



BlueBay
Asset Management

Annual ESG Investment Report 2019



**Global Asset
Management**

Signatory of:



Contents

3 CEO message

4 Our ESG investment approach

ESG investment policies

ESG investment strategies

Governance and resourcing

ESG related industry memberships

7 Review of 2019

Reflections on ESG developments

Performance review of our 2019 ESG work programme

ESG integration – highlights

Stewardship in action

20 Looking ahead to 2020

Thoughts on ESG markets trends and developments

Priorities for 2020

23 Corporate responsibility at BlueBay



CEO message

Erich Gerth
Chief Executive Officer (CEO)

The richness of ESG data and analysis we have produced is already proving insightful, prompting many discussions and greater engagement between teams and with our clients.

In 2019, we continued efforts regarding the incorporation of environmental, social and governance (ESG) practices within our investment process. Further to this, over the past year ESG has been established as a strategic pillar for how BlueBay does business.

Some areas of progress I wanted to highlight:

Effective and efficient ESG data

infrastructure: having set ESG as a strategic priority for 2019 and following the launch of our formal issuer ESG evaluation framework, this year we embedded ESG data and research within our investment infrastructure, making it accessible for all investment professionals.

We created a portal to house ESG data and metrics, which enabled their inclusion within our proprietary portfolio management and reporting tool, Portfolio Insight (Pi), and our investment decision platform, the Alpha Decision Tool (ADT). As a result, credit and ESG research are now housed within a centralised in-house research platform for the first time.

This illustrates our commitment to ensuring ESG is a core part of our credit research process, with ESG analysis formally and systematically feeding into our investment decisions. It also shifts mindsets from thinking of ESG as an enhanced investment risk management tool, to also being a potential source for investment returns.

With investor interest and demand for ESG continuing to grow, I believe these steps position BlueBay to continue to be able to develop and deliver innovative fixed-income solutions, which can generate strong performance as well as meet our clients' values and priorities.

ESG integration as standard practice:

continuing to ensure we are integrating ESG within our fundamental research and portfolio management processes as routine practice remains one of our priorities.

Our issuer ESG evaluation framework is uniquely tailored to debt investing and we have continued to receive strong feedback for being innovative and progressive. This year we assessed over 95% of our holdings across both corporates and sovereigns. This was not a small undertaking, but one that we are committed to ensure we maintain going forward.

The richness of ESG data and analysis we have produced is already proving insightful, prompting many discussions and greater engagement between teams and with our clients. We have shared some of the results of the analysis, as well as reflections from our investment teams, within this report (see the '[ESG perspectives from our investment teams](#)' section of this report, page 13).

Finally, while this report focuses on our investment ESG efforts, BlueBay's commitment also extends to how we address these responsibilities as an organisation, in other words, our corporate responsibility (CR). We believe this is the right thing to do for our business. To provide greater focus and clarity on our efforts, during the year we made an important step in addressing this more strategically, by establishing a formal CR Framework (see the '[Corporate Responsibility at BlueBay](#)' section of this report for more details, page 23).

I hope you find this report useful and I welcome your feedback as we continue our ESG journey.

Our ESG investment approach

As an active fixed income specialist, BlueBay is committed to delivering attractive risk-adjusted returns for our clients over the long-term. We believe incorporating ESG factors can provide a more robust and holistic approach to investment management, as well as enable us to meet client needs.

Consideration of ESG factors has always been part of BlueBay's investment process. We adopted a more strategic approach in 2013 and continue to strengthen our efforts year-on-year. However, 2019 saw added impetus and resourcing given ESG was one of two strategic firmwide priorities.

ESG investment policies

We have adopted a range of ESG Investment policies that outline our governance and approach in relation to specific ESG topics. These include the following:

- ESG Investment Risk Policy;
- Controversial Weapons Investment Policy;
- Proxy Voting Policy on Corporate Governance and Corporate Responsibility;
- Statement on the UK Stewardship Code; and
- Transparency Statement on the UK Modern Slavery Act.

All can be accessed on our [website](#).



Our ESG investment approach

ESG investment strategies

BlueBay applies a number of ESG investment strategies as standard across the firm for all managed assets, as part of an enhanced investment risk management framework. Beyond this, we have developed and added new strategies for select funds that seek to go beyond an ESG investment risk management framework. Our approach continues to evolve as we enhance our processes and thinking with regards to ESG and investment management.

- **ESG integration**, which is applied to all managed assets across both corporates and sovereigns, and is supplemented by ESG engagement where appropriate;
- **ESG negative screening (product-based)**, which is applied for controversial weapons across all pooled funds, with further screening for our dedicated ESG funds;
- **ESG norms-based screening (conduct-based)**, which is applied to our dedicated ESG funds;
- **Proxy voting**, which is undertaken in limited instances where it is applicable for BlueBay to do so.

Figure 1: BlueBay ESG investment strategies

	 ESG integration	 ESG engagement	 Ethical (negative/exclusions) screening	 Noms-based screening
Pooled fund - ex Global High Yield ESG Bond Fund/Global Income Fund ¹	✓	✓	✓ ²	
Pooled fund - Global High Yield ESG Bond Fund	✓	✓	✓	✓
Segregated accounts	✓	✓	✓ ³	

Notes: ¹ This refers to the BlueBay Luxembourg, Cayman Island, and Dublin domiciled funds; ² This applies to funds which invests in corporate issuers;

³ This is a discretionary service available for clients where this is requested.

Source: BlueBay Asset Management

Our ESG investment approach

Governance and resourcing

During 2019, our in-house ESG investment risk team (ESG team) continued to reside within the Investment Risk function¹.

We have also established the ESG Investment Working Group (ESG IWG) to provide further governance and oversight across our ESG investment process. The ESG IWG is chaired by a member of the Chief Investment Officer (CIO) office and is comprised of representatives from the investment teams and our ESG investment specialists. Throughout the year the group convened monthly and monitored progress against the 2019 work programme.

ESG related industry memberships

We are committed to evolving our ESG efforts in line with industry best practice, and to actively contribute and share insights into what this should look like. Here we outline the various ESG investment related industry memberships and affiliations we were part of during 2019.



UN-supported Principles for Responsible Investment (PRI)



Alternative Investment Management Association (AIMA)



Carbon Disclosure Project (CDP)



European Leveraged Finance Association (ELFA)



Green Bond Transparency Platform (GBTP)



The Investment Association (IA)

ESG team members



Jean-Philippe Blua

Head of Investment Risk,
Performance and Attribution



My-Linh Ngo

Head of ESG Investment Risk



Lucy Byrne

ESG Analyst



Camille Lancesseur

Junior ESG Analyst



Dillon Neale

ESG Intern

The above represents the
ESG team members as
at 31 December 2019.

¹ Going forward to 2020, the ESG team will move to the Investment function, reporting to the Co-Head of Developed Markets. We see this as a natural evolutionary step, which reflects the increasing integration and importance of ESG insights, not just as a risk filter but as another alpha source.

Review of 2019

Reflections on ESG developments

2019 was a pivotal year for societal and financial market change in which sustainability and ESG investing moved into mainstream consciousness. This was driven in part by major environmental and social events that highlighted the need to act, as well as increasing regulatory focus, particularly at the European level, with the implementation of the Sustainable Finance Action Plan.

Throughout the year, we saw climate change take centre stage with growing concerns regarding global temperature rise driving significant activism as bushfires, floods and other natural disasters provided stark evidence that the physical consequences of climate change are already happening. Wider impacts on the environment were also in sharp focus, specifically the issue of sustainable consumption, as evidenced by growing efforts to tackle plastics pollution.

Lastly, we saw the UN Sustainable Development Goals (SDGs) become core in discussions for companies, sovereigns and investors and how these can be used as part of overarching ESG reporting frameworks to demonstrate the impact of efforts on the environment and wider society.

Performance review of our 2019 ESG work programme

Our work programme for 2019 was ambitious as we sought to leverage the firmwide focus on ESG to drive forward ESG integration within our investment teams and embed ESG within our investment infrastructure.

UN-PRI external assessment of BlueBay's ESG investment efforts

Below we outline our PRI assessment results for the 2019 reporting cycle (covering 2018 activities) and the previous 2 years. As evidenced by our results, we continue to advance our practices and have outperformed the median score in every category.

Module / Assessment results	Score (A= being highest and E being lowest)					
	2017 reporting cycle (2016 calendar year)		2018 reporting cycle (2017 calendar year)		2019 reporting cycle (2018 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

Review of 2019

Figure 2: 2019 ESG work programme

Focus Area	Progress	Comments
Strategy <i>Firmwide strategic review of our approach to ESG investment management and corporate responsibility</i>	 Achieved	The ESG investment management review resulted in a 2019 work programme and the creation of the ESG IWG, a Group charged with managing its implementation. To address corporate responsibility, the CR committee was established, which initially focused on developing our overall corporate responsibility framework. Further details of progress made are provided on page 23. Monthly progress updates for both ESG investment management and corporate responsibility matters were provided to our Management Committee.
Enhance investment choice <i>Engage with stakeholders to ensure we have a compelling product offering to meet investor needs</i>	 Achieved	We continued to engage with asset owners, investors and consultants to ensure BlueBay's product offering remains appropriate and compelling. We have seen increasing demand for ESG products that move beyond applying ESG as a risk management tool. As such, we have been working on expanding our dedicated ESG product offering beyond the current global high yield (HY) strategies to potentially encompass investment grade (IG), emerging markets (EM) and structured credit strategies. We have also seen increased interest in impact and sustainability strategies. We continue to explore how to best meet this growing demand and deliver for our stakeholders.
ESG investment related policies <i>Update policies due for review and expand where necessary</i>	 Partially achieved	We conducted an internal review of our policies to identify which needed updating. Formal revisions were not made due to other focus areas being prioritised, but they have been tabled for action in 2020. Our Statement on the UK Stewardship Code was reviewed and will be finalised for publication in 2020. We have also engaged with bodies such as the Financial Reporting Council (FRC) to understand how we can effectively respond to the upcoming revisions to the UK Stewardship Code, due to come into force in January 2020.
Embed ESG into credit research <i>Conduct analysis over result of public debt and work with remaining desks on embedding ESG analysis</i>	 Achieved	We focused on ensuring coverage of our held universe with regards to our issuer ESG evaluation framework, monitored monthly by the ESG IWG. Over 95% of (qualifying) held investments were covered as of the end of 2019. We started to explore replicating our issuer ESG evaluation framework across structured credit, where the nuances of the asset class require a bespoke approach. This is something we will continue to develop in 2020.

Source: BlueBay Asset Management

Review of 2019

Figure 2: 2019 ESG work programme

Focus Area	Progress	Comments
Develop ESG tools to enhance investment team support <i>Complete sector briefing documents and provide ongoing support to investment professionals</i>	 Partially achieved	<p>We continued to work with our credit analysts and portfolio managers (PMs) providing ongoing support and training regarding ESG risk identification to further develop their understanding.</p> <p>We also revisited our ESG sector briefing documents, which we aim to finalise during 2020.</p>
Strengthen ESG IT data infrastructure <i>Continue enhancement of internal infrastructure to support investment teams leveraging ESG data and analysis</i>	 Achieved	<p>We initiated multiple projects to enhance our internal ESG data platform to synchronise this data with our proprietary investment systems. This was to ensure that both internal and external ESG data points can be viewed alongside our conventional financial metrics for our held universe and benchmarks. We also linked ESG data points to alpha sources in the ADT.</p>
Embrace wider industry collaborations and engagement <i>Maintain active participation in external industry initiatives, collaborations and public policy related matters</i>	 Achieved	<p>We continued our collaborative efforts with industry bodies, playing an active role in multiple ESG initiatives. A summary of our involvement is included on page 18.</p> <p>We continued to chair the UN PRI Advisory Committee on Credit Ratings and participated in the ESG Bondholder Engagement Working Group on Cybersecurity. We were part of the Sovereign ESG Working Group, which produced a practical guide to ESG integration in sovereign debt investing. We also joined the PRI-coordinated investor led engagements, the Church of England Mining Tailings Safety Initiative and the subsequent engagement for non-responding companies.</p>

Source: BlueBay Asset Management



Review of 2019

ESG integration – highlights

Thoughts from our Chief Investment Officer (CIO)

Q: During 2019, your role transitioned within BlueBay from Co-Head of Developed Markets to CIO. What is your vision in terms of where you are looking to take BlueBay's investment processes, and how does ESG fit within this?

A: My vision for BlueBay is ensuring our investment professionals are part of one investment team, operating within a single investment process. This investment process is comprised of three distinct elements: alpha sources; product design; and portfolio construction.

I see ESG analysis as an important part of the proprietary research that flows into our alpha sources. It is also a key input into product design and portfolio construction for both our mainstream strategies and our dedicated ESG products.

We anticipate expanding our range in terms of the latter in the years ahead as we continue to ensure we understand and meet the evolving needs of our clients by providing a compelling ESG product offering, including exploring the potential to add strategies with a more explicit focus on impact and sustainable investing.

Q: In your opinion, what do you think BlueBay does well on ESG, and where do you see room for improvement?

A: For me, two areas stand out as ones where BlueBay has done well. Over the last couple of years, we have become more systematic in our ESG coverage with respect to our active positions across the strategies we manage at BlueBay – completing issuer ESG analysis has been critical in providing a strong foundation with regards to ESG integration.

The second area is incorporating this ESG analysis within our in-house proprietary

platforms, which has occurred this year. This is critical in ensuring we are able to input this research into our alpha source determinations and investment decisions.

Going forward, it is important we continue to build on this progress by further developing our ESG reporting capabilities as clients are telling us they want us to be able to better evidence how we are exercising stewardship and engagement and having a positive impact on their behalf.

Q: What can we expect to see from BlueBay on ESG in 2020?

A: Much of the focus for the year ahead will be continuing our ongoing ESG analysis efforts and maintaining our coverage of held investments. We need to ensure ESG continues to be part of standard business practice across our investment strategies. ESG should not be seen as a separate investment discipline – it should rightly be embedded into every investment decision.

In terms of our ESG infrastructure, we will continue to enhance our ESG client reporting capabilities and also work to develop a centralised ESG engagement platform to further demonstrate our efforts in this regard.

As client needs evolve with regards to ESG, and demand increases for dedicated ESG strategies, I am keen for us to strengthen our offerings here to meet that. On the topic of evolving ESG investment approaches, I am personally keen to gauge interest levels in a more sophisticated take that goes beyond exclusions lists, whereby those who are open to active investors like BlueBay taking short positions in poor ESG performers, and not just taking long positions on those performing well. The option to go short also gives more teeth to ESG engagement discussion.

I see ESG analysis as an important part of the proprietary research that flows into our alpha sources. It is also a key input into product design and portfolio construction for both our mainstream strategies and our dedicated ESG products.



Mark Dowding
Chief Investment Officer

Review of 2019

ESG perspectives from our investment teams

Here we share the views from across our different investment teams outlining how they are applying ESG analysis from our issuer ESG evaluation framework within their fundamental credit research, portfolio decisions and engagement activities. These were gained from a series of roundtables held internally with some of our credit analysts, strategists and PMs, using the distribution of ESG metrics across our investment universe in 2019 (see Figure 4).

Moving into 2020, we are excited to see how the issuer ESG evaluation will continue to inform and shape our views regarding issuers, how material ESG risks are considered in investment decisions and portfolio construction, and how ESG analysis will influence our engagement efforts. As the commentary from the roundtables illustrates, we have come a significant way on our ESG journey, and we look forward to continuing along this with our investment teams.

Figure 3: Issuer ESG evaluation - outputs

Fundamental ESG (Risk) Rating	(Indicative) Investment ESG Score	Description
Very high ESG risks	-3	Very high ESG investment related risks
High ESG risks	-2	High ESG investment related risks
Medium ESG risks	-1	Some ESG investment related risks
Low ESG risks	0	ESG considerations are unlikely to have an impact
Very low ESG risk	+1	Some investment opportunities as a result of ESG considerations
	+2	High investment opportunities as a result of ESG considerations
	+3	Very high investment opportunities as a result of ESG considerations

The issuer ESG evaluation framework varies for corporates and sovereigns. However, both result in the same two proprietary ESG metrics:

- A Fundamental ESG (Risk) Rating (ESG Rating), which indicates our view on the quality of management of material ESG risks/opportunities faced by the issuer.
- An (Indicative) Investment ESG Score (ESG Score), which reflects our investment view on the extent to which ESG factors are considered relevant to valuations, as well as the nature of that materiality (i.e. positive, negative, neutral). It is decision based and security/instrument specific.

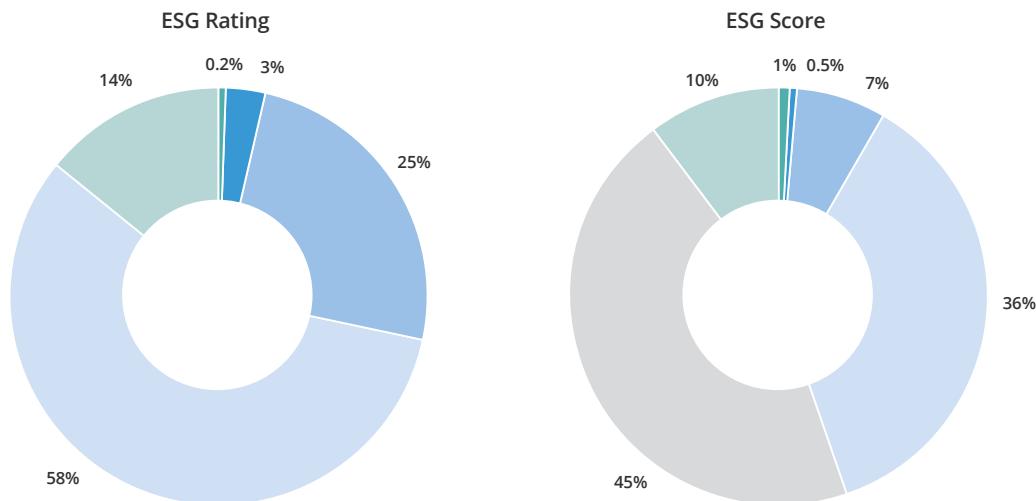
This is provided for the limited purpose to demonstrate the depth of information and detail available to the investment team in assessing potential investments. It is not and should not be viewed as a recommendation to buy or sell any specific security.

Review of 2019

ESG perspectives from our investment teams

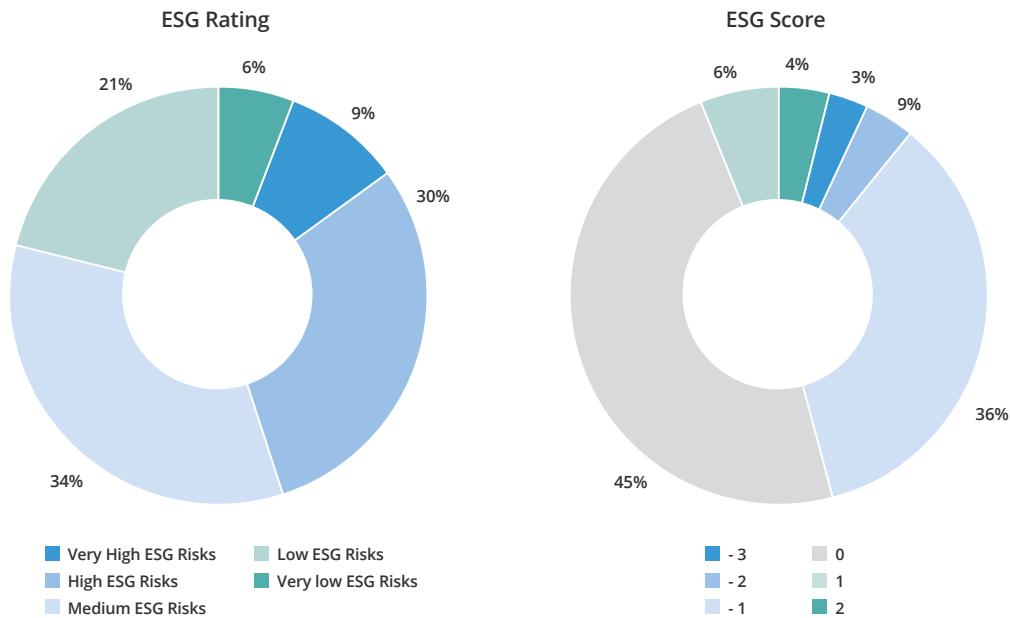
Figure 4: Issuer ESG metrics distribution (firmwide)

Corporates



At the firm level, the majority of corporates were assigned a 'Medium' ESG Rating and an ESG Score of '0' or '-1', although greater differentiation can be seen at the strategy level.*

Sovereigns



The majority of sovereigns at the firm level were assigned a 'Medium' or 'High' ESG Rating and ESG Scores of '0' or '-1'; when disaggregated geographically between developed markets (DM) and EM greater variation was also observed.*

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Review of 2019

ESG perspectives from our investment teams

Confirming the value of a tailored ESG evaluation framework for debt investing

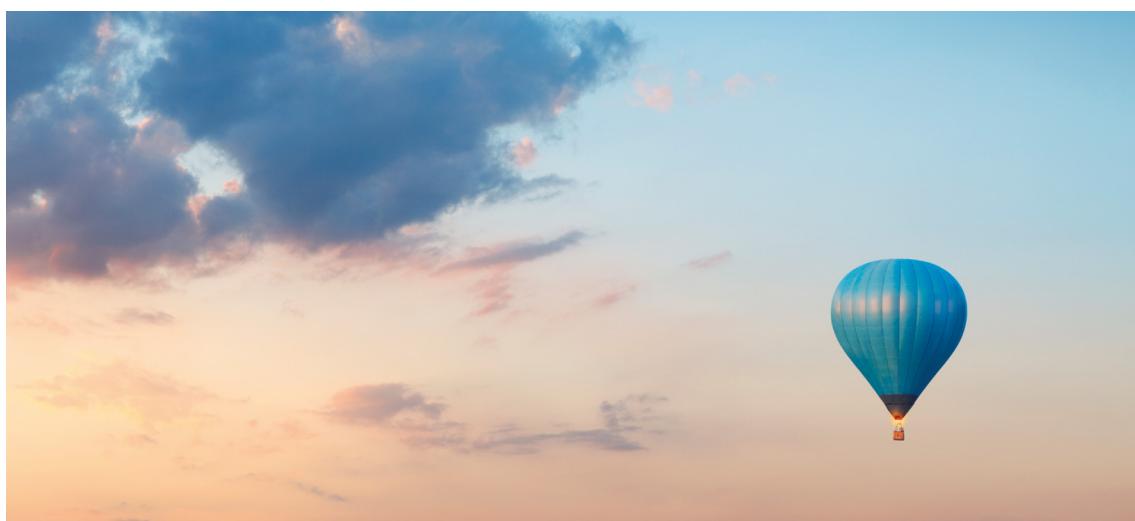
Our framework generates two distinct but complimentary ESG metrics, which: "... allows us to separate out and make objective considerations of an ESG issue, without it being based on personal values or beliefs" comments Kirsten Macaulay, a senior corporate analyst in our convertibles (CB) team. Senior PM for our EM investment strategies, Jana Velebova, adds: "... it means we can look at the entire picture, including the blind spots that a market is not looking at. This process makes us aware there may be a repricing risk due to an 'E' or 'S' factor you may otherwise have underappreciated." Timothy Ash, EM senior sovereign strategist further explains: "The two ESG metrics are useful to show and explain if, and to what extent, ESG risks have a bearing on the investment decision." He adds that this is particularly relevant given his focus on Middle Eastern sovereigns, where: "...it has been quite challenging to date to connect investment materiality to an 'E' issue in terms of linking it to pricing. The only area that is close to having a potential impact on decisions is climate change."

The approach has also been deliberately tailored to debt investing, reflecting the potential for a single issuer to have multiple ESG credit risk profiles. Jean-Yves Guibert, a HY senior credit analyst explains: "Credit rating agencies assign a corporate family rating at an issuer level and can then differentiate the security rating as a function of the seniority, maturity, currency, thus resulting in different security ratings within the same corporate family. Similarly, we assess a single ESG rating at an issuer level but can differentiate ESG scores between two different debt securities from the same issuer." Graham Stock, a partner and EM senior sovereign strategist adds: "I think of the ESG rating as being the snapshot of how a country is performing or what endowment the country has at that point in time, whereas the ESG score can be a more rapid reaction and reflect more time-sensitive changes in materiality or policy response."

Credit rating agencies assign a corporate family rating at an issuer level and can then differentiate the security rating as a function of the seniority, maturity, currency, thus resulting in different security ratings within the same corporate family. Similarly, we assess a single ESG rating at an issuer level but can differentiate ESG scores between two different debt securities from the same issuer.



Jean-Yves Guibert
Senior credit analyst



Review of 2019

ESG perspectives from our investment teams

Incorporating ESG insights into investment decisions

BlueBay's investment process involves assigning a conviction score to each investment decision, comprised of three components: fundamentals; technicals; and valuations. *"ESG risks feed into the fundamentals, both in terms of the status quo and direction of travel. There needs to be an attractive valuation and ideally supportive technical, to have a high conviction in trades where ESG risks are negative"* explains Graham Stock.

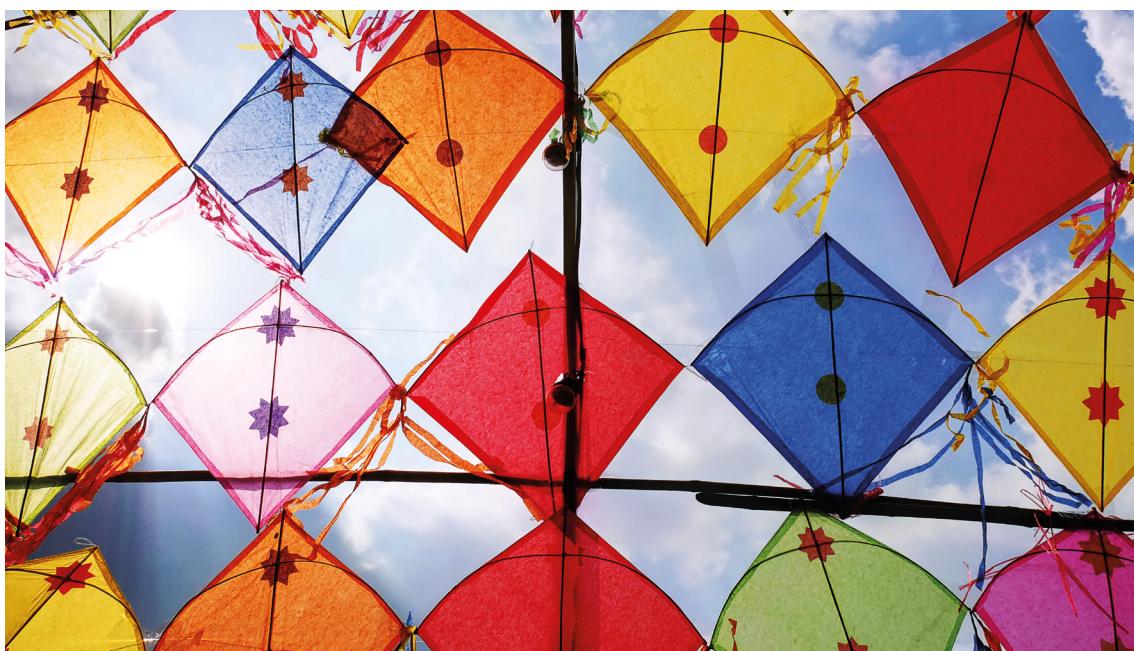
We purposefully separated ESG risks from the conviction score's components. As Jana Velebova outlines: *"...by framing the ESG risks in this way, there is an additional component we keep in mind and factor into our investment decisions. For instance, in terms of valuations, if the ESG rating is negative, we not only think about how much we should be compensated for by valuations, but also factor in a higher volatility."*

Singling out the ESG components also enables our PMs to systematically consider ESG risks within their portfolios. Marc Stacey, partner and IG senior PM explains how PMs are using the outputs of the ESG analysis within portfolio construction activities: *"... this happens when we are constructing bottom up in terms of investment ideas (fundamentals, technicals, valuations and ESG) but in terms of concentration risks, for instance duration, sectors, currencies, ratings, we can now also add an ESG dimension."* There are also further potential applications, as Robert Lambert highlights: *"Our PM for the Credit Alpha Fund is very actively looking at ESG shorts versus ESG longs. We can now look at issuers with negative ESG scores and screen them against those with positive conviction scores, to place pair trades."*

If the ESG rating is negative, we not only think about how much we should be compensated for by valuations, but also factor in a higher volatility.



Jana Velebova
Senior PM



Review of 2019

ESG perspectives from our investment teams

Greater collaboration between our ESG specialists and the investment teams

The framework has significantly enhanced our knowledge and understanding of ESG fixed income dynamics, how these inform our investment decisions. As explained by Marc Stacey, it has: *"... led to higher engagement between the credit analysts, PMs and the ESG team, as there is greater accountability and ownership of the outputs. Making ESG explicit gives it greater focus, especially as we have assigned the ESG metrics ourselves as opposed to relying solely on external data".*

Pierre-Henri de Monts de Savasse, senior PM within the CB team, adds that: *"Part of the investment process always involves a debate between the PMs and the credit analysts, and now the PMs and the ESG team, getting different perspectives, angles and thoughts. It makes the process more robust and it highlights risks that come up naturally as a result."*

The value of ESG engagement and maximising our influence as debt investors

When it comes to engagement, as lenders of capital, debt investors do not have the same legal rights as equity owners, which limits our ability to influence issuers. However, as outlined by Jana Velebova: *"We are finding that the more we do [ESG engagement], the more we realise how we can better leverage our position. We have tried to be more targeted, for instance on the corporate side, by thinking through where we hold the most sway or where in the capital structure we are invested in, where issuers are most likely to listen."*

Our framework has also enabled the investment teams to gain additional insights through identification of material ESG risks. Pierre-Henri de Monts de Savasse described a recent meeting with the management of a firm that leases tankers and is facing new emissions regulation: *"It was reassuring when the CFO could speak competently and at length about 'E' risks and through an outline of their framework, demonstrate they had considered this across their value chain and were putting in place a long term strategy."*

It could be argued that debt investors are particularly challenged when it comes to engaging with EM companies. However, Andrius Isciukas, an EM corporate credit analyst explains: *"There have been cases where it has been particularly easy to engage with companies on ESG because they have not had the conversation with anyone else before, and by making the first step, we can have a material impact. We are also seeing rating agencies signposting ESG more explicitly now. Because of this, companies are being forced to address ESG as they see how this is now factoring into the ratings."*

Part of the investment process always involves a debate between the PMs and the credit analysts, and now the PMs and the ESG team, getting different perspectives, angles and thoughts. It makes the process more robust and it highlights risks that come up naturally as a result.



Pierre-Henri
de Monts de Savasse
Senior PM

There have been cases where it has been particularly easy to engage with companies on ESG because they have not had the conversation with anyone else before. and by making the first step, we can have a material impact.



Andrius Isciukas
EM corporate credit analyst

Review of 2019

Stewardship in action

Engagement highlights

Interactions with issuers and other relevant stakeholders is a key part of our ESG investment management approach. 2019 saw us continue our efforts in this area, both unilaterally and collaboratively through industry initiatives and partnerships. Here we provide some highlights of our engagement activities from throughout the year.

CASE STUDY 1

Profile: An Australian diversified corporate financials company.

ESG Rating: Medium ESG risks

ESG Score: -1 [some ESG investment related risks]

Background: Following an initial meeting on green bonds and ESG practices more broadly, we held subsequent discussions to gain greater clarity on the company's cyber security practices given the occurrence of multiple breaches in the past.

The bank provided an overview of the governance structures in place to oversee cyber security and how it has refocused efforts to assess non-financial risks alongside credit risks, rather than these being secondary. We also discussed changes implemented since the breaches, including enhanced due diligence where third party providers are used, greater accountability for ensuring standards are followed and ongoing training for employees. Whilst there have been no regulatory impacts from the recent breaches, the bank acknowledged financial costs had been incurred for remediation measures and its reputation had suffered.

Action and outcome: On balance, we believe the bank is taking appropriate action to address key ESG risks. However, there remains some performance issues, which we will continue to monitor. From an investment perspective, we continue to have exposure to the company as we believe these risks to be appropriately reflected in valuations.*

CASE STUDY 2

Issuer profile: An Eastern Europe sovereign issuer.

ESG Rating: Medium ESG risks

ESG Score: -1 [some ESG investment related risks]

Background: Governance and corruption have long been areas of particular concern for this country, but in recent years there has been good progress with a government committed to a reformist agenda that has returned it to a path of sustainable economic growth and which we believe will result in better living standards for its citizens.

Action and outcome: Towards the end of 2019, news suggested this sovereign may be backtracking from hard-fought reforms, particularly in the banking sector, with a deterioration in the rule of law and physical safety of reformers. Consequently, BlueBay, along with two other sovereign investors with a combined USD 1.3trn in assets under management, sent private written communication to the country's President and individuals from various ministries. It outlined our concerns regarding the importance of maintaining high governance standards and reform momentum in the country.

As longstanding investors and believers in the country's long-term potential, we felt it was important to highlight that the country is at a critical juncture and wanted to stress that key institutional strengths and high governance standards need to be maintained. We will continue to monitor developments with regards to our exposure and reassess this as appropriate.*

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Review of 2019

Stewardship in action

Engagement highlights

CASE STUDY 3

Theme & sector: Tailings dam safety management in mining-related operations.

Background: The issue of tailings dam safety management came to the forefront following tragedy in November 2015, which saw two dams in Brazil collapse, resulting in fatalities and one of Brazil's worst environmental disasters. When a further collapse occurred in January 2019, a collaborative investor initiative, supported by over 100 investors with over USD13.5trn in assets, including BlueBay, was established to engage with over 725 publicly listed companies with mining-related operations.

Action and outcome: The initiative focussed primarily on providing investors with insights on company's tailings related operations and better understanding of the risks such operations pose. A survey was developed and distributed to companies. The insights gained so far have been invaluable to investors and other stakeholders in developing a global inventory of tailings dam operations and their associated safety characteristics. The initiative has supported by governments and community groups, and work is ongoing to develop a global tailings database that can standardise independent reporting and monitoring of tailings operations. Meanwhile, the investor group is actively working to engage with companies that did not respond to the survey or disclose their exposure to tailings dams. We are involved in this sub-working group.

BlueBay is committed to working together with other investors and key stakeholders on what we see as a systemic issue for the industry. We believe by working in collaboration we will be able to help share good practice such that it becomes standard industry practice.*

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Review of 2019

Stewardship in action

Inputting into ESG investment related public policy

BlueBay also engaged on ESG investment related public policy at the European level during 2019, given the increasing role of regulatory intervention in financial markets.

We provided submissions to a series of public consultation held by the European Securities and Markets Authority regulator (ESMA) relating to the integration of sustainability/ESG within different investment regulatory directives.

Outside of Europe, we also responded to the International Organization of Securities Commissions (IOSCO) consultation on how EM regulators could better understand the issues and challenges that affect the development of ESG/sustainable finance in capital markets and take steps to promote market development.

Broadly speaking, 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 regarding how ESG factors are considered. BlueBay will continue to play its part in sharing knowledge and insights to ensure this occurs in an effective and appropriate manner. Visit our [website](#) to read these submissions.

Collaborations to advance industry thinking and practice on ESG in sovereign debt investing

2019 saw a pioneering collaboration with our sovereign ESG data vendor, Verisk Maplecroft. In May we co-authored a report entitled '[*The role of ESG factors in sovereign debt investing*](#)', which considered the extent to which ESG factors are material to investment dynamics in sovereigns. Introducing an innovative way of measuring sovereign ESG across 198 countries, using over 80 risk factors assessed by Verisk Maplecroft, our approach arguably differentiates and identifies investment-material momentum more effectively than traditional models. It also comprehensively quantifies the relationship between ESG and sovereign bond pricing in 97 developed, emerging and frontier markets between January 2013 and May 2018. Going into 2020, both parties are committed to continuing this research and are exploring potential focus areas for the subsequent phase of our collaboration.

We also began collaborating with the Green Bond Transparency Platform (GBTP) for the Latin American and Caribbean regions (LAC). Created by the Inter-American Development Bank (IDB), the aim of the platform is to promote transparency and support further growth in the LAC green bond market, as well as drive harmonisation and standardisation of green bond reporting. In recent years, sovereigns in both developed and emerging economies have started to issue green bonds. Given how critical environmental issues such as climate change are in emerging economies, promoting trust and confidence through improved transparency is critical to ensuring efficient and effective green bond markets.



Review of 2019

Stewardship in action

Proxy voting

As specialist debt investors, proxy voting is an immaterial activity for BlueBay. However, in the limited instances where this does occur, we ensure we vote appropriately.

BlueBay engaged in proxy voting at 22 meetings during 2019, relating to 17 separate companies.

These votes were in relation to investments primarily in our EM strategies, as well as IG and CB. In all instances, decisions were related to corporate governance matters. BlueBay voted in line with management recommendations in all but three instances, where we voted to abstain.

The abstentions were in relation to three issuers: two from EM (both relating to very small and essentially passive positions where we had insufficient information to make informed decisions) and one HY company where we no longer had a position at the time of the meeting.



Looking ahead to 2020

Thoughts on ESG markets trends and developments

At the time of writing this report, the world has found itself in an unprecedented period as it learns to adjust to the global pandemic resulting from the COVID-19 virus. Given this, we are seeing significant disruption to pre-agreed plans and priorities coming into the year as governments, companies, individuals and society as a whole work to respond and adapt to the new operating environment.

Whilst there is danger that we will see momentum regarding ESG generated in 2019 halt as a crisis management mentality takes hold, the pandemic also presents the opportunity for action to be accelerated. We would argue that COVID-19 provides the perfect illustration of why we need to tackle climate change, how disruptive it can be if not addressed, and how quickly governments and society can act in the face of a public 'emergency'.

So rather than COVID-19 bringing progress to a stop, it should be viewed as a temporary delay, after which efforts should resume to rebuild a world that is based on greener, more equitable and ultimately more sustainable practices. Coming into the year, 2020 signalled a time for action on sustainable development as the urgency remains. It is important we continue to set the tone for the level of ambition for the decade to come.

2020 ESG themes to watch

- **Climate emergency** - we are moving into the start of a decade where critical, accelerated and strategic action is needed to maintain global temperature rise below dangerous levels. We expect to see rapid growth and capital reallocation shifting towards more sustainable economic activities and assets as the focus on impact increases.
- **Human rights and equality** – we hope to see attention move to ensuring that the low-carbon transition occurs in a just and fair way from a people perspective, as old industries risk decline and new ones emerge.
- **Sustainable (resource) consumption** - the environmental and social impacts of plastics and waste more generally is likely to gain further traction. For this to be tackled effectively, we expect to see more coordinated and collaborative action around the concept of a circular economy.
- **Regulation** - we believe 2020 will mark the start of implementation efforts with the EU working to 'hardwire' sustainability into the functionality of the finance industry, ultimately seeking to protect investors from concerns of mis-selling, mis-marketing and 'greenwashing', with other regions and jurisdictions potentially following suit.
- **Stewardship** - as stakeholders increasingly demand investors to more credibly and transparently show how they are discharging fiduciary duty, managers will face greater scrutiny to exercise and demonstrate effective stewardship. The European Shareholder Rights Directive and the revised 2020 UK Stewardship Code are two clear examples of the direction of travel that we expect to continue.

Looking ahead to 2020

ESG priorities for 2020

The table summarises our main ESG focus areas for the coming year. The uncertainty around COVID-19 means it is difficult to know how much of this we can realistically achieve but we have made the decision to keep with our plans, knowing adjustments may need to be made. In that respect, work will continue to ensure ESG is embedded into fundamental credit research, and we anticipate greater engagement with our PMs given the growing need to demonstrate accountability for how ESG is factored into portfolio construction.

Climate risk is a theme where we will place greater strategic focus, from an integration and reporting perspective. Lastly, the build out of our ESG infrastructure will continue given the growing need to evidence stewardship and ESG impact (such as alignment to the UN SDGs).

Figure 5: 2020 ESG work programme

Focus Area	Description
Enhance investment choice	 <ul style="list-style-type: none"> Continue to engage with our key stakeholders to ensure BlueBay has a compelling ESG product offering to meet investor needs. Dedicated ESG product offerings: <ul style="list-style-type: none"> Seek to launch new funds based on broadly the same ESG investment framework as the existing BlueBay Global HY ESG Bond Fund. Explore the potential to add a new category of ESG strategies, with a more explicit focus on portfolio impact and/or sustainability.
ESG investment related policies	 <ul style="list-style-type: none"> Review and update our ESG investment related policies and look to develop a specific climate change policy. Plan and prepare a response to the new 2020 UK Stewardship Code.
Embed ESG into credit research	 <ul style="list-style-type: none"> Finalise and formalise the inclusion of ESG investment objectives within investment roles to promote accountability and ownership. Review the effectiveness of the ESG IWG, including refreshing the work programme and membership as appropriate to ensure it remains effective and efficient in its remit. Continue to work and engage with our credit analysts and PMs to incorporate ESG metrics from our issuer ESG evaluation process into investment decisions and portfolio construction. Continue to work with our structured credit investment desk on developing and embedding a systematic ESG analysis framework, and also our distressed EM credit offering.
Develop ESG tools to enhance investment team support	 <ul style="list-style-type: none"> Continue to provide ongoing ESG training and support to our investment professionals to further develop their understanding, knowledge and awareness of ESG related matters. Work more closely with PMs to better document the incorporation of our proprietary ESG metrics into portfolio construction and allocation decisions. Review the remaining sector ESG briefing documents to further enable sector-level ESG risk analysis. Review data and tools available in the market to support climate, carbon and impact analysis and reporting.

Looking ahead to 2020

ESG priorities for 2020

Focus Area	Description
Strengthen ESG IT data infrastructure	 <ul style="list-style-type: none"> Continue to develop our ESG investment data infrastructure: <ul style="list-style-type: none"> Migrate corporate and sovereign issuer ESG evaluations into our centralised credit research platform, the Alpha Research Tool (ART). Initiate work to establish a tool to document firmwide stakeholder engagement activities, with an initial focus on capturing ESG efforts. Work to implement enhancements to our current ESG reporting capabilities.
Embrace wider industry collaborations and engagement	 <ul style="list-style-type: none"> Continue to play an active role at the industry level to advance ESG thinking and practice in fixed income investing through collaborations, partnerships and initiatives.

Source: BlueBay Asset Management



Corporate responsibility at BlueBay

The priority to embed ESG within BlueBay extends beyond our investment efforts. During 2019, individuals from across the business were tasked with developing a more strategic approach to ensuring BlueBay acts as a responsible organisation both towards our people, those we interact with, as well as in how we operate relative to the physical environment. We term this our corporate responsibility.

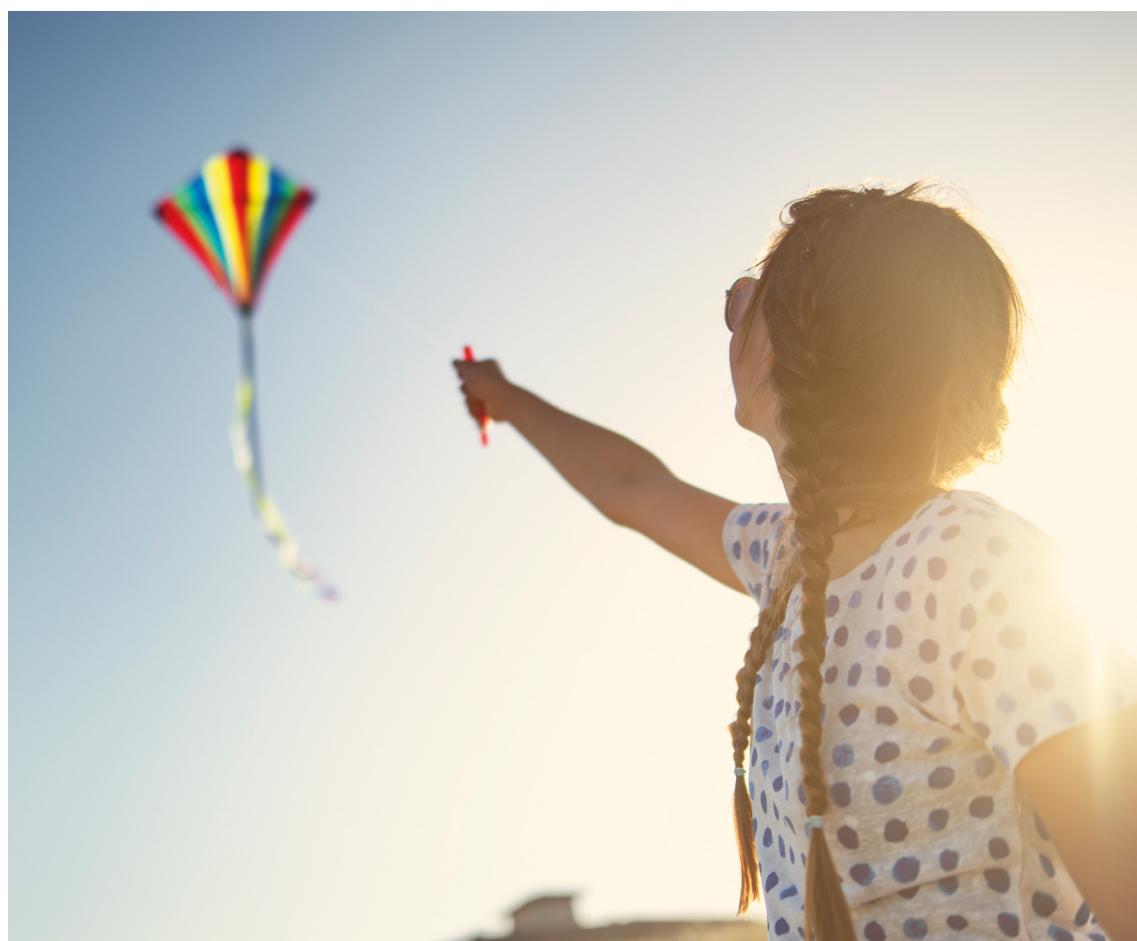
2019 saw BlueBay establish a CR committee, which has adopted a CR framework comprising of four pillars:

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

Our approach to ESG investment management forms part of the 'responsibility for our conduct' pillar.

To date, the CR committee has focused on understanding the material impacts of our day-to-day business activities that informed our CR framework. Looking to 2020, the CR committee aims to develop and agree key performance indicators and objectives that we can monitor our progress against and ensure we continue to operate responsibly.

Information on our efforts in this are available on our [website](#).



Feedback and contact us

We hope you have found our Annual ESG Investment 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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