RBC BlueBay Asset Management

EU ESG Ratings Regulation Disclosure

BlueBay Fixed Income Platform Sovereign Issuer ESG Evaluation Framework

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A. Methodology Overview

1. Overview and objective of methodology

The BlueBay Fixed Income Platform ('BlueBay') sovereign issuer ESG evaluation framework is a proprietary, risk-oriented framework applied as part of the credit research process to held in-scope sovereign issuers[1].

The purpose of the ESG evaluation framework is to incorporate material ESG factors into investment decision-making for sovereign issuers, with an aim to identify potential risks and opportunities and improve risk-adjusted, long-term returns.

The ESG evaluation framework produces two proprietary ESG metrics:

- **Fundamental ESG (Risk) Rating:** indicates the ESG risks/opportunities faced by an issuer (resulting from the risk exposure it faces and the quality of mitigation efforts). Categories range from 'very high' ESG (Risk) Rating to 'very low' ESG (Risk) Rating and is a function of the ESG risk profile of an issuer and how well it manages these risks. This is assigned at the issuer level, meaning there can only be one Fundamental ESG (Risk) Rating per issuer across BlueBay. This Fundamental ESG (Risk) Rating is assigned by the relevant credit analyst/portfolio manager, with input from the Responsible Investment (RI) team as and when relevant and appropriate.[2]
- **Investment ESG Score**: reflects the investment view on the extent to which ESG factors are considered relevant to valuations, as well as the nature of that materiality (e.g. whether it's likely to be positive, negative, neutral/no impact). This is a security/instrument specific assessment and as such there may be multiple Investment ESG Scores for a single issuer depending on the held security. In this way we can allow for different ESG investment materiality over varying time frames and risk-reward profiles. The Investment ESG Score is assigned by the credit analyst/portfolio manager.[3]

The ESG evaluation incorporates both backward-looking indicators and forward-looking indicators, where available. Backward-looking indicators include historical ESG data from third-party providers as well as information reported by issuers. Forward-looking indicators include considering the future trajectory of the issuers approach to ESG risk mitigation, such as responses to evolving policy/regulations, and where material, considerations such as climate transition plans (including third-party data where available).

2. Single materiality approach

A single financial materiality approach is applied by the ESG evaluation framework, considering environmental, social, and governance matters where they present financial, regulatory, operational, or reputational risk to the issuer.

3. Industry classification

The peer group analysis uses regional and economic classification frameworks, including Gross National Income (GNI) per capita peer groups, with data sourced from the World Bank. Due to the peer group analysis, the proprietary ESG metrics resulting from the ESG evaluation framework are both absolute and relative in nature.

4. Time horizon, validity period and review

Following completion, ESG evaluations are reviewed at least every two years, but may also be updated sooner where material new information or developments arise that questions the ongoing validity of the metrics.

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[1] *Certain investment strategies, asset classes, exposure and security types do not integrate ESG factors, including but not limited to money market, buy-and maintain, passive, and certain third-party sub-advised strategies or certain currency or derivative instruments. Different strategies that integrate ESG factors will be at varying stages of implementation.*

[2] *Fundamental ESG (Risk) Rating is assigned at an issuer level. Categories range from 'very high' ESG (Risk) Rating to 'very low' ESG (Risk) Rating and is a function of the ESG risk profile of an issuer and how well it manages these risks.*

[3] *Investment ESG Score refers to the extent to which the ESG risk factors the issuer is exposed to are considered to have any financial/investment relevance and materiality. Scores range from '+'3' through to '-3' indicates the extent to which ESG is considered investment material, as well as the nature and likely magnitude of the investment impact. An 'Indicative' Investment ESG Score is the assigned score at the time of initial ESG analysis and is more reflective of issuer level investment materiality of the ESG risks as there is not necessarily a specific security being considered for investment. For this reason, the actual 'security' level Investment ESG Score assigned for a specific investment may be different from the indicative one assigned, as that is more reflective of the view of ESG risks at an issue/instrument level.*

5. Scientific evidence

Scientific evidence is not used as a standalone input of the ESG evaluation, but certain information may be informed by scientific references and considered where relevant to the assessment of particular ESG risks where viewed to be material (e.g. climate-related).

B. Scope of the Rating

1. ESG factors and issues covered

The ESG evaluation considers, but is not limited to, an assessment of the following ESG factors, and whether they represent risk to the issuer:

- **Environment:** physical and transition climate risks, biodiversity, water stress, natural resource management and food security
- **Social:** labour rights, income inequality, equality/discrimination, technology, human capital development
- **Governance:** institutional framework and rule of law, corruption, government stability, property rights, democratic governance.

The above is supplemented by consideration of peer group analysis, comparative ESG performance relative to peer groups, effectiveness in managing peer group specific material ESG risks, and, where relevant, evidence of the issuer being in transition or turnaround related to ESG risk management.

The topics considered in the ESG evaluation may correspond to a number of topics covered by the current European Sustainability Reporting Standards ("ESRS") published pursuant to the EU CSRD rules in Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023. For the avoidance of doubt, the framework does not seek to align with the standards or datapoints covered by the ESRS.

2. ESG factor weighting

No predetermined numerical weightings are applied. The significance of individual factors is determined through qualitative judgment by the credit analyst of what ESG risks are viewed to be material to the issuer depending on level of economic, social and political development, the availability of and dependence on natural resources, potential regional issues and the nature of the investment vehicle for which it is being purchased.

3. Paris Agreement and other international agreements

The ESG evaluation does not systematically incorporate the targets and objectives of the Paris Agreement or other international agreements. Credit analysts may nevertheless consider the Paris Agreement or other relevant agreements or standards where these are viewed to be relevant and material to the issuer.

C. Data Sourcing and Limitations

1. Data sources and quality

The ESG evaluation uses information from a range of internal and external ESG data sources to inform on ESG analysis. Data sources may be public or non-public.

External ESG information provides a starting point for the assessment, with a selection of ESG data from data providers integrated into each ESG evaluation, where available. This includes ESG risk categories and ESG scores, as well as data related to principal adverse impact (PAI) metrics per Sustainable Finance Disclosure Regulation (SFDR). Such data is supplemented by issuer disclosures and other relevant sources, by the credit analyst, where available.

Third-party data and external sources are used as an input into the ESG evaluation to help inform which ESG factors may be material to the issuer but ultimately do not define or determine the final ESG metrics assigned.

Directive 2013/34/EU does not apply to sovereign issuers in their capacity as sovereigns. Accordingly, information reported pursuant to that Directive may not be available or used for Sovereign ESG evaluations.

2. Data limitations

Limitations may arise from differences in the availability, quality, accuracy, timeliness, comparability, and reliability of ESG data, as well as differences in issuer disclosures and third-party coverage.

3. Assumptions, estimates, and proxies

No internal estimates are calculated or used within the ESG evaluation. Where third-party data is used to inform the ESG analysis, this may include estimates by the third-party provider.

4. Artificial Intelligence

The ESG evaluation framework does not rely on artificial intelligence. Credit analysts may use artificial intelligence tools to support research and analysis at their discretion. However, these tools do not determine final proprietary ESG metrics, which remain subject to credit analyst oversight and judgement.

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