



RBC BlueBay
Asset Management

Sustainability Risk Management Policy / Procedure

April 2024

Prepared by:
Responsible Investment Team

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Amendments

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Amendments made:

Effective 1 April 2023, BlueBay Asset Management LLP (BlueBay LLP) and RBC Global Asset Management (UK) Limited (RBC GAM UK) consolidated the businesses' UK legal entity structures, with BlueBay LLP transferring the majority of its business to RBC GAM UK, including the consolidation and operational integration of the control functions.

This Sustainability Risk Policy has been updated to reflect this, clarifying the scope of the Statement as RBC Global Asset Management (UK) Limited (LEI: 2138004TUI3ONH2MK159).

As part of this, we have updated the information provided throughout this policy to reflect the full scope of services provided by RBC Global Asset Management (UK) Limited. These include investment management services and solutions primarily to institutional investors, across both equity and fixed income asset classes, and inclusive of investment advisory services.

1 Scope

This Policy applies to RBC Global Asset Management (UK) Limited (LEI: 2138004TUI3ONH2MK159), an affiliate of RBC Global Asset Management (RBC GAM).

This Policy is based on the requirements established in Article 3 of the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the “SFDR”), specifically relating to the integration of sustainability risks in the investment decision-making process and investment advice of financial market participants and financial advisors.

2 Introduction

RBC GAM is the asset management division of Royal Bank of Canada (the Bank).¹ We are a provider of global investment management services and solutions to institutional, high-net-worth, and individual investors through separate accounts, pooled funds, mutual funds, hedge funds, exchange-traded funds, and specialty investment strategies. RBC Global Asset Management (UK) Limited provides investment management services and solutions to primarily institutional investors, including investment advisory services.²

As an asset manager, investment advisor, and fiduciary of our clients’ assets, RBC GAM has an important responsibility to consider all material factors that may impact the risk-adjusted returns of our investments and the investment advice we provide. We believe that integrating material environmental, social, and governance (ESG) factors into our investment process (including our investment advice) can enhance long-term risk adjusted returns.

RBC GAM is committed to integrating material ESG factors into our investment and investment advisory processes, taking an active stewardship approach, and providing client-driven solutions and reporting. The actions we are taking to deliver on these commitments are described in our [Approach to Responsible Investment](#) and [Approach to Climate Change](#).

3 Principles

RBC GAM’s approach to ESG and sustainability risk management is underpinned by the following principles and beliefs:

- Being an active, engaged, and responsible investor and investment advisor empowers us to enhance the long-term, risk-adjusted performance of our portfolios and is consistent with our fiduciary duty.
- Issuers that manage their material ESG risks and opportunities effectively are more likely to outperform on a risk-adjusted basis, over the long term.
- Engagement through direct dialogue is often effective at facilitating change.
- Initiatives that increase transparency and foster fair and efficient markets benefit all investors and clients globally.
- Collaboration with like-minded investors may give us greater influence on issues that are material to our investments.

4 Definitions

ESG integration - is the practice of ongoing incorporation of material ESG factors into investment decision making with an aim to identify potential risks and opportunities and improve long-term risk-adjusted returns.

Sustainability risk - is defined in the SFDR as an environmental, social, or governance event or condition that if it occurs, could cause an actual or a potential material negative impact on the value of the investment. RBC GAM’s ESG integration processes monitor sustainability risks and funds that are categorized as Article 8 or 9 measure and track performance against specific sustainability characteristics. Unless otherwise stated in fund documentation or included in a fund’s investment objective, considering sustainability risks does not mean that a fund has a sustainable investment objective.

¹ “RBC” refers to Royal Bank of Canada and its subsidiaries in this Report.

² RBC GAM’s investment advisory service provides clients with investment recommendations that incorporate the ESG and sustainability risk management considerations outlined in this policy. However, the decision and execution of investments is held by the clients to whom this investment advice is provided.

Environmental factors - include, but are not limited to: climate change, air and water pollution, biodiversity, natural resource management and use, water quality and availability, waste management, ecosystem integrity.

Social factors - include, but are not limited to: labour practices, data privacy and security, diversity and inclusion, employee engagement, human rights, community relations, health and safety.

Governance factors - include, but are not limited to: board structure and independence, executive compensation, shareholder rights, lobbying and political contributions, bribery and corruption, tax strategy and accounting standards.

5 ESG Integration

RBC GAM believes that issuers that manage their material sustainability risks effectively are more likely to outperform on a risk-adjusted basis, over the long term. The integration of material ESG factors into investment processes has been identified as a strategic priority for RBC GAM and is described in Our Approach to Responsible Investment.

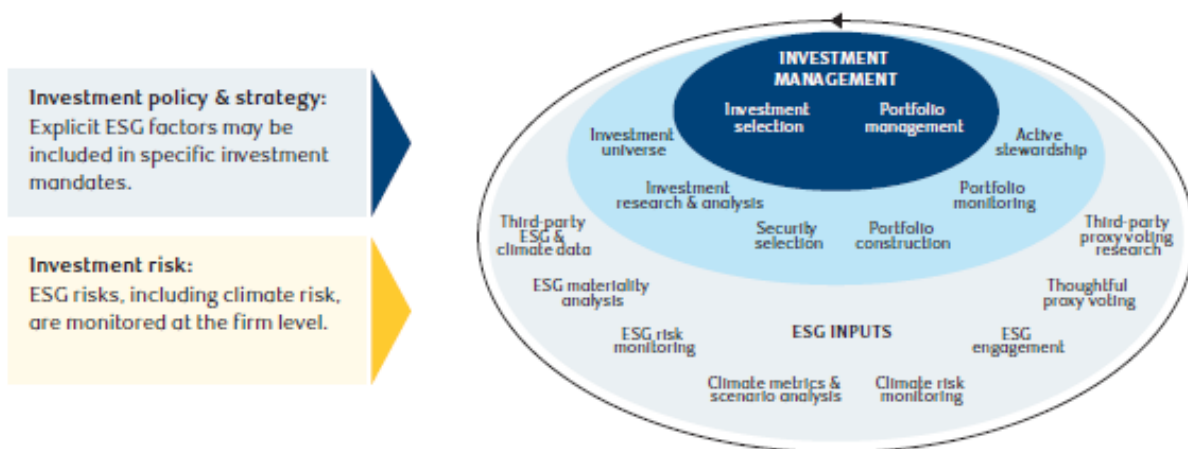
Investment teams integrate material ESG factors in their investment decision-making processes (Figure 1.0). Investment teams receive input from the Responsible Investment (RI) team on their ESG integration processes.

Investment teams focus on the ESG factors that have the potential to impact the value of the investment and tailor the ESG integration tools and processes they use to their specific investment strategies (including the investment advice they provide), although the exact approach and tools they use differs by investment team. This includes, but is not limited to the following:

- ESG issuer-level reports that identify and discuss material ESG issues, based on third-party ESG research, company reports, and internal analyst views.
- ESG checklists and questionnaires completed by analysts for issuers held in a strategy.
- ESG engagement questions and engagement tracking.
- ESG data from third-party vendors, integrated into fundamental investment models.
- Customized ESG scores integrated into fundamental investment models.
- ESG controversies monitored on an ongoing basis.
- ESG snapshots of portfolio exposure to ESG factors.

Figure 1.0 – ESG integration in the RBC GAM investment and investment advisory process

This diagram illustrates how material ESG factors and responsible investment activities contribute to our overall decision-making in our investment processes and investment advice, complementing our investment teams’ investment and investment advisory approaches.³



³ Our investment teams implement the same ESG integration process in their investment management processes in the investment advice they provide. However, the decision and execution of investments within the investment advisory process is held by the clients to whom investment advice is provided.

5.1 ESG data

All investment teams have access to a range of ESG data from third-party data providers, including [MSCI ESG Research LLC](#), [Sustainalytics](#), [Institutional Shareholder Services Inc.](#) and [Glass, Lewis & Co.](#) This includes, but is not limited to, the following ESG data and inputs:

- **ESG ratings:** Includes top level scores and both scores and weights for component environmental, social, and governance factors.
- **ESG controversies and severity levels:** related to factors including, but not limited to: labour rights, corruption, customer practices, privacy, land use management, climate change, supply chains, water and waste management, executive compensation, governance practices, human rights, community, business ethics, and accounting.
- **Environmental⁴:** carbon emissions, low-carbon transition risk exposure and management, climate value at risk, temperature alignment, pollution and waste, resource use, land use management, biodiversity, e-waste, water consumption and use, green building, and energy demand.
- **Social⁴:** product safety, employee health and safety, human capital management, labour management, privacy, supply chain, and social opportunities.
- **Governance⁴:** board independence, audit and accounting, executive compensation, shareholder rights, anti-competitive practices, and bribery and corruption.

5.2 ESG materiality analysis

All investment teams integrate material ESG factors by selecting the ESG tools and processes that work best for their investment decision-making processes and investment advice they provide. Sustainability risks are deemed material if they have the potential to impact the risk-adjusted returns of the investment. For corporate issuers, the extent of these impacts depends on the issuer's operations, industry, size, geographical footprint, and the nature of the investment vehicle for which it is purchased, among other factors. For sovereign, supranational, and agency issuers, the extent of materiality can depend on the issuer's status of economic, social and political development, availability of and dependence on natural resources, and potential regional issues, among other factors.

6 ESG Sustainability Risk Monitoring

In accordance with Article 10 of the SFDR, this section sets out details on the environmental and social characteristics promoted by RBC GAM's Article 8 funds.

6.1 Sustainability risks

In addition to assessing the ESG factors defined above, the following ESG metrics are monitored on a regular basis for Article 8 investment funds. Particular investment products or strategies may also monitor additional ESG metrics, depending on asset class, region, materiality and data availability.

- Greenhouse gas emissions
- Carbon footprint
- Greenhouse gas intensity
- Exposure to companies active in the fossil fuel sector
- Investments in companies without carbon emissions reduction initiatives
- Exposure to controversial weapons
- Lack of anti-corruption and anti-bribery policies
- Board gender diversity
- Violations of UN Global Compact and OECD Guidelines for Multinational Enterprises

⁴ May include third-party data providers' proprietary assessment on an ESG factor or direct data from an issuer's operations, either directly reported by the issuer or estimated by the third-party data provider.

6.2 Exclusions

RBC GAM recognizes the broad-based international consensus regarding the investment in issuers whose business activities would contravene the prohibitions contained in the Anti-Personnel Landmines Convention, the Convention on Cluster Munitions, the Biological and Toxin Weapons Convention, and the Chemical Weapons Convention, as well as the legislation in jurisdictions that have implemented these conventions.

In recognition of that consensus and the significant risks associated with those investments, RBC GAM has applied a norms-based exclusion screen where no RBC GAM investment team will knowingly invest in companies associated with the manufacture and/or production of anti-personnel land mines, cluster munitions, biological weapons, or chemical weapons. These exclusions are applicable for portfolios where RBC GAM controls the investment policy, excluding certain passive investment strategies.⁵ For segregated accounts or products where our clients control the investment policy, clients may request different exclusions or no exclusions. We have engaged an independent third-party research provider to provide us with a list of companies that should be excluded based on this policy, which is updated monthly.

Where there are full economic sanctions that prohibit any financial dealings with a foreign state, including investment in entities operating under the authority of the foreign state, we will not invest in securities that fall within the sanctions.

7 ESG Sustainability Risk Monitoring

As stewards of our clients' assets, we encourage the issuers in which we invest to act in alignment with the best interests of our clients. We address topics such as board structure, executive compensation, gender diversity, and climate change with issuers and regulatory bodies, where material. We do this by employing the following three methods. For details on our proxy voting and engagement activities, see our annual stewardship disclosure.

7.1 Proxy voting

Voting responsibly at the meetings of issuers in our portfolios is an important way we act in the best interest of our clients. We make each voting decision independently, in accordance with our [Proxy Voting Guidelines](#).⁶ These custom guidelines provide an overview of the principles we support and how we will generally vote on particular issues. They are updated yearly to reflect our views on emerging trends in corporate governance and responsible investment. Our guidelines are applied for companies based in Canada, the United States, the United Kingdom, Ireland, Australia, and New Zealand. As stated in our guidelines, in all other markets, RBC GAM uses the local proxy voting policies of Institutional Shareholder Services (ISS).

7.2 ESG engagement

Our investment teams and RI team may meet with the issuers in which we invest on an ongoing basis. The specific ESG factors we engage on differ based on sector, asset class, and geography, as engagement cases are prioritized based on the materiality of the ESG issue to the specific investment. Teams may also prioritize their engagement efforts based on the size of the investment and/or the level of ESG risk within the portfolio. We seek to understand each issuer individually and through the lens of local norms and the laws and regulations of the market(s) in which it operates.

We employ a variety of engagement methods, depending on the issuer, the matter being discussed, and the accessibility of the issuer. We have a strong preference for maintaining an open dialogue and working with our investee issuers to address material ESG-related matters through private dialogue. Although we may consider more public avenues of change, such as filing a shareholder resolution for equity investments or making public statements, we use these methods sparingly. Our investment teams select the engagement method they believe to be most effective for their desired engagement objective, as outcomes from engagements are integrated directly in the investment process and may be used in making investment decisions.

⁵ These exclusions apply to direct equity or corporate credit holdings, but do not apply to derivatives or other index exposures where our exposure is indirect.

⁶ RBC GAM's Responsible Investment (RI) team manages proxy voting for RBC GAM, excluding funds managed by external sub-advisors and certain portfolios managed by the BlueBay Fixed Income team. This proxy voting process is only applicable for proxy voting executed by the RI team.

The outcome of an engagement is generally not the sole factor in an investment decision. Instead, the information obtained from engagements on material ESG factors helps inform the investment case. Unsuccessful engagements may result in the sale of the issuer's security; similarly, engagements may reinforce the positive outlook of our investment teams on a particular investment or point to specific risks or issues for monitoring.

7.3 Collaboration and advocacy

We recognize that advocating for regulatory and legal reform can be more effective when market participants work together. Where interests are aligned, collaboration with like-minded investors can give us greater influence on issues specific to our investments and on broader, market-wide considerations. In either case, we work to encourage changes that are in the best interests of our clients.

8 Reporting

Transparency and accountability are key priorities for RBC GAM, and essential for meeting our regulatory requirements, responding to the needs of our clients and stakeholders, and in delivering on our fiduciary duty. We strive to provide our clients with regular reporting on our responsible investment and ESG integration activities through the following publications:

- **Responsible investment disclosures:** These reports highlight our recent activities, engagements, progress and achievements related to our responsible investment strategy. We publish disclosures on our ESG integration activities, engagement activities, proxy voting statistics, and responsible investment highlights in our Annual Stewardship Report.
- **Climate-related disclosures:** Our Approach to Climate Change outlines how climate-related risks and opportunities are measured and managed in the context of Our Approach to Responsible Investment. Our Net-Zero Ambition describes how we consider the net-zero transition in our ESG integration and active stewardship activities and in our own operations. We are also signatory to the COP28 Declaration of Support for the ISSB's Climate Standard, which incorporates the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). RBC GAM publishes an annual climate report, guided by the recommendations of the TCFD.
- **Proxy voting disclosures:** We publish both our Proxy Voting Guidelines and the records of our votes on ballot items of interest for investments held in our portfolios in specific jurisdictions and in accordance with applicable regulations.
- **Reporting on our RI commitments:** We publish our responses to the U.N. Principles for Responsible Investment, the UK Stewardship Code, and the Japan Stewardship Code on our website.
- **ESG insights:** We publish topical insights on material ESG factors throughout the year. Several investment teams also publish their own independent research on ESG trends most pertinent to their portfolios.
- **Client reporting:** We distribute quarterly reports for institutional clients, upon request, that provide updates on our stewardship activities, including engagement case studies and proxy voting, and updates on our ESG integration approaches, where relevant. Several investment teams provide additional client reporting on responsible investment and stewardship, specific to their investment strategies. Institutional clients may also request reports with additional ESG-related metrics; the frequency of these reports is based on client need and preference.

9 Governance

9.1 Board oversight

The various Boards of Directors (Boards) of RBC GAM oversee the operations and strategy of their firms, which includes strategic priorities related to responsible investment. The Boards delegate responsibility for implementation of strategic priorities to the RBC GAM Leadership Committee, which is comprised of the CEO, CIO, and leaders across the RI team and the fixed income and equities investment teams, among others. The Leadership Committee has identified the advancement of responsible investment, inclusive of climate change, as a strategic objective for the organization and set priorities accordingly. The CEO reviews and reports to the Boards on strategic priorities as required.

9.2 Management's role

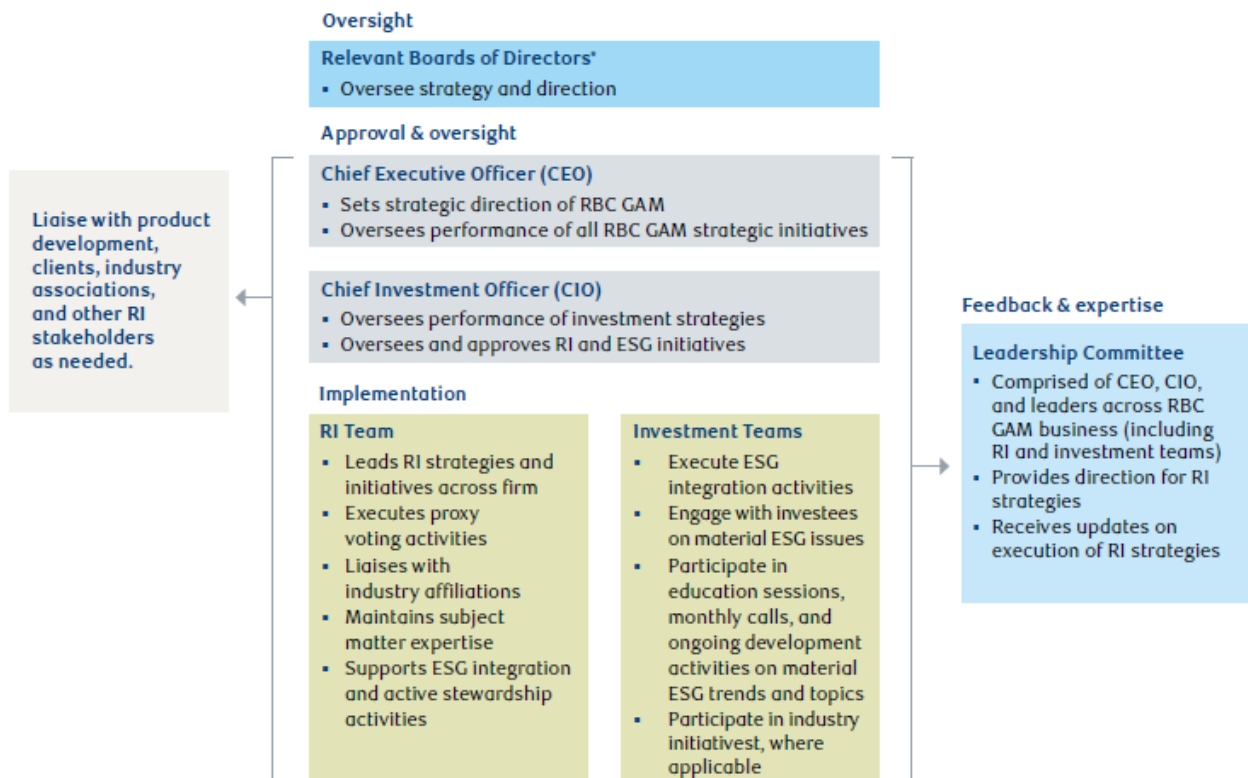
Our Approach to Responsible Investment and Approach to Climate Change set out the organization's strategic priorities and commitments, which are reviewed by the Leadership Committee. The Leadership Committee meets

once per month, and reviews and updates strategic priorities on an annual basis. The Head of RI reports regularly to the Leadership Committee on strategic priorities for responsible investment.

Management oversight of sustainability risks and responsibilities includes the following:

- The CEO sets the strategic direction of RBC GAM and oversees the firm’s performance on all strategic initiatives, including Our Approach to Responsible Investment. The CIO and COO report to the RBC GAM CEO.
- The CIO oversees the investment strategies, policies, and performance across all affiliates. The CIO of BlueBay, the heads of all investment teams, and the Head of the RI team report to the CIO.
- The Head of RI is responsible for responsible investment activities across RBC GAM, and for the implementation of these strategies by RBC GAM’s centralized RI team.
- The heads of global investment teams are responsible for the establishment and implementation of ESG integration and stewardship processes for applicable strategies.
- The heads of the institutional and retail businesses oversee product development, with review by a Product Committee and oversight by the CIO and CEO. Review and input on new products are provided by the COO, the Head of RI, and members of the Investment Risk, Investment Policy, Compliance, and Legal teams.

Figure 2.0 – RBC GAM governance structure



*RBC Global Asset Management Inc., RBC Global Asset Management (UK) Limited, RBC Global Asset Management (U.S.) Inc., RBC Global Asset Management (Asia) Limited, and BlueBay Asset Management LLP.

10 Remuneration

RBC GAM’s Remuneration Policy is consistent with and promotes sound and effective risk management including sustainability risks and does not encourage risk taking that is inconsistent with the risk profiles of the funds that it manages.

The Remuneration Policy is in line with the business strategy, objectives, values and interests of RBC GAM and its clients and includes measures to avoid conflicts of interest. RBC GAM’s structure of remuneration is linked to risk-adjusted performance.

RBC GAM aims to ensure that employees are not incentivized to take inappropriate and/or excessive risks including sustainability risks which are inconsistent with the risk profile of the funds under management. Moreover, when taken into account by the fund under management, RBC GAM ensures that staff duly consider sustainable impacts.

11 Policy approval and review

This Policy has been reviewed and approved by the RBC GAM Managing Director and Head of Responsible Investment. This Policy will be reviewed on an annual basis.

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