Ninety One

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Investing for a world of change

Emerging Markets Blended Debt Fund

Sustainable disclosures summary

The Emerging Markets Blended Debt Fund (the Sub-Fund) aims to provide investors with income and capital growth by investing across a broad range of emerging market (EM) fixed income assets. The Sub-Fund's investment opportunity set includes bonds issued by EM companies, and debt issued by EM sovereigns (in each case, referred to as 'borrowers' here).

The Sub-Fund promotes environmental and social characteristics by making investments in borrowers that meet the inclusion standards of Ninety One, the Investment Manager's proprietary sustainability framework and by excluding investments in certain borrowers.

How sustainability analysis is incorporated

Assessing potential investments

Sovereign bonds: Ninety One takes into account ESG developments throughout the investment process and its proprietary sovereign sustainability framework focuses on forward-looking sustainability trends, as represented by an ESG trend score.

To make this sustainability assessment, Ninety One analyses various aspects of a sovereign borrower's ESG policies and maps these against the United Nations Sustainable Development Goals. It then performs a qualitative assessment of forward-looking trends for each of these ESG aspects and assigns an aggregated trend score that ranges from -3 to +3. The Sub-Fund does not invest in sovereign borrowers with the lowest ESG trend score of -3.

At least 50% of the Sub-Fund's sovereign borrowers with will have an ESG trend score of zero or higher. However, if the aggregated ESG trend score for the benchmark is below zero, the Sub-Fund will maintain a positive ESG trend score relative to its benchmark.

From a governance perspective, Ninety One's preference is for sovereign borrowers that exhibit positive governance practices, such as enhancing the capacity and integrity of institutions, engaging in structural reforms and ensuring effective regulation.

Turning to corporate bonds, at the fundamental analysis stage of the investment process, Ninety One uses a range of data to assess the sustainability characteristics of the companies in which the Fund invests. First, it screens corporate borrowers for ESG 'red flags', which typically represent weak institutional structures and higher risks of controversies (such as poor governance standards). In terms of governance, Ninety One considers characteristics such as board structure, shareholder control and company policies. For companies that pass these initial checks, Ninety One carries out a detailed analysis across a broad range of ESG factors, currently encompassing aspects such as climate and natural capital, human capital, corporate behaviour, regulatory risk, and good governance. This helps to establish a proprietary, sector-specific ESG score for individual companies. ESG scores range from 0 to 100, with 100 being the best score. At least half of the corporate investments in the Sub-Fund will be invested in companies with a neutral or higher ESG score (51 or higher).

Investments the Sub-Fund avoids

When investing in sovereign bonds, the Sub-Fund avoids markets that Ninety One deems to pose the highest sustainability risks – as reflected in the lowest ESG score (-3) within Ninety One's ESG assessment framework.

Within its corporate bond investments, Ninety One avoids sectors that it believes to be incompatible with a net-zero carbon future. This means that the Sub-Fund does not invest in companies that (to the best of Ninety One's knowledge) derive more than 20% of their revenue from the production of crude oil from oil sands, thermal coal power generation and the production or distribution of unsustainable palm oil.

The Sub-Fund also avoids companies that (to the best of Ninety One's knowledge) are directly involved in: the manufacture and production of controversial weapons (including biological and chemical weapons, cluster munitions and anti-personnel landmines); the manufacture or production of nuclear weapons; the manufacture and sale of tobacco products; the management or ownership of adult entertainment production or distribution; thermal coal mining; or that Ninety One deems to be in violation of the UN Global Compact principles.

The Sub-Fund may invest in green bond investments – including those issued by thermal coal energy producers; when it does so, Ninety One will assess the extent to which the company issuing the bonds will use the proceeds to help the world transition in a meaningful way towards net-zero carbon.

Monitoring investments

Ninety One monitors all holdings in the Sub-Fund on an ongoing basis. A holding may be sold for a range of reasons but in particular, if it is determined that the investment case for the holding has weakened or it no longer satisfies the investment objective and policy of the Sub-Fund. Such sales will take place over a time period to be determined by Ninety One, taking into account the best interests of the Shareholders of the Fund.

Any changes in company ESG scores may result in a change in the relative ranking of the company within the relevant sector-specific ESG scorecard mentioned above; this will prompt a discussion at Ninety One regarding what has driven such changes and whether any adjustment to the Sub-Fund is required.

Engaging with sovereigns and companies

As an investor in sovereign assets, Ninety One is in a privileged position to have access to EM policymakers. This privilege comes with a responsibility to engage on ESG matters. Ninety One takes a holistic approach to sovereign engagement and believes the most effective engagement involves repeated interaction on specific, actionable topics. It engages with policymakers on country trips – both virtual and in-person when possible. These trips give Ninety One access not just to finance ministries and central banks, but also other parts of government, including executive offices and energy ministries. Ninety One engages with government officials on ESG issues in one-to-one meetings, with bond roadshows and IMF bi-annual meetings providing additional forums for engagement. It also works with NGO partners and industry bodies to provide a collective voice and shape the debate. Ninety One engages broadly on matters that span the entire ESG spectrum, but mainly focuses strategic engagements on two areas where it feels it has strong expertise: climate and nature risks (where it applies its proprietary Climate and Nature Sovereign Index and Net Zero Sovereign Index work), and budget transparency.

On the corporate bond side, as part of its sustainability framework, Ninety One will engage with companies where it identifies opportunities to effect positive change, or to deepen knowledge and insight, with respect to sustainability considerations.

Ninety One engages with borrowers in a variety of ways. These range from strategic engagements – where pressing material issues are identified, engagement goals are set, and a plan of action is put in place – through to communication-style engagements – which help Ninety One improve its understanding of potential risks and explain it priorities and expectations to company management.

Although just one part of Ninety One's broader process, these engagements play an important role in investment decision-making. Where possible, Ninety One uses collective engagement to maximise its impact, this might mean through networks such as Climate Action 100+, CDP (Carbon Disclosure Project) or by coordinating engagements across the organisation, e.g., with equity portfolio management teams.

In recognition of the need to prioritise when it comes to engagement activity, typically Ninety One considers the size of holdings and materiality of ESG risks and opportunities, among other factors, to help focus efforts.

Important information