Ninety One

Emerging Markets Sustainable Blended Debt Fund

Sustainable Finance Disclosures

Summary

The Emerging Markets Sustainable Blended Debt Fund (the Sub-Fund) aims to provide investors with income and capital growth by investing across a broad range of emerging market fixed income assets.

In making investment decisions, Ninety One, the Investment Manager places a heavy emphasis on proprietary, forward-looking ESG scores to focus on countries with improving sustainability trends. It also makes selective sustainable investments in bonds whose proceeds are used to finance solutions that address environmental and/or social challenges (e.g., green bonds, social bonds and sustainability linked bonds).

Ninety One believes that countries that have strong governance, treat their people well and sustainably manage their natural wealth should see their economies and asset prices outperform in the long run. Therefore, when investing in sovereign bonds, Ninety One prefers borrowers with sustainable practices, good governance and meaningful ambitions towards achieving net-zero carbon.

How sustainability analysis is incorporated

Assessing potential investments

Sustainability considerations are a key driver of Ninety One's investment decisions for the Sub-Fund. In practical terms it means that proprietary ESG scores carry a 50% weight in the overall scorecards that are used to inform investment decision-making.

To make this assessment and calculate proprietary ESG scores, 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 between -3 to +3. At least 70% of the Sub-Fund's sovereign investments will have a positive ESG trend score (of 0 or higher). On average, over a rolling five-year cycle, the Sub-Fund's investments in EM sovereign borrowers will have a positive ESG tilt 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.

As part of Ninety One'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.

Ninety One aims to invest a minimum of 15% of the Sub-Fund in sustainable investments, such as green and sustainable bonds as well as debt issued by development finance institutions, as assessed by its proprietary analysis framework. When analysing supranational, green, social or sustainable bonds, Ninety One uses an approach that is aligned with Emerging Market Investors Alliance's enhanced labelled bond principles. Factors it considers include whether independent oversight is provided and the degree of transparency provided in reporting.

Investments the Sub-Fund avoids or keeps to a minimum

Any non-sustainable investments in a country that scores -1 or less in Ninety One's ESG assessment framework are excluded from the Sub-Fund. At the overall Sub-Fund level, only a small portion (10%) of the Sub-Fund can be invested in bonds issued by countries that are not moving in the right direction – as indicated by a negative ESG trend score – unless it is through a supranational, green, social or sustainable bond.

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 Sub-Fund.

Engaging with sovereigns

As investors 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.

No sustainable investment objective

This financial product promotes environmental or social characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 15% of 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 question below on 'what investment strategy does the financial product follow?'

The Sub-Fund focuses on investments considered by the Investment Manager as having policies and initiatives that aim to reduce their harmful effects on, or benefit, society and the environment.

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 UN Sustainable Development Goals. The Investment Manager performs a qualitative assessment of forward-looking trends for each aspect, resulting in an aggregated ESG trend score that ranges from -3 to +3. 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's investments will have a positive ESG tilt relative to its benchmark. Measurement of the extent of this positive tilt and the name of the benchmark are described in the section 'Methodologies for environmental or social characteristics'

In addition, as detailed above, the Sub-Fund intends to make sustainable investments in borrowers whose proceeds are used to finance solutions that address environmental and/or social challenges (e.g. green bonds, social bonds and sustainability linked bonds). The Sub-Fund may invest in sustainable investments from borrowers that have an ESG trend score that ranges from -3 to +3.

Furthermore, the Investment Manager:

- will limit making Investments that are not ‘sustainable investments’ from borrowers with an ESG trend score below 0 to a maximum of 10%; and
- will not invest in investments that are not ‘sustainable investments’ from borrowers with an ESG trend score below -1.

Additional Considerations

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.

As part of its sustainability framework, 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.

Good governance

The Investment Manager follows an internal investment framework to analyse governance issues related to borrowers. Third party data complements the governance assessment.

For the Sub-Fund, assessing the good governance practices of borrowers is considered as part of the Investment Manager’s proprietary sustainability framework and through ongoing monitoring of holdings.

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.

Proportion of investments

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 70% of its assets. At least 15% of the Sub-Fund’s assets are sustainable investments within the meaning of Article 2(17) SFDR. #1A Sustainable investments can comprise of those with environmental objectives, social objectives, or a dual combination of both environmental and social objectives.

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 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 warehoused in its proprietary front-end visualisation platform, which provides the real-time portfolio holdings and the related 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 investment team at a minimum bi-annually.

Methodologies for environmental or social characteristics

For sovereign borrowers the Investment Manager has committed to;

- On average, over a rolling five-year cycle, the Sub-Fund’s investments in EM sovereign borrowers will have a positive ESG tilt* relative to its benchmark.
- At the overall Sub-Fund level, only a small portion (10%) of the Sub-Fund can be invested in bonds issued by countries that are not moving in the right direction – as indicated by a negative ESG trend score – unless it is through a supranational, green, social or sustainable bond.
- Any non-sustainable investments in a country that scores -1 or less in the Investment Manager’s ESG assessment framework are excluded from the Sub-Fund.

*The extent of the positive tilt is measured by comparing the weighted average ESG trend score of the Sub-Fund to its benchmark on average, over a market cycle (i.e., the aggregated active weights of positions in borrowers with positive scores will be more than the aggregated active weight of borrowers with negative scores). The benchmark in this context refers to the Sub-Fund's performance composite comparison benchmark: 50% JP Morgan GBI-EM Global Diversified Index + 50% JP Morgan EMBI Global Diversified Index.

The Sub-Fund also intends to make sustainable investments in borrowers whose proceeds are used to finance solutions that address environmental and/or social challenges (e.g. green bonds, social bonds and sustainability linked bonds). These challenges include climate change, social housing, education and healthcare. Sustainable investments may also include investments in debt instruments issued by Development Finance Institutions, if the Investment Manager deems these to be sustainable investments.

The proportion of investment in sustainable investments is monitored through the Investment Manager's proprietary front-end platform by observing when the bond is labelled as green, social, sustainable, sustainably linked (GSSS) or a supra-national.

Data sources and processing

The Investment Manager uses a variety of third-party data service providers that specialise in the provision of Environmental, Social and Governance (ESG) data to measure the attainment of the Sub-Fund's environmental and social characteristics. Ninety One's primary ESG data service providers are MSCI, ClarityAI and S&P Trucost that aggregate company reported data for use by the Investment Manager and provide estimated/modelled data where data is not available. This may be supplemented by proprietary ESG analysis, equivalent, or internally 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 data 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 level of estimation can vary by data type and region. Carbon data quality has significantly improved over the last few years. Scope 3 data remains subject to a high level of estimation.

Limitations to methodologies and data

Measuring how the environmental or social characteristics are met (i.e. its sustainability indicators) is dependent on the availability and quality of data. The Investment Manager aims to use reported data from companies and government sources, however, in some cases may need to approximate data where appropriate data is not available. Approximation is typically done by vendors including estimated data. Data coverage is improving but may not always be representative of corporate and sovereign activity. When appropriate the Investment Managers aims to disclose where estimated or modelled data is used as well as the need to exercise caution when using this data for decision making or comparative purposes.

Where limited data is 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 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 a 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 analysts have an informational advantage in making their qualitative assessment. These qualitative views are complemented by direct quantitative inputs into the scorecards. These inputs include models assessing trends, relative value and currency risk versus reward. The quantitative inputs play 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 risk-monitoring 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). During 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.

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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 their 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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