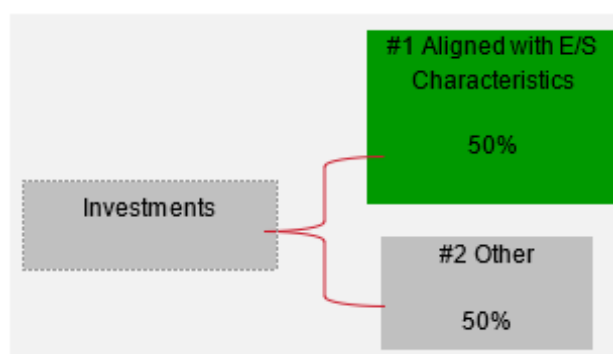
Issuers that exhibit positive or improving ESG characteristics are selected through the Investment Manager's proprietary ESG scoring methodology, which is supported with the use of third-party issuer specific ESG data where coverage allows. When assessing an investment, the Investment Manager will utilise its access to management and financial sponsors in addition to information published by issuers and through access to third party ESG research providers, where coverage allows. This information and interaction enable due diligence to be undertaken on the ESG risk profile of an issuer. For each asset, the Investment Manager analyses an issuer's ESG profile over time and consider relevant shocks that may impact the scoring. Topics considered include environmental (resource intensity, environmental footprint) social (societal impacts of products and services, employee satisfaction) and governance (effectiveness of management boards, credibility of auditing arrangements and accountability of management, amongst others) to screen issuers where ESG standards are positive or improving. The Investment Manager

undertakes ESG scoring of issuers that are owned or being monitored. ESG scores are compiled based on an analyst assessment and presented in investment underwriting memos. Issuers are assigned both an ESG current state score and an ESG outlook score for environmental, social, and governance categories. The ESG current state score assesses the current sustainability profile of the issuer relative to the investment universe. ESG outlook scores analyse momentum of the issuer on ESG topics in comparison to expected ESG development in the market. Investee issuers will be considered as being “positive” if they have a better ESG current state score. Investee issuers will be considered as being “improving” if they have a moderate ESG current state score and an improving outlook score. The Investment Manager adopts an active management policy in relation to ESG topics and has a preference to focus on engagement to improve material issuer transparency and behaviour. Engagement activity may be focused on key ESG credit risk areas.

The Investment Manager integrates ESG information into the investment process across all asset classes. Through fundamental analysis, the Investment Manager seeks to gain a comprehensive understanding of the material factors that influence the sustainability of investments. The Investment Manager considers ESG information alongside other crucial variables that may impact an investment’s risks and returns over time. In particular, the Investment Manager considers ESG criteria in relation to specific industry and sector trends and characteristics to identify the risks of an investment. Once invested, the Investment Manager continues to monitor each investment to ensure their thesis, including that on ESG matters, remains intact and that an investment’s risk and return profile remains attractive relative to other opportunities available in the market. Sustainability risks that the Investment Manager may consider are environmental, social or governance events or conditions that, if they occur, could cause an actual or a potential material negative impact on the value of the investment, examples of which include physical environmental risks, transition risk (e.g. investee company assets losing their financial value because of tightening of environmental legislation) or liability risk (e.g. risk of liability due to a breach of human/employee rights considering the jurisdiction of the investee company). Sustainability risks can reduce the value of the underlying investments of the Fund and therefore could have a material impact on the performance and returns of the Fund.

PROPORTION OF INVESTMENTS

The Fund will invest at least 50% of its Net Asset Value in assets which exhibit positive or improving environmental (“E”) and/or social (“S”) characteristics. The “Other” category will comprise assets (including cash, cash equivalents, hedging instruments and other assets) which do not have an ESG current state score, which are not aligned with the Fund’s E and/or S characteristics and/or have no minimum environmental or social safeguards.



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristic, have no minimum environmental or social safeguards, nor are qualified as sustainable investments.

MONITORING OF ENVIRONMENTAL OR SOCIAL CHARACTERISTICS

The Fund is monitored each business day to ensure it continues to meet the minimum 50% threshold. Where the Fund falls below this threshold, due to market movements or because the fixed income instruments it holds no longer meet the criteria of a “Positive ESG” investment, this will be corrected at the earliest opportunity.

METHODOLOGIES

To ensure the above, issuers that the Fund invests in are classified as either:

Issuers will be classified as having

POSITIVE ESG

if they have an overall ESG Current State score of three or better and a Governance Current State score better than five.

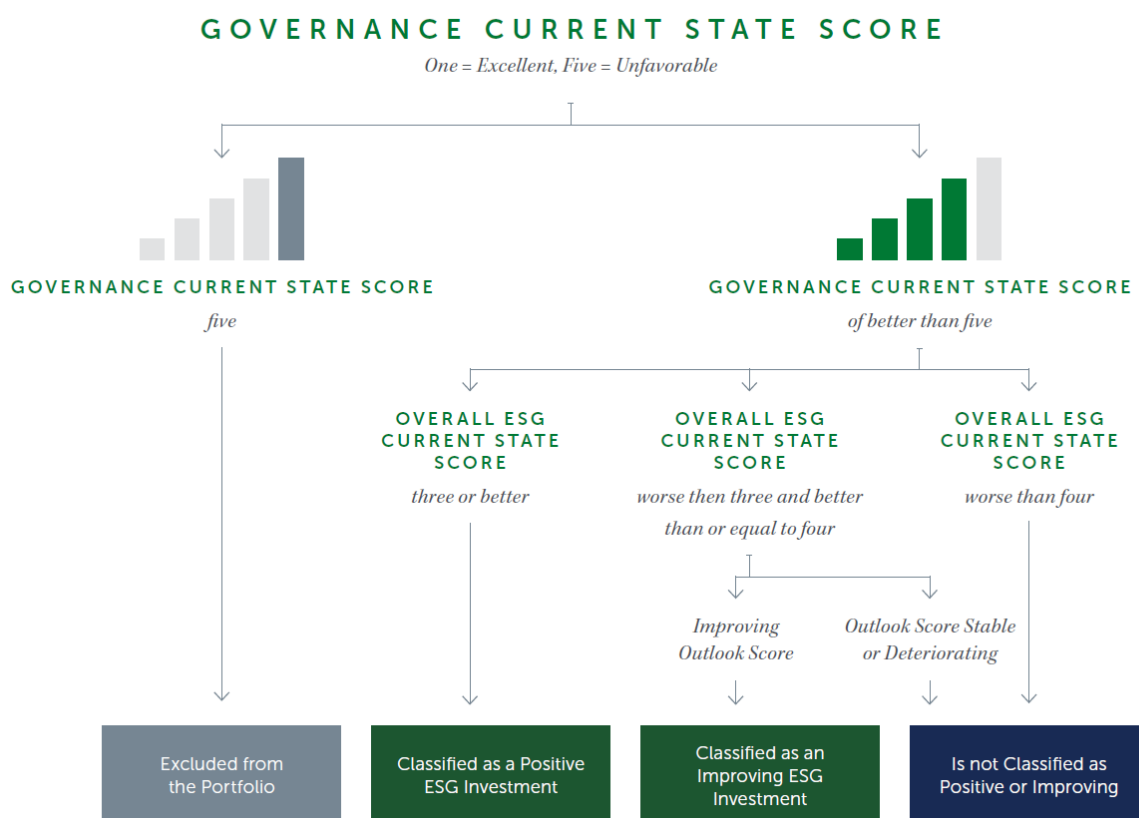
OR

Issuers will be classified as having

IMPROVING ESG

if they have an overall ESG Current State score worse than three, but better than or equal to four, an improving Outlook score and a Governance Current State score better than five.

Investments with an average combined ESG score of worse than four and/or Governance/Management quality score worse than four will not be deemed to have “positive ESG” or “demonstrating improving ESG characteristics”.



The criteria the Investment Manager uses to determine if the issuer of the assets exhibits positive or improving ESG characteristics are described below and is based on the Investment Manager’s proprietary ESG scoring methodology.

When assessing an investment, the Investment Manager will utilise its direct access to senior management and financial sponsors in addition to information published by issuers and through access to third party ESG research providers, where coverage allows. This information and interaction enable due diligence to be undertaken on the ESG risk profile of an issuer. For each asset, the Investment Manager analyses issuer’s ESG credentials over time and consider relevant shocks that may impact the scoring. Scoring indicators include environmental (may encompass resource intensity, environmental footprint,) social (societal impacts of products and services, and employee satisfaction,) and governance (may encompass ownership structure, effectiveness of management boards, credibility of auditing arrangements and accountability of management,) to assess screen issuers where ESG standards are positive or improving.

ESG scores are compiled based on an analyst assessment and reviewed by investment committees within the Investment Manager when applicable. ESG ratings are reassessed as material ESG developments occur and updated in line with the issuers reporting cycles. A review process ensures ratings are accurately maintained.

The 1–5 ESG current state scores are aggregated based on sector weightings to give an overall 1-5 ESG current state score. Issuers will be considered as being “positive” if they have an overall ESG current state

score of three or better on the scoring scale. Issuers will be considered as being “improving” if they have an overall ESG Current State Score that is worse than three, but better than or equal to four and an improving Outlook Score.

The Investment Manager adopts an active management policy in relation to ESG topics and has a preference to focus on engagement to improve material issuer transparency and behaviour. Engagement activity may be focused on key ESG credit risk areas. This includes areas such as the provision of emissions data and reduction targets. Escalation on unsuccessful engagements can take the form of adjustments to ESG scores, removal of the issuer from the approved buy list by investment committees and divestment. At present, divestment is more likely to occur when the engagement topic is related to a fundamental credit risk as opposed to improved ESG data disclosure that continues to lag some asset classes.

DATA SOURCES AND PROCESSING

The Investment Manager's investment decisions are based on internal research, which encompass both its proprietary fundamental underwriting and ESG assessment. Furthermore, the investment professionals responsible for evaluating and valuing fixed income instruments are also responsible for its ESG assessment and forms an integral part of the Investment Manager's analysis. External sources of research/data typically from the issuer are utilized to understand market consensus and gather data but often research availability can be limited. To supplement its ESG research, the Investment Manager's team also has access to third-party resources, which provide institutional investors with issuer-specific ESG data.

The Investment Manager reviews ESG ratings. The Investment Manager will re-affirm ESG ratings based on its proprietary, fundamental underwriting and ESG assessments. Any usual engagements may also contribute to an update to scores and are reviewed to ensure proper alignment with ESG ratings.

The Investment Manager processes/captures each issuer's underwriting conclusion into a database together with the proprietary ESG scores based on its internal methodology. Whilst there may be instances where the data which the Investment Manager receives from third party providers is estimated, when assessing an investment, the Investment Manager will utilise its direct access to senior management and financial sponsors in addition to information published by issuers and through access to third party ESG research providers. This information and interaction allows thorough due diligence to be undertaken on the ESG risk profile of an issuer, rather than exclusively relying on quantitative data.

LIMITATIONS TO METHODOLOGIES AND DATA

The ESG approach is integrated into the investment process. Scoring methodology is based on internal proprietary methodology around several factors relevant for corporate issuers; the ensuing scores are derived from issuer data, issuer engagements and third party data which may or may not be complete. Data source limitations may exist if Barings is investing in companies where third party vendors do not provide data or issuer data is not frequent or up to date.

The Investment Manager's investment decisions are based on internal research, which encompass both our 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. The investment professionals responsible for evaluating issuers are also responsible for its ESG assessment: this is an integral part of the Investment Manager's analysis.

DUE DILIGENCE

Issuers are selected for the ESG profile according to the Investment Manager's proprietary ESG scoring methodology. When assessing an investment, the Investment Manager will utilise their direct access to management, banking group and financial sponsors in addition to information published by issuers. The team also seeks to understand market consensus on ESG profile of each issuer, through its access to third party ESG research providers. This information and interaction allow thorough due diligence to be undertaken on the ESG risk profile of an issuer. For each asset, the Investment Manager examines the scores of the indicators to determine an issuer's ESG credentials and also considers a momentum indicator scoring which captures relevant shocks that may impact the scoring in the future. Scoring indicators include environmental (resource intensity, environmental footprint,) social (societal impacts of products and services, employee satisfaction) and governance (effectiveness of management boards, credibility of auditing arrangements and accountability of management) assessments to screen companies where ESG standards are positive or improving. The Investment Manager undertakes ESG scoring of issuers that are owned or being monitored. ESG ratings are compiled based on an analyst assessment.

ENGAGEMENT POLICIES

The Investment Manager adopts an active management policy in relation to ESG topics and has a preference to focus on engagement to improve issuer disclosure or behaviour. Engagement activity is focused on key environmental and social risk areas for issuers and provision of relevant information. This includes areas such as the provision of emissions data, use of science-based targets and adherence to targets. Escalation on unsuccessful engagements can take the form of adjustments to environmental or social ratings, removal of the issuer from the approved buy list by investment committees and divestment. The Investment Manager does track accountability of issuer engagement and records these engagements in a proprietary system.

DESIGNATED REFERENCE BENCHMARK

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