



BARINGS

SFDR Methodology

2024 DISCLOSURE

Environmental, Social & Governance Characteristics

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

Screening Criteria

To ensure the above, issuers of the companies 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.

Issuers will be classified as having

IMPROVING ESG

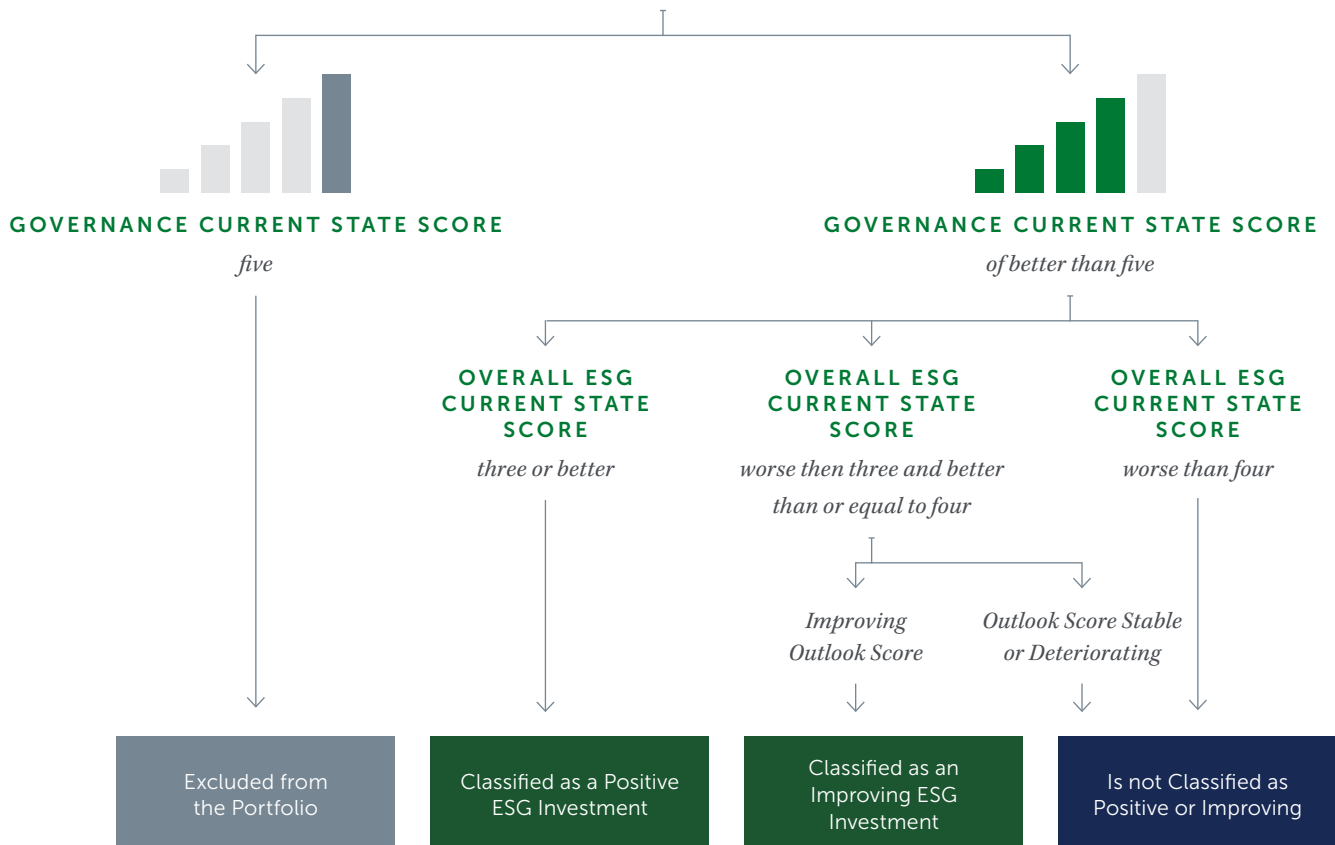
if they have an overall ESG Current State score worse than three, but better than or equal to four, an improving Outlook score and a Governance Current State score better than five.

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

The graphic below illustrates how an individual asset would be classified based on these criteria given their internal ESG score.

GOVERNANCE CURRENT STATE SCORE

One = Excellent, Five = Unfavorable





The criteria we use to determine if the issuer of the fixed income instrument exhibits positive or improving ESG characteristics are described below and is based on the Investment Manager's proprietary ESG scoring methodology.

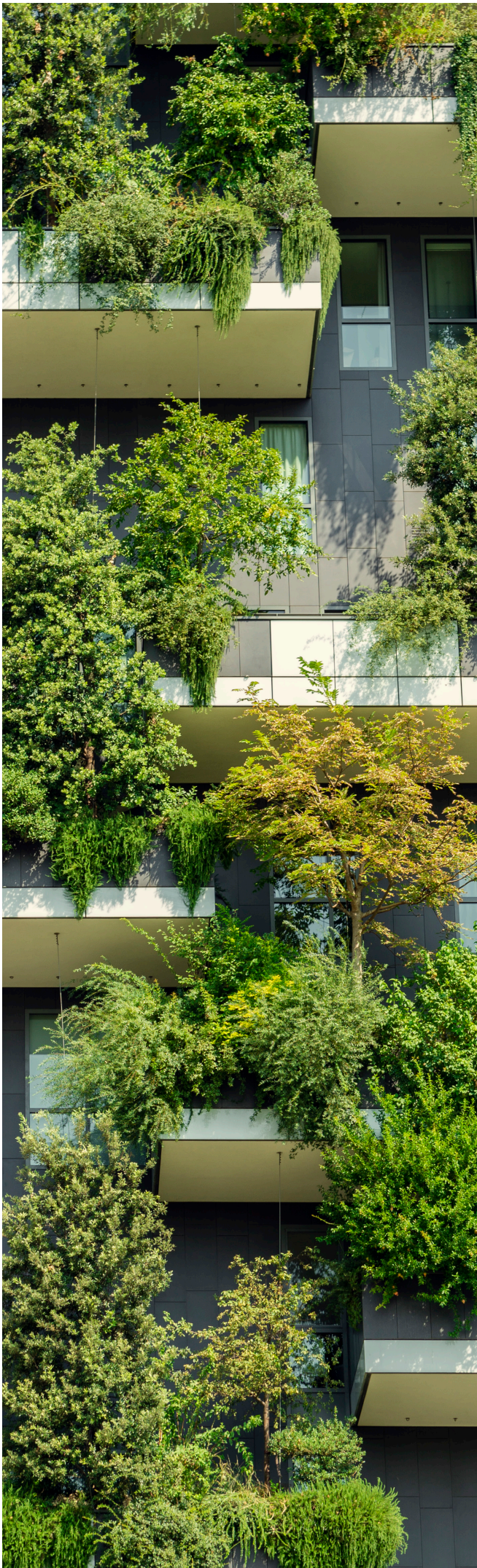
When assessing an investment, the Investment Manager will utilise their direct access to senior management and financial sponsors in addition to information published by issuers and through access to third party ESG research providers such as MSCI, Sustainalytics and Bloomberg ESG. This information and 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 over time and considers relevant shocks that may impact the scoring. Scoring indicators include environmental (resource intensity, environmental footprint, traceability), social (societal impacts of products and services, business ethics, employee satisfaction) and governance (ownership structure, effectiveness of management boards, credibility of auditing arrangements and accountability of management) assessments to screen companies where ESG standards are positive or improving.

ESG ratings are compiled based on an analyst assessment, presented in investment underwriting memos, and reviewed by investment committees. ESG ratings are reassessed as material ESG developments occur and updated in line with company reporting cycles. A quarterly affirmation process ensures ratings are accurately maintained.

Issuers are assigned a 1–5 (excellent to unfavourable) current state ESG rating and a 1–3 (Improving to Deteriorating) ESG outlook rating for environmental, social, and governance categories. The current state ratings assess the current sustainability profile of the issuer relative to the investment universe. Outlook ratings analyse momentum of the company on ESG topics in comparison to sector ESG development. The 1–5 environmental, social and governance ratings are aggregated based on sector weightings to give an overall ESG rating.

The Investment Manager adopts an active management policy in relation to ESG topics and has a preference to focus on engagement to improve issuer behaviour. Engagement activity is focused on key ESG credit risk areas for issuers and provision of relevant information. 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 ratings, 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.

The Investment Manager incorporates these ESG factors into the investment process to identify issuers with strong fundamentals, favourable ESG scores, attractive valuations and sustainable business models.



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 the fixed income instruments it holds no longer meet the criteria of a “Positive ESG” investment, the passive breach will be corrected at the earliest opportunity.

Data Sources

Our investment decisions are based on internal research, which encompass both our proprietary financial underwriting and ESG assessment. Furthermore, the investment professional responsible for evaluating and valuing the fixed income instrument is also responsible for its ESG assessment and forms an integral part of our analysis.

Eternal sources of research are utilized to understand market consensus and gather data but often research availability can be limited. To supplement our own ESG research, our team also has access to third-party resources such as Bloomberg ESG, MSCI and Sustainalytics, which provide institutional investors with issuer-specific ESG data.

Sustainability Indicators

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