Global Fixed Income team: Integration of Sustainability Risk

The management of sustainability risk forms an integral part of the investment and due diligence process implemented by the investment team. This includes assessing the risk that the value of underlying investments could be materially negatively impacted by an environmental, social or governance ("ESG") event or condition ("ESG Event").

The investment team integrates sustainability into its investment process using negative screening and incorporating ESG metrics into both its sovereign and credit research process, and portfolio construction.

The investment team incorporates an exclusion policy based on sustainability risk criteria (whereby potential investments are removed from the investment universe on the basis that they pose too great a sustainability risk to the fund).

The investment team relies on ESG information of third-party data providers to assist in understanding the sustainability risks of a proposed investment. The investment team may also conduct fundamental analysis on each potential investment to further assess the adequacy of ESG programmes and practices of an issuer to manage the sustainability risk it faces. Potential ESG issues associated with an investment are also monitored by the investment team to investigate and assess issues which may include the impact of issuer operations, governance practices, and/or products and services that allegedly violate national or international laws, regulations, and/or other commonly accepted global norms.

The information gathered from this analysis will be taken into account by the investment team in deciding whether to acquire an investment and the size of a position. The investment team will ensure that the portfolio as a whole meets certain minimum specified thresholds:

i) The average ESG rating for the portfolio of assets held by the fund must be at least "BBB";
ii) The maximum exposure of the fund to bonds with an ESG rating lower than "BB" must not exceed 15% of the NAV of the Fund; and
iii) The maximum exposure of the fund to individual bonds with ESG ratings lower than "BBB" must not exceed 3% of the NAV of the Fund.

In accordance with point (iii) above, the investment team will only hold on behalf of the fund a bond that is rated lower than "BBB" when in the opinion of the investment team this does not fully reflect the position of the relevant issuer, or has not captured recent positive sustainability-related changes which have been implemented by the relevant issuer. Some issuers (for example smaller issuers) may not be rated or covered by data providers and may publish little or no information on their ESG policies and sustainability risks, in these cases the investment team's scope for analysis of sustainability risk will be limited.

Where a fund has a designated benchmark, the investment team will also monitor portfolio-level data including the relative positioning of the portfolio versus such a benchmark; and "carbon footprint" reports detailing carbon emissions in absolute terms and relative to that benchmark.

In addition, the investment team will monitor sustainability risk on an ongoing basis through reviewing ESG data published by the issuer (where relevant) or selected data providers to determine whether the level of sustainability risk has changed since the initial assessment was conducted. Where there is an increase in sustainability risk, the exposure to the relevant security may be reduced taking into account the best interests of the Shareholders of the Fund.

The investment team has determined that the sustainability risk (being the risk that the value and returns of the fund could be materially negatively impacted by an ESG Event) faced by the fund can be expected to be lower than that of investing in the broader bond market, as measured by relevant benchmark indices, given the monitoring and management of sustainability risk as described above; and, in particular, a requirement to maintain a minimum specified sustainability rating.