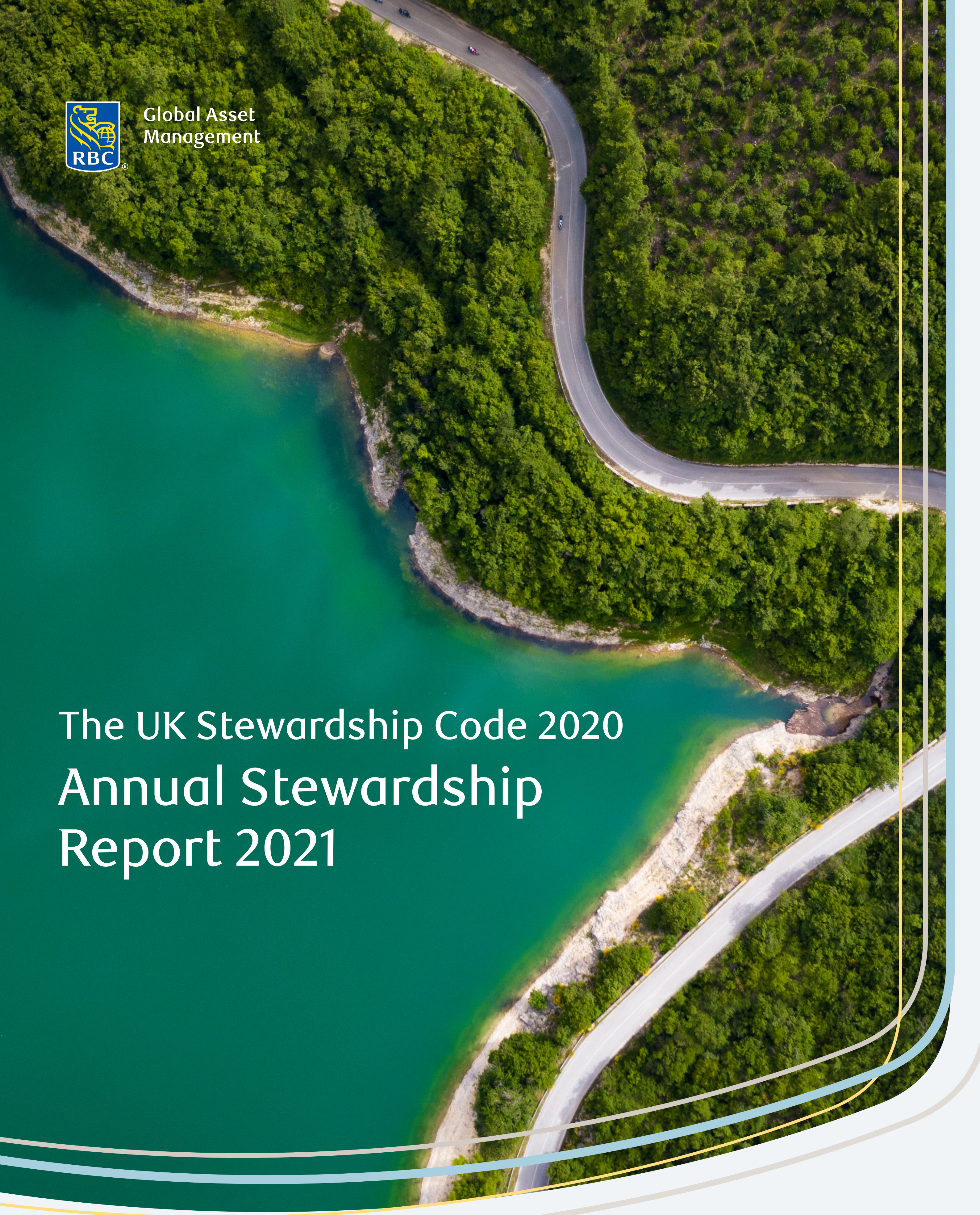
Global Asset Management



The UK Stewardship Code 2020

Annual Stewardship Report 2021

BlueBay's Annual Stewardship Report is currently under review by the FRC.

Signatory of:

PRI Principles for Responsible Investment

The principles content index

Stewardship definition

We have adopted the definition of stewardship according to The UK Stewardship Code 2020 of the Financial Reporting Council (FRC), where it 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."

We apply the above definition throughout our investment process in terms of our allocation of capital from pre to post-investment activities and the consideration of traditional financial metrics, as well as those which are broader and encompass environmental, social and governance (ESG) (or sustainability-related) matters. In terms of our ESG investment management framework, this incorporates multiple approaches including, but not necessarily limited to, the application of formal ESG exclusions, ESG integration efforts, as well as ESG engagement and proxy voting activities. However, we observe that the market generally tends to bias thinking, practice and disclosure on stewardship more narrowly in the latter two areas – namely engagement and proxy voting.

As a specialist fixed income investor, there is a degree of scope to utilise these tools, but it is important to understand that the extent to which we have access to these mechanisms differs in comparison to equity owners. For instance, proxy voting is an immaterial activity for us given we are lenders not owners, although there are instances in which it can occur.

In addition, while there may be structural challenges, there are also opportunities resulting from evolving market developments for fixed income investors to exercise stewardship responsibilities. Throughout this document, we have sought to raise awareness of both these dimensions.

The stewardship approaches and activities detailed in this report relate to those occurring over the calendar year ending December 31, 2021. Unless otherwise stated, information provided in this report is as of 31 December 2021.

About BlueBay

BlueBay Asset Management (‘BlueBay’) is an active fixed income specialist, structured to deliver outcomes tailored to professional clients’ needs.

- Over US128bn in AuM (as of 31 December 2021)[1]
- 7 sub-asset classes (Investment Grade, Emerging Market, Leveraged Finance, US Fixed Income, Convertibles, Structured Credit, Multi-Asset Credit)
- 50 specialist strategies
- 439 employees and partners
- 9 offices globally (UK, US, Luxembourg, Japan, Germany, Italy, Switzerland, Australia).

More information about BlueBay[2] can be found on our corporate website.

BlueBay is a wholly owned subsidiary of Royal Bank of Canada (RBC) and part of the RBC asset management division, RBC Global Asset Management group of companies.

Our journey and evolution

Figure 1: History and evolution of BlueBay

2001
BlueBay is established at the inception of the euro to capitalise on inefficiencies in the growing pan-European corporate bond market, and in response to evolving opportunities in emerging market debt

2002
Launched flagship European credit long-short hedge fund strategy and the first long-only emerging market debt fund in UCITS format

2003
With a focus on capital preservation BlueBay pioneered the use of credit default swaps in traditional benchmark funds, applying short positions and other hedge fund investment techniques in both long-only and long-short strategies

2008
BlueBay launched an EM corporate strategy to capitalise on pricing anomalies in a largely under-researched asset class and launched a global convertible bond strategy

2010
BlueBay is bought by RBC and launches a sovereign debt strategy to capitalise on new total return opportunities as a result of European peripheral stress

2015
Launched a financial capital bond strategy to capitalise on the new sub-asset class of bank contingent capital debt instruments and also launched a global macro fund

2017
Launch of a unique environmental, social and governance (“ESG”) high yield strategy to meet the growing demand for ethical investment strategies

2018
BlueBay adds structured credit team to launch a range of strategies across this large and expanding asset class

2020
As part of its growing structured credit business, BlueBay printed its first European CLO of $0.3bn

2021
BlueBay built its illiquid credit offering with the launch of its EM illiquid credit strategy, and creation of its DM special situations team. It also launched its first Impact-Aligned Bond Strategy, enabling investors to allocate for positive impact through liquid public debt markets

Source: BlueBay Asset Management, as at 31 December 2021

More information about our investment strategies and client base can be found in the ‘Investment Approach’ Principle 6 section within this document.

[1] AuM shown incorporates funds managed by BlueBay Asset Management and RBC GAM US which are managed within the BlueBay investment platform.
[2] Note: as of 1 November 2021, Bluebay Asset Management USA LLC was merged with and into RBC Global Asset Management (U.S.) Inc., with the latter as the surviving entity.

Purpose and governance

Principle 1: Purpose, strategy and culture

Our purpose, values and culture

BlueBay's purpose is to protect and grow our clients' assets and redefine best practice in asset management.

Our core values are respect and collaboration, individual excellence, and integrity, which are reflected in how we act internally and with our stakeholders. We demonstrate accountability for our actions through transparency, operating with strong governance and ensuring we operate under an ethical framework with all our stakeholders.

We are committed to recruiting and developing talented and diverse individuals at all levels of their careers. We believe nurturing and supporting an inclusive and diverse workplace results in better team dynamics and decision making. We believe this leads to superior outcomes for our clients and business.

Our value proposition

BlueBay is an active fixed income specialist, structured to deliver outcomes tailored to the needs of investors seeking to enhance portfolio returns.

We embody the best of alternative and traditional asset management:

1. **A diverse team of highly skilled risk-takers, focused on alpha generation with a single investment process:**
   a. Proprietary research drives our investment process: risk-takers conduct their own direct research with companies and policymakers in macro, credit and ESG to generate insights and deliver alpha.
   b. Long/short mindset maximises our ability to deliver alpha.
   c. Personally invested to align risk-taker and client interests.
   d. Entrepreneurial culture enables us to attract and retain investment talent.
2. **A robust investment process based on proprietary research, producing outcomes consistent with portfolio design:**
   a. Full transparency, collaboration and intellectual honesty about investment decisions mean we can identify problems early and develop talent within the team.
   b. Risk management and compliance are central to our culture, ensuring a controlled environment to protect clients' interests.
   c. Proprietary technology supports both our qualitative, judgmental investment process and our ability to deliver tailored client outcomes.
3. **Collaborative approach driven by active client engagement:**
   a. Frequent and transparent communication with risk-takers strengthens client understanding of markets and portfolios.
   b. Dialogue beyond product enables us to innovate and deliver outcomes tailored to client needs.

Our strategic filters

1. Offer a compelling investment proposition based on relevant products, superior performance and a bias to alternatives.
2. Make life easier for clients and prospects at every stage in their journey.
3. Manage business complexity in an efficient and innovative manner, utilising the full scope of organisational resources, including RBC.
4. Utilise ESG principles in both corporate and investment decisions.

One example within the past 12 months of how we have applied these strategic filters is with how we have worked to expand our 'ESG orientated' pooled fund offerings given increasing investor interest and in light of evolving European regulation on sustainable finance.

While our efforts to review and develop new strategies were initiated prior to 2021, it was in 2022 that we started to implement these. Specifically:

- In response to the increasing ESG expectations from investors to ensure we continue to offer compelling investment solutions, we repositioned some of our existing developed market pooled funds from being primarily focussed on ESG integration (where the focus is on investment materiality), to being more about promoting ESG considerations. This was possible for such funds without the need to materially change their product design (e.g. no need to change their alpha targets or benchmarks). Recognising that investors vary in their ESG requirements, and that meeting the needs of those who want to be more progressive in their ESG objectives would not be possible within the parameters of existing product design, we also launched new funds. Where these options do not fully meet the bespoke nature of investor's ESG needs, we worked to develop segregated mandates. Looking into 2022, we will continue to reposition existing funds to be more ESG orientated.
- By expanding and more clearly differentiating our product suite (see Principle 6 for an overview of these), and being transparent about the ESG investment framework (and how these align with EU sustainable finance regulations such as the Sustainable Finance Disclosure Regulation (SFDR)), as well as national or voluntary ESG requirements / labels, we are able to make it easier for investors to come to BlueBay for all their ESG needs and obligations. We have also worked to support institutional clients interpret and consider how they can meet EU ESG regulations.
- We apply a common approach to ensuring we treat each investor fairly and with due consideration. The development of ESG-orientated solutions is done in such a way as to be credible and thoughtful, and to ensure we deliver on ESG goals while following a strategy that can generate financial performance over time.

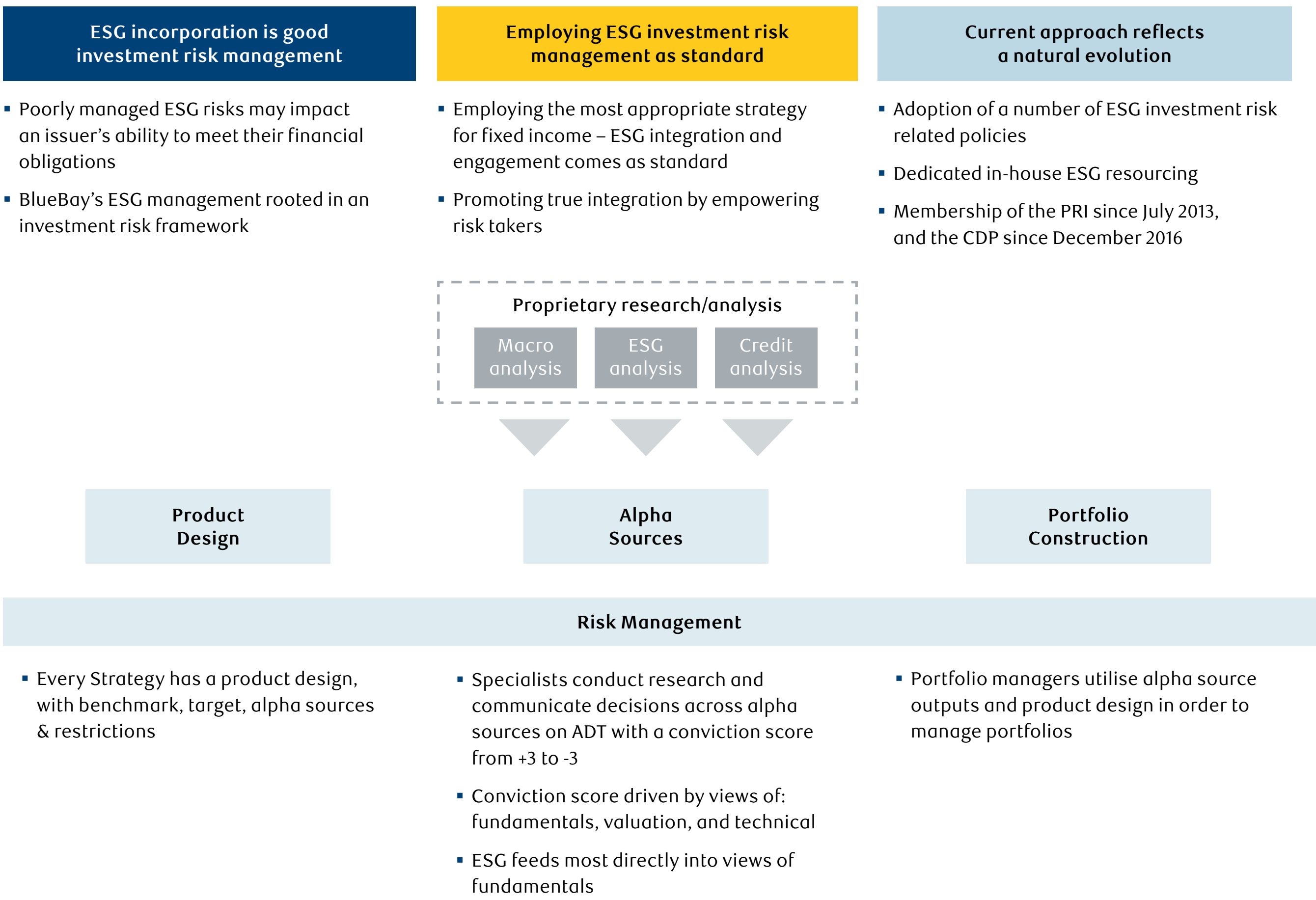
Our investment beliefs and philosophy

Our investment philosophy is based on the belief that financial markets are inefficient and continuously provide investment opportunities. We believe these inefficiencies can be identified through proprietary research and resultant mispricings can be exploited via active management.

These views underpin our investment process, supported by a deeply resourced team of specialists. Proprietary macro, credit and ESG research is drawn together in a single investment platform to identify both long and short opportunities across a universe of alpha sources. We believe these inputs provide a holistic and more nuanced analysis to support our investment views and confirm the value we place on a collaborative approach to investment decision making, particularly around stewardship.

We have outlined examples of how stewardship has guided our investment decisions in Principles 1, 4, 9 and 11 and provide more detail regarding this process in Principle 7.

Figure 2: Building blocks of BlueBay's investment process



Source: BlueBay Asset Management LLP.
For information purposes only

ESG investment philosophy and approach to stewardship

BlueBay's ESG investment approach is rooted in our belief that ESG considerations can potentially impact an issuer's long-term financial performance. Therefore, ensuring our investment management approach provides holistic oversight of investment risks by integrating ESG factors alongside conventional credit analysis is not only prudent but also in line with BlueBay's fiduciary duty to clients. Beyond an investment case for incorporating ESG into our investment practices in order to safeguard clients assets, we also recognise our clients are looking to incorporate their own organisational stewardship principles and values into the management of the assets they have entrusted to us.

We also recognises our investments and operations impact others, and vice versa. This interdependency means we need to ensure appropriate stewardship, both to our investment activities and our organisational practices. Our clients and key stakeholders seek to partner with like-minded organisations that share their values and principles. The extent to which we are effective in doing this is evidenced by the meaningful size of AuM we retain, inflows from new investors and the feedback we receive on ESG issues and initiatives. We continually share feedback internally and look to understand how we can improve our practices to ensure client satisfaction.

We have adopted a firmwide ESG investment management approach across all our managed assets. This enables us to deliver superior risk-adjusted returns over the long term while meeting our clients' wider societal expectations, as well as ensuring we account for our own ESG footprint. As part of this, we have a firm-level set of ESG approaches we apply for all managed assets, whether they relate to pooled funds (funds) or separately managed accounts (SMAs). Specific investment strategies may go further in their ESG approach, depending on what the underlying driver is for ESG incorporation (e.g. risk management or seek to promote ESG considerations independent on any investment materiality), and how pragmatic or conservative the ESG requirements are.

"BlueBay's ESG investment approach is rooted in our belief that ESG considerations can potentially impact an issuer's long-term financial performance."

As a minimum, our ESG investment management framework focuses on integration (the identification and assessment of investment material ESG risk factors), supplemented by active engagement (process of dialogue with issuers on ESG matters) and proxy voting activities (the latter, where relevant, which is in very limited instances). More information about our ESG investment management framework and approaches can be found in the 'Investment Approach' Principle 6 section within the document.

Our approach to ESG investment management continues to evolve over time. Since 2013, when we began to take a more strategic and formal approach to incorporating ESG analysis, ESG has grown in importance. It became a strategic priority for the firm in 2019, and subsequently moved to being adopted as a strategic pillar in 2020, meaning it is embedded in our standard practice. As part of this, our ESG team moved from our risk to our investment function, reflecting the increasing integration and importance of ESG insights, not just as a risk filter but also a potential alpha source.

To drive our ESG investment strategy, we set an annual firm-level work programme that provides the framework and priorities against which we measure progress.

Figure 3: 2021 ESG investment work programme and progress

2021 focus area	2021 progress	Comments / highlights
Enhance investment choice Ensuring we continue to provide a compelling product offering and enhance investment choice	**Achieved**	We have continued to engage with our key stakeholders to ensure BlueBay has a compelling ESG product offering to meet investors' evolving needs, particularly in light of EU Sustainable Finance Regulation (e.g. SFDR, taxonomy etc.), other national ESG requirements and initiatives (such as ESG fund labels) and interest in impact investing. Over the course of 2021, this was evidenced in the expansion of our 'ESG orientated' product offerings, either through the launch of new funds or repositioning of some existing ones to enable investors to have offerings for the SFDR Article 8 and 9 categories (the latter in the form of our first sustainability focused strategy). See Principles 5 and 6 for a summary of these, as well as new SFDR dedicated webpage. For 2022, we will continue to review and further expand our ESG investment solutions in light of increasing interest in ESG, as well explore developing climate-aligned investment solutions.
ESG investment-related policies Update ESG investment-related policies and expand where necessary	**Partially achieved**	A number of ESG investment-related policy documents were updated in 2021, some as part of the normal review cycle, others in light of changing practices (e.g. such as in light of our obligations under the EU SFDR regulation). Contact us to see Principle 5 for details of the specific policies updated, including ESG Investment Policy, our Statement on the UK Stewardship Code, as well as the publication of a new Statement on a Net Zero Ambition Statement jointly with our parent company, RBC GAM. We initiated a review of our Controversial Weapons Investment policy but this was not completed during 2021 as its revision was predicated on a broader, more strategic discussion about its scope to better align with the policy of our parent company, RBC GAM. The policy update will be completed during 2022.

Figure 3: 2021 ESG investment work programme and progress (cont'd)

2021 focus area	2021 progress	Comments / highlights
Governance and resources Ensure effective oversight of our ESG investment management framework	**Achieved**	We continued to review the effectiveness of the ESG Investment Working Group (ESG IWG), including refreshing its work programme and membership to ensure it remains efficient. Changes were made to expand membership to our investor relations function. In terms of our dedicated ESG team resourcing, we added to our in-house resource, to enable us to continue to strengthen our practices in light of its strategic importance and growing investor interest. See Principle 2 for details of these developments.
ESG integration and analysis Continuing to embed ESG into credit research and building the knowledge and understanding of our investment teams	**Achieved**	Progress was made to bring our newer investment teams, such as the developed market distressed debt and emerging markets illiquid credit teams, more formally into our issuer ESG evaluation framework during the second half of the year. We also finalised and implemented a bespoke investment ESG evaluation framework tailored to structured credit investments, specifically CLO and ABS instruments, building on our core approach. See Principle 7 for more details on this framework. We continued to support our investment teams with ESG training to deepen their understanding, knowledge and awareness of ESG-related matters. In some instances, this was in the form of formal professional accreditation via qualifications such as the CFA ESG Certificate, in other instances we provided input into upcoming ones such as the piloting of the Climate Change Certificate the CFA is developing, with some professionals enrolling on this during 2021 for exams in 2022.
ESG infrastructure and systems Strengthening our ESG infrastructure and systems and developing tools to enhance investment team support	**Achieved**	Progress was made on a number of fronts (see Principle 7 for more details on our ESG infrastructure), such as enhancing our ESG content and the functionality of the IT systems that store our ESG data. Regarding the reporting of firm and portfolio ESG investment performance and activities, achievements included the roll out of monthly fund newsletters with the inclusion of ESG metrics, as well as enhanced ESG reporting for our institutional clients (see Principle 6 for more details on our client reporting).
Industry collaborations and initiatives Continuing to play a role in driving industry collaborations	**Partially achieved**	We continued to play an active role at the industry level to advance ESG thinking and practices in fixed income investing through collaborations, partnerships and initiatives. Examples include the Investors Policy Dialogue on Deforestation (IPDD) and supporting the Farm Animal Investment Risk & Return (FAIRR) campaign on labour standards in food production sector. Initiatives joined during 2021 include the Global Impacting Investing Network (GIIN) and Pensions for Purpose. See Principle 10 for more details on our collaborations.

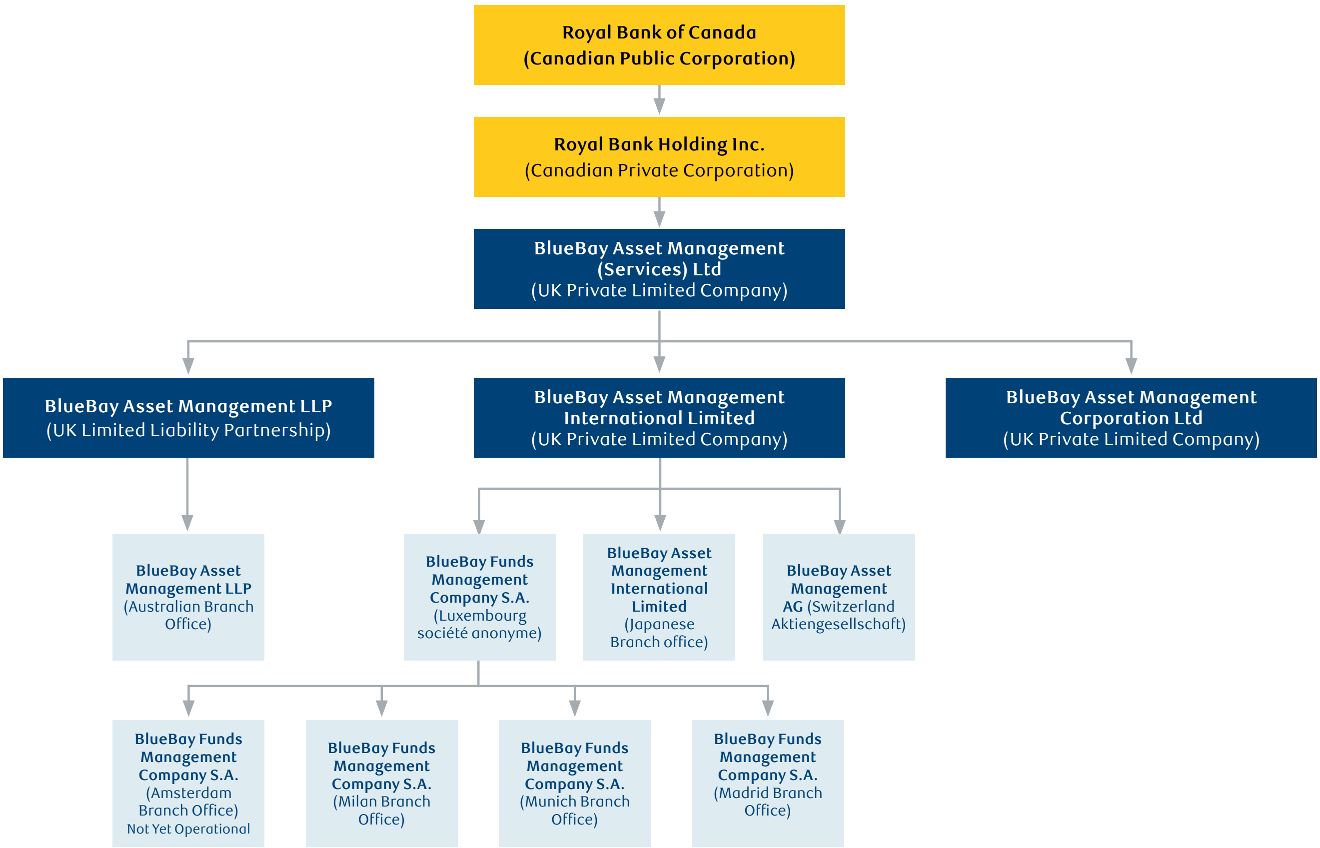
Principle 2: Governance, resources and incentives

Firm level governance and resources

BlueBay has been a wholly owned subsidiary of the Royal Bank of Canada ('RBC'), a leading diversified financial services company, since 2010. As a member of the RBC Group, BlueBay is subject to additional oversight on Corporate Governance matters via RBC's Subsidiary Governance Office.

BlueBay Asset Management LLP, domiciled in the United Kingdom, is regulated and authorised by the Financial Conduct Authority (FCA). The company was first registered on 1 December 2001 and has since been registered as an LLP; BlueBay is also registered with the US Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission. The investment management business of BlueBay was transferred from BlueBay Asset Management (Services) Ltd ('BBAM Services') to BlueBay LLP's ('the LLP') corporate structure on April 2, 2012 and all regulatory permissions and passports held by BBAM Services were transferred to the LLP at that time. The Partnership represents the senior body of key managers and decision makers of the LLP. BlueBay only does business with Professional Clients and Eligible Counterparties.

Figure 4: BlueBay Group entity structure



Notes: As of 1 November 2021, BlueBay Asset Management USA LLC was merged with and into RBC Global Asset Management (U.S.) Inc, with the latter as the surviving entity. Thus BlueBay Asset Management USA LLC was removed from the structure chart.

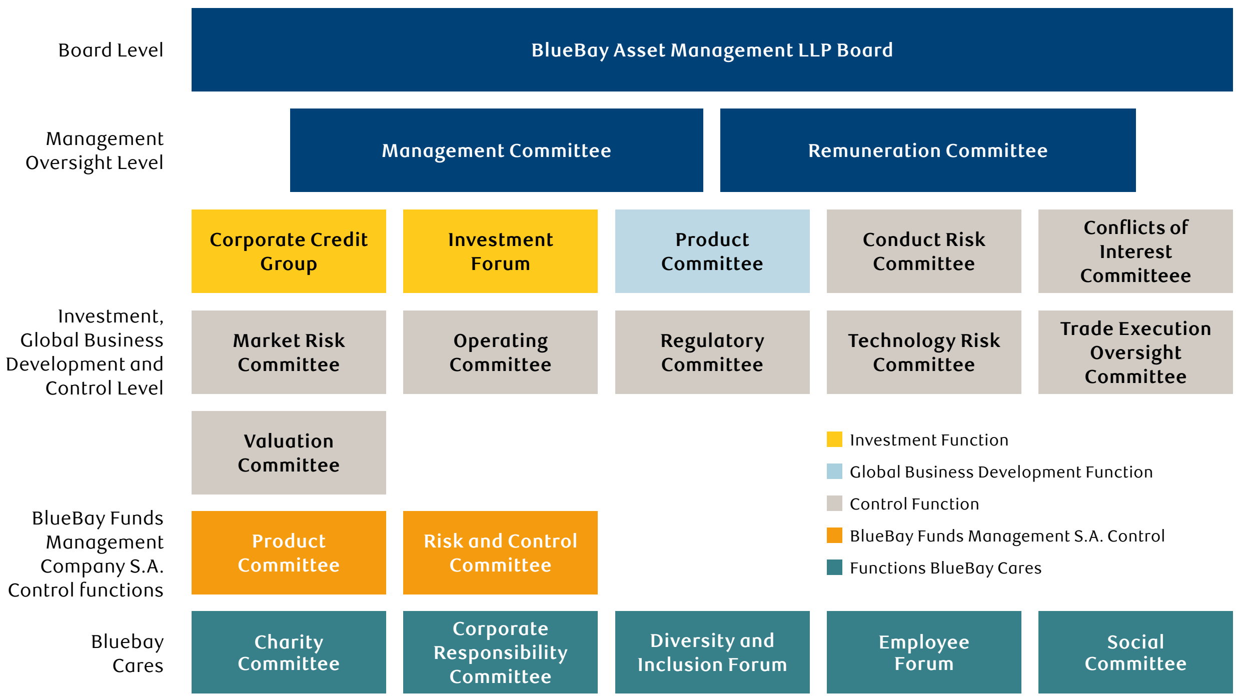
Source: BlueBay Asset Management LLP

The board is responsible for reviewing the adequacy and effectiveness of the internal controls, the risk management processes and the legal, regulatory and compliance functions. It meets on a quarterly basis, agrees BlueBay Group's strategic direction, and approves the group annual budget and multi-year financial plan. Regular financial information is provided to the board in addition to the board packs, in the form of a monthly management accounting pack. For more information about our board members, contact us.

The board has established two group committees to oversee certain aspects of BlueBay's business activities; the Remuneration Committee and the Management Committee. For more information about the members of our Management Committee and our remuneration policy, contact us.

At an operational level, we have committees that ensure appropriate accountability and oversight across BlueBay.

Figure 5: Overview to BlueBay's committees



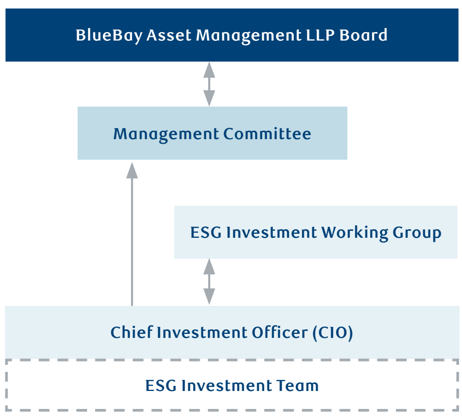
Source: BlueBay Asset Management LLP

ESG investment governance and resources

Since 2013, BlueBay has employed an in-house ESG investment specialist to lead and implement its ESG investment efforts across the firm. During 2021, we saw a net increase of our ESG resource, as the team added additional resource to expand and strengthen our expertise and ensure we continue to progress our efforts.

We appointed an ESG Institutional Portfolio Manager in June, and recruited an additional Senior ESG Analyst in July 2021. As a result, as of December 2021, there were five dedicated ESG professionals within the ESG investment function who serve as full-time resources.

Figure 6: Governance of the ESG team and stewardship activities at BlueBay



Source: BlueBay Asset Management LLP

Members of the ESG investment team

Our ESG investment team comprises individuals with a range of expertise across sustainability and investment industry experience. Collectively, this ensures the team has the necessary understanding to design and implement an ESG framework that promotes holistic risk management across the firm's managed assets.

My-Linh Ngo,
Head of ESG Investment Portfolio Manager

Emma Whiteacre
Senior ESG Analyst

Lucy Byrne
Senior ESG Analyst

Camille Lancesseur
ESG Analyst

Elena Koycheva
ESG Institutional Portfolio Manager

Formal oversight of BlueBay's ESG investment efforts happens at various levels to promote effective stewardship and integration of our ESG framework across the firm:

- The board has ultimate responsibility for ESG as it is a strategic filter for the firm.
- Periodic updates are provided to the Management Committee and board on ESG investment practices and performance, including ESG integration and stewardship activities.
- Monthly meetings are held by the ESG Investment Working Group (IWG). Set up in 2019, this group is specifically charged with providing further governance and oversight across our ESG investment process and investment teams, including ESG integration and stewardship activities. The ESG IWG is chaired by a member of the CIO's office and is comprised of representatives from the investment teams and the ESG team. Membership of the ESG IWG is reviewed on an annual basis. During 2021, we added representation from our Global Business Development function to provide a mechanism through which investor expectations and needs could be factored into the efforts of the ESG IWG and its work programme. Through 2021, the ESG IWG convened monthly and monitored progress against its work programme, including ESG integration efforts and coverage of ESG analysis, as well as our stewardship efforts. Items on the work programme were also presented to the group during these meetings for a deeper dive on progress and feedback.
- The Head of ESG Investment and the CIO continued to meet to discuss strategy and operational ESG investment matters over the course of the year.

While we consider the effectiveness and appropriateness of our governance and oversight mechanisms with regards to ESG on an ongoing basis, a formal review is undertaken on an annual basis. At the end of each year, we review our progress against the annual ESG investment work programme (see Principle 1 for details on our progress during 2021) and look to identify areas for improvement, both in terms of our activities and related processes.

The ESG IWG work programme also includes a specific focus area on governance. Our ESG Investment Policy was updated in May 2021 to reflect our approach to the EU SFDR requirements. In recognition of the significance of the climate change challenge, we also published a Net Zero Ambition Statement jointly with our parent company, RBC. Further policy reviews may be undertaken during 2022 as deemed necessary (see Principle 5 for more details on our policies).

Linking ESG to remuneration

BlueBay's incentive structures have been designed to support the business strategy, objectives and values – including prudent risk management – by attracting, retaining and motivating key talents to achieve these outcomes. From a governance perspective, our portfolio managers are all personally invested to align risk-taker and client interests. In addition, our compensation philosophy ensures awards are fairly and objectively made for performance. We undertake regular reviews and benchmark analysis to ensure employees are rewarded appropriately for their roles and to attract, develop and retain talent. Since April 2020, ESG investment-related objectives have been a formal component for the following roles/functions:

- CEO
- Board (excluding Management Committee)
- Management Committee (executive)
- CIO/Head of Strategy
- Investment function (e.g., portfolio managers, credit analysts, institutional portfolio managers)
- Client-facing roles.

The nature of ESG-related objectives vary depending on the role to ensure they are relevant and appropriate. Broadly speaking, they are divided into those that demonstrate 1) understanding of ESG risks including reputationally and 2) integration of ESG and specific outputs relevant to the role.

Performance against these objectives is considered as part of an individual's annual performance review, informing decisions about the discretionary element of remuneration.

We believe explicitly incorporating ESG investment objectives into an individual's performance agreement promotes accountability and ownership. We believe it encourages and incentivises employees to ensure discussions on idea generation include ESG considerations, where deemed credit relevant. Our credit analysts must demonstrate examples where ESG factors have been a material discussion topic in their engagements with issuers as part of their performance objectives. We do not apply an explicit weighting to the ESG investment objectives for each role, with the ultimate decision at the discretion of the individual's line manager. The exception to this relates to the objectives of the ESG investment team, who have explicit weightings of their annual performance agreement linked to specific areas. During 2021, we reviewed and updated our remuneration policy to formally incorporate ESG. BlueBay's remuneration policies are publicly available on our corporate website. Contact us if you need more information.

ESG capacity building and training

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 under-standing of ESG risks among investment teams. BlueBay's aim is to empower its investment teams to use their ESG knowledge and incorporate it within the investment decision-making process and raise potential concerns when analysing and engaging with issuers. As the ultimate risk takers, BlueBay believes these individuals are best placed to make the valuation and portfolio construction decisions, informed by ESG risk analysis and further stewardship.

While formal professional courses and qualifications on ESG matters may be helpful in building our investment teams' knowledge, we believe there is value in hands-on interactions with our ESG investment team on ESG matters as they relate directly to investment exposures. In particular, this involves working with our credit analysts to build their ESG capacity for the sectors, companies or countries they cover. However, a number of our investment professionals, as well as others from around the firm, have successfully undertaken the CFA Society of UK Certificate in ESG Investing. Furthermore, the CFA UK Society piloted a Climate Change Certificate during 2021/2022 – the content of which was supported by BlueBay's credit analysts, with some members of our investment teams taking part in the pilot exam in 2022.

Most directly, through the joint responsibility for conducting investment ESG analysis, there is active sharing of knowledge and views. One mechanism through which this is achieved is via the cross-desk sector analyst networks, which were set up in 2015 to promote the sharing of insights on market developments and investment ideas between analysts covering the same sector, which can include those pertaining to ESG. Specifically, our ESG engagement activities involve our ESG and investment professionals working together, or individually, depending on the nature of the initiative (see Principle 9 for more details on our approach to engagement. See Principle 7 section for more details on our investment approach).

Employee conduct

BlueBay believes in respect and collaboration, internally and externally. We demonstrate accountability for our actions through transparency, operating with strong governance and ensuring we operate under an ethical framework with all our stakeholders.

BlueBay's Global Compliance Handbook addresses regulatory requirements as well as arrangements designed to promote regulatory compliance. The manual is updated and made available to all employees annually. BlueBay employees are required to acknowledge receipt and understanding of the manual's contents, as well as commit to complying with its guidelines. In addition, BlueBay employees are required to acknowledge receipt and understanding of RBC's Code of Conduct. We also have a Conduct Committee chaired by our Head of Human Resources, General Counsel and Partnership Secretary, and Global Head of Compliance.

Corporate responsibility

While the primary focus of this report is on how BlueBay exercises its stewardship responsibilities and commitments in the context of our investment activities, we recognise how we promote this within our business as a whole is also important. BlueBay is committed to corporate responsibility and we believe such actions can add value to the organisation's activities by ensuring we have a positive impact on society, the environment, the wider economy and the communities that we operate within.

Under the 'BlueBay Cares' name, BlueBay's Corporate Responsibility framework is overseen by a Corporate Responsibility Committee and comprises four pillars:

- Responsibility to our people
- Responsibility for our conduct
- Responsibility to our communities
- Responsibility to our environment.

Further details relating to our corporate responsibility are detailed on our corporate website.

Diversity, equity and inclusion (DEI)

As part of our broader approach to diversity and inclusion, we continue to attract talented individuals at all levels and pay our employees fairly for their roles. We provide all employees with support policies, leave allowances and flexible working arrangements. We also promote a healthy work/life balance and support employee wellbeing through annual benefits roadshows.

Several internal forums and networks support our people and provide a voice for a variety of groups across BlueBay. These include the Employee Forum, the Diversity, Equity and Inclusion (DEI) Forum and the Social Committee. The DEI Forum provides the opportunity to share ideas, strengthen leadership networks and support junior to intermediate diverse talent. Regular events include panel debates, briefings and networking opportunities.

Example: making a difference with DEI

Over the past year BlueBay has been focused on a number of initiatives to:activities by ensuring we have a positive impact on society, the environment, the wider economy and the communities that we operate within.

1. **Build a pipeline of diverse talent:** Across BlueBay we have taken part in multiple mentoring and internship programmes in 2021 in order to nurture a more diverse next generation of leaders. These programmes included: 10000 Black Interns, Catalyst After School Programme, and Girls are INvestors.

2. **Push for change:** BlueBay's CEO & Head of RBC AM for EMEA-APAC, Erich Gerth, joined the Standards Board for Alternative Investments' (SBAI) EMEA Culture & Diversity Committee aiming to create a platform for discovery and discussion around culture and diversity best practices. The SBAI has since published a Report on Principles of Culture & Diversity Strategies. BlueBay has also collaborated closely and supported reboot, an independent not-for-profit aiming to tell impactful stories and create long-lasting change around race and ethnicity – initiatives include interviews with business leaders and funding for their profile-raising efforts.

   Outside of this, we took part in multiple campaigns to show solidarity and raise awareness around DEI issues, including staff participation in the International Day of Pink and International Women's Day (IWD). In addition, one of BlueBay's newest Charity Partners is EMpower, which is focused on solutions that integrate the voices and experiences of marginalised young people. For IWD, BlueBay raised over GBP1,000 to support their efforts in creating equality for girls.

3. **Create a diverse, equitable and inclusive culture:** BlueBay has promoted the use of pronouns on a voluntary basis to support ethnically diverse staff, LGBT staff and promote greater understanding and an inclusive culture. Separately in 2021, BlueBay's CIO started an inclusion initiative amongst the BlueBay investment platform to promote inclusion. Additionally, two female professionals were appointed to BlueBay's management committee.

Monitoring diversity representation is a key objective of the DEI Forum and continued support from its members to engage further in enhancing a diverse talent population across BlueBay has encouraged the development of monthly reporting to the Management Committee.

We also produce a Gender Pay Gap Report annually, which is publicly disclosed on our corporate website.

Principle 3: Conflicts of interest

A conflict of interest may arise in scenarios where there is an incentive to serve one interest at the expense of another interest or obligation. In the investment management context, potential conflicts may arise from time to time between a firm and its clients, or between a client and another client, or between the firm and its employees[3].

BlueBay is committed to ensuring the highest standards of ethics and integrity within our operations. We are required by our global regulators to:

- identify conflicts of interest;
- prevent or manage such conflicts of interest;
- record conflicts of interest and
- implement a conflicts of interest policy.

Methods of managing conflicts

BlueBay has established robust systems and controls to effectively manage conflicts of interest. We may use the following methods to manage conflicts of interest:

- **Policies and Procedures:** BlueBay has adopted policies and procedures throughout its business to manage conflicts of interest. These policies and procedures are reviewed annually or more regularly where a material change occurs. Specifically, BlueBay has in place a Conflicts of Interest Policy, Conflicts of Interest Register, Conflicts of Interest Statement (publicly disclosed on our website) and a Conflicts of Interest Framework and Controls document, which together identify and address conflicts of interest at the firm. A summary of the policy is also included within BlueBay's Front Office Handbook, which outlines the framework for day-to-day activities within the investment function and applies to all individuals within the investment teams.
- **Information Barriers:** BlueBay can use information barriers (physical and electronic) to restrict the flow of information within BlueBay and between entities within the same group.
- **Boards and Committees:** BlueBay's boards (including those with independent directors) and committees provide scrutiny of transactions, products and clients to determine whether they give rise to conflicts of interest. BlueBay's Conflicts of Interest Committee is responsible for the oversight of our conflicts of interest management framework, including the identification, management and monitoring of conflicts of interest across the BlueBay Group.
- **Declining to Act:** BlueBay may decline to act in certain extreme scenarios where the company is unable to manage conflicts of interest.
- **Disclosure:** BlueBay may make full and frank disclosures of relevant conflicts where there are no other means of managing the conflicts.

[3] This refers to Partners and employees (permanent, contract, consultants (more than three-month duration) and temporary employees of the firm, including interns).

Types of potential conflicts and how these are managed

Some examples of potential conflicts of interests that may arise during the course of BlueBay's business, and how we are managing them, are summarised in this section. It is important to note that a potential conflict of interest may arise even where no improper or unethical behaviour occurs.

Valuation

Nature of potential conflict: between BlueBay and our clients

The pricing of positions held by BlueBay managed accounts can give rise to potential conflicts of interest. Valuations generally represent a conflict of interest due to their effect on compensation received by BlueBay. BlueBay's Valuation Committee provides governance and oversight of the valuation of assets held in BlueBay accounts and it has oversight of the relevant policies and procedures. The Valuation Committee comprises members of senior management and is independent and segregated from BlueBay's investment teams.

Proxy voting

Nature of potential conflict: between BlueBay and our clients

BlueBay may be required to exercise a vote in relation to holdings from time to time and this may be at variance with client wishes, leading to a potential conflict of interest. BlueBay has in place a proxy voting policy that applies if there is a requirement to vote on behalf of a client. The portfolio manager exercising the vote must disclose any conflict to BlueBay's Compliance team. If a material conflict of interest arises when voting as client proxy, BlueBay's procedures provide for its Compliance team to determine the appropriate vote. If the Compliance department is unable to determine the appropriate vote, a competent independent third party will be engaged to determine the vote that will maximise shareholder value.

Affiliated transactions

Nature of potential conflict: between BlueBay and our clients

BlueBay is a subsidiary of Royal Bank of Canada (RBC), a global financial services company with a number of affiliated entities. RBC group entities may have direct and indirect interests in the financial instruments and markets in which BlueBay invests for its clients. RBC group entities may act in a variety of roles including those of proprietary trader, broker, underwriter, agent or lender in connection with transactions in which BlueBay's clients have an interest and will receive remuneration or other benefits in connection with these roles.

In order to manage potential conflicts of interest arising from this relationship, BlueBay requires all trades with RBC group entities to be executed on an arm's length basis and BlueBay is required to obtain a competitive possible result taking into account execution factors such as price, costs, speed, likelihood of execution and settlement, size, nature of the order or any other relevant consideration. BlueBay does not invest in RBC securities on behalf of its clients and this extends to personal account dealing of employees. BlueBay also has in place information barriers between the firm and RBC group entities to ensure that information is not improperly shared.

Conflicts arising from BlueBay and/or RBC Policies, regulatory restrictions and other factors that may affect client accounts

Nature of potential conflict: between BlueBay and our clients

BlueBay may restrict its investment decisions and activities on behalf of clients in various circumstances, including as a result of applicable regulatory requirements, information held by BlueBay, its affiliates, in particular RBC, RBC's roles in connection with other clients and in the capital markets (including in connection with advice it may give to such clients or commercial arrangements or transactions that may be undertaken by such clients or by RBC) and RBC's internal policies and/or potential reputational risk in connection with clients.

Conflict resulting from investments in different parts of an issuer's capital structure

Nature of potential conflict: between BlueBay and our clients; between one client and another client

BlueBay's affiliates and clients may invest in or extend credit to different parts of the capital structure of a single issuer. As a result, BlueBay's affiliates, or different clients managed by BlueBay, may take actions that adversely affect a particular client. In addition, BlueBay's affiliates may advise on different parts of the capital structure of the same issuer, or classes of securities that are subordinate or senior to securities, in which a particular client invests. BlueBay's affiliates may pursue rights, provide advice or engage in other activities, or refrain from pursuing rights, providing advice or engaging in other activities, on their own behalf or on behalf of their clients with respect to an issuer in which a particular client account has invested, and such actions (or refraining from action) may have a material adverse effect on a BlueBay client account. BlueBay's Front Office Handbook outlines the internal procedures regarding this potential conflict of interest and relevant disclosures are made to BlueBay's clients.

Conflicts resulting from trade and operations incidents

Nature of potential conflict: between BlueBay and our clients

Trade and operational incidents may occasionally occur. BlueBay has policies and procedures that address the identification and correction of incidents, consistent with applicable standards of care and client documentation. An incident generally is compensable by BlueBay to a client when it is a mistake (whether by act or omission) in which BlueBay has in its reasonable view, deviated from the applicable investment guidelines or the applicable standard of care in managing a client account.

In general, it is BlueBay's policy to notify clients of incidents corrected post-settlement that violate a client guideline and certain incidents that result in a loss to the client and are otherwise compensable. Generally, BlueBay will not notify clients of non-compensable incidents. In addition, separate account clients will not be notified of incidents that result in losses of less than the de minimis set out in BlueBay's Incident Management Policy. Investors in a pooled investment vehicle will generally not be notified of the occurrence of an incident or the resolution thereof. Additional information about resolution of and compensation for incidents is available upon request and may be set forth in the prospectuses or other relevant offering documents of BlueBay managed collective investment schemes or investment management agreements.

Acting for multiple clients

Nature of potential conflict: between BlueBay and our clients; between one client and another client

BlueBay manages client accounts side-by-side and this may give rise to conflicts of interest. BlueBay has in place policies and procedures to manage conflicts that may arise when trading for multiple clients and periodic monitoring and testing is conducted to ensure that these policies are complied with (see Figure 7 for details).

Side letters

Nature of potential conflict: between one client and another client

Side letters or other similar agreements have the effect of establishing rights under, altering or supplementing the terms of the governing documents of such applicable BlueBay sponsored investment vehicle with respect to one or more such investors in a manner more favourable to such investors than those applicable to other investors.

Any rights established, or any terms of the governing documents of such applicable BlueBay-sponsored investment vehicle altered or supplemented in a side letter or other similar agreement with an investor will govern solely with respect to such investor notwithstanding any other provision of the governing documents of such applicable BlueBay sponsored investment vehicle related thereto.

Redemptions

Nature of potential conflict: between on client and another client

Situations may occur where certain clients may wish to redeem their investments while other clients wish to maintain their investments. Conflicts of interest may arise in these circumstances, such as significant redemptions resulting in decreased liquidity and assets of the account.

BlueBay has set out procedures to ensure a fair and reasonable approach is adopted with regard to both the existing and the redeeming investors. This may include the use of swing pricing for certain accounts.

Material non-public information and inside trading

Nature of potential conflict: between BlueBay and our clients; between BlueBay and its employees

In the ordinary course of business, BlueBay may receive information that is not available to other investors or other confidential information which, if disclosed, would likely affect an investor's decision to buy, sell or hold a security. This is referred to as material non-public information, or "MNPI". Such information may be received on a voluntary or involuntary basis under varying circumstances, including, but not limited to upon execution of a non-disclosure agreement; as a result of serving on the board of directors of a company; or serving on ad hoc or official creditors' committee.

BlueBay employees are generally prohibited from disclosing or using such information for their personal benefit or for the benefit of any other person, regardless of whether that person is a BlueBay Client. BlueBay's investment flexibility will also be constrained as a consequence of its receipt of MNPI. BlueBay has no obligation or responsibility to disclose the information to, or use that information for the benefit of, any person. BlueBay has adopted policies and procedures to prevent the misuse of MNPI and the associated conflicts of interest.

Figure 7: Overview of potential conflicts of interest areas when acting for multiple clients

Type	Description and Approach Taken to Manage
Performance-Based Fees	BlueBay offers a variety of fee schedules for its investment products and performance-based compensation arrangements may vary among clients and investment strategies. BlueBay receives management fees for some clients based upon assets under management and for other clients based upon its performance in managing the client accounts. A conflict of interest may arise where performance-based fees apply as portfolio managers may be incentivised to take greater risks in accounts that receive such fees in order to achieve higher returns. There is a greater risk of this conflict arising when performance-based fees are managed alongside client accounts with a different fee structure as portfolio managers may favour accounts paying higher fees when allocating resources and investment opportunities. While BlueBay may benefit more from above-average performance in the performance-based fee accounts, its procedures require fair and equitable allocation of securities among all clients. BlueBay has adopted policies and procedures regarding allocation decisions to ensure that investment opportunities are allocated appropriately, and allocations are consistent with BlueBay's fiduciary obligations to its clients.
Allocation of Investment Opportunities	A conflict may arise where BlueBay manages client accounts side-by-side that have similar investment objectives and interests in the same investments, sectors or strategies and the investment opportunities are limited. BlueBay's policies and procedures are designed to mitigate these risks and ensure that investment opportunities are applied fairly. In certain cases, select investment vehicles are intended to be BlueBay's primary investment vehicles focused on, or receive priority with respect to, a strategy or type of investment (as determined at BlueBay's discretion) as compared to other funds. In such cases, such other clients may not have access to such strategy or type of investment or may have more limited access than would otherwise be the case. Participation by such investment vehicles in such transactions may reduce or eliminate the availability of investment opportunities to, or otherwise adversely affect, other clients.
IPO/New Issues	When BlueBay participates in IPOs/new issue, the allocation decisions must be evidenced pre-trade. Allocation of trades that are only partially filled raise a potential conflict of interest and there is a requirement to apply allocations pro-rata across all clients. Any change in allocations must be reviewed by Compliance and be applied in accordance with BlueBay's policies and procedures.
Co-Investment Opportunities	Co-investment opportunities are generally made available when BlueBay determines that while it is in the best interests of the client to acquire the full amount of a particular investment, the clients' interests are better served by holding less economic exposure to the investment than the full amount. Conflicts of interest can arise during the allocation and management of co-investment opportunities. BlueBay has broad discretion in determining to whom and in what relative amounts to allocate co-investment opportunities, but co-investment opportunities can generally only be offered after existing clients have been offered their fill.
Follow-On Investments	From time to time, BlueBay may provide opportunities to clients to make investments in companies in which certain clients have already invested. Such follow-on investments can create conflicts of interest, such as the determination of the terms of the new investment and the allocation of such opportunities among clients. Follow-on investment opportunities may be available to clients with no existing investment in the issuer, resulting in the assets of an account potentially providing value to, or otherwise supporting the investments of, other accounts.
Cross Transactions	BlueBay may from time to time effect "cross transactions" between two BlueBay clients, in which one client will purchase securities held by another client. Cross transactions may benefit advisory clients because they can avoid certain transaction fees executing cross transactions BlueBay will have a potentially conflicting division of responsibilities to the parties in such transactions, including with respect to a decision to enter into such transactions as well as with respect to valuation, pricing and other terms. BlueBay has developed policies and procedures in relation to such transactions and conflicts. Cross transactions may disproportionately benefit some clients relative to other clients due to the relative amount of market savings obtained by the participating clients. Certain cross transactions require approval from BlueBay's Conflicts of Interest and Valuation Committee.

Source: BlueBay Asset Management LLP

Gifts and Entertainment

Nature of potential conflict: between BlueBay and our clients; between BlueBay and its employees
BlueBay employees may give or receive gifts and entertainment from time to time. The value and frequency of gifts and entertainment given or received may give rise to the appearance of conflicts of interest or impropriety. In general, gifts and entertainment that are given and received are only permitted where appropriate and consistent with business practice.

Under the relevant policies and procedures, limits are imposed on the nature and value of gifts and entertainment given and received and may be subject to pre-approval and reporting requirements. BlueBay employees are required to complete quarterly certifications to confirm that all information is accurate and are subject to periodic monitoring.

Personal account dealing, private investments, outside business activities

Nature of potential conflict: between BlueBay and its employees
Conflicts may arise when BlueBay employees transact in securities for their own accounts, take up private investments or outside business activities. BlueBay has adopted policies and procedures governing personal account dealing in order to mitigate the risk of conflicts of interest arising. Employees may buy and sell securities or other investments for their personal accounts that are the same as, different from, or made at different times than, positions taken for BlueBay clients. They may also make investments in pooled investment vehicles that are sponsored, managed or advised by BlueBay.

All personal account dealing requires pre-approval by Compliance and is subject to holding period requirements. Private investments and outside business activities are also subject to pre-approval by Compliance. Quarterly certifications are required to confirm that all information is accurate and periodic monitoring is undertaken.

Reporting and disclosing of conflicts

Any potential conflict of interest that arises must be disclosed to BlueBay's Compliance team immediately for review. On disclosure, Compliance will review the circumstances of the potential conflict and will determine whether an actual conflict exists and, if so, whether there are any reasonable steps that can be taken to manage the conflict. Where a conflict of interest is identified, any action proposed must be approved by a member of the Conflicts of Interest Committee or the Global Chief Compliance Officer.

Review of potential conflicts of interest during the period

During 2021, BlueBay identified and resolved a number of potential conflicts of interest. Such potential conflicts related to dealing, managing and the code of ethics, specifically cross transactions, side-by-side management and private investments. All potential conflicts of interest were assessed following the relevant and appropriate internal policies and procedures, including review by the Conflicts of Interest Committee where applicable.

From these reviews, it was determined that no actual conflict arose as all potential conflicts had been satisfactorily managed.

Principle 4: Promoting well-functioning markets

Risk management oversight

BlueBay's firm level risk management model relies on three components, specifically 'controls', 'oversight' and 'assurance' - often referred to as the 'three lines of defence'. As part of this model a Group Risk Register is maintained and shared with the LLP board on an annual basis for formal approval. The board is also made aware of any material risk issues as and when appropriate to do so. Risks are documented on the register under the categories of business risk, investment risk, group financial risks or operational risks, with a monthly dashboard used to track performance against each.

BlueBay also reports material risks to RBC, including those pertaining to ESG, as part of RBC's enterprise risk management and reputational risk management frameworks, which are reviewed and approved annually by the Risk Committee of the Board of RBC. RBC's Group Risk Management (GRM) team has oversight over the management of ESG risks, with a dedicated team responsible for identifying, assessing, managing and, where possible, mitigating those that may pose risks to RBC.

Investment risk management framework

BlueBay's investment risk function monitors risk exposure against BlueBay's investment risk management framework. Specifically, this includes market risk, counterparty risk, liquidity risk and ESG risk. The investment risk team monitors risk levels across these areas on a daily basis and interacts with the relevant teams as needed to ensure risk levels are appropriate, with the authority to request exposure reduction if risks are deemed excessive. In terms of ESG, this includes monitoring ESG risk exposure at the issuer level, as well as across portfolios and firmwide.

From a market and systemic risk perspective, the investment risk function undertakes ongoing monitoring using a range of risk measures to understand the risk exposure and resilience of BlueBay's investments to systemic market shocks, including scenario analysis and stress testing. Such analysis can be historical in nature (i.e. taking previous scenarios to test the resilience of investment holdings, such as the 2008 financial crisis), as well as predictive (i.e. to understand the potential outcomes of market changes on investment holdings). On the latter, for example, during 2020, this included analysing BlueBay's investment holdings in terms of the outcome of the US elections. In 2022, the investment risk team will look to initiate efforts, working with our ESG investment team, to analysis carbon risk (including climate scenario and stress testing) across our investments.

Market risk committee

In addition to the ongoing monitoring of risk levels by the investment risk function, BlueBay's Market Risk Committee (MRC) provides further risk oversight. This includes setting policy relating to BlueBay's investment risk management framework, establishing mandates and guidelines for BlueBay fund products and providing ongoing review and oversight of investment risks, performance and financial risks assumed by BlueBay.

The MRC meets weekly to discuss the investment risk exposure of BlueBay's portfolios, including that pertaining to ESG. Within the summary presented to the MRC, ESG factors are used as idiosyncratic risk indicators, leveraging qualitative data points from our proprietary ESG analysis and third-party data providers, as well as quantitative indicators, such as our internally developed proprietary ESG adjusted spread risk measure.

Figure 8: BlueBay's risk governance framework

Governance	BlueBay Asset Management LLP Board			
Executive management	Management Committee			
Policy and oversight	Market Risk Committee	Operating Committee		
Risk	Investment Risk and ESG	Business Risk	Company Financial Risk	Operational Risk
Assessment and monitoring	Performed by Business, Risk Function and Compliance Function			
Audit	Internal audit by RBC and AAF / ISAE audit by PwC UK LLP			

Investment Risks:

- Monitors performance, fund liquidity, market and counterparty risks
- Stringent risk tolerance limits
- EU 'UCITS' investment restrictions
- Counterparty approval process
- Daily monitoring by independent risk team
- Annual review of counterparties

Business, Company Financials and Operational Risks:

- Clearly defined risk appetite set by the Board (Annual Risk Register), risk and control assessments and periodic measurement against the appetite statement
- Key Business processes are independently monitoring by Risk, Compliance, Legal, and RBC Internal Audit
- AAF 01-20/ISAE 3402 review by independent auditors

Note: This relates to BlueBay entities excluding US

Source: BlueBay Asset Management LLP

Investment risk management oversight of ESG matters

As an active manager managing assets on behalf of clients with long-term liabilities, BlueBay seeks to invest along similar investment horizons. This means understanding and anticipating long-term structural market or asset-class developments and positioning our investments accordingly. Within this context, we believe ESG factors can potentially have a material impact on an issuer's long-term financial performance.

Given the above, BlueBay's ESG investment approach places emphasis on downside risk management, with in-depth proprietary credit research driving the security selection process and ESG analysis acting as a risk management filter. As fixed income investors, capital preservation is integral to our approach, although we believe opportunities exist where ESG risks are not currently being priced or are priced incorrectly by the market.

Within our ESG investment management framework, ESG risk factors are reviewed and assessed at the following levels:

- **Issuer:** we look to understand BlueBay's ESG risk exposure at an individual issuer-by-issuer level as part of our fundamental credit analysis. What is considered investment relevant or material in terms of risk exposure for each issuer varies and is linked to the nature of their business activities, geographical footprint and other factors such as size, which we consider as part of our analysis. Primarily, this is achieved through our issuer ESG evaluation framework, which is applied across all public debt investments, both corporate and sovereigns, and provides a systematic and formalised framework for assessing ESG risks on an ongoing basis. It also identifies material topics for engagement (see Principle 7 for further detail on this process).

- **Sector / issues & themes:** we evaluate material ESG risks for industries and sectors and the extent to which we see commonalities across them. Since 2015, BlueBay has operated cross-desk sector analyst networks, where credit and ESG analysts covering the same sector for the different investment desks share insights on market developments, exchange views and investment ideas. This mechanism has proved invaluable in sharing the latest ESG industry/thematic developments and insights.

- **Portfolio:** at the fund level, we conduct ESG analysis across the portfolio to understand the extent of ESG investment risk exposure. BlueBay's portfolio managers are empowered to leverage ESG data and insights within portfolio construction decisions and understand ESG investment risk exposure across their funds using the internal ESG metrics, which feed into our in-house platforms. There is a combination of ongoing top-down and bottom-up ESG risk analysis, which may identify and monitor cross-sectoral/regional ESG risks and potentially lead to more strategic issuer/sector reviews of asset allocation.
- **Firm:** we assess BlueBay's ESG investment risk exposure at the firm level across all funds and investment desks, through continual analysis and monitoring of firmwide ESG risk exposure. This involves the ESG team interacting with investment risk colleagues, utilising investment exposure data, as well as conducting ad-hoc ESG analysis as deemed appropriate on an ongoing basis.

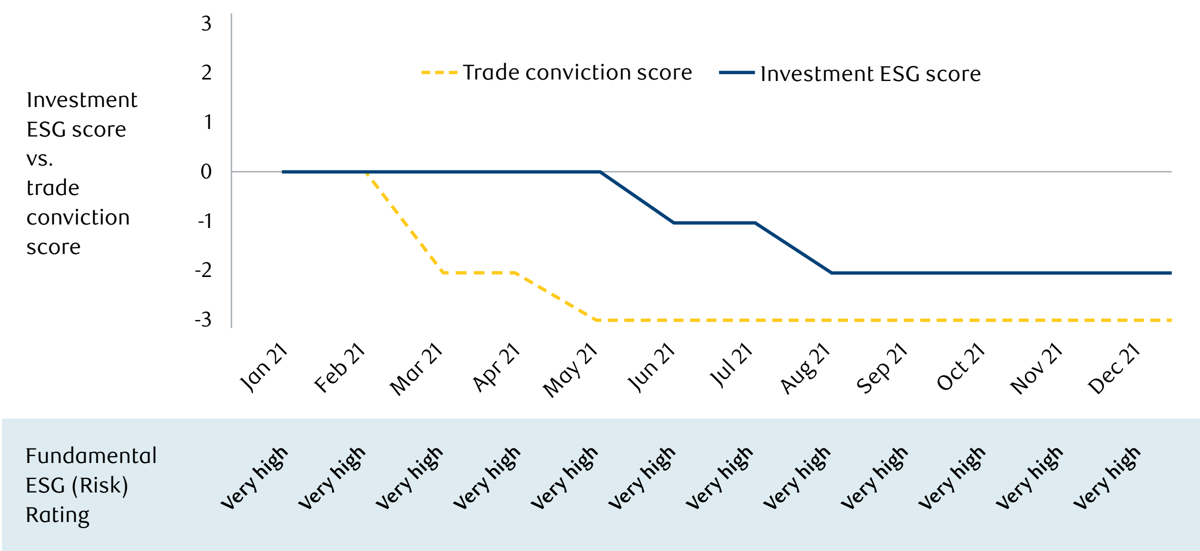
ESG risk analysis informing investment decisions

ESG risk analysis is undertaken on an ongoing basis as part of our fundamental credit research process, both pre- and post-investment. This focuses on the identification of investment material ESG risk factors to understand the extent to which they are being effectively managed, and where there is scope to better mitigate risks, flag areas for potential engagement with issuers. The insights feed into all investment decisions to help inform on portfolio construction and positioning.

An example from 2021 of how this analysis can be fundamental to highlighting critical risks during the investment decision-making process is provided by a review of a potential new bond issuance in the high yield asset class. The bond was being issued by a leading North American private security company, which had recently acquired a leading British private security company. Our ESG review raised concerns about the newly acquired business, particularly in terms of labour management, health & safety, as well as controversies regarding alleged competition and price fixing. While we received assurances from the parent company many of the ESG issues with the new acquisition had been rectified with suitable policies and procedures, we decided not to participate in the new issue as we felt it remained too early to determine if the measures introduced would be effective. The issuer would be monitored and its investability revisited as and when there is meaningful evidence of progress.

Another example shows how our ESG views feed into our investment view, and how the investment relevance can evolve over time, and influence our investment decision-making. It also evidences the role of our investment risk function. The issuer in question is a leading emerging market sovereign located in Eastern Europe. While we have held a negative ESG view on the country for many years (it was assigned a fundamental ESG (risk) rating of 'very high'), during 2021, we became increasingly convinced the ESG risks would begin to impact the investment outlook and positioned our exposure accordingly.

Figure 9: BlueBay's risk governance framework



Source: BlueBay Asset Management LLP

Specifically, the first half of the year saw a number of negative developments relating to governance, primarily where we saw questionable actions being taken against those who spoke out against the government. Such escalatory steps led us to increase our negative ESG investment view of the sovereign (which was done in two occasions, with it being assigned the most negative, a '-3' in May 2021). With the increased materiality of ESG risk factors, the overall trade conviction score, which conditions BlueBay's portfolios' positioning, was subsequently downgraded '-1' in June 2021 and '-2' in August 2021. Consequently, BlueBay pooled funds, for which investment in the issuer was not restricted by investment guidelines, progressively reduced their initial overweight investment exposure to the issuer at the start of 2021 to an underweight position.

The Market Risk Committee (MRC) noted the change in risk position in light of the increased ESG concerns, and downgraded the investment ESG score to the lowest level. This adjustment exemplifies how ESG considerations are dynamically driving investment decisions. The relevance and effectiveness of such an approach, reflected in the positive contribution to alpha generation, has driven the MRC to strengthen its oversight of ESG risk factors.

We may also engage on ESG matters to gain insights that inform on our investment views. Our efforts may focus on a specific issuer, or more often, be sector/industry/thematically focussed. A good illustration of this took place during 2021. We engaged across a range of fronts to better understand potential investment risks arising from deforestation, as it relates to addressing climate change, specifically in terms of the Brazilian animal protein sector, as well as to specific emerging market sovereigns. In this instance, we were involved in several collaborative initiatives concurrently, helping us to build a more holistic understanding of the dynamics. In one initiative, we co-chaired the global investor group to engage with a leading Latin American sovereign on national policy and regulation. In two others where BlueBay is a member (the UN PRI and the Emerging Markets Investors Alliance (EMIA)), the focus was on better understand how to address deforestation risk in the soft commodity industry, with some of this involving direct engagement with issuers.

Principle 5: Review and assurance

Review of ESG investment-related policies

BlueBay's ESG investment policies are reviewed and updated as necessary to reflect changes in circumstances, updates on actual practice, as well as where we identify a gap through internal mechanisms. This process is led and overseen by the ESG investment team, with potential revisions presented to various functions within BlueBay for formal review. This includes the ESG IWG, BlueBay's Management Committee and the compliance function. This ensures that there is senior oversight and accountability of the firmwide ESG investment policies and internal assurance mechanisms around their development and approval.

During 2021, we undertook a formal review of our ESG Investment Policy. The revision was undertaken in order to better reference our efforts with regard to the requirements of the EU SFDR, as well as to reflect changes in actual practice. Within our ESG Investment Policy, we outline how we take into account ESG at the firm and strategy level, specifically our 'ESG Aware' and 'ESG Orientated' strategies, including how these align to the requirements of the SFDR (see the 'Investment Approach' section of Principle 6 for more information on our ESG investment management framework). We believe that our ESG Investment Policy provides a complete overview of our ESG investment management strategy, including recent developments and improvements around our approach. We will continue to build on this as we further develop our practices and continue our ESG journey.

In addition, we formally reviewed and updated our Statement on the UK Modern Slavery Act and Statement on the UK Stewardship Code, with this report being our second formal submission of alignment to the code.

Furthermore, BlueBay together with RBC GAM issued a joint Net Zero Ambition Statement in recognition of the significance of the climate change challenge, reaffirming our support of the global goal of achieving net zero emissions by 2050 or sooner, and the need to ensure a just transition as part of this.

Internal and external assurance

We do not currently seek formal external assurance. Given the involvement of internal senior teams in providing assurance over our ESG investment policies and practices, we believe this provides the necessary level of scrutiny that meets the needs of the business and the resourcing capacity we have for such external reviews, as well as providing a mechanism to ensure we are fair and balanced in our reporting. We will keep under review whether an external assurance process is required in future.

In terms of our internal assurance and review processes, our governance structures provide mechanisms through which our ESG integration and stewardship practices are reviewed and evaluated by senior teams on a regular basis. For example, the ESG IWG meets monthly to discuss integration of ESG and stewardship activities across the investment teams. This includes reviewing the coverage of ESG analysis and taking steps to rectify where this does not meet sufficient levels. Weekly automated reports, including coverage statistics, are also communicated across the investment teams. The MRC's weekly information pack includes ESG-related information for BlueBay funds and can raise questions to investment teams where they feel the investment positioning may not be aligned with the ESG signals, in order to determine whether the potential ESG risks have been sufficiently accounted for.

"Our investment control team ensures any formal ESG exclusions we apply to our strategies as part of our ESG and stewardship activities are formally coded into our internal systems."

The monitoring of the ESG characteristics of BlueBay funds, and evaluation of progress on ESG investment policies and performance, is also something the BlueBay Funds Management Company S.A. monitors, via its risk function and its Board, with the Head of ESG Investment providing briefings as appropriate. The BlueBay management committee and Board may also table updates on ESG performance in their meeting agendas. Our investment control team ensures any formal ESG exclusions we apply to our strategies as part of our ESG and stewardship activities are formally coded into our internal systems. Our investment compliance function provides oversight of our ESG integration and stewardship activities through their policy reviews. Given the transparency of our ESG analysis, data and stewardship activities within our internal proprietary system, there is also interrogation of our efforts by the investment teams when reviewing funds against ESG metrics.

We also take comfort in the external benchmarking and annual assessment process of the PRI. Since our membership in 2013, BlueBay has consistently been evaluated as having above median average performance in the core PRI modules against which we are assessed (please see the following table for a summary of our results for the last three years, which remain the most recent). We make no distinction between our public and private PRI reporting to be as transparent as possible for our clients on our ESG and stewardship practices.

Furthermore, a number of BlueBay fund vehicles have been awarded the LuxFLAG ESG label, providing further external validation of our ESG practices:

- **BlueBay Global High Yield ESG Bond Fund** (October 2021 – September 2022)
- **BlueBay Investment Grade ESG Bond Fund** (October 2021 – September 2022)
- **BlueBay Investment Grade Absolute Return ESG Bond Fund** (October 2021 – September 2022)
- **BlueBay Impact-Aligned Bond Fund** (October 2021 – September 2022)
- **BlueBay Financial Capital Bond Fund** (April 2021 – March 2022)

Client reporting and transparency

BlueBay is committed to providing timely and relevant communication and reporting of our ESG investment efforts to key stakeholders, including investors. Since 2013, we have worked to expand the areas we report on; it is an iterative process of continuous improvement. We provide a combination of public and private disclosures that vary in focus including firm, sub-asset class and portfolio level.

To ensure our ESG reporting is fair, balanced and understandable, both our ESG and investment professionals undertake regular compliance training. We ensure that materials that are aimed at our clients are written in plain language and are edited by our Communications team to ensure the reports are relevant and easy to read. Furthermore, all of our publications are reviewed by our Marketing Compliance team to ensure information is presented fairly and in line with the regulatory requirements of the regions in which we report. We seek feedback from our stakeholders on the communications we produce and implement many of these in the subsequent outputs we produce. We aim to ensure that information about our clients' investments is fairly distributed across all clients to whom the information applies and is distributed in a timely manner. To ensure we are balanced in our communication, we have an internal review process by a number of senior stakeholders within the firm, while sections of specific internal teams are reviewed by those teams for accuracy. We also consider the feedback we receive from clients and regulators on our responsible investment and stewardship activities to ensure information is presented in a balanced way across ESG topics.

Figure 10: Overview of BlueBay's PRI assessment results

Module/ Assesment results	Score (A+ being highest and E being lowest)					
	2018 reporting cycle (2017 calendar year)		2019 reporting cycle (2018 calendar year)		2020 reporting cycle (2019 calendar year)	
	BlueBay	Median	BlueBay	Median	BlueBay	Median
Strategy & Governance	A+	A	A+	A	A+	A
Fixed income – SSA	A+	B	A+	B	A+	B
Fixed income – corporate financials	A	B	A+	B	A+	B
Fixed income – corporate non-financials	A	B	A+	B	A+	B

Source: BlueBay Asset Management LLP

Investment approach

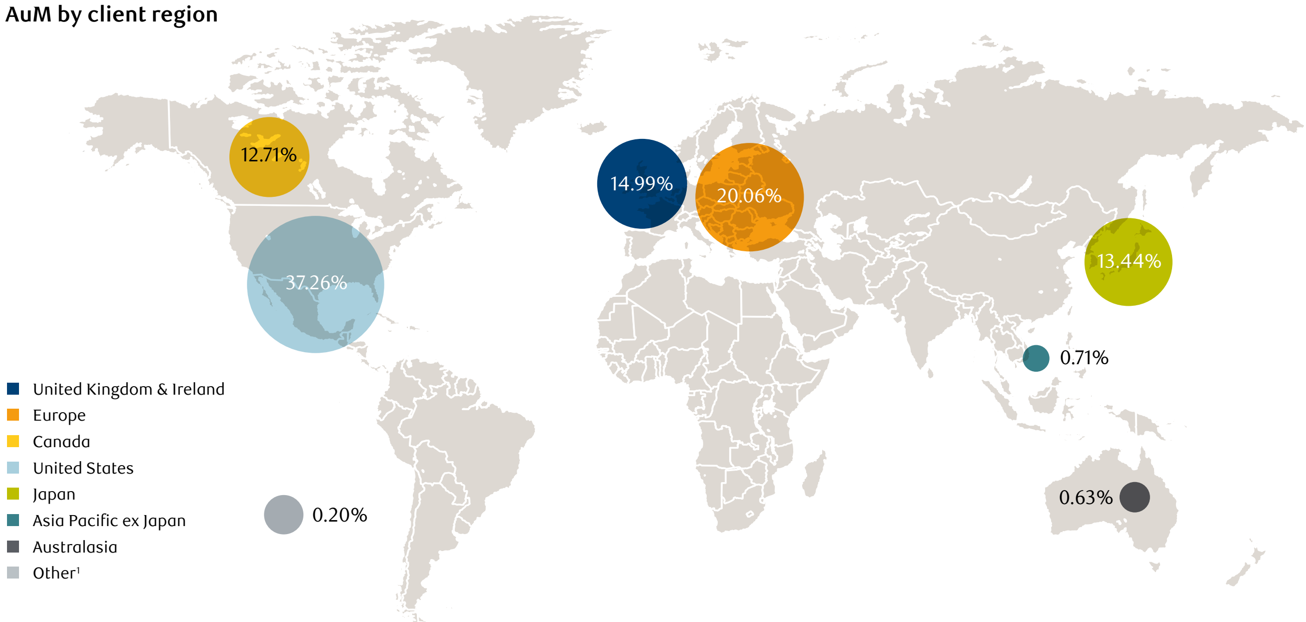
Principle 6: Client and beneficiary needs

BlueBay is a specialist fixed income manager, investing in public markets globally, in both corporate and non-corporate issuers (primarily sovereigns), across the credit rating spectrum in both bonds and loans. We invest in a range of fixed income sub-asset classes, the largest of which being investment grade. The majority of our assets are managed in long-only (benchmarked) investment strategies (in either funds or SMAs), although we also have non-benchmarked total and absolute return strategies, alongside hedge fund strategies.

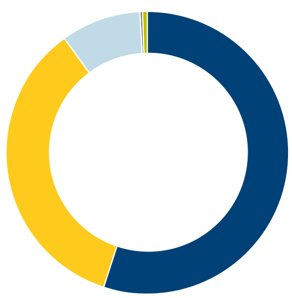
Our client base spans institutional and financial institutions, with the majority based in Europe.

Figure 11: Overview of our client base and breakdown of assets under management

AuM by client region

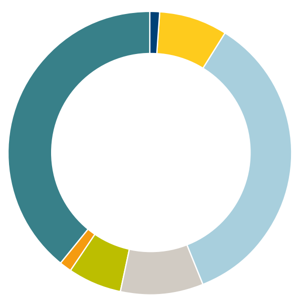


AuM by client type



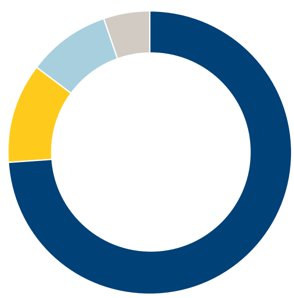
- 55.28% Financial Institution[2]
- 34.97% Institutional
- 8.98% RBC
- 0.05% Individual
- 0.73% Other (CLO + Unknown)

AuM by asset groups



- 1.31% Convertibles
- 7.83% Emerging Markets
- 35.02% Investment Grade
- 9.41% Leveraged Finance[3]
- 6.04% Multi-Asset Credit
- 1.33% Structured Credit
- 39.06% US Fixed Income[4]

AuM by strategy



- 74.11% Benchmark Relative
- 11.31% Buy and Maintain
- 9.36% Total Return
- 5.22% Absolute Return

Source: BlueBay Asset Management, as at 31 December 2021. Notes: AuM shown incorporates funds managed by BlueBay Asset Management and RBC GAM US which are managed within the BlueBay investment platform. [1] 'Other' includes South America, Africa and Middle East; [2] 'Financial Institutions' includes private banks, wealth managers, fund platforms, fund of funds and asset managers; [3] Leveraged Finance consists of High Yield, Leveraged Loans and Distressed Credit; [4] US Fixed Income consists of US Money Markets, US Short Duration, Impact Investing, US IG Credit, US Core, US Core Plus and US High Yield.

Client relationships and engagement

Our clients lie at the heart of our business. They are core to how we conduct our business and our operations.

BlueBay's client relationship management team is made up of experienced client directors, each with regional expertise. Every client is allocated a client director who works towards forming a trusted partnership with them, alongside handling day-to-day enquiries and attending review meetings with portfolio managers. They also provide portfolio reporting and thought leadership content, as well as advising of any important developments at BlueBay and within the market. In addition, BlueBay has a team of institutional portfolio managers, who are strategy-dedicated client-facing specialists. Their role includes providing insightful client portfolio report content, conducting client review meetings and participating in portfolio enhancement or product development initiatives.

Surveys are an important tool for formally engaging with our clients and identifying ways we can enhance our offerings and communication. As well as taking part in external surveys, we commission our own bespoke survey to give us detailed knowledge of how clients view our investment, relationship management, operational capabilities and communication. Outside this, we receive direct investor feedback on our offering and performance on a continuous basis when we are prospecting for new business, engaging with existing clients and speaking with the market more broadly.

Incorporating investor ESG requirements into our product offering and investment approach

Our ESG investment management framework differentiates between the firm and strategy level in terms of the ESG components we apply to meet our client's investment and ESG needs. These two levels can be described as follows:

- Firm level – how we approach ESG at the firm level and the primary ESG components we apply across all our managed assets, with some differentiation between funds and SMAs.
- Strategy level – how we apply ESG considerations to specific funds and mandates, with some differentiation between our 'ESG Aware' and 'ESG Orientated' strategies. We use the terms 'ESG Aware' and 'ESG Orientated' to differentiate between our product offerings in terms of the rationale for incorporating ESG as this can result in different outcomes, influencing the way the initial and final investment universe is filtered down. Our 'ESG Aware' products have a primary emphasis on ESG integration, which is about managing investmentrelevant/material ESG risks (and increasingly alpha generation), whereas our 'ESG Orientated' products can go beyond this, to focus on promoting ESG considerations, independent of investment materiality.

Figure 12: Overview of our client base and breakdown of assets under management

Long Only Strategies

Benchmark Relative

- Strategies which seek to provide access to the underlying asset class, while outperforming market index.
- Strategies aim to generate alpha with a strong emphasis on capital preservation through security selection and active management.
- Performance is dependent on market direction, but manager utilises an enhanced toolkit to minimise drawdowns and reduce volatility of returns.

Buy and Maintain

- Strategies are actively managed, but investments are held over the longer term, sometimes to maturity to minimise transaction costs.
- Overall strategy is focused on bottom up credit selection and diversification to deliver a steady income stream.
- Performance is dependent on the market environment.

Alternative Strategies

Total Return

- 'Go anywhere' solutions which aim to deliver bond like returns with lower volatility.
- Strategies seek to deliver attractive risk-adjusted returns by implementing a flexible and benchmark agnostic approach.
- Performance is expected to include some beta, meaning that the achieved returns will somewhat depend on the direction of markets.

Absolute Return

- 'All weather' strategies which aim to deliver positive/cash plus returns independent of market conditions.
- Strategies seek to equally perform in up and down markets by implementing a long/short approach.
- The main focus is on downside protection to deliver flat annual returns at worst.

Private Strategies

- Private Strategies offer additional return potential from their illiquidity premium.
- Closed-ended fund structure allows for investing in less liquid and longer-term investment opportunities.
- Strategies are actively managed and may invest in public and private markets with the aim to enhance returns.

Source: BlueBay Asset Management LLP

The specific ESG components we may apply at the firm or strategy level include:

- **ESG integration and engagement:** applied to all assets, including our funds and SMAs. ESG integration is focused on investment relevant/material ESG risks, which is applied as standard for the majority of our funds and is supplemented by ESG engagement. Our 'ESG Orientated' funds can go beyond investment materiality when it comes to the application of ESG integration, as depending on the outcome of the ESG analysis, issuers may be restricted for investment.
- **ESG negative screening – product based:** we apply this to our pooled funds and to some segregated mandates on a case-by-case basis. This screen relates to corporate issuers only: specifically, controversial weapons producers (the majority of pooled funds are within scope). Our 'ESG Orientated' pooled funds and some segregated accounts can go beyond this base level of restrictions with further product-based exclusions (e.g., tobacco producers).
- **ESG norms-based screening:** for example, this is applied to our 'ESG Orientated' funds and includes exclusions based on ESG conduct (e.g. breach the UN Global Compact principles).
- **Proxy voting:** a limited activity for us as a specialist fixed income manager, this can potentially occur in some instances.

To take into account the different client needs on ESG and stewardship for our product offerings, we continuously seek and receive feedback on investor expectations for how ESG considerations should be incorporated. This can include whether a focus on ESG integration is appropriate or whether they are seeking more ESG-focused solutions. We utilise this feedback to ensure our product offering is aligned to investor expectations on ESG and stewardship for our investment product design.

For example, as a result of the work undertaken during 2020 to better understand investors' ESG preferences, during 2021 we enhanced our ESG Orientated offerings by either:

- Launching new funds where we felt it was not possible to meet some of the more stringent ESG requirements of some clients with our existing fund range, without having to alter their product design (e.g. change their alpha targets or their benchmark). In April, we launched two investment-grade pooled fund vehicles that broadly align to the same ESG investment framework as the BlueBay Global High Yield ESG Bond strategy. In May, we launched the BlueBay Impact-Aligned Bond strategy – our first offering with an explicit focus on sustainability/impact investing. In October, we launched the BlueBay Total Return Diversified Credit ESG Fund.
- Repositioning some of our existing fund range (i.e. many of our investment grade and high yield funds), while not changing their product design, effective in October 2021.

Figure 13: Firm and strategy level components

Firm-level ESG components

ESG integration	Stewardship	Exclusions/ negative screening (product based)
✓	✓	✓
• Firm wide policies • External ESG data • Issuer ESG evalution • PRI signatory, other membership and collaborations	• Engagement • (Proxy voting)	• Controversial weapons

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	✓	✓	✓		
Pooled funds – 'ESG Orientated' 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
Separately managed accounts (SMAs) These strategies could be 'ESG Aware' or 'ESG Orientated'	✓	✓	Potentially	Potentially	Potentially

Source: BlueBay Asset Management LLP

In relation to the EU SFDR regulation, we have self-classified these strategies as being Article 8 financial products (this applies to all of the above funds, with exception of the Impact-Aligned Bond strategy, which we would consider to be Article 9) following regulatory approval. In reviewing and repositioning our offerings, we have also factored in features which allow some BlueBay funds to further align with specific national ESG requirements or voluntary fund ESG labels. Such developments allowed us to enhance our ESG product offering, ensuring it stays relevant to the needs of our clients.

> **"BlueBay is committed to providing timely and relevant communication and reporting on our ESG investment and stewardship efforts, both at the firm and individual fund level."**

For 2022, we will continue to review our fund range, specifically to determine to what extent our emerging market fund range could be repositioned from 'ESG Aware' to being 'ESG Orientated', and whether we can develop more climate-aligned solutions.

Our ongoing ability to attract and retain assets is a key indicator of whether we continue to offer compelling and relevant investment solutions.

Annual ESG investment surveys

We launched our fifth joint RBC GAM and BlueBay Annual Responsible Investment Survey in 2021, which sought the perceptions of over 800 institutional asset owners, investment consultants and professionals on ESG investing. Such surveys help us understand evolving market dynamics when it comes to ESG, changing drivers and motivations, as well as help inform our internal ESG investment priorities and offering. In a year dominated by Covid-19, the survey showed continued interest in ESG, with some respondants even revealing the pandemic had further evidenced the relevance of ESG. The key theme remained climate change, but other issues such as business ethics and cybersecurity were also priorities.

Further details of the results can be found on the RBC corporate website.

Client ESG reporting and communication

BlueBay is committed to providing timely and relevant communication and reporting on our ESG investment and stewardship efforts, both at the firm and individual fund level. Since 2013, we have worked to expand the areas we report on, and currently provide a combination of public and private disclosures to our stakeholders.

Available publicly and updated on an ad-hoc / regular basis:

- A dedicated ESG investment website, which details our approach and provides updates on our efforts and involvement in ESG initiatives and stewardship.
- Our fifth ESG investment update, covering our 2020 and 1H 2021 activities in June 2021, available on our website.
- Annual Stewardship Report (published as part of our submission to be a UK Stewardship Code signatory), covering 2020 activities, available on the corporate website – this report is our second formal submission of alignment to the code.
- BlueBay formally fulfils the annual reporting requirements that being a PRI signatory entails, in the form of the annual Transparency Report. Our most recent Transparency Report is available via the PRI website or directly on the corporate website.
- We produce monthly fund newsletters, which include internal ESG data points.
- We produce bi-annual ESG investment newsletters for some of our 'ESG Orientated' funds.

Privately: ad-hoc and regular basis:

- We meet with clients, prospects and consultants on a regular basis to share information and discuss our ESG approach, including providing examples of our practices, seek feedback on these as well as future priorities.
- We seek feedback through request for proposal (RFP) selection processes, including whether we are successful in bids because of our ESG practices and where there may be areas for improvement in instances where we are not.
- We source performance ratings and scores of our ESG investment approach at the firm and fund level from investment consultants to inform our methodology and understand performance. This includes areas that may detract from an overall rating or score to identify areas for future focus.

Enhancements to our portfolio-level ESG reporting

In addition to the above firm-level public reporting, we believe providing clients with ESG and stewardship reporting at the portfolio level is critical. To date, for our institutional clients who have expressed a particular interest in ESG, we have provided quarterly and/or annual ESG reporting that incorporated conventional quantitative ESG risk reporting (e.g. portfolio-level ESG scores, analysis of the top-five issuers of worst/best ESG scores and worst/best contributions to portfolio ESG scores and highlighting the most ESG-controversial issuers), supplemented by qualitative ESG analysis on wider ESG efforts across the firm and engagement examples.

During 2021, we enhanced our existing portfolio-level ESG reporting to provide further transparency and information to our institutional clients. As a result, our reporting now includes third-party ESG metrics (and a benchmark comparison where relevant), distribution of our internal proprietary ESG metrics (see Principle 7 for more details on this framework and resulting metrics), carbon and climate analysis, alignment to the UN SDGs and further granularity of our engagement and stewardship efforts (at the firm and fund level), including proxy voting activities. This is complemented with qualitative ESG reporting on our wider ESG efforts within BlueBay, including engagement activities at an asset-class level.

Another reporting advancement made in 2021 at the portfolio level, this time publicly, was incorporating some of our proprietary issuer ESG metrics and required EU SFDR disclosures to the monthly fund newsletters.

Principle 7: Stewardship, investment and ESG integration

ESG integration at the issuer level

In August 2018, BlueBay implemented a proprietary issuer ESG evaluation framework. It systematically reviews issuers on ESG risk factors, considers the quality of ESG risk mitigation, and outlines the extent to which we consider ESG to be relevant to valuations. The evaluation is conducted by our investment analysts as part of their fundamental credit research and is intended to inform portfolio investment decisions. The process enables the systematic quantification and documentation of ESG risks and the extent to which they are considered investment relevant. It is undertaken for both corporate and sovereign investments. As part of this framework, external third-party ESG data is sourced as an input into the process, signalling potential ESG risks the issuer faces, but is not relied upon solely (see Principle 8 for more details on our third-party ESG data).

The issuer ESG evaluation framework results in the same two proprietary ESG metrics (see graphic below):

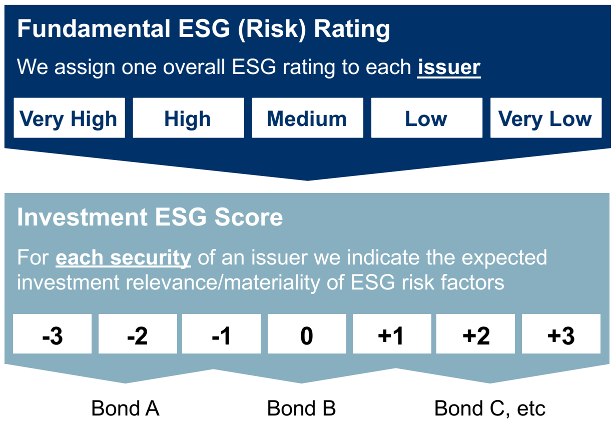
- **A Fundamental ESG (Risk) Rating** - indicates a view on the quality of management of material ESG risks/ opportunities faced by the issuer. This rating is co-owned by the credit analyst and ESG team. There can only be one Fundamental ESG (Risk) Rating per issuer across BlueBay.
- **An Investment ESG Score** - reflects an investment view on the extent to which ESG factors are considered relevant/ material to valuations. This is an instrument-specific decision. This score is owned by the credit analyst. As it is specific to a decision on a particular security, there may be multiple Investment ESG Scores per issuer.

The derived data points enable credit and ESG analysts to express their ESG view on an issuer, with portfolio managers factoring the data into portfolio construction decisions.

Our investment teams have acknowledged the value of considering ESG risks separately to investment risk. By taking a more holistic ESG assessment of an issuer, and considering not just ESG factors that are directly influencing the price of bonds, they identify potential blind spots that markets may miss or pricing correctly.specific decision. This score is owned by the credit analyst. As it is specific to a decision on a particular security, there may be multiple Investment ESG Scores per issuer.

We believe our issuer ESG evaluation framework to be an innovative part of our ESG integration approach and have received consistent positive feedback since its launch. The framework was shortlisted by the PRI in 2020 for the 'ESG initiative incorporation of the year' award.

Figure 14: Proprietary ESG metrics resulting from our issuer ESG evaluation framework



Source: BlueBay Asset Management LLP

Example of ESG Integration

Corporate issuer: European privately owned ingredients producer for the food and beverage industry

- **Issuer type:** Corporate
- **Sector:** Food producers
- **Region:** Developed Markets – Europe
- **Analysis overview:** No formal ESG analysis available from third-party ESG information provider, but good level of public disclosure by the company of its ESG policies, initiatives and performance. We felt on balance that the company has a progressive approach to managing the key ESG risks that it faces, and despite being privately owned, its performance compared favourably to peers.
- **Status and outcome:**
  - Fundamental ESG (Risk) Rating: low
  - Investment ESG Score (indicative): +1
- Given the progressive approach, we assigned a 'low' fundamental ESG risk rating. We considered the positive approach to ESG to be investment relevant and believe it will benefit the company – quality control and its focus on ingredients to improve the health profile of end products were considered to be important drivers of business growth. As a result of the positive ESG and investment view, some of our investment-grade funds invested in the name.

Corporate issuer: US e-commerce platform for vintage items and independent craftsmen

- **Sector:** e-commerce
- **Region:** Developed Markets – US
- **Analysis overview:** The company has good environmental and social policies to address material risks such as data privacy/security, product quality, safety, and its carbon footprint.
- **Status and outcome:**
  - Fundamental ESG (Risk) Rating: low
  - Investment ESG Score (indicative): +2
- We identified the company as a potential beneficiary of the Covid-19 crisis, as platform users and consumers become more aware of social and environmental issues. As a result of the positive ESG and investment view, we invested in the company's convertible bonds during the period.

ESG integration in structured credit

Over the course of 2021, we worked to formalise our ESG integration framework for our structured credit business, which spans collateral loan obligations (CLO) and asset backed securities (ABS). The development of these frameworks was collaborative between our structured credit investment team and ESG investment team, with external feedback sought to ascertain client, investor and consultant expectations with regards to ESG in this sub-asset class.

The intention was to create a framework that aligned to our existing issuer ESG evaluation framework for corporate and sovereign debt, and leveraged our ESG infrastructure, while taking into account the nuances of this sub-asset class. It was necessarily to create a more bespoke solution as the investments comprise pools of assets associated with multiple issuers. There may also be linked entities that are not found when investing directly in an issuer. We sought to mirror the operating model in place with our conventional investments, as such, the process is co-owned, with the structured credit investment team completing the initial ESG analysis, which is then reviewed and agreed by the ESG team.

CLO ESG evaluation framework

We have designed a unique two-stage ESG evaluation framework, that assesses ESG at the CLO manager and deal level:

- **CLO managers:** we review the CLO manager's firm-level approach to ESG, using available information and through direct engagement, focusing on governance mechanisms, resourcing, industry memberships and overall transparency.
- **CLO deal:** we perform an assessment of the extent to which ESG factors are considered in the selection process of the underlying collateral pool by reviewing CLO deal documentation and engaging with CLO managers directly.

We assign a Fundamental ESG (Risk) Rating to the CLO manager and CLO deal, and use the combination of these ratings to determine investment suitability for our 'ESG Orientated' strategies.

ABS ESG evaluation framework

We have designed a multi-tiered approach for our ABS investments that considers the originator, servicer and instrument levels of an ABS. Each component is assigned a Fundamental ESG (Risk) Rating, that is combined into one overall metric. Inclusion for our 'ESG Orientated' strategies is based on the overall metric.

Example of an ABS ESG Evaluation

- **Region:** Developed Markets – UK
- **Analysis overview:** The originator, which in this case is also the servicer of the structure, exhibits strong governance/oversight mechanisms. This view was supported by a third-party ESG provider, which had only flagged minor controversies in the past. The ABS instrument presented low environmental and social risks due to the presence of strong internal policies and an established regulatory framework. Social risk factors presented low risk, with key risks pertaining to customer protection in light of the pandemic. Those were addressed by management.
- **Status and outcome:**
  - Fundamental ESG (Risk) Rating: low
- We determined that the ESG exposure is low given the underlying assets are policies for residential mortgage loans in a highly regulated sector. The originator/servicer has strong governance and limited performance issues.

Advancing thinking and practice on ESG integration in securitised credit

Through 2021, we participate in the PRI's Securitised Products Advisory Committee (SPAC) to inform our thinking on ESG in this sub-asset class. The committee provides input into the PRI state of the market report in 2021 – as part of this, we shared our approach and thoughts. The Advisory Committee is determining the next phase of its work, looking to prioritise activities identified in the report that will likely include engaging with key stakeholders.

How we identify material ESG factors

Our issuer ESG evaluation framework explicitly seeks to assign sustainability/ESG materiality and investment materiality separately. This enables us to better understand the extent to which ESG risks are indeed material to investment, and in which circumstances. This level of transparency is especially important given our fixed income focus. The asset class operates differently to equity, and ESG factors may play out in different ways. In addition, when comparing debt to equity, there may be more than one credit risk profile for an issuer, given they can issue multiple bonds with different characteristics. Consequently, while an issuer may have a fundamental set of ESG risks, investment relevance or materiality of these risks may differ depending on the maturity, yield and other qualities of the bond that we need to consider.

As part of our ESG analysis, we take into consideration that some ESG risks may be more investment material for longer-dated bonds (e.g. climate change) versus shorter-dated bonds. Other ESG risks may be consistent across time horizons (e.g. health and safety). In such cases, our internal ESG metrics (specifically our Investment ESG Score, see below for details) are assigned depending on our view of the investment materiality of ESG risks versus the time horizon and the bond.

For sovereigns, material factors can depend on the country's status of economic, social and political development, availability of and dependence on natural resources, and potential regional issues.

While we consider a range of ESG factors in our analysis, we typically find those pertaining to governance tend to have the most investment relevance for both corporates and sovereigns and can be a key contributing factor in an investment decision. Environmental and social factors can also be investment relevant, depending on the aforementioned characteristics of the issuer. For example:

- In terms of material environmental risk factors for corporates, climate change may be considered more of a material risk factor for the extractives sector, and less material for a support service company. On the social side, employee management may be considered more of an investment material risk factor for companies in service-based industries but less material for a manufacturing company.
- In the case of sovereigns, environmental issues such as the availability of natural resources and the country's dependency on them for income can be important, including how such resources are managed and their quality. In addition, the country's resilience to drought and/or natural disasters linked to climate change can also be relevant issues. On the social side, the availability of a skilled workforce and nature of its demographics, particularly in terms of issues such as education, healthcare and labour standards, can also be viewed as important.

Overall, across all ESG factors, where the risk is considered investment material we would work with the credit analyst to understand the extent to which this could negatively impact credit parameters and so potentially influence investment decisions.

There is a difference in how we treat the investment materiality of ESG factors within the investment decision-making process for our 'ESG Aware' strategies compared with 'ESG Orientated' ones. For 'ESG Aware' strategies, ESG factors have to be deemed investment relevant and material enough for them factor into investment decisions, as for such strategies, ESG factors are an input into our investment process but are not necessarily the key determinant in the final investment decision-making process, which ultimately reflects the view of an investment's risk-return profile.

However, for our 'ESG Orientated' strategies, ESG factors play a more significant and overriding role in the decision-making process, given the philosophy of the strategy. As such, whether or not an ESG factor is investment relevant is not the key factor, rather, if the ESG factor is considered significant enough from a sustainability/ESG perspective, this alone can dedicate the investment decision on suitability.

Where we diverge in views with third-party ESG information providers on factor materiality, we provide feedback. This may be in terms of their ESG analysis, including which ESG factors they highlight as material for specific sectors, or where an ESG risk we view to be material is not captured within their analysis (see Principle 8 for further detail on our interaction with service providers).

Interactions between the ESG team and investment teams

The role of our ESG investment team 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 our investment teams. Rather than have ESG analysis and stewardship reside solely with the ESG investment team, our model aims to empower our investment teams to fully incorporate ESG into the investment decision-making process, with the investment teams also leading on these areas. Consequently, there is ongoing dialogue and communication between teams, alongside ongoing training.

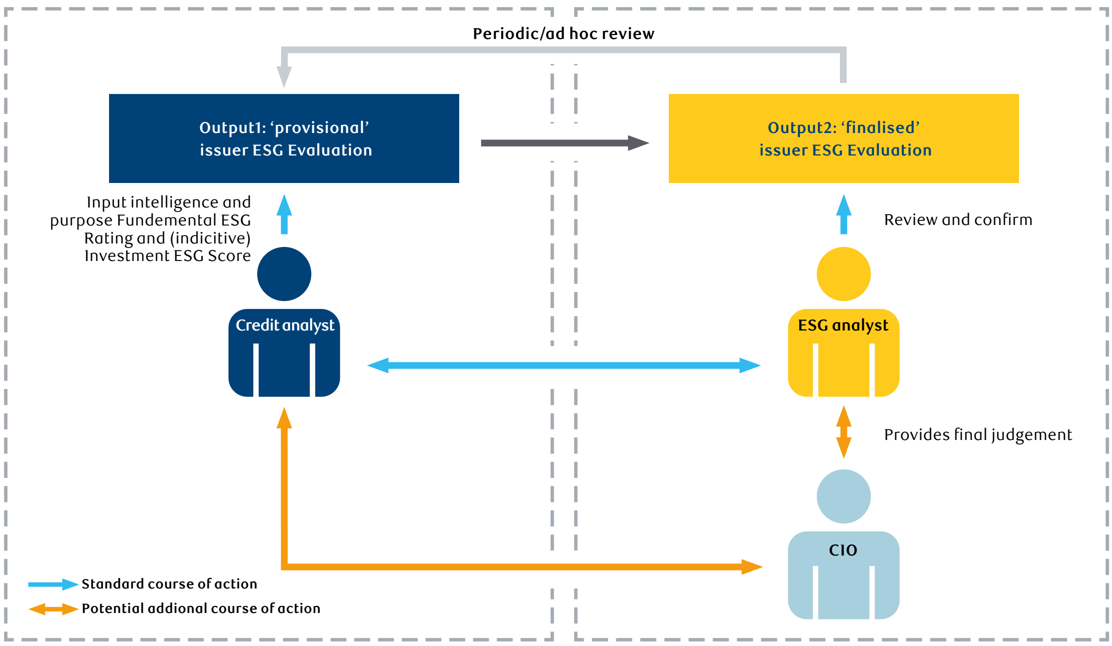
The ESG investment team sits alongside our portfolio managers and credit analysts on the investment floor in our London headquarters. The majority of our investment colleagues are located here, with the remainder based in the US. Being physically close helps facilitate interaction and dialogue. The move of our ESG investment team from the investment risk function into the investment function in 2020 also demonstrates the cultural shift within the firm, with ESG moving from a risk management tool to an integral part of our investment processes.

Our operating model is to have ESG investment specialists, who lead on our ESG strategy, policies and processes and work on identifying emerging ESG issues. However, our investment professionals have direct accountability and ownership of ESG considerations regarding their issuers/strategies, given their deep knowledge. As such, we leverage the complementary skills and expertise of both parties.

With the introduction of our proprietary issuer ESG evaluation framework, we have formalised the accountability of ESG considerations by the investment teams. The framework is a co-owned process – credit analysts work together with the ESG team in undertaking ESG analysis, with both needing to agree on the outputs.

Our investment teams conduct the initial analysis, which is reviewed by the ESG team (please see Figure 15 illustrating the process). This process has facilitated greater ESG awareness and ownership by our credit analysts and enabled greater engagement between ESG and credit analysts and portfolio managers, as evidenced by the increased frequency of ESG debate and discussion. We have also found the investment teams are more proactively engaging with the ESG team on a variety of topics and are more active in discussing ESG matters as part of their engagement activities.

Figure 15: ESG analysis is a co-owned process by the investment teams and ESG team



Source: BlueBay Asset Management LLP

Embedding ESG within our investment infrastructure and systems

While ensuring we have policies and a robust framework in place for ESG investment analysis and engagement is critical, we believe a fundamental factor contributing to the effectiveness of such activities is having a fully accessible and integrated investment infrastructure around ESG. This ensures our investment teams have access to ESG data when making investment decisions, as well as improving transparency and accountability of ESG considerations. It also facilitates effective ESG reporting and monitoring of stewardship and engagement activities, including highlighting areas for future engagement. As such, ensuring a robust ESG investment infrastructure has remained a key focus for the ESG team for several years, with significant progress made during 2021 as part of our ongoing enhancements.

Some examples of key activities undertaken in 2021 include:

- Migrating our sovereign issuer ESG evaluations onto our centralised research platform, Alpha Research Tool (ART), having completing this process for corporate issuers in 2020. As a result, all ESG and credit research is held in one place, with the resulting proprietary metrics and insights feeding through to our proprietary in-house tool, Portfolio Insight (Pi). This enables our investment teams to view ESG metrics for their portfolios and associated benchmarks alongside credit metrics. These metrics are also integrated into Alpha Decision Tool (ADT), our proprietary platform for capturing and monitoring trade ideas across the firm.
- Expanding the components of our issuer ESG evaluation so we can incorporate additional types of ESG analysis, such as details on an issuer's exposure to positive environmental/social economic activities, and to enable a more streamlined level of ESG analysis where the short time window for new issuance means a full ESG evaluation may not be possible, but there remains a need to ensure the investment is screened against a minimum set of ESG criteria.
- Continuing to develop monitoring tools to ensure our coverage of issuer ESG analysis remains at the targeted levels across our investment universe. We continue to develop our ability to drill down from the firm level through to investment desks and individual strategies, with automated coverage reports from these platforms distributed to the investment teams and ESG IWG on a weekly basis.
- Enhancing our centralised engagement log, also housed on ART, to include additional ESG data points related to our engagement efforts. This enables us to better monitor and evaluate outcomes of our ESG engagement activities. The engagement log provides a firmwide platform for documenting instances of engagement with issuers and non-issuers – including those that pertaining to ESG – which can be accessed by both the ESG team and the investment teams.

Ultimately, we believe this infrastructure is critical to our ESG integration and engagement activities, as it enables us to widely disseminate and embed issuer ESG metrics within our investment platforms, and systematically undertake and document ESG analysis. For example, in 2021 we added data points related to sustainable investments and impact in our proprietary systems and developed portfolio dashboards illustrating the weighted average carbon intensity of BlueBay's portfolios, which can be used by all investment teams. This ensures our investment teams have access to ESG data when making investment decisions, as well as improving transparency and accountability of ESG considerations. It also facilitates efficient and effective internal and external ESG reporting and monitoring of stewardship and engagement activities, including highlighting areas for future engagement.

Principle 8: Monitoring managers and service providers

External sources of ESG data and insights

BlueBay uses a variety of external managers and service providers to source third-party ESG data. In 2021, we sourced issuer (corporate or sovereign), sectoral and thematic ESG data from the following specialist third parties ESG information providers: Eurasia Group, MSCI ESG Research, Nasdaq, RepRisk, Sustainalytics, TruValue Labs, Urgentem and Verisk Maplecroft.

In relation to proxy voting, while we subscribe to Broadridge's proxy voting platform, we do not subscribe to external proxy advice (see Principle 12 for more details on our approach to proxy voting).

In addition, we have access to ESG intelligence and insights from additional resources such as:

- Company management contact/communications
- Sell-side brokers with ESG capabilities
- Industry reports, webinars written by specialist third-party providers
- Stakeholders such as regulators, non-governmental organisations, industry groups
- Media channels specialising in ESG newsflow
- In-house sector credit analyst knowledge

The above ESG data and information resources are made available to our investment teams and are, in some cases, integrated into various internal proprietary systems and monitoring platforms. We view this data and associated insights as a valuable component of our investment decision-making research – but it as an input to our analysis, rather than relying upon it solely. We believe it is critical to develop our own views, both on credit and ESG, which is why we undertake our own internal issuer ESG evaluation framework to develop proprietary ESG metrics.

In terms of issuer-level analysis, such third-party ESG data points provide a signal for material ESG risks and potential engagement topics that are identified and documented within our issuer ESG evaluation framework.

Regarding data coverage, we produce proxy scores for issuers not covered by our third-party providers, where we assign the average score resulting from all the issuers in the same sector/region classification that are covered.

These tools are also used daily as part of BlueBay's ESG risk exposure assessment on an individual issuer level, as part of sector analysis, and at the fund level.

Reviewing external ESG service providers

We review our external ESG resources on an ongoing basis to ensure they continue to meet our needs as ESG practices advance. In doing so, we seek input from our investment teams on which service providers they find the most useful and credible and trial providers as a result.

In the case of fee-based resources, the renewal cycle acts as a natural milestone in addition to our ongoing monitoring and feedback processes. In reviewing and selecting such providers, we consider several factors, including issuer/data coverage, quality of the data/methodology service offering and platform useability, as well as financial costs.

During the course of 2021:

- We actively engaged with existing as well as potential new providers to help us meet forthcoming EU sustainable finance regulation, such as the SFDR regulation, and the (green) taxonomy in terms of analysis and reporting obligations. This involved critical review and feedback on quality and coverage. Decisions were carried over into 2022.
- Another area of strategic review and consideration for 2021 was climate/carbon analysis and sustainable impacts/UN Sustainable Development Goals alignment. We discussed these with existing as well as prospect providers.
- We held periodic feedback sessions with existing providers over the course of the year, sharing feedback on data as well as service quality. In some instances, we communicated our dissatisfaction with these as well as other aspects, and explained this would be key input into any contract renewals in 2022, and agreed specific areas of actions to address the issues.

NOTE: as we are not asset owners, and do not outside the management of our assets to other managers, we have focused this section on our use of ESG service providers.

Engagement

Principle 9: Engagement

BlueBay believes that providers of debt have a role to play in engaging with issuers on matters that have the potential to impact investment returns, including ESG. However, expectations of the scale and effectiveness of such engagement should be made in recognition of the fact that debt investors have more limited legal mechanisms to influence issuers compared to equity investors.

Understanding engagement in the fixed income asset class

While there are common challenges regarding the effectiveness of engagement efforts across asset classes, some nuances are specific to fixed income (and indeed specific sub-asset classes). These nuances can represent challenges and opportunities. As such, it is important to identify appropriate approaches to maximise effective engagement. Some nuances are structural in nature, while others are the result of market dynamics. For instance, there are considerations such as how to engage with sovereign issuers versus corporates; the asset class of corporate issuers, such as investment grade or high yield; accessibility of emerging market issuers compared with developed markets, as well as taking into account the nuances of structured credit investments.

Figure 16: Some common characteristics of engagement within the fixed income asset class

Scope of Nuances Issuer types:	Observations and Actions
Corporates vs sovereigns	▪ The method of engagement between corporates and sovereigns can vary around access to the issuer, legal standing and issuer obligations. ▪ Some barriers to engagement with sovereigns can exist (e.g. concerns around sovereignty, cultural sensitivities especially when it comes to social matters), the relative size of the investment position (can representative a small part of the investor base), engaging with emerging markets sovereigns (how realistic investor expectations are given political regime in place, limited resource capacity), the extent to which the government will listen to investors or can bring about change in the timescale investors expect even if they want to. ▪ We believe sovereign engagement activities are valid and can be meaningful for both the issuer and the investor when managed well. Typically, we find the focus of sovereign engagement is for insight purposes, but there can be opportunities to engage for influence, such as improved fiscal transparency and ensuring an operating environment that gives investors confidence. In 2021 , we continued collaboration efforts with other investors to engage with governments, including Brazil, on deforestation and its impact on climate change, biodiversity and indigenous communities (see Principle 10 for details). ▪ BlueBay has been part the PRI working group, the Sovereign Debt Advisory Committee, since 2019, which initially focused on ESG integration and then subsequently ESG engagement. We have continued to input into the working group throughout 2021, including supporting efforts to facilitate greater availability of sovereign ESG data, and engaging with stakeholders such as ESG information providers and index providers.

Figure 16: Some common characteristics of engagement within the fixed income asset class (cont'd)

Scope of Nuances Issuer types:	Observations and Actions
Differences between sub-asset classes (e.g., high yield, investment grade)	▪ It may be possible to engage with issuers in investment grade more so than high yield. This is due to the typically increased size (some may have equity listings and so have good awareness already) and resourcing of the issuer, enabling them to be more receptive and able to address investor ESG requests. ▪ However, engagement with high-yield issuers can potentially be fruitful as they have a smaller investor base available to them (compared with investment-grade issuers) given their riskier credit profile. As such, they may be more willing to accommodate investor requests, although they may be less frequent issuers, making holding them to account more challenging. It is also potentially more necessary to engage with high-yield issuers as they tend to have weaker ESG disclosure, and are less likely to be covered by the ESG information providers. ▪ BlueBay is an active member of the European Leverage Finance Association's (ELFA) ESG committee to drive better issuer ESG disclosure, as well as with the PRI as part of its ESG in Credit Risks and Ratings Advisory Committee to drive better ESG reporting and practices across debt corporate issuers.
Emerging markets vs developed markets	▪ Accessibility of issuers within emerging markets versus developed markets is one of the key challenges with engagement from both a corporate and sovereign perspective. Typically, emerging markets issuers may be less aware or be more resource constrained than developed market peers. ▪ Some also believe that engagement with developed market issuers, particularly sovereigns, is less relevant/critical, given the typically more advanced practices of the issuers, although this is not always the case. ▪ We believe engagement is relevant across issuers in emerging and developed markets and make no distinction in our approach to engagement. What may vary are the topics we engage on, given differences in what may be investment material. While there can be challenges in engaging with emerging markets, such engagement can be particularly useful to help us better understand ESG practices where disclosure is weak, as well as to influence for change and best practice.
Conventional public debt vs structured credit	▪ Engagement is more straight forward when directly investing in a single issuer; there is clear visibility and it easier to take an investment view. In the case of structured credit, while engagement is still possible, the nuances of the asset class need to be taken into account around the methods of ESG engagement applied, the level at which ESG engagement is possible and the degree to which there can be engagement for influence purposes. ▪ For example, when investing in a collateralised loan obligation (CLO), it is more likely that engagement will focus on the CLO manager, to understand their ESG practices and the extent to which such considerations are incorporated into the entities within the collateral pool, than at the CLO transaction level with issuers within the collateral pool directly. ▪ During 2021, we engaged with CLO managers to understand their approach to ESG at the firm level, and how ESG is applied to the collateral pool selection process.

Our approach to ESG engagement

As part of the routine investment research process, BlueBay's investment teams meet issuers, particularly with primary issuances, and raise questions. This provides a natural mechanism for ESG stewardship and engaging with issuers.

Given BlueBay's approach of not automatically excluding issuers from investment solely based on their ESG performance (unless it is for an 'ESG Orientated' strategy, where this may occur), actions to mitigate such risks are raised with investment teams where appropriate. Where ESG engagement is deemed necessary, it will be prioritised using a risk-based approach, which focuses on material ESG risks facing the issuer and their specific ESG score, as well as the size of our investments (and whether it is a long-term position).

Further detail on our ESG engagement approach is included in our ESG Investment Policy.

Our engagement efforts are primarily aimed at generating insights to inform our investment decisions. However, in some instances, there may be a conscious decision to seek to influence the issuer on improved management of specific ESG issues to mitigate potential investment-material risks and facilitate positive change. In these cases, where possible, we seek to define specific outcomes that we hope to achieve over a given timeline (e.g. improved disclosure as part of an issuers annual reporting cycle).

BlueBay may proactively initiate dialogue with issuers on ESG matters, or reactively in response to an external event or development. This is particularly relevant where there is a significant incident and we wish to gain greater understanding around how it came to pass and what measures are being implemented as a result. Engagement activities may occur bilaterally, but this can also be undertaken in collaboration with other investors. This can be the case where there is a collective focus on a specific issue/theme, either within a sector or more broadly where change is being sought and partnering with others could increase the effectiveness of the engagement effort. See Principle 10 for further details on our collaborative ESG engagement efforts.

In terms of the mechanism through which BlueBay might engage, this can be through various modes such as letters or meetings, both unilateral and with other investors, depending on the nature of engagement and which we deem to be the most effective and appropriate for the outcome we wish to achieve.

Involvement of the ESG team and investment teams in engagement activities

ESG engagement activities can involve both our ESG and investment professionals working together, or individually, depending on the nature of the specific initiative. We also participate in collaborative ESG engagement initiatives beyond bilateral activities. This may occur at the issuer, sectoral, issue or investment industry level, involving solely investors, or be multi-stakeholder in nature.

Issuer and sector level collaborative engagement usually involves investment and ESG team members, while issue or investment industry level ESG engagements primarily involve the ESG team. In some cases, however, our investment professionals may be involved. The rationale for involvement will be linked to considerations of investment exposure materiality and could be as part of a strategic work program or in reaction to an external event. See Principle 10 for further details on our collaborative ESG engagement efforts.

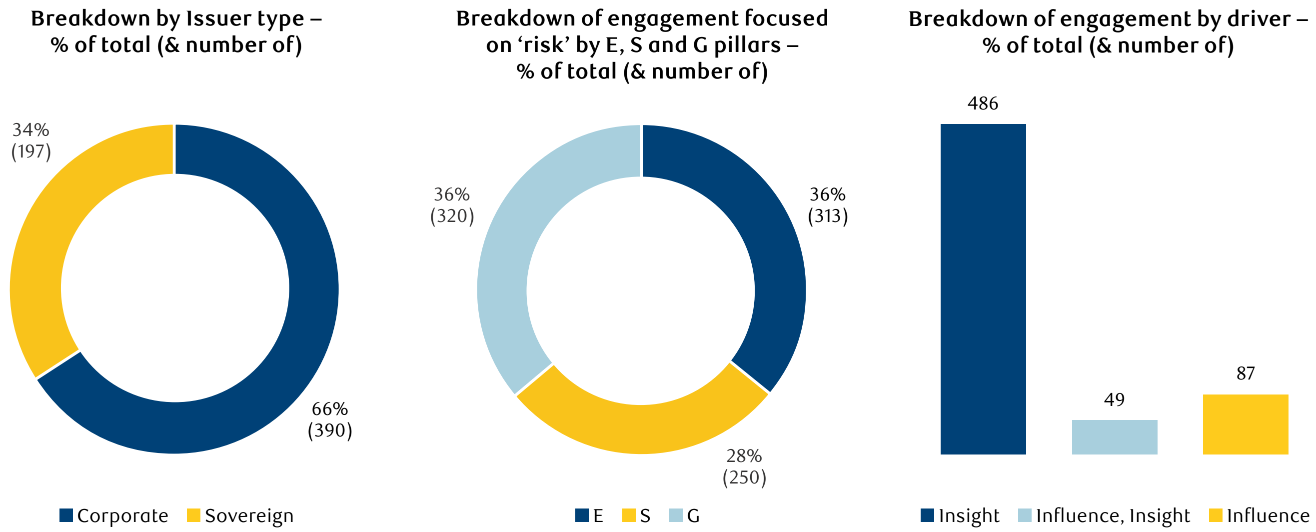
Firmwide ESG engagement reporting

As part of our ongoing infrastructure enhancements, we rolled out a centralised engagement log in 2020 on our proprietary centralised research platform, ART. This document instances of engagement with issuers and other key stakeholders (e.g. regulators, civil society etc.), including those pertaining to ESG. This engagement log can be accessed by the ESG team and the investment teams to document instances of ESG engagement and is the source of our ESG engagement data and activities across the firm. Engagement details, such as the method, topics raised and discussed, the view post-engagement and a summary of the engagement activities are recorded on this log.

> **"Where ESG engagement is deemed necessary, it will be prioritised using a risk-based approach."**

As outlined within Principle 7, in 2021, we implemented further enhancements to the log, which enable us to document more granular details regarding the outcomes of our engagements, including monitoring progress against objectives and timelines systematically. Going into 2022, we aim to further enhance our engagement log and the utilisation of this data at the portfolio level to provide further transparency of our stewardship activities to clients.

Figure 17: 2021 Issuer ESG engagement activity summary



NOTE: As we launched our centralized engagement log in 2020, we were unable to systematically record ESG engagement efforts across BlueBay prior to this. As such, there is likely to be a degree of underreporting of our 2020 ESG engagement efforts.

Source: BlueBay Asset Management LLP, as at 31 December 2021. Some engagements have multiple risk/opportunity pillars and so totals may not add up to 100%.

Examples of bilateral ESG engagement efforts

We have provided a range of examples of ESG engagements with corporate and sovereign issuers, either for insight or influence, or a combination of the two, across the range of different fixed income sub-asset classes, sectors, geographies and ESG focus areas. Examples of collaborative ESG engagement can be found in Principle 10.

Issuer level

Corporate: a European aluminium producer operating globally

- **Sector:** Metals & mining
- **Region:** Developed markets – Europe
- **Aim:** Insight into the company's ESG strategy in light of the forthcoming sustainability-linked bond (SLB) issuance.
- **Engagement overview:** We participated in an investor call with management regarding their corporate ESG strategy, something which we had pushed for more clarity on in previous engagements. SLBs are a category of ESG-labelled issuances that are outcomes-linked in that they are a type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the company achieves predefined ESG/sustainability objectives. The company explained that, as part of its corporate sustainability strategy, it has established targets to reduce its carbon intensity by 25% by 2025 (from 2015 baseline), and increase recycled aluminium input by 10% by 2026 (from 2019 baseline).
- **Status and outcome:** Ongoing - we believe these ESG efforts complement the company's strengths and when combined with a recovering industrial economy, lead to our ownership in various high-yield strategies. We continued to engage in a proactive manner with representatives of the company over 2021.

Corporate: a Spanish toll road operator with a global network of operations

- **Sector:** Transportation
- **Region:** Developed markets – Europe
- **Aim:** Insight into how a global business, with a troubled parent, was able to maintain such a strong focus on ESG and where it would look to focus in the future as a leader in sustainability.
- **Engagement overview:** Our engagements with the company focused on environmental matters, specifically in terms of the company's carbon strategy, as well as social matters such as health & safety performance.
- **Status and outcome:** Ongoing - overall, the dialogue with the company was useful to get an update on its sustainability strategy. Given the company's large global footprint, we believe it has the potential to make a real difference regarding the environment and society. From an investment perspective, we continue to view this issuer as a leading investment-grade issuer that proved resilient through Covid-19 and maintained a clear focus on ESG.

Corporate: a Chinese real estate developer

- **Sector:** REITS: Real Estate Developer
- **Region:** Emerging markets – Asia ex Japan
- **Aim:** Insight into the company's ESG/green framework and related new bond issuance.
- **Engagement overview:** The company has been advocating and practicing the concepts of the UN SDGs as their guiding principles. During our engagement with management, we discussed the company's improving ESG rating by an external ESG information provider, resulting from improvements in construction and safety risk management and the attainment of an international quality management certification for some of its construction projects. Other recent developments we noted was the inclusion of the CEO to their ESG Committee, and engagement with third-party agencies to perform quality assurance on its construction processes. Whilst the existing 'green' portfolio is small, at the end of 2021 the company increased the proportion of green buildings among its projects and developed a sustainability framework supporting their first green bond issuance. Efforts are ongoing in terms of minimizing carbon emissions in light of regulations.
- **Status and outcome:** Ongoing - through our engagement with the company, we have been able to improve our understanding of its ESG approach, which operates in a sector that has seen a lot of turbulence over the past year. We have improved our understanding of how committed the company is to ESG, which has helped us to analyse the company's labelled and non-labelled bond issuance, influencing our overall investment positioning across our portfolios.

Corporate: a UK domiciled bank with both retail and investment banking operations

- **Sector:** Financials
- **Region:** Developed markets – UK
- **Aim:** Insight & influence the bank's adoption of net zero and interim targets, in particular in relation to increased transparency around emissions within their lending portfolio.
- **Engagement overview:** By nature, banks tend to have very low direct carbon footprints. But their indirect exposure, stemming from their lending and investing activities, are far greater and investors have become keenly focused on the emissions banks are funding. Over 2021, we engaged several times with the bank, sometimes on a one-to-one basis with the CFO, to influence its adoption of net zero and interim targets, and in particular to increase transparency around emissions within the lending portfolio. During our engagements, we expressed the need for the financed emissions numbers to be robust and transparent. This UK bank has created its own internal methodology to track and measure financed emissions.
- **Status and outcome:** Closed - these engagements were successful as the bank formally committed to a number of ESG measures, including within their lending book, and we made it clear that in terms of energy/fossil fuels lending that it would need to show very clear progress against transparent benchmarks, which it agreed with.

Corporate: a German pharmaceuticals company

- **Sector:** Pharmaceuticals
- **Region:** Developed markets – Europe
- **Aim:** Insight and influence on a continued theme of ESG disclosure and transparency, specifically in terms of the company's communication of ESG progress and external reporting.
- **Engagement overview:** It is a company we engaged with in 2020 and continued to do so during 2021. During the latest dialogue the company presented its most recent updates that focused on governance changes. We were pleased to observe that the company has improved its financial disclosure. Although the group has yet to produce an annual ESG report, as part of its bondholder annual report, information has been communicated on its environmental and societal business impact. These developments are encouraging, but there remains room for improvement, which we will continue to encourage them to deliver. There have also been some senior changes at the board level, including a new co-CEO and CIO, the latter of which has been made to strengthen the board's expertise in relation to healthcare and sciences. We will be monitoring how such changes may influence the future trajectory of the company.
- **Status and outcome:** Ongoing – we continue to monitor and review the ESG practices of the company as we have held an investment in the issuer since the second half of 2020, driven by an improving ESG fundamentals.

Corporate: a US domiciled leaser of aircrafts

- **Sector:** Aircraft leasing
- **Region:** Developed markets – United States
- **Aim:** Insight - our recent interactions with the company focused on better understanding its ownership and governance structure to ensure it is appropriate to the nature of the business and size, on which we were able to gain comfort.

- **Engagement overview:** The company has been an industry leader from an ESG perspective in the field of aircraft finance. Currently, 65% of its fleet is made up of the newest, most fuel-efficient aircraft, and it has orders for new aircrafts for next-generation type models that show superior fuel efficiency. In terms of disclosure to-date, the company has not published an ESG report, although it is in the process of putting one together.
- **Status and outcome:** Ongoing - from an investment perspective, we have exposure to the company across many of our investment grade and high yield portfolios. The investment thesis has been tied to strong balance sheets, improving trends and fundamentals in global air travel, and the expectation of better investor visibility into the company's ownership.

Sovereign: a Middle Eastern sovereign

- **Region:** Emerging markets – MENA
- **Aim:** Insight and influence on a range of ESG-related topics with the objective to determine whether progress is being made on key environmental and social dimensions.
- **Engagement overview:** During this engagement the Debt Management Office (DMO) addressed our concerns about progress on ESG matters, including increased efforts to coordinate ESG improvements via a multi-ministerial committee, consulting with external ESG rating providers, improving transparency and reporting, addressing areas for improvement. Encouragingly, the sovereign has developed a framework (their Voluntary National Review), which tracks the progress of the country against the achievement of the 17 UN Sustainable Development Goals (SDGs). Efforts are underway on establishing periodic ESG reporting and there is desire to engage with investors on priorities and best practice. There was guidance that further details about progress on human rights will be available in the near future. Progress on climate change has been more limited although there have been apparent research efforts done by the central bank, as well as the state-owned energy company to improve data availability on oil carbon intensity. We highlighted the need to improve transparency and strategy on the country's carbon transition plans and timelines. An area of progress on the environmental front has been the integration of environmental considerations within infrastructure projects, which are now required to go through the Ministry of Agriculture and Wildlife to ensure no adverse impacts to wildlife/biodiversity.
- **Status and outcome:** Ongoing - we have been encouraged by the responsiveness of the DMO to our ESG concerns and continue to engage with the country. We believe the country understands the concerns of investors regarding its ESG issues and is working to resolve them, however, we will continue to engage to seek evidence and comfort of this. While we have some exposure to the sovereign in select emerging markets strategies, our investment positioning remains unchanged. Despite the positive outcomes, significant challenges remain and will take time to address. Nevertheless, signs are promising so far.

Sovereign: an Asian sovereign

- **Region:** Emerging markets – Asia Pacific
- **Aim:** Insight & influence on the government's environmental and social policies such as in the areas of climate change, as well as addressing corruption and protection of rights.
- **Engagement overview:** An important sovereign economically and politically, this sovereign also presents investors with some meaningful ESG as well as geopolitical risks. During 2021, we held a dedicated call with the Ministry of Finance (MOF) to provide an overview of how ESG considerations incorporated within our investment analysis, shared our assessment of the sovereign, as well as discussed areas where the government had made good progress (such as on climate policy, reducing poverty, as well as tackling corruption) and others where there was scope for further efforts (improving living standards, protection of rights, strengthening property rights as well as private sector intervention). The call was constructive, with the MOF acknowledging scope for better communications with international investors on ESG matters.
- **Status and outcome:** Ongoing – the discussion was a good starting point to build on for future conversations, particularly around areas we have identified for priority action which either they have direct accountability for, or they can encourage others within the government to take action on.

Sovereign: a Middle Eastern sovereign

- **Region:** Emerging markets – MENA
- **Aim:** Insight and influence into the government's approach to tackling social unrest, as well as its reporting framework with the aim of achieving greater transparency.
- **Engagement overview:** We had numerous engagements with this sovereign in 2021, including direct calls with the Ministry of Finance (MOF). Our specific ESG concerns challenged MOF on the social unrest in the country in 2020, and underlying investor concerns that this would be dealt with in a sympathetic way. We were re-assured at the time that the unrest was fairly isolated, and the response had been a positive one. Social spending was increased given the protesters demands, but the level of spending was not undermining targets within the government's fiscal consolidation and general reform plan.

- **Status and outcome:** Close - successful. Following our engagement efforts around the social unrest in the country, we have noticed a marked improvement since the new leader of the country took over, undertaking a root-and-branch reform of the ministries. On fiscal transparency, the MOF team in particular has been very pro-active in terms of improved reporting. We have also asked for a detailed ESG strategy from the country and we have been assured this is something that is being worked on as part of the broader reform effort, with all line ministries involved. Feedback from the MOF DMO/IMF et al is that the government officials get the importance of improved reporting and transparency as central to a checks and balances approach needed to ensure more effective policy formulation and implementation. Indeed, we are encouraged by their requests from us for ideas as to how they can do better, and for ideas in terms of who in their peer group provides reporting and transparency in a better way so they can continue to learn and improve.

Sector level

UK water utility sector on water pollution management

- **Sector:** Water utilities
- **Region:** Developed markets – UK
- **Aim:** Insight & influence into corporate practices in light of media allegations of poor river water pollution practices.
- **Engagement overview:** We conducted engagement with some of the largest UK water and wastewater holding companies in light of emerging media allegations of river pollution resulting from illegal discharges of untreated sewage. The aim of these interactions was to hear the companies' response to the allegations and to better understand their water pollution management practices. Beyond this, we also used the opportunity to discuss broader ESG risks, including efforts to address issues of water scarcity and leakages, climate change and customer relations. On their ESG management practices, the companies provided an overview of the strategies, processes and procedures they have in place to manage risks. In doing so, they provided us with a level of comfort that these are being relatively well-managed. More specifically on illegal water discharges, the companies shared the measures they have taken to protect the environment, including investments in environmental improvements, in wastewater treatment works and using natural alternatives and the latest technology to keep sewage out of rivers and take pressure off wastewater networks. Given other business activities (e.g. agriculture, mining, roads and heavy industry) potentially also contribute to pollution that harms rivers, it was apparent there was a need to ensure appropriate coordination and collaboration between different parties and stakeholders. In most cases, the companies were able to provide detailed historical performance data related to water leakages, water supply interruptions and targets for improvement. We encouraged the companies to consider developing a more coherent sustainable finance strategy, whereby through issuing ESG labelled bonds (e.g. green bonds or sustainability-linked ones), they can attract capital to finance investments in ageing infrastructure to ensure high environmental standards.
- **Status & outcome:** Closed – partial success. Overall, we found the dialogue with companies to be informative on our view of the sector and we were reassured about the investment exposure we currently had within the UK water utility sector across our investment-grade strategies. Since our engagement, some of the companies have come to the market with ESG-labelled issuances that help support their efforts to strengthen infrastructure and improve their environmental practices.

Principle 10: Collaboration

Collaborative ESG engagement

BlueBay has opportunities to collaborate and engage with investors and other stakeholder groups on an issuer, sector and thematic basis. We are committed to working with others to promote ESG integration and stewardship within investment activities and share best practice. Collaborative engagement activities offer a powerful mechanism for debt investors to influence issuers on improved ESG practices. This may be on broad or specific ESG issues, whereby a collective group can potentially have more leverage and sway than a sole investor. This is particularly true when it comes to systemic issues like climate change, where we are seeking industry-wide change (such as improve tailings management in the mining sector), or where the engagement is focused on a particular issuer type (e.g. a sovereign or a state-owned entity).

Industry ESG investment related memberships and initiatives

BlueBay is involved in several ESG investment-related industry memberships and initiatives, which serve a variety of purposes. It helps to inform and develop our own internal ESG practices, advance ESG practices and thinking more broadly in fixed income investing, as well as serves to bring about positive societal or environmental change while mitigating investment risks over the long term.

Some examples of our involvement within such initiatives are outlined below.

Figure 18: Industry initiatives

Initiative	Level of Involvement	Nature of involvement	Year of membership
(The) Alternative Investment Management Association (AIMA)	Advanced	▪ Status: member ▪ Activities: inputting into AIMA's ESG investment related initiatives via their Responsible Investment working group, may participate in issue specific working groups and participate in AIMA convened ESG events.	2019
CDP (formerly the Carbon Disclosure Project)	Basic - moderate	▪ Status: investor signatory ▪ Activities: supporting efforts for increased corporate environmental public disclosure. CDP has gathered the largest global collection of self-reported environmental information by leveraging the power of shareholders and lenders to help increase disclosure from companies. Specifically programmes we support are: climate change, water, forests, carbon action.	2016
Climate Action 100+: member	Advanced	▪ Status: member ▪ Activities: co-leading investor of company engagement focused on encouraging companies to curb their emissions, improve their governance practices, and strengthen climate-related financial disclosures.	2020
(The) Emerging Markets Investors Alliance: network member	Advanced	▪ Status: member ▪ Activities: participating and contributing to insights on various workstreams such as climate transition, debt & governance as well as those focused on specific sectors such as extractives, agriculture and TMTs.	2020
(The) European Leveraged Finance Association (ELFA): member	Advanced	▪ Status: member ▪ Activities: ESG Committee member, supporting and participating in ESG initiatives, including the investor ESG survey and associated briefing, and the resulting initiative to encourage better issuer ESG disclosure.	2019

Figure 18: Industry initiatives (cont'd)

Initiative	Level of Involvement	Nature of involvement	Year of membership
(The) European Leveraged Finance Association (ELFA): member	Advanced	▪ Status: member ▪ Activities: ESG Committee member, supporting and participating in ESG initiatives, including the investor ESG survey and associated briefing, and the resulting initiative to encourage better issuer ESG disclosure.	**2019**
Farm Animal Investment Risk & Return (FAIRR)	Moderate	▪ Status: network member ▪ Activities: leveraging off research and tools which help investors integrate risks and opportunities resulting from intensive livestock production, into investment decisions and active stewardship process through collaborative opportunities. BlueBay joined the global collaborative investor engagement initiative 'Working Conditions: Unpacking Labour Risk in Global Meat Supply Chains' in 2021. We will continue our participation in 2022.	**2020**
(The) Global Impact Investing Network (GIIN)	Basic	▪ Status: member ▪ Activities: participating and contributing to efforts with peers in the industry to facilitate knowledge exchanges, highlighting innovative investment approaches, building the evidence base for the industry, and producing tools and resources.	**2021**
Green Bond Transparency Platform (GBTP)	Basic	▪ Status: supporter ▪ Activities: providing feedback and input into the establishment of the Green Bond Transparency Platform (GBTP) platform, an open access digital tool that brings greater transparency to the Latin American and Caribbean green bond market, to ensure it serves as a useful resource for investors.	**2019**
(The) Investment Association	Advanced	▪ Status: member ▪ Activities: membership and active participation in the Sustainability Distribution Group, Responsible Investment Fund-Level Communication Working Group, and the FI Stewardship Working Group.	**2019**
Investors Policy Dialogue on Deforestation (IPDD)	Advanced	▪ Status: member, co-chair ▪ Activities: active lead in this global collaborative initiative, aimed at coordinating a public policy dialogue with governments such as Brazil and Indonesia on halting deforestation.	**2020**
Pensions for Purpose	Basic	▪ Status: influencer member ▪ Activities: membership of this collaborative initiative aimed at promoting understanding of impact investment by facilitating information sharing of thinking and practice.	**2021**
(The) Principles for Responsible Investment (PRI)	Advanced	▪ Status: signatory ▪ Activities: active participation in a number of ESG fixed income focussed advisory committees and working groups, as well as involvement in collaborative engagement initiatives which have ranged from focusing on specific issues (e.g. cyber risk), to specific sectors (e.g. tailings dam management in extractives sector) to company specific engagement.	**2013**

Figure 18: Industry initiatives (cont'd)

Initiative	Level of Involvement	Nature of involvement	Year of membership
(The) Standards Board for Alternative Investments (SBAI)	**Basic - moderate**	▪ Status: member ▪ Activities: Responsible Investment Working Group ▪ As a member of SBAI, BlueBay joined the Responsible Investment Working Group in March 2020 which aims to help institutional investors and alternative investment managers better understand how RI can be applied in different alternative investment strategies, as well as the specific challenges and questions that arise in these contexts. There are a few specific workstreams we participate in which are being pursued as part of the Working Group's activities.	**2020**
(The FSB) Task Force on Climate Related Financial Disclosures (TCFD)	**Moderate**	▪ Status: investor supporter ▪ Activities: adding our support to this initiative aimed at developing voluntary, consistent climate-related financial risk disclosures framework for issuers and others, ongoing promotion of use of the TFCD framework for reporting.	**2020**
Transition Pathway Initiative (TPI)	**Basic**	▪ Status: supporter ▪ Activities: committing to using the TPI tool and its findings in a range of ways, including to inform on our investment research and in engagement with companies in terms of their preparedness for the transition to a low carbon economy.	**2020**
UK Stewardship Code 2020	–	▪ Status: signatory ▪ Activities: accepted as a signatory to the Financial Reporting Council's (FRC) 2020 UK Stewardship Code, a voluntary best practice code on stewardship.	**2021**

Examples of collaborative ESG engagement

Below we have outlined some examples of collaborative ESG engagements undertaken by BlueBay during 2021.

Issuer level

Corporate/quasi sovereign: a state-owned LATAM oil & gas company

- **Sector:** Energy
- **Region:** Emerging markets – LATAM
- **Aim:** Insight & influence for improved practices across climate, health and safety and broader ESG practices and disclosure.
- **Engagement overview:** This engagement commenced in 2020 as part of our involvement in the CA100+, where we co-lead on the company engagement. While there have been communications with the company, the investor group has not been able to hold discussions on the specific matters identified as the company had been delayed in its publication of the new business plan and annual sustainability report, which were important to establish an updated understanding of the state of practice. When these documents were finally published during the first half of 2021, the investor group sought a call with the company to get a briefing on this, as well as discuss next steps. Despite assurances of a follow up call, this was not scheduled to be held until early 2022.
- **Status and outcome:** Ongoing – this has been a challenging engagement initiative. The company has continued to face a challenging financial outlook, making it difficult for management to engage effectively with the investor group. See Principle 11 for how we have been approachinthis engagement.

Sovereign: an Emerging Market sovereign

- **Region:** Emerging markets - LATAM
- **Aim:** Insight and influence into the government's governance strategy.

- **Engagement overview:** Our collaborative engagement with this Latin American sovereign was part of a wider initiative at the Emerging Markets Investors Alliance (EMIA), which seeks to engage with Latin American issuers to encourage them to improve their budget transparency. We selected this sovereign as the first country to engage with and led that effort specifically to establish a template for other sub-groups to follow. During the first half of 2021, we initiated engagement with the Finance Ministry of the country to suggest a couple of enhancements to its current budget cycle. Over the following months we remained in close contact with the Investor Relations Office in the Finance Ministry to urge action. Later in 2021, we met with senior staff from the Budget Office of the Finance Ministry to discuss progress.
- **Status and outcome:** Completed – successful. We judge this to have been a successful engagement in persuading the government to explain and improve budget transparency. When we met with the Budget Office of the country, they gave a very comprehensive account of not just the budget cycle, but also the new on-line resources that dramatically improve public access to data on both revenues and expenditures. In terms of compliance with best practice, the budget team presented a number of metrics showing strong performance by OECD and wider international standards.

Sector level

Promoting a socially response to the Covid-19 pandemic among healthcare companies

- **Sector:** Healthcare – various including drug companies
- **Region:** Global
- **Aim:** Influence – seeking to encourage governments, industry players and other key stakeholders to work together with investors to ensure Covid-19 vaccine equity.
- **Engagement overview:** We co-signed a public statement (coordinated by leading not-for-profit organisation promoting access to healthcare by the drug industry, the Access to Medicines Foundation) along with other investors supporting the call for an effective, fair and equitable global response to the Covid-19 pandemic in terms of the roll out of vaccines. This was in response to concerns voiced by key stakeholders around limited funding and uneven distribution of health technologies globally, despite it being known that the pandemic cannot be contained until the global population is vaccinated.
- **Status and outcome:** Ongoing – the societal response to the investor statement was positive, but scope remains for improvements to ensure a socially responsible approach. We have exposure across a range of healthcare companies, some of which are involved in contributing to the global response to the pandemic.

Addressing labour conditions in the food industry

- **Sector:** Food producers
- **Region:** Global, we supported those focussed on emerging markets
- **Aim:** Insight & influence – start of a three-year programme to raise labour standards in the food industry.
- **Engagement overview:** In early 2021, we signed up to a global collaborative initiative convened by an investor network organisation we are part of (FAIRR) focused on promoting better practices in the animal protein industry, to engage with the world's largest company on their labour practices. Specific topics being health & safety, fair working conditions and worker representation. We signed up to support engagement efforts with leading Latin American food producers. The first phase commenced over the course of the year, involving company engagement to gain insights on industry practice, which would inform on areas to prioritise for corporate action in subsequent phases.
- **Status and outcome:** Contact was made with companies, meetings held and analysis conducted, with a report summarising findings and outlining recommendations for the next step. 2022 will involve ongoing engagement with companies to encourage action on specific recommendations made by the initiative.

Thematic/issue level

Promoting environmental corporate disclosure

- **Sector:** Various – high carbon impact sectors
- **Region:** Global
- **Aim:** Influence – encouraging companies in high carbon-impact sectors to report on their management and performance on a range of environmental issuers (climate change, water, soft commodities.
- **Engagement overview:** As an investor signatory to the CDP, we participated in the annual campaign to encourage over 10,000 companies to provide the CDP with environmental information. We also supported to a complementary parallel campaign to engage those who have not responded to the information request in the past, as evidence shows companies engaged are more than twice as likely to disclose subsequently.
- **Status and outcome:** Closed – some success. For the 2021 campaign cycle, over 165 investors supported the parallel initiative, focussing on >1,300 companies. In particularly, Asian companies increased their response rate, as well as other companies in developed markets in the technology sector.

Various initiatives focussed on engaging with sovereigns to tackle climate change and biodiversity loss by halting deforestation

- **Region:** Global – with an emerging markets focus
- **Aim:** Influence to improve policy and practices to address climate change by addressing emissions from agriculture due to land use change/deforestation; as well as addressing deforestation to limit biodiversity loss and negative impacts on local communities.
- **Engagement overview:** During 2021, working through different initiatives and organisations, we have been focussed on addressing deforestation, these included:
  - Signing an open letter from investors (convened by FAIRR) to the G20 governments encouraging them to set clear targets to reduce agricultural emissions as part of their commitment to addressing climate change, ahead of the UN climate conference.
  - Participating in a multi-stakeholder taskforce which provided into a process set up by the UK government as part of the UN climate conference (COP26) to facilitate progress on sustainable land use and trade in forest and agricultural commodities.
  - Ongoing involvement in a global investor initiative. BlueBay co-chairs the IPDD, an initiative, which engages with two emerging markets sovereigns on halting deforestation within their countries. We are particularly active in one of the workstreams and over the course of 2021, various discussions were held between investors, government official and other key stakeholders who have influence with the sovereigns that are the focus of the engagement efforts. Progress has been particularly slow in the Latin American country, with pending new legislation that threaten to undermine progress across a range of social and environmental fronts, and more generally, the deforestation data were not showing improvements.
- **Status and outcome:** Ongoing – yet to see meaningful progress being made across the various initiatives in terms of performance trends, but we did witness ongoing traction and engagement from key stakeholders, such as with the IPDD initiative. See Principle 11 for more details.

Raising standards in the industry regarding ESG

BlueBay is supportive of efforts to ensure capital markets operate in an environmentally sustainable and socially responsible manner, and that investors have access to clear and appropriate information on ESG considerations. As such, where appropriate and feasible, we play our role in sharing knowledge and insights, to ensure standards are raised in an effective and appropriate manner that meets the needs of clients. We are committed to continuing to do so. Some examples are outlined below:

- **Issuer ESG disclosure:** We have sought to influence companies to ensure they have a formal approach to addressing ESG and improve the public reporting on their ESG efforts across material ESG risks. We also encourage reference/adherence to international standards of ESG-related good/best practice. For instance, via the PRI and ELFA, we continue to promote issuer ESG disclosure, participating in workshops and input into briefing/guidance material.
- **Advancing thinking on ESG and fixed income investing:** We continue to share our issuer ESG evaluation framework with peers and key stakeholders, and have consistently received positive feedback on its soundness and progressiveness. It has served an educational purpose to better understand how to think about integrating ESG in debt investing, by highlighting the similarities and differences between integration in debt versus equities, as well as between debt asset classes and issuer types. Our membership of various PRI convened advisory committee memberships (e.g. ESG in Credit Risks and ratings, sovereign debt, as well as structured credit) has continued to advance ESG disclosure and practices of credit ratings agencies, and engagement has occurred with investment consultants as well ESG information providers. Our involvement in The IA's fixed income stewardship working group has also led to engagement with peers on engagement best practice.
- **Inputting into ESG regulation and public policy:** Over the course of 2021, through our membership of various industry trade bodies (such as The IA and AIMA) we have participated in responses to public consultations on both European sustainable finance regulation (e.g. SFDR) as well as UK proposals on climate disclosure and other ESG matters.

Principle 11: Escalation

While it is still possible to escalate our stewardship activities, in the context of fixed income, there are some particular challenges:

- Given BlueBay's focus on fixed income and position as debt investors, we are not owners and as such, have more limited legal mechanisms to influence issuers (e.g. limited access to proxy voting).
- Seeking to engage a non-corporate issuer, such as a sovereign, is potentially more challenging than influencing a company. Investors are not their primary stakeholder (this is the voting populace) and seeking change could be seen to be political interference or infringing on sovereignty. Therefore the scale and pace of change is often slower than for corporates.

More broadly, irrespectively of asset class, it can also be difficult to attribute our engagement activities with a direct outcome. Such challenges include the fact that other investors may also be engaging with the issuer; issuers may not want to formally attribute an outcome or change to our engagement; and the timeframe between engagement taking place and the outcome can be considerable, particularly in emerging markets.

> **"While it is still possible to escalate our stewardship activities, in the context of fixed income, there are some particular challenges."**

That is not to say it is impossible for us to engage for influence or to facilitate change. In recognition of this, we continue to review the compelling ways to carry out ESG engagement to maximise impact and use of resources. This includes partnering and collaborating with other investors and stakeholders.

Ultimately, where we feel we have been unsuccessful in our stewardship efforts, this may input into our investment decision, which could take different forms:

- Reduce position sizing e.g. below market weight
- Change nature of positioning (from long to short)
- Divest completely
- In cases where we have equity exposure, vote against management

Below we have provided some examples of where we have undertaken engagement for influence and the outcome.

Corporate/quasi sovereign: a LATAM state-owned oil and gas company

- **Sector:** Energy
- **Region:** Emerging markets – LATAM
- **Aim:** Insight & influence for improved practices across climate, health and safety and broader ESG practices and disclosure.
- **Engagement overview:** As reported in Principle 10, our collaborative engagement with this issuer as part of the CA100+ has not been progressing as well as we would have hoped, not helped by the company's financially challenged circumstances. In response to this, the investor group considered and undertook a number of interventions including:
  - Encouraged wider investor participation in the engagement as supporting institutions to increase the group's potential leverage. Some of these had existing bilateral engagement efforts, with relations with other stakeholders who had influence with the company. We also engage with domestic investors to join our investor group, to illustrate the issues being raised were universal, and local investors agreed to their importance.
  - We participated in the investor network sessions focuses on engagements with state-owned entities, sharing experiences and challenges with peers and learning from their own experiences as well to inform on our own.
  - We discussed as an investor group whether to also engage strategically with the sovereign given we had established relations with the Ministry of Finance.
  - More broadly, the investor group reviewed and reflected on its engagement strategy, and reviewed our priorities, delegating out activities, and reassessing whether a new approach was needed.
- **Status and outcome:** The investor group would revisit its company engagement strategy and governance depending on the outcomes of the agreed company call scheduled for early 2022.

Corporate: outsourced provider of maintenance and construction services to the power utilities and energy industries

- **Sector:** Industrials
- **Region:** Developed markets – North America
- **Aim:** Proactively engaged with the company to gain insight into company's practices following concerns around health and safety protocols.
- **Engagement/escalation overview:** Our initial engagement with the company around the middle of 2021 was positive in terms of the company's health and safety practices and performance, in light of some fatalities in a few years past. During the discussion, we learnt more about their worker safety protocols and got comfortable on the improvements they had made. However, in the subsequent management call update, there was news of another worker fatality.
- **Status and outcome:** In light of the latest health & safety issue which led us to doubt whether practices had indeed improved, and given our ESG assessment of the company was already not that positive, we decided to divest from the issuer and removed exposure entirely by the end of 2021. We will continue to monitor and review the company's ESG progress and reassess its investment eligibility as appropriate.

Corporate: a US utilities holding company

- **Sector:** Power utilities
- **Region:** Developed markets – North America
- **Aim:** Engaged for insight ahead of a new hybrid issuance.
- **Engagement/escalation overview:** This utility holding company has a diversified portfolio of electric and natural gas local distribution companies operating in mostly regulatory jurisdictions, as well as its highly contracted unregulated wholesale power company. There is however elevated business risk at its largest electric utility subsidiary as it continues with the construction of a new nuclear project. We engaged with the company when we were assessing their new bond issuance kin the second half of 2021. Our assessment upon engagement was that they have a weak commitment to exiting coal, which makes up c. 15% of their energy mix, with c. 50% from natural gas, and only 15% from renewable.
- **Status and outcome:** After engaging, we declined to participate in the new issuance, believing that there needs to be a material spread premium for their coal exposure. Furthermore, the company's continued nuclear build out creates further risks in addition to the volatility that already exists around the name.

Sovereign: a LATAM sovereign

- **Region:** Emerging markets - LATAM
- **Aim:** Insight & influence to improve practices relating to halting deforestation.
- **Engagement/escalation overview:** Our ongoing engagement with this Latin American sovereign continued during 2021. Unfortunately, the latest deforestation data did not show any meaningful improvements and we saw potential new legislation being introduced that could undermine current efforts to tackle deforestation, as well as erode the rights of local communities. Beyond trends in the region, we were also aware of measures being taken in other regions that showed an increased need to have harmonised public policy measures. In light of these and other developments, some measures we undertook included:
  - Engage with civil society and the relevant stakeholders in the country to understand the potential issues arising from upcoming legislation, and formalising our position to ensure deforestation risks were not increased.
  - Attending the UN climate change conference in late 2021, to meet with government representatives to raise our concerns on behalf of the investor group.
  - Engagement with European officials on proposed legislation to address deforestation and to question the scope and definitions they had used which were not consistent with our thinking on best practice.
  - Within the investor group, discussions initiated on formalising the creation of a third workstream of the IPDD to engage on addressing the demand side of commodity-driven deforestation.
- **Status and outcome:** The decision remains that the sovereign continues to be suitable for investment, as some encouraging progress was made by the government during 2021 in terms of stepping up its deforestation commitments. However, as progress remains slow, new efforts have been introduced to ensure pressure remains on the sovereign to show meaningful progress.

Exercising rights and responsibilities

Principle 12: Exercising rights and responsibilities

Applicability of proxy voting activities for fixed income

Given BlueBay's specialist focus on fixed income assets, the number of occasions when BlueBay will be engaged in proxy voting is limited. It is most likely to occur with convertible and high yield bond investments, where an allocation may take on formal voting rights. In such cases, BlueBay will ensure we make appropriate use of our voting rights on matters of corporate governance and responsibility, applying the same process and policy for voting across all geographies and instruments. There may also be instances outside of the Annual General Meeting (AGM) cycle (in the case of convertible bonds), where corporate issuers may seek BlueBay's support to authorise certain business decisions and quorum of investors is needed to be passed.

BlueBay, on behalf of itself and other entities within the group (including BlueBay Funds Management Company S.A.), has established a series of principles to be applied when exercising voting rights attached to client securities within managed portfolios.

These include:

- In reaching a recommendation on how a proxy should be voted, BlueBay must act prudently and in the best interests of the affected clients and will ensure that voting rights are exercised in accordance with the portfolio's objectives and investment policies.
- BlueBay may depart from the principles to avoid voting decisions that may be contrary to clients' best interests in particular cases.
- BlueBay may choose not to vote where voting may be detrimental to the best interests of clients, such as due to high administrative costs associated with voting or share blocking requirements that "lock up" securities, which would limit liquidity or access to market opportunities.

The relevant members of BlueBay's portfolio management team are responsible for recommending how proxies relating to securities held by clients in managed portfolios should be voted. The relevant personnel will consider each exercise of rights and will take into consideration the best interests of clients when voting on specific events or issues associated with the board and its committees (e.g. board independence and diversity), shareholder rights, audit and internal control, executive remuneration, use of capital (e.g. M&As) and other business. This is done on a case-by-case basis. Ultimately, investment teams retain discretion on voting decisions but will consult with our in-house ESG function for guidance.

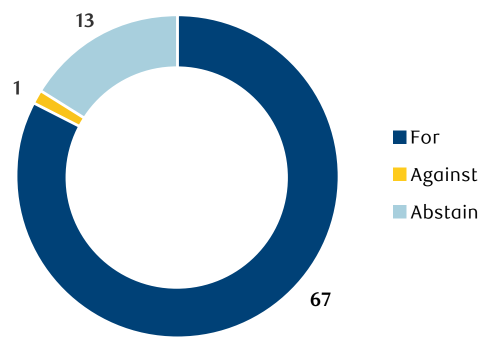
We subscribe to Broadridge's ProxyEdge online platform, which alerts BlueBay to any upcoming proxies due to be voted on and provides a portal through which we can vote. However, this does not provide any background research or recommendations on how to vote the proxy. It maintains a record of the proxies in which we were eligible to vote, and our voting decision. Our operations function manages the process of coordinating and documenting decisions.

In 2021, we engaged in proxy voting at 25 meetings, relating to 23 companies. Further detail on our approach with regards to proxy voting can be found within our Proxy Voting Policy, available on our corporate website.

In terms of our approach to seeking amendments to terms and conditions in indentures or contracts, access to information provided in trust deeds, impairment rights and reviewing prospectus and transaction documents, where feasible, our investment teams will raise such topics with issuers, particularly in primary issuance.

Figure 19: BlueBay 2021 proxy voting activities

Breakdown of 2021 proxy voting activities (number of voting instances)



Source: BlueBay Asset Management LLP

As the diagram shows, there was only one instance where we chose to vote against management. This was in relation to a corporate issuer in the developed market region, with the rationale being that we were happy with the current stricture of the board of the company and disagreed with the proposed restructuring. There were a number of instances in which we abstained relating to four issuers, with reasons for doing so ranging from not being permitted to do so as they featured on a restricted list, being agnostic on the proposed policy changes being voted on, and the fact that these were small illiquid equity positions.

Contact us

We hope you have found our Annual Stewardship Report useful.

To ensure we continue to meet our key stakeholder needs and interests, we welcome feedback on how we can improve our future efforts. Details of how to contact us are provided below.

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BlueBay Asset Management

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