Ninety One

Emerging Markets Local Currency Dynamic Debt Fund

Sustainable Finance Disclosures

November 2023

Summary

The Sub-Fund aims to provide investors with income and capital growth by investing in sovereign bonds issued in local currency by a broad range of emerging market countries (sovereigns).

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

How sustainability analysis is incorporated

Assessing potential investments

The Investment Manager takes into account ESG developments throughout the investment process and its proprietary sustainability framework focuses on forward-looking sustainability trends, as represented by an ESG trend score.

To make this sustainability assessment, the Investment Manager 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 ESG trend score that ranges between -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, the Investment Manager'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.

As part of the Investment Manager's proprietary tools, it uses a Climate & Nature Sovereign Index (CNSI) and a Net Zero Sovereign Index to help inform its qualitative analysis, particularly when it comes to analysis of climate action and climate risk adaptation.

Investments the Sub-Fund avoids

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

Monitoring investments

The Investment Manager 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 the Investment Manager, taking into account the best interests of Shareholders of the Sub-Fund.

Engaging with sovereigns

As investors in sovereign assets, the Investment Manager is in a privileged position to have access to EM policymakers. This privilege comes with a responsibility to engage on ESG matters. The Investment Manager 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 the Investment Manager access not just to finance ministries and central banks, but also other parts of government, including executive offices and energy ministries. The Investment Manager 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. The Investment Manager 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.

No sustainable investment objective

This financial product promotes environmental or social characteristics but will not make any sustainable investments.

Environmental or social characteristics of the financial product

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

The Sub-Fund invests across various areas in which the Investment Manager sees opportunity to promote environmental/social characteristics, examples of these:

- environmental characteristics can include climate change and natural capital amongst others; and
- social characteristics can include built environment and inclusive development amongst others.

Details of the proprietary sustainability framework are explained in the 'investment strategy' section below.

No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the Sub-Fund.

Investment strategy

Sustainability Framework

As part of its investment strategy to promote environmental and social characteristics of the Sub-Fund, the Investment Manager makes investments that meet the standards of its proprietary sustainability framework.

The proprietary sustainability framework focuses on forward looking ESG trends, as represented by an ESG trend score for its borrowers. The Investment Manager believes that positive ESG developments are a key consideration throughout the investment process. For example, borrowers that have strong governance, treat their people well and manage their wealth in a sustainable way are expected to see their economies and asset prices outperform in the long run.

The Investment Manager analyses aspects of environmental policy (such as climate and natural capital), social policy (such as built environment, human capital, inclusive development) and governance (such as civil authority, institutional capacity, economic policy) of borrowers. Each of these aspects are mapped against one or more of the United Nations' Sustainable Development Goals. The Investment Manager performs a qualitative assessment of forward-looking trends for each aspect, resulting in an aggregated ESG trend score. The aggregated ESG trend score feeds into the Sub-Fund's fundamental analysis.

The Investment Manager's ESG trend score is supported by a variety of information including publicly available sources, third-party data, proprietary models as well as the experience, discretion and judgement of the Investment Manager. There will be no mechanistic reliance on external ESG ratings or scores.

The Sub-Fund will invest at least 50% in borrowers with an ESG trend score of 0 or higher, but if the aggregated ESG trend score for the benchmark is below 0, at least 50% of the Sub-Fund will be invested in borrowers with an ESG trend score higher than the benchmark's aggregated ESG trend score.

Furthermore, the Sub-Fund will not invest in borrowers with an ESG trend score of -3.

Additional Considerations

The Investment Manager applies its proprietary sustainability framework consistently and on an ongoing basis to assess the environmental and social characteristics of the Sub-Fund's investments.

In the investment selection process, the Investment Manager's assessment, and application of environmental and /or social characteristics applies in a binding manner to the portfolio of the Sub-Fund. This criterion does not apply to the Sub-Fund's ancillary investments in cash, near cash, deposits, money market instruments, derivatives and/or collective investment schemes and exchange traded funds in which the Investment Manager does not have direct control of the underlying investments. Such ancillary investments will not usually represent a material proportion of the Sub-Fund's portfolio.

The Sub-Fund's holdings will be monitored on an ongoing basis by the Investment Manager. 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 been 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 the Investment Manager, taking into account the best interests of the Shareholders of the Sub-Fund.

Good governance

The Investment Manager follows an internal framework to analyse governance issues related to its investments. This is rooted in widely accepted governance principles which are outlined in the Investment Manager's Ownership policy on its website, www.ninetyone.com. Third party data complements the governance assessment.

Good governance practices are considered as part of the Investment Manager's proprietary sustainability framework and through ongoing monitoring of holdings. Specifically, there is a focus on identifying borrowers exhibiting positive governance trends, such as enhancing the capacity and integrity of institutions, engaging in structural reforms, ensuring effective regulation and more generally ensuring that macroeconomic policy is on a sound and sustainable footing.

Where a governance issue is identified, the Investment Manager may engage directly with stakeholders in an effort to catalyse change.

Engagement

The Investment Manager takes a holistic approach to engagement on ESG matters and believes the most effective engagement involves repeated interaction on specific, actionable topics. The Investment Manager has constructive dialogue with borrowers such as, but not limited to the following: central banks, government executives, energy ministries, International Monetary Fund meetings and other non-governmental organisations.

Proportion of investments

The minimum proportion of investments used to meet environmental or social characteristics promoted by the Sub-Fund (i.e., '#1 Aligned with E/S characteristics') is 51% of its assets.

Monitoring of environmental or social characteristics

The environmental and social characteristics pertain to making investments in borrowers that meet the standards of the Investment Manager's proprietary sustainability framework and by excluding investments in certain borrowers. The Investment Manager can monitor the progress in achieving these objectives on a daily basis as all of the data is then warehoused in its proprietary front-end visualisation platform, which provides real-time portfolio information, including the sustainability assessment of each borrower.

The actual scores assigned by the analysts are done so on a continuum (i.e., analysts are constantly assessing the merits of each issuer and significant changes in circumstance will lead to an immediate change in assessment) and additionally formally presented back to the broader team at a minimum bi-annually.

On an annual basis, the following sustainability indicators will be used to measure the attainment of the environmental or social characteristics promoted by the Sub-Fund:

- proportion of investments invested in countries that have an ESG trend score that is greater than the lower of 0 or the benchmark* ESG trend score;
- -proportion of investments in borrowers rated -3 as per the Investment Manager's ESG trend scores.

*Benchmark in this context refers to the Sub-Fund's performance comparison benchmark: JP Morgan GBI-EM Global Diversified Index.

Methodologies for environmental or social characteristics

For sovereign borrowers, the Investment Manager has committed to;

- Invest at least 50% in Emerging Markets Sovereign Borrowers with an ESG trend score of 0 or higher, but if the aggregated ESG trend score for the benchmark is below 0, at least 50% of the Sub-Fund's Emerging Market Sovereign Borrowers allocation will be invested in borrowers with an ESG trend score higher than the benchmark's aggregated ESG trend score; and
- Not invest in Emerging Markets Sovereign Borrowers with an ESG trend score of -3, as per the Investment Manager's proprietary sustainability framework.

To calculate the proportion of borrowers with an ESG trend score of 0 or higher, the Investment manager sums the number of sovereign issuers with a trend score of 0 or higher and divides that by the total number of sovereign issuers in the portfolio. If the outcome of that is less than 50% and the outcome of the same approach for the benchmark is less than 50%, the Investment Manager applies a sum product of the overall ESG trend score of the portfolio relative to that of the benchmark. E.g., the weight of each sovereign issuer in the portfolio multiplied by the ESG trend score assigned to that specific issuer, then the total is summed together and compared to the benchmark following the same methodology.

Data sources and processing

The Investment Manager uses a variety of third-party data service providers that specialise in the provision of carbon data to measure the attainment of the Sub-Fund's environmental and social characteristics. This may be supplemented by proprietary ESG analysis, equivalent, or estimated data. As the Sub-Fund invests across many jurisdictions there is great variability in data availability and quality. The Investment Manager mitigates this by using reputable third-party sources and may engage with vendors where there is disagreement with the output of the data.

Sustainability data vendors are reviewed by internal stakeholders prior to onboarding. This process helps develop an understanding of the quality of data, coverage, and estimation methods. Based on this review the Investment Manager determines acceptable levels of quality. The Investment Manager's analysts perform a key role in the review and support process to promote continuous improvement of data quality through engagement with both companies and data vendors.

The Investment Manager aims to have a proprietary ESG score for all sovereign borrowers in the investable universe.

Limitations to methodologies and data

Measuring how the environmental or social characteristics are met (i.e., sustainability indicators) is dependent on the availability and quality of data. The Investment Manager prefers to use reported data from companies and governments, however, in some cases may need to approximate data where appropriate data is not available. Approximation is typically done by vendors including estimated data. Coverage is improving but may not always be representative of corporate and sovereign activity.

Where there are limitations on data available, the Investment Manager uses its research and due diligence process to assess environmental and social characteristics.

Due diligence

The Investment Manager's approach to bond and FX selection focuses on both qualitative analysis and quantitative economic and financial modelling. The investment team uses a scorecard system to bring together these inputs into a disciplined and repeatable framework. The analysts' qualitative scores are structured within a framework specific to each sub-asset class to ensure thorough review, from macro drivers to valuations and market behaviour. The qualitative assessment is assisted by market-leading econometric modelling, such as country-level macroeconomic 'nowcasts', which helps to ensure that analysts have an informational advantage in making their qualitative assessment. These qualitative views are complemented by direct quantitative inputs into scorecards. These inputs include models assessing trends, relative value and currency risk versus reward. The quantitative inputs serve an important role in ensuring that objective input of risk and opportunities in the asset class feeds directly into scorecards. However, it should be stressed that the scorecards are not followed mechanically, but rather help to generate ideas, monitor positions, reinforce discipline and maintain a track record for trades.

The Investment Manager's independent risk team produces monitoring risk reports to add an additional layer of oversight. For investment-related matters there is a separate independent oversight framework within the Investment Manager in the form of quarterly Structured Reportback (SRB) reviews. Both the investment team and Investment Risk team participate in the SRB which is attended by senior management including the Co-Chief Investment Officers and Chief Executive Officer (who is on the board). In the SRB the quantitative and qualitative characteristics of investment processes are analysed with senior management within the business. This enables the Investment Manager to confirm that the sources of performance are consistent with its expectations and identify any areas of weakness. Not only does this review provide broad and varied oversight of the process, it also facilitates evolution of the teams and processes to ensure that they can consistently deliver for investors.

Engagement policies

As investors in sovereign assets, the Investment Manager is in a privileged position to have access to EM policymakers. This privilege comes with a responsibility to engage on ESG matters.

The Investment Manager takes a holistic approach to sovereign engagement. It engages with policymakers on country trips – both virtual and in-person when possible. These trips give the Investment Manager access not just to finance ministries and central banks, but also other parts of government, including executive offices and energy ministries. The Investment Manager 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. The Investment Manager also works with NGO partners and industry bodies to provide a collective voice and shape the debate.

While the Investment Manager engages broadly on matters that span the entire ESG spectrum, it mainly focuses its strategic engagements on two areas where it feels it has strong expertise: climate and nature risks, where it applies its Climate and Nature Sovereign Index as well as its Net Zero Sovereign Index work; and budget transparency.

More broadly as a firm, the Investment Manager implements active stewardship and its rights as shareholders to preserve and grow its clients' assets, including engagement with the companies in which it invests. Engagements take place as an integral part of the investment process, with the investment teams initiating engagement relevant to environment, social and governance characteristics based on their investment priorities as identified through their fundamental research. The extent of engagement activities will vary depending on the materiality of any adverse impacts, ability to exert influence, and the nature and severity of the potential issue. Where engagements on sustainability issues are identified as a critical opportunity to create or preserve value, and where the Investment Manager believes it can have influence, these are classified as strategic engagements. Strategic engagements involve an agreed engagement plan with outcomes identified, agreed between the Investment and Sustainability teams.

In addition, in relation to Article 8, where significant adverse impacts are identified or there is potential non-compliance with good governance requirements the investment team will identify the materiality of these and the potential need for engagement to address these issues, in conjunction with the Investment Risk and Sustainability teams. Aligned with the Investment Manager's broader approach to engagement and stewardship, individual engagements will be categorised as general, strategic or advocacy (collaborative) engagements depending on the materiality and form of the engagement. Further information on the Investment Manager's approach to engagement is available on its website.

Where the Investment Manager believes engagement is ineffective or companies are not committed to change, it may use the ultimate lever as an investor, which is to reallocate capital.

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Telephone calls may be recorded for training, monitoring and regulatory purposes and to confirm investors' instructions.
For more details please visit www.ninetyone.com/contactus

Important information

All investments carry the risk of capital loss. Past performance is not indicative of future performance.

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