

# BlueBay Asset Management LLP

## Environmental, Social and Governance (ESG) Investment Risk Policy

### INTRODUCTION

This policy document outlines BlueBay Asset Management LLP's ("BlueBay") approach to integrating Environmental, Social and Governance (ESG) factors within its investment risk management framework. It applies as standard to all investments made within pooled funds and segregated mandates<sup>1</sup>.

This Policy is reviewed on a regular basis by the Market Risk Committee, and updated where necessary to reflect changes in circumstances and actual practice.

### ESG investment factors

Investment analysis of non-financial factors – commonly referred to as Environmental, Social and Governance (ESG) factors – encompasses those aspects of an issuer's operations which may materially influence its ability to meet its financial obligations in the long term. These ESG related risks (and opportunities) will vary by country, industry, as well as by characteristics specific to an issuer such as size and geographical footprint. However examples of each type of ESG risk could include the following:

- *Environmental*: climate change - 'stranded assets' risk for oil & gas companies;
- *Social*: human rights & supply chains – security of supply risk for retailers sourcing from suppliers operating unethical and illegal working conditions;
- *Governance*: transparency & integrity – lack of appropriate board oversight and decision making structures which undermine investor confidence in management.

### Our investment philosophy

BlueBay is committed to delivering attractive risk-adjusted returns for its clients over the long-term. Its investment approach to generate this is governed by a style incorporating the following investment principles:

- Focus on absolute returns across our funds;
- Strong emphasis on capital preservation;
- Dynamic, research driven approach;
- Disciplined, risk controlled environment, and
- Active management (both top down and bottom up inputs).

BlueBay believes ESG factors can potentially have a material impact on an issuer's long-term financial performance. Given the limited upside and potentially significantly downside of fixed income investments, the focus of its ESG analysis is on understanding downside risks. Poorly managed ESG risks can lead to inefficiencies, operational disruption, litigation and reputational damage, which may ultimately impact an issuer's ability to meet their financial responsibilities. Supplementing traditional financial analysis by reviewing ESG related management practices and performance is therefore not only prudent but also in line with BlueBay's fiduciary duty to optimise investor returns.

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<sup>1</sup> Clients in BlueBay's segregated accounts have the ability to create a custom ESG investment strategy if they require this.

### **ESG investment risk related policies**

Alongside this ESG Investment Risk policy, BlueBay has adopted a number of complementary ESG investment related policies which provide an overview of its approach. These include, but are not necessarily limited to, the following:

- A Controversial Weapons Investment policy which applies to pooled funds
- A policy on Proxy Voting on Corporate Governance and Corporate Responsibility matters
- A Statement detailing our position on the UK Stewardship Code
- A Statement on the UK Modern Slavery Act

### **ESG INVESTMENT RISK MANAGEMENT APPROACH**

Whilst BlueBay's investment process has always to some degree, taken into account ESG related risk factors in the decision making process, during 2013 it initiated efforts to systematically incorporate this. BlueBay became a signatory of the United Nation-supported Principles for Responsible Investments (PRI) during July 2013, a global voluntary initiative focused on the investment industry, whose signatories have committed to integrating ESG factors into investment processes.

### **ESG investment strategies and frameworks**

The majority of BlueBay's portfolios following the following set of ESG investment strategies:

#### ESG integration

BlueBay primarily employs an ESG integration investment strategy. ESG integration describes an approach where material ESG risk factors are considered as part of the broader investment process. Such an approach potentially means portfolios do not automatically excluding issuers from investment on purely on ESG grounds if the investment teams do not feel such risks are credit relevant and/or the risks are reflected in the credit metrics. Its purpose is to ensure BlueBay's investment teams are aware of, and taking informed investments decisions with knowledge of key ESG risks. In this way, ESG factors are an input into BlueBay's investment process, but they are not necessarily the key determinant in the final investment decision making process, which ultimately reflects the view of an investment's risk or return.

In line with BlueBay's active management philosophy, ESG integration involves considering both:

- *Top-down macro-level ESG analysis:* analysing and evaluating trends and development at a global/regional/country level in terms of the political, legal and regulatory, environmental and social megatrends shaping the operating environment of governments and economic development, and which set the stage for corporate activities;
- *Bottom-up micro level ESG issuer analysis:* at the corporate level, this involves fundamental analysis and evaluation of ESG management and performance trends and developments for a given industry.

As an asset manager investing globally, BlueBay acknowledges the need to be pragmatic when assessing ESG factors, to take into account legal and cultural differences in different markets. As such the analysis will be sensitive to the issuer's individual situation in terms of the local norms, laws, regulation and expectations of the market in which it operates.

The scope of BlueBay's ESG integration strategy is to factor in ESG factors at different levels:

- *Issuer:* in terms of credit analysis e.g. what is BlueBay's ESG risk exposure on an individual issuer by issuer level?
- *Sector:* as part of the issuer analysis e.g. what are the material ESG risks for certain industries/sectors, and to what degree are there common ESG risks across sectors?
- *Portfolio/team:* in terms of portfolio characteristics e.g. what is the ESG investment risk exposures at a fund level? and at the;
- *Group:* in terms of oversight of ESG risks across BlueBay's portfolio strategies e.g. what is BlueBay's ESG investment risk exposure across all the investment desks?

### ESG engagement

Complementing an ESG integration approach is ESG engagement, which essentially describes the process of dialogue with issuers. An engagement activity - on ESG or conventional debt related matters - naturally occurs as part of the investor/issuer interaction. For investors this usually happens in order to gain insights into the issuer's practices which then inform on investment decisions. In more limited instances, engagement may occur with the specific aim of bringing about a perceived required change in the issuer's business strategy and/or management practices, usually in order to mitigate investment risks.

BlueBay believes that providers of debt do have a role in engaging with issuers on matters with the potential to impact investment returns, which includes ESG related ones. As part of the routine investment research process, its investment teams do meet issuers (particularly with primary issuances) and are therefore able to raise questions. Given BlueBay's approach of not automatically excluding issuers from investment based on their ESG performance, actions to mitigate such risks are raised with investments teams where appropriate. Where ESG engagement is deemed necessary, this will be prioritised using a risk-based approach. This means focusing on material ESG risks facing the issuer and their specific ESG score, as well as the size of our investments (and whether it is a long-term position). BlueBay may initiate dialogue with issuers on ESG matters, or may take action as a result of an external event or development. It may conduct such activities on an individual basis, and/or work in collaboration with investors and other key stakeholder. Whilst engagement may be directly with issuers on ESG matters, where it may be appropriate to do so, BlueBay may consider more indirect approaches (e.g. engaging on policies which promote ESG transparency by issuers).

However client expectations of the scale and effectiveness of such engagement should be made in recognition of the fact that as debt investors, we are not owners and as such have more limited legal mechanisms to influence issuers. Furthermore, trying to engage a non-corporate issuer such as a sovereign is potentially more challenging than influencing a company. In recognition of this BlueBay will continue to review the best ways to carry out ESG engagement to maximise impact and use of resources, including partnering and collaborating with other investors and stakeholders.

### ESG negative screening (product-based)

In addition to ensuring BlueBay follows all applicable laws, regulations, and economic sanctions, it applies ESG negative screening for all pooled funds. The screen is produced based, and centred on excluding corporate issuer's involvement in the production of controversial weapons. The scope of the restrictions is reviewed on a regular basis. Details on BlueBay's approach to Controversial Weapons investments are contained within the '*Controversial Weapons Investment Policy*' which can be found on the BlueBay corporate website.

### Proxy voting on corporate governance (CG) & corporate responsibility (CR)

Given BlueBay's focus on fixed income investing, it has limited scope to participate in proxy voting, a legal mechanism open to equity investors for communicating and influencing management at their Annual General Meetings (AGMs). However this does occur, for instance with Convertible Bond and High Yield bond investments, where our investment may take on an equity element which makes us shareowners with formal voting rights. In such cases BlueBay will ensure it makes appropriate use of its voting rights on matters of corporate governance (CG) and corporate responsibility (CR). There may also be instances outside of the AGM cycle (in the case of Convertible Bonds), where corporate issuers may seek BlueBay's support to authorise certain business decisions which require a quorum of investors to be passed. Again here, BlueBay would consider ESG related matters where this is relevant. Details on BlueBay's approach are contained within the '*Proxy Voting Policy on Corporate Governance and Corporate Responsibility*' which can be found on the BlueBay corporate website.

### **ESG labelled investment pooled portfolios**

Beyond the strategies discussed in this section so far, BlueBay manages pooled funds which are explicitly labelled ESG to denote a more enhanced ESG investment criteria. Such portfolios are designed to meet the needs of investors who want a more ESG orientated portfolio where ESG factors directly define the investment universe. In such instances, they may be differentiated in that there are:

- More extensive *ESG negative screens (product-based)* and/or *ESG engagement* are applied, and/ or
- New ESG investment strategies adopted (e.g. *norms-based screening which is conduct-based*).

For such portfolios, whilst an ESG integration strategy continues to be applied, it may not necessarily be the primary emphasis in the fund.

**Collaboration & promoting best practice**

The development of BlueBay’s ESG Investment Risk policy and practices has been informed by reference and consideration of current best practice with regards ESG investing. BlueBay’s approach and strategy will evolve as it reviews and learns from its efforts. BlueBay is committed to working with others on promoting incorporation of ESG into investing and sees its membership of the UN-supported PRI as an important mechanism for achieving this.

Overtime, BlueBay will review and consider involvement in other ESG investment related industry initiatives and/or organisations as appropriate. In addition to the PRI, in December 2016, BlueBay became an investor signatory to the CDP, an initiative focused on promoting public transparency on management of key environmental issues such as climate change, water and natural resource management.

**ESG RESOURCING & GOVERNANCE**

Oversight and management of BlueBay’s ESG investment risk management process resides within the Investment Risk & Performance function. BlueBay has a dedicated in-house ESG investment risk function. The role of our ESG specialists is to lead on BlueBay’s ESG investment risk strategy and develop internal tools and resources which promote awareness and understanding of ESG risks among its investment teams. BlueBay’s aim is to empower its investment teams to use their ESG knowledge and incorporate this into the investment decision making process. As the ultimate risk takers, it believes these individuals are best placed to make the valuation and portfolio construction decisions, informed by the ESG risk analysis.



# Committee sets internal guidelines and policies to BlueBay’s investment risk framework. Members: Head of Investment Risk and Performance - Attribution (Chair), Chief Investment Officer, Chief Operating/ Risk Officer, Senior Risk Manager, Head of Luxembourg

To support its ESG investment efforts, BlueBay sources issuer ESG data from a number of specialist third party ESG research providers, as well as utilises other ESG data related products and services from external stakeholders (such as sell-side brokers, regulators, academia and not for profits) to help embed ESG investment analysis. These supplement in-house investment team's knowledge and insights to inform on investment decision-making.

## **TRANSPARENCY & ACCOUNTABILITY**

BlueBay is committed to providing timely and relevant communication and reporting of its ESG investment risk efforts both externally (e.g. to key stakeholders such as clients) as well as internally (e.g. to investment teams). It also produces an annual ESG investment risk report which outlines BlueBay policies and performance for the time period in question. Where possible, ESG information will be made publicly available, for instance on the BlueBay corporate website ([www.bluebayinvest.com](http://www.bluebayinvest.com)).

BlueBay formally fulfils the reporting requirements that being a PRI signatory entails, in the form of the annual Transparency Report which is available on the BlueBay and PRI website ([www.unpri.org](http://www.unpri.org)). It also seeks to disclose the results of the PRI assessment of its ESG investment risk efforts.

## **Contact details**

For more information about ESG investment risk management at BlueBay, please contact: [ESG@Bluebay.com](mailto:ESG@Bluebay.com)

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