Marketing communication

RBC BlueBay
Asset Management

BlueBay Impact-Aligned Bond Fund

Building a sustainable future through public debt markets

Sustainability Impact Report
May 2021 - June 2022

Signatory of:

PRI Principles for Responsible Investment

Signatory status relates to the firm and not the fund

Contents

1 Introduction

Welcome to this first sustainability impact report for the BlueBay Impact-Aligned Bond Fund.

Bringing the impact-aligned concept to life has been a remarkable journey. Throughout the process, we have been encouraged by the enthusiasm and support that we have received. The individuals and organisations we met with, and spoke to, saw and understood our vision and recognised the opportunity to approach fixed income investing with a different mindset.

From an investment perspective, it has been refreshing to build a solution with a different outlook to idea generation. Different not only in terms of its approach to traditional fundamental issuer analysis, but also in our ability to dig deeper into the sustainability profiles of companies and projects.

From the perspectives of sustainability and impact, it has been satisfying to have the freedom to design a strategy that places positive outcomes at its heart and genuinely seeks to help our investors support the transition to a more sustainable world through investing in public debt markets.

The initial idea for the fund originated in late 2019. We were (and remain) frustrated by the limited offerings in the market for debt investors to invest for positive environmental and social change, giving them access to the broadest set of opportunities on offer, and without sacrificing strong, long-term, risk-adjusted returns.

"The limited range of opportunities for impactful investing in public debt markets stood in stark contrast to the scale and urgency of capital needed to fund the sustainability transition, as well as the level of investor demand to allocate towards positive environmental and social activities."

The research and stakeholder outreach we conducted against the backdrop of the COVID-19 pandemic showed that, while there were options to invest for positive impact in fixed income, these were typically limited to private debt markets where returns have been, at best, at market rate or, at worst, below market rate. In public debt markets, options largely seemed to fall into the ESG-labelled issuance space, such as in green or social bonds. This state of play can present challenges for large and institutional investors, whether that be related to their risk-return constraints, liquidity and diversification requirements or investor concentration risks, to name but a few.

The limited range of opportunities for impactful investing in public debt markets stood in stark contrast to the scale and urgency of capital needed to fund the sustainability transition, as well as the level of investor demand to allocate towards positive environmental and social activities. For us, it was clear that debt markets afforded the potential to develop a more progressive strategy. This was not only on account of their relative size, being much larger in assets under management than equities, but also due to the unique opportunity set, in terms of the issuer types existing beyond corporates, and the range of instruments offered. Furthermore, it was clear there was an existing – and growing – segment of fixed income investors wanting to allocate to this area, should suitable investments be available.

Ultimately, the result has been the launch of the BlueBay Impact-Aligned Bond Fund on 4th May 2021. Our fund is 'impact-aligned' as it pursues the twin goals of delivering both positive impact and better than market-rate returns across liquid debt markets. Here we have sought to leverage off, and bring together, our many years of fixed income and ESG/sustainability expertise to design a strategy which is rooted in helping to solve for some of the world's most significant environmental and social challenges, which in turn will seek to deliver strong investment returns.

To enable the strategy to truly be driven by the sustainability themes and associated investments available, we have broadened the opportunity set to invest across the credit ratings spectrum, geographies and issuer types. This reflects the need to foster growth of new industries, bring along those in emerging economies, and include companies, as well as others such as sovereigns, supranationals and agencies (SSAs) which each have a unique role to play. We have also incorporated environmental and social themes as we believe that both are critical to achieving sustainable development. Moreover, doing so also allows for portfolio diversification given the differing investment characteristics of the associated opportunities. Another conscious decision was to focus on total returns, a necessary step given that few fixed income indices today are set up to deliver comparability to the fund's objectives.

Arguably, the timing of the fund launch was not the most favourable, with the world still in the midst of the COVID-19 pandemic, and the macro environment in 2022 has so far been one of the most challenging periods in recent memory. And yet, we would argue that given the ways in which the world is changing and needs to change, this is actually the right time to launch such a fund. Despite the many short- and medium-term challenges the current environment presents, the long-term rewards make this worthwhile and necessary.

The signs are ever stronger that the recovery from COVID-19 and macro headwinds needs to be built on a stronger foundation of a more environmentally sustainable and socially responsible society.

"To enable the strategy to truly be driven by the sustainability themes and associated investments available, we have broadened the opportunity set to invest across the credit ratings spectrum, geographies and issuer types."

We look forward to continuing the journey, from working and learning with our investors, the issuers we invest in, and other key stakeholders, to exploring and harnessing the power of public debt markets, both to build our clients' wealth as well as to contribute to a better and more prosperous future.

The impact-aligned strategy fund managers

Tom Moulds
Partner,
Senior Portfolio Manager

My-Linh Ngo
Head of ESG Investment,
Portfolio Manager

Harrison Hill
Portfolio Manager

Robert Lambert
Portfolio Manager

Navigating our report

We have structured the report as follows:

- Section 2 sets out our impact-aligned approach;
- Section 3 outlines the seven sustainability themes we use to identify investment opportunities, showcasing examples of those that have qualified;
- Section 4 provides a review of the fund's financial performance;
- Section 5 includes an overview of the ESG and positive impact characteristics of the fund, and;
- Section 6 shares our thoughts on the outlook ahead.

The data used in the analysis throughout the report is based on portfolio holdings as at 30th June 2022 unless stated otherwise. The fund is actively managed, and being a total return strategy, does not have an official benchmark. However, for illustrative purposes, we have included a comparison against the Bloomberg Barclays Global Aggregate Corporate Index ('Global IG Corp Index'). We appreciate that this comparison can be helpful to investors despite there being meaningful differences in weightings in certain sectors between the fund and illustrative index.

Where investments are profiled, these will have been held (or may remain holdings) at some point during the period in question. They have been provided for illustrative purposes. The Appendix contains a list of the fund's holdings as at 30th June 2022.

Reporting ESG and positive impact characteristics

Within this report, we have split out how we report on the fund's ESG and positive impact characteristics in a number of ways:

- We have presented ESG profiles for a range of issuers that we have in the fund, mainly focused on the operations of the issuer in question (the examples being, primarily, corporate issuers);
- Separately, we have also shared analysis exploring different ways to assess the positive impact resulting from the issuers (typically being corporates) we have funded. In such instances, these are primarily related to the products and services offered by the companies;
- Furthermore, we have differentiated between the impacts generated by the issuers we are providing capital to (investee impact), and the impact which we as investors (investor impact) are making as a result of our activities (e.g. through engagement activities).

As many investors will be aware, reporting on ESG, sustainability and impact dimensions is not without its challenges, whether in terms of issues of data, analytics or methodologies. Whilst these are not unique to the fixed income asset class, they do take on an added nuance and complexity because of it. What is included by way of issuers and not included, and what assumptions are made, matters in determining the results. We have sought to highlight some of these in this report for the different analytics that we have applied, sourced from different third-party ESG vendors.

Additional complexity also comes in terms of the level of knowledge and understanding of the dynamics for how different factors interact with each other, assumptions and expectations about the timeframe over which actions lead to impact, or if it is even possible to claim causation.

"As many investors will be aware, reporting on ESG, sustainability and impact dimensions is not without its challenges, whether in terms of issues of data, analytics or methodologies."

Overall, our analyses highlight the importance of providing contextual information and narrative to support interpretation of the results. Given reporting in this area remains in its infancy – although the situation is constantly evolving and improving – we would guide on focusing more on the overall direction of travel rather than getting too focussed on specific numbers. This is because the exactness of some of the results can infer a level of certainty which is not necessarily valid. Also, we would advise on considering a range of complementary analytics as taken together, they can signpost to different aspects and build a more holistic picture. While not perfect, and recognising there is room for improvement, nonetheless we feel these approaches can help promote discussion and progress to make such analysis more robust and informative in future. As such, we would welcome feedback on how we can progress our reporting going forward.

Fund overview

Key features	
Strategy	A predominantly Investment Grade corporate bond strategy, investing globally in public markets. The sustainability themes developed target positive contribution to people and to the planet through selecting issuers whose core economic activities offer investment opportunities and contribute to addressing environmental and social challenges.
Objective	Capital appreciation and income, investing in sustainable investments
Benchmark	None/Total return strategy
Investment policy/ strategy constraints	▪ Minimum 66% investment grade ▪ Maximum 33% sub-investment grade ▪ Maximum issuer exposure 5% ▪ Maximum 25% emerging markets
ESG approach	▪ **Thematic:** Route 1: issuer's economic activities (products/services) solving for environmental/social challenges by contributing to the sustainability theme(s); Route 2: issuance funding/supporting an activity that is solving for environmental/social challenges by contributing to the sustainability theme(s) ▪ **Exclusions**: Corporates - product based: adult entertainment, alcohol, controversial weapons, conventional weapons, fossil fuels related (various), gambling, nuclear energy, tobacco; conduct based: UN Global Compact status, ESG controversies status / Sovereigns – controversial jurisdictions status (Financial Action Task Force, UN Security Council Sanctions), Freedom House Index status, UN conventions and treaties status (corruption convention, torture and punishment convention, Paris Agreement) ▪ **Integration:** resulting in exclusions of the worst ESG rated issuers ▪ **Stewardship:** including engagement and proxy voting (where applicable)
Regional/national ESG classifications	EU SFDR – Article 9/French ESG (AMF Doctrine) – 1: Approach based on a significantly engaging methodology/German ESG (BVI) – Q
Liquidity	Daily
Base currency	US$
Typical number of issuers	50–125
Fund manager(s)	Tom Moulds, My-Linh Ngo, Harrison Hill, Robert Lambert

Fund Risks:

- At times, the market for investment grade bonds may dry up, which could make it difficult to sell these bonds, or the fund may only be able to sell them at a discount.
- There may be cases where an organisation with which we trade assets or derivatives (usually a financial institution such as a bank) may be unable to fulfil its obligations, which could cause losses to the fund.
- BlueBay's analysis of sustainability factors can rely on input from external providers. Such data may be inaccurate or incomplete or unavailable and BlueBay could assess the sustainability risks of securities held incorrectly.
- BlueBay could suffer from a failure of its processes, systems and controls – or from such a failure at an organisation on which we rely in order to deliver our services – which could lead to losses for the fund.

LuxFLAG Fund ESG Label

The BlueBay Impact-Aligned Bond Fund has been granted the use of LuxFLAG ESG Label for a period of one year, starting 1st October 2021 and ending on 30th September 2022. Launched in May 2014, the LuxFLAG ESG Label is a voluntary mark for an investment product which signals that it incorporates ESG criteria throughout the investment process, while screening portfolios according to one of the ESG strategies and standards recognised by LuxFLAG. Note: a fee has been paid for the use of the logo upon successful application for the Label. No fee is payable if the Label has not been awarded.

Source: BlueBay Asset Management, August 2022

2 Our approach to impact-aligned investing in public debt markets

We have shared a high level summary of the key elements of our approach, with details on the methodology and criteria available in other fund literature and upon request.

2.1 The sustainability challenges we are seeking to help solve

The BlueBay impact-aligned bond strategy has an intentionality goal in that it seeks to invest in issuers and issuances which contribute towards addressing many of the world's major environmental and social challenges.

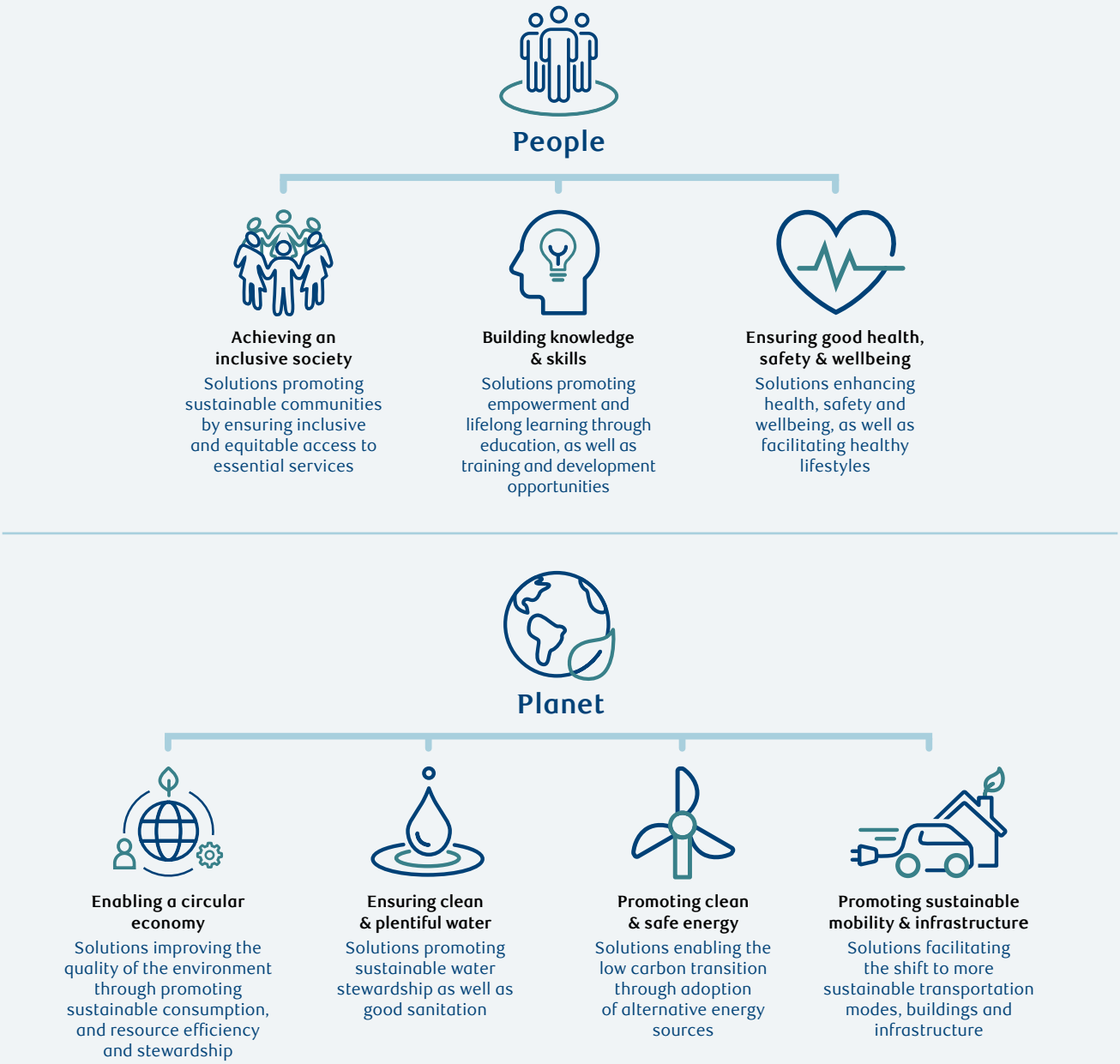
People & planet: some examples of secular trends that are transforming our world

2.2 Our seven 'People' and 'Planet' investment themes

In establishing the sustainability investment themes which drive our investment decisions, we have sought to take a holistic approach, combining both social ('People') and environmental ('Planet') dimensions. Doing so enables us to really address sustainable development, whilst strengthening portfolio construction by providing the broadest investment opportunity set.

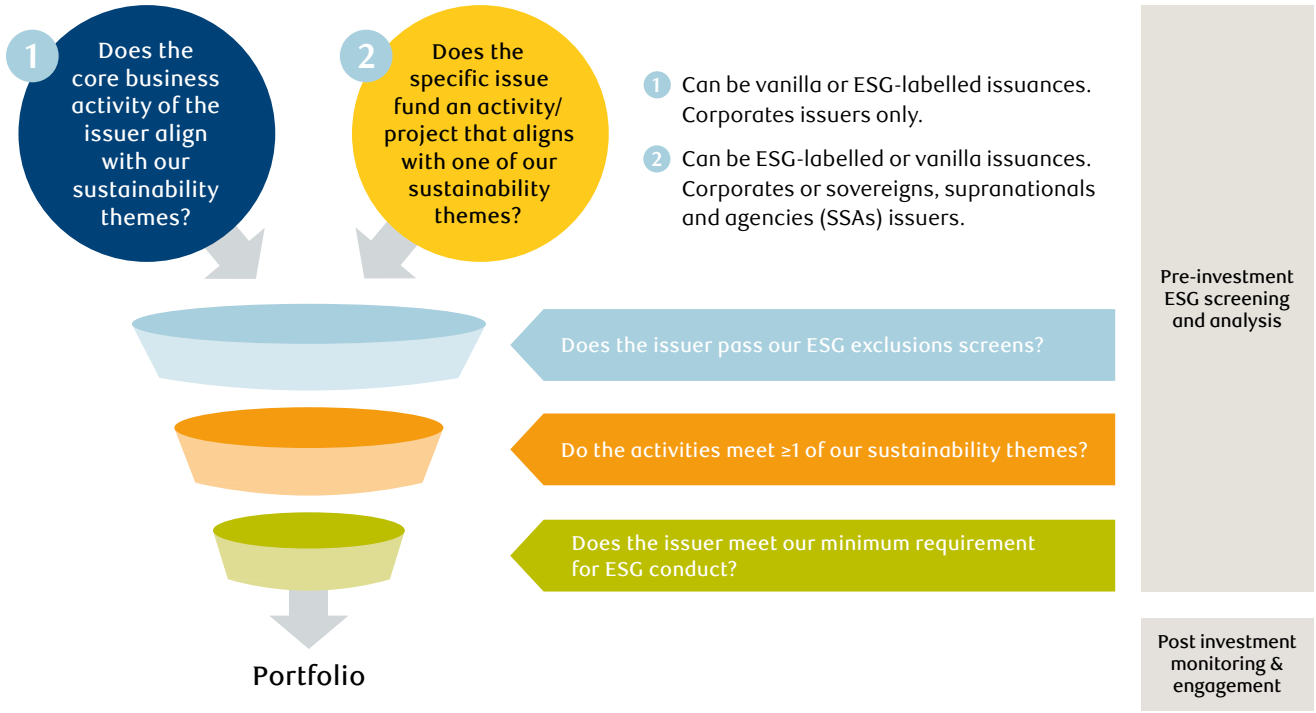
The seven themes by which we identify investment opportunities draw inspiration from the UN Sustainable Development Goals (SDGs), which is not surprising given the SDGs are intended to support delivery of positive environmental and social outcomes. However, we were deliberate in not wanting to be limited to them. This is because whilst we recognise the SDGs are a powerful framework for identifying positive activities, it is one which has been designed by governments, for governments, rather than for the private sector. As such some of the SDGs are not investable for the private sector, and some are not focused on economic activities at all.

People & planet: seven sustainability themes targeting positive contribution and impact



Source: BlueBay Asset Management, August 2022

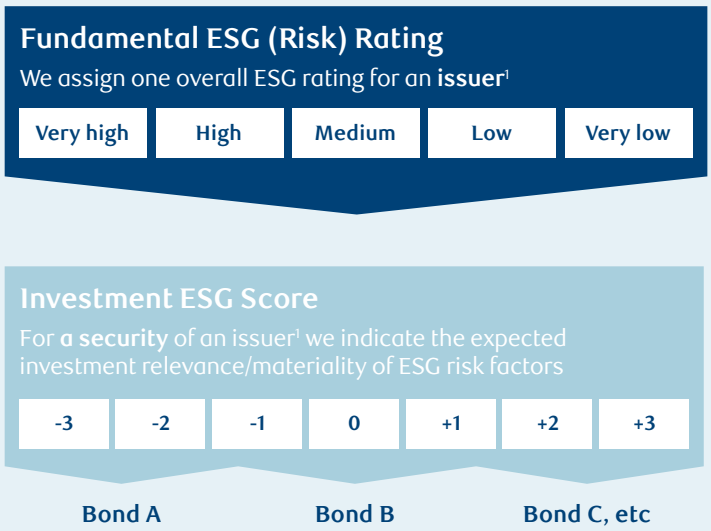
2.3 How investments qualify – the two routes into the portfolio



Source: BlueBay Asset Management. For illustrative purposes only.

2.4 ESG integration - our issuer ESG evaluation framework

The issuer ESG evaluation framework enables ESG integration at an issuer level. Our ESG evaluations[1] result in the generation of two proprietary ESG metrics:



A **Fundamental ESG (Risk) Rating** which indicates our view of the ESG risks/ opportunities faced by an issuer (resulting from the risk exposure it faces and the quality of mitigation efforts). There can only be one Fundamental ESG (Risk) Rating per issuer.

An **Investment ESG Score** which reflects our investment view on the extent to which the ESG factors are considered relevant to valuations, as well as the nature of that materiality (i.e. positive, negative, neutral). 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.

Notes: [1]ESG evaluations are only completed for in scope strategies, for specific issuer and security types and certain investment exposures.

Source: BlueBay Asset Management. For illustrative purposes only.

3 The positive contributions our investments seek to make

This section explores the seven People and Planet themes the strategy implements, by providing illustrative examples of issuers which have qualified for investment.

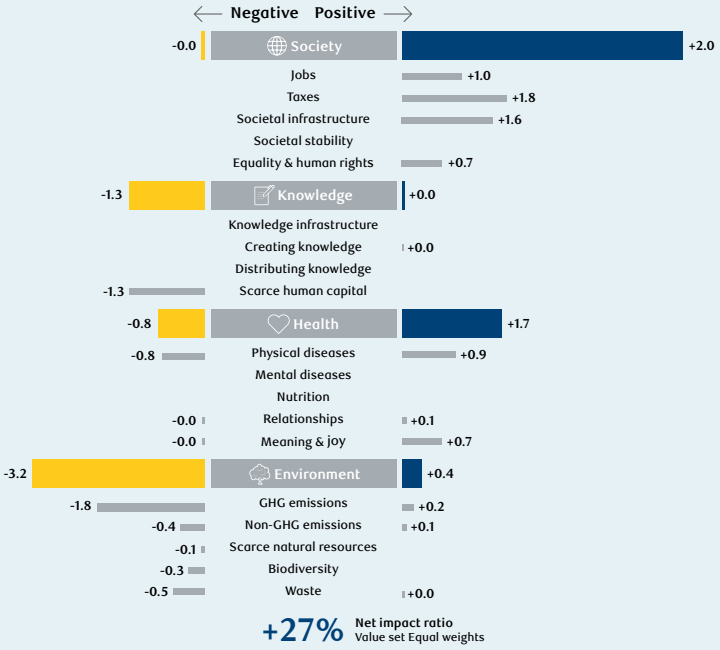
3.1 People: Achieving an inclusive society

Theme description: Solutions promoting sustainable communities by ensuring inclusive and equitable access to essential services.

Issuer	Motability
Issuer type	Corporates
Region of domicile	Developed markets
Credit rating	Investment grade
Qualification route	Route 1: Issuer's economic activities contributing to the theme(s)
Business description	Motability is a UK not-for-profit operator facilitating mobility for disabled people by providing transport solutions. It is a partnership between the charitable sector, UK government and motor/insurance industries.
Rationale – investment	Motability has a very stable, defensive business model that is based on a vital role in securing mobility for disabled citizens. Therefore, it enjoys strong government support, which in turn provides a very stable credit profile. We view this as a resilient investment that can deliver interesting returns for its rating but is also an issuer we expect to outperform in more difficult markets.

Net Impact Profile

Motability has a net impact ratio of +27%, meaning its positive impact is 27% larger than its negative one, largely driven by its positive contribution to society.



Source: The Upright Project, as at 30th June 2022. Please see Section 5 for details of the Net Impact Ratio methodology. The Net Impact Ratio approach is used to evidence investee impact, with such analysis having been conducted post investment, although it may subsequently potentially input into ongoing investment decision-making.

Rationale – sustainability

Providing mobility solutions for people with disabilities

Motability is the largest operator of mobility vehicles in the UK and operates a car and scooter scheme, enabling disabled people to achieve freedom and independence. Drivers can gain mobility by exchanging their mobility allowances for a car lease, Wheelchair Accessible Vehicle (WAV), scooter or powered wheelchair.

Key highlights:

- More than ~650,000 customers and ~200,000 vehicles purchased each year under its scheme;
- Motability delivers a high-quality service as reflected by its 91% renewal rate amongst customers and 98% customer satisfaction rate (2019 figures);
- Motability also has a strong approach to reinvesting profits for the benefit of current and future scheme customers through improved services.

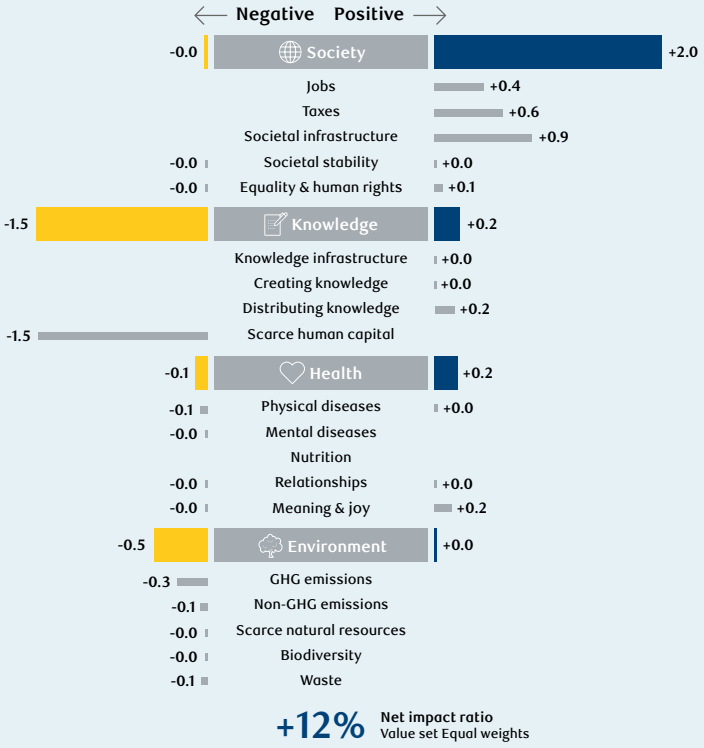
Sources: Motability 'Social Bond Framework' (2020); Motability Annual Report (2021).

Source: BlueBay Asset Management, August 2022. The information provided in this example of a holding is to illustrate the investment process of the strategy at BlueBay and should not be deemed a recommendation to buy or sell any security or financial instrument. Image/logo source: issuer's website.

Issuer	Rabobank
Issuer type	Corporates
Region of domicile	Developed markets
Credit rating	Investment grade
Qualification route	Route 1: Issuer's economic activities contributing to the theme(s)
Business description	Rabobank is a Dutch multinational banking and financial services company operating globally. It has a cooperative structure and has a specialty in sustainable investing, primarily focused on the Netherlands.
Rationale – investment	Rabobank is extremely well capitalised and has given a very transparent outlook as to its issuance volumes (which will be low compared to peers). It remains one of the most conservatively managed banks in the universe and combined with its 'capital markets' approach should trade as one of the names in the European banking universe with the lowest credit risk premium. This is an example where we have moved down the capital structure to support the issuer in a subordinated instrument where the valuation and potential upside is more compelling.

Net Impact Profile

Rabobank has a net impact ratio of +12% indicating that its positive impact is 12% larger than its negative impact, primarily driven by its contribution to societal infrastructure and jobs.



Source: The Upright Project, as at 30th June 2022. Please see Section 5 for details of the Net Impact Ratio methodology. The Net Impact Ratio approach is used to evidence investee impact, with such analysis having been conducted post investment, although it may subsequently potentially input into ongoing investment decision-making.

Rationale – sustainability

Facilitating financial inclusion

With its beginning as a group of small farmers' credit unions, Rabobank has a cooperative governance structure, with a 'mutuals' mindset. It operates its business for the benefit of customers, who are its members with equal voting rights. This inclusive structure encourages member contribution and shared responsibility. The company serves retail and corporate clients, with a focus on the food and agricultural sectors, so acting as an enabler in addressing human nutrition and societal stability by increasing food availability and access to food. The company has also been at the forefront of incorporating ESG/sustainability considerations into its financial services activities since the early 2000s.

Key highlights:

- 9.1 million customers in the Netherlands;
- EUR74.2 billion in loans to the food and agricultural sector globally;
- Integrating sustainability into its credit approval process since 2004, as well as rating client accounts worth more than EUR1 million on sustainability metrics since 2013;
- Rabobank's total sustainable financing accounted for EUR63 billion of lending portfolio relating to products and services that finance sustainable sectors, asset classes or certified companies that have a net positive impact.

Source: Rabobank website, August 2022; Rabobank 'ESG Facts & Figures' (2021); Rabobank 'Our Impact in 2021' (2021).

Source: BlueBay Asset Management, August 2022. The information provided in this example of a holding is to illustrate the investment process of the strategy at BlueBay and should not be deemed a recommendation to buy or sell any security or financial instrument. Image/logo source: issuer's website.

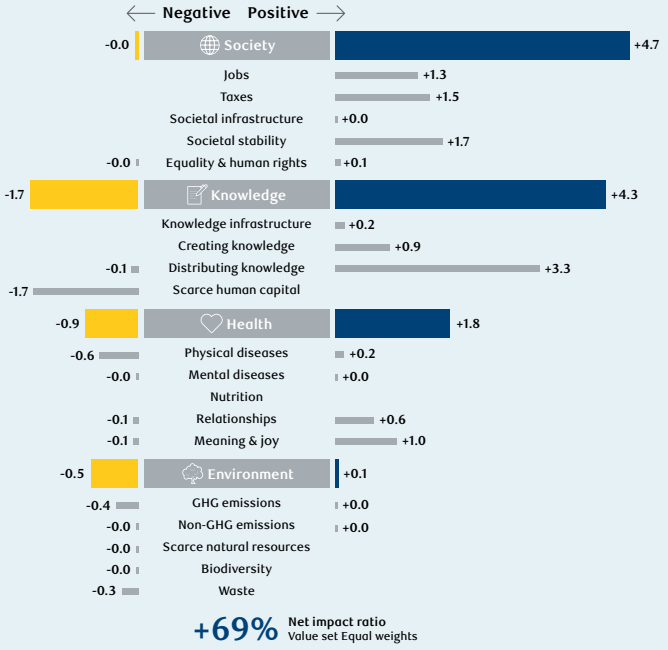
3.3 People: Building knowledge and skills

Theme description: Solutions promoting empowerment and lifelong learning through education, as well as training and development opportunities.

Issuer	sanoma
Issuer type	Corporates
Region of domicile	Developed markets
Credit rating	Investment grade
Qualification route	Route 1: Issuer's economic activities contributing to the theme(s)
Business description	Sanoma is a leading Finnish learning and media company providing learning products and services, independent media and local entertainment.
Rationale – investment	Sanoma is an unrated company in terms of credit ratings, however we have mapped it to an internal BBB rating given its scale, healthy margins and strong cash flow visibility from its education business. The lack of a rating meant that Sanoma needed to launch with an attractive new issue concession versus peers, which we were able to capture. The bond we own is short dated and low duration with attractive carry.

Net Impact Profile

Sanoma has a net impact ratio of +69%, meaning its positive impact is 69% larger than its negative one, largely driven by its positive contribution to society and distributing knowledge.



Source: The Upright Project, as at 30th June 2022. Please see Section 5 for details of the Net Impact Ratio methodology. The Net Impact Ratio approach is used to evidence investee impact, with such analysis having been conducted post investment, although it may subsequently potentially input into ongoing investment decision-making.

Rationale – sustainability

Providing learning products and services to support academic learning and education

As a leading European K12 (children through the ages of 3-18 years) learning company, Sanoma's products and services enable and support teachers and schools to develop children to support them in reaching their potential. It operates in more than 10 countries, serving more than 20 million students across Europe. Sanoma promotes equal access to education through cooperation with NGOs and governments as well as through its products and services.

Key highlights:

- Sanoma enables smaller schools to offer more subjects and hire teachers remotely through its Tutorhouse Digital subsidiary and enables remote learning through its digital learning platforms, such as Prismas and Bingel;
- Strong client satisfaction with ~ 85% of teachers saying Sanoma's methods support them in reaching curriculum objectives and more than 70% stating they feel Sanoma learning materials support engagement and motivation of students (2020 figures);
- A UN Global Compact member, Sanoma joined the Climate Ambition Accelerator in 2021, having set a goal to reach carbon neutrality by 2030 both in its operations and supply chain.

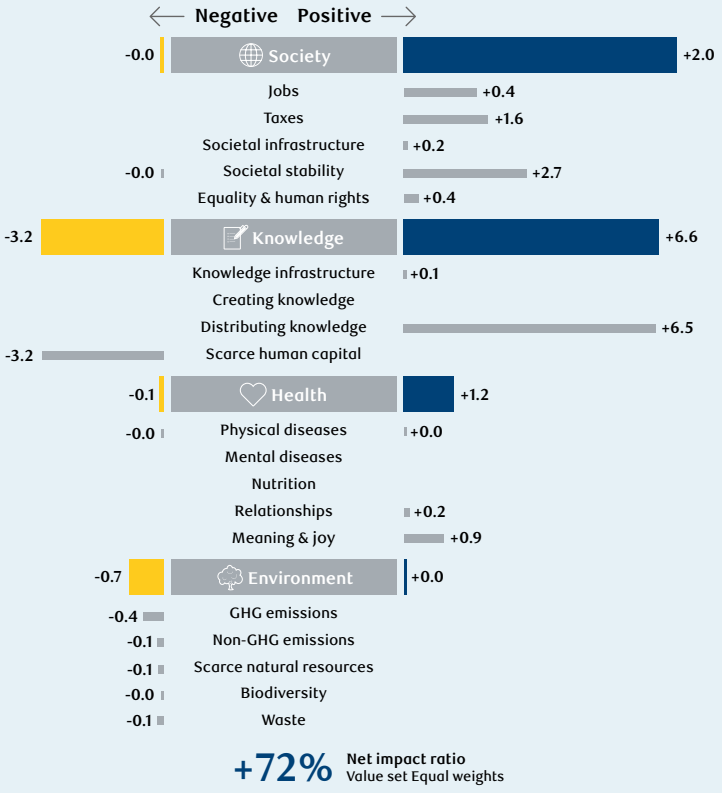
Source: Sanoma website, August 2022; Sustainability Report (2021).

Source: BlueBay Asset Management, August 2022. The information provided in this example of a holding is to illustrate the investment process of the strategy at BlueBay and should not be deemed a recommendation to buy or sell any security or financial instrument. Image/logo source: issuer's website.

Issuer	Pearson
Issuer type	Corporates
Region of domicile	Developed markets
Credit rating	Investment grade
Qualification route	Route 1: Issuer's economic activities contributing to the theme(s)
Business description	Pearson is a UK-domiciled media and publishing company, providing educational services and material for higher education and vocational training to markets globally.
Rationale – investment	Whilst we can invest in Pearson's vanilla bonds as its educational product focus means it qualifies through that route, we elected to invest in its inaugural social bond, which directs funds into its free-for-all 'Connections Academy'. The ESG label added to the demand in what is considered a strong defensive credit with good sustainability characteristics. The issue came in sterling and contains a 125bp coupon step-up in the event of a credit rating agency (CRA) downgrade, providing some cushion since the issuer is rated at the low end of the IG spectrum. Valuation remains attractive and while we expect some volatility due to the upcoming Bank of England program to sell its GBP-denominated corporate bonds, we see scope for continued outperformance.

Net Impact Profile

Pearson has a net impact ratio of +72%, meaning its positive impact is 72% larger than its negative one, largely driven by its positive contribution to society and distributing knowledge.



Source: The Upright Project, as at 30th June 2022. Please see Section 5 for details of the Net Impact Ratio methodology. The Net Impact Ratio approach is used to evidence investee impact, with such analysis having been conducted post investment, although it may subsequently potentially input into ongoing investment decision-making.

Rationale – sustainability

Supporting lifelong learning through provision of academic and vocational material and tools

Pearson is a leader in the provision of education services to all ages, stages and circumstances across 70 countries. Customers include schools and corporates, as well as students.

The company has established a social bond framework to further direct its activities to promote learning and education amongst the underserved. Social bonds issued under this framework are allocated to the company's Connections Academy, which are full-time virtual schools for all, free to the user. The target is undereducated, underserved learners and people with disabilities.

Key highlights:

- Registration for Pearson+, a digital ecosystem for lifelong learning reached 2.75 million in first year of operation with 1,600 titles;
- Pearson has a target to reach 200 million learners annually by 2025, in partnership with Save the Children, in the provision of 'Every Child Learning', which tackles barriers faced by children displaced by conflicts or emergencies;
- The company has set a net-zero climate target which commits it to achieve 50% reduction in its emissions, against a 2018 baseline.

Source: Pearson website, August 2022; Pearson Social Bond Framework.

Source: BlueBay Asset Management, August 2022. The information provided in this example of a holding is to illustrate the investment process of the strategy at BlueBay and should not be deemed a recommendation to buy or sell any security or financial instrument. Image/logo source: issuer's website.

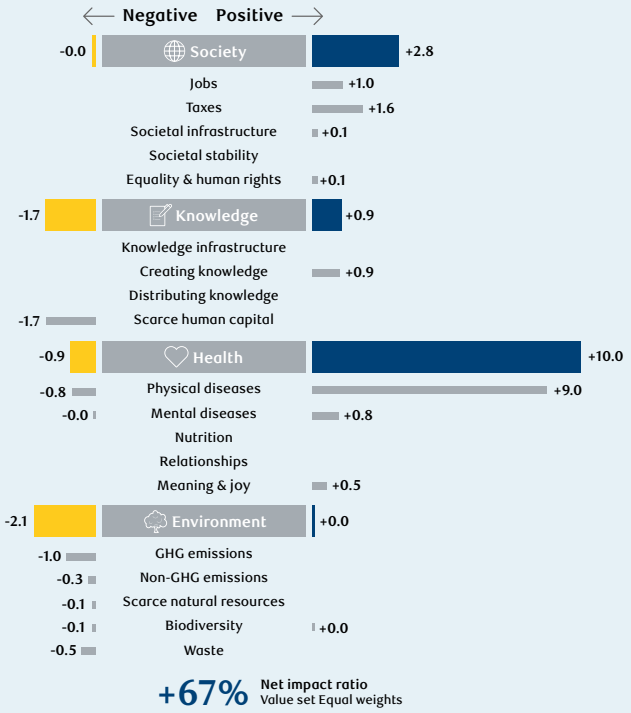
3.4 People: Ensuring good health, safety & wellbeing

Theme description: Solutions enhancing health, safety and wellbeing, as well as facilitating healthy lifestyles.

Issuer	CSL™
Issuer type	Corporates
Region of domicile	Developed markets
Credit rating	Investment grade
Qualification route	Route 1: Issuer's economic activities contributing to the theme(s)
Business description	CSL is a global biotechnology company established in Australia developing innovative human plasma-derived therapies and transplants, whilst providing non-plasma biotherapeutic products and influenza-related products.
Rationale – investment	CSL is a high-quality IG rated credit which has traded at attractive levels due to its acquisition of Vifor, a specialty drug company specialising in renal disease and iron deficiency. The transaction led the company to issue new bonds in the primary market, which we participated in. We expect the spike in leverage to subside quickly and for credit metrics to improve, and for it to retain its A-/A3 (S&P/Moodys) credit ratings. The strong industry fundamentals and increasing demand for plasma-derived therapies are tailwinds.

Net Impact Profile

CSL has a net impact ratio of +67%, meaning its positive impact is 67% larger than its negative one, largely driven by its positive contribution to addressing physical diseases.



Source: The Upright Project, as at 30th June 2022. Please see Section 5 for details of the Net Impact Ratio methodology. The Net Impact Ratio approach is used to evidence investee impact, with such analysis having been conducted post investment, although it may subsequently potentially input into ongoing investment decision-making.

Rationale – sustainability

Ensuring good medical health

By focusing on preventative care through its vaccines business and by developing innovative products for rare and serious diseases, CSL enables individuals to access medicines that save, extend and materially improve quality of life.

Key highlights:

- CSL offers treatments for people who are living with conditions in immunology (immunodeficiencies), haematology (bleeding disorders), cardiovascular and metabolic (e.g. diabetic kidney disease), respiratory (including rare inherited conditions such as hereditary angidema), and transplant therapeutic areas where they are a market leader;
- CSL has typically spent ~10% of revenues on research and development into healthcare innovation. For FY 2021, its investment surpassed USD1 billion;
- The company has set interim carbon emissions reduction targets for 2030.

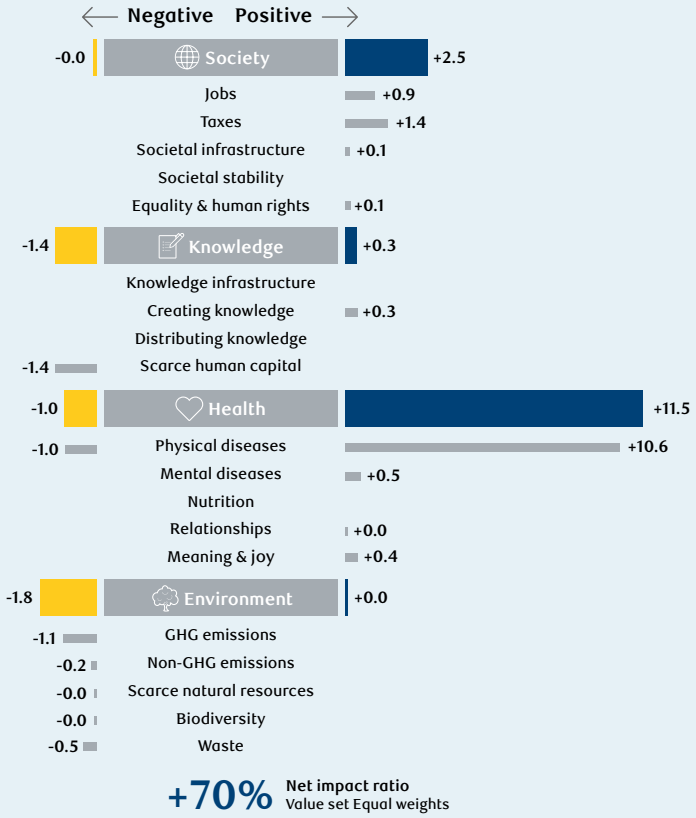
Source: CSL Annual Report (2022).

Source: BlueBay Asset Management, August 2022. The information provided in this example of a holding is to illustrate the investment process of the strategy at BlueBay and should not be deemed a recommendation to buy or sell any security or financial instrument. Image/logo source: issuer's website.

Issuer	IFFIm – Supporting Gavi, The Vaccine Alliance
Issuer type	Sovereigns, supranationals, and agencies (SSAs)
Region of domicile	Developed markets
Credit rating	Investment grade
Qualification route	Route 2: Issuance funding / supporting an activity contributing to the theme(s)
Business description	The 'vaccine bond' is a bond issued by the International Finance Facility for Immunisation (IFFIm). Founded in 2006, IFFIm is a unique frontloaded financing model for global health built on a partnership between donor countries, the World Bank and investors raising funds from global capital markets for immunisation programmes in developing countries, including recently addressing the COVID-19 pandemic.
Rationale – investment	The bond we invested in is a high quality liquid asset (AAA-rated bond backed by government agencies) at a yield premium to an equivalent government bond. For a conventional strategy which is USD denominated, we would usually use the 'on the run' treasury for the highest-quality part of the portfolio and for cash management. However, given the positive impact nature of this strategy, we felt this was an innovative solution highlighting the unique investment opportunities available in fixed income.

Net Impact Profile

The IFFIm 'vaccine bond' has a net impact ratio of +70%, meaning its positive impact is 70% larger than its negative one, largely driven by its positive contribution to addressing physical diseases.



Source: The Upright Project, as at 30th June 2022. Please see Section 5 for details of the Net Impact Ratio methodology. The Net Impact Ratio approach is used to evidence investee impact, with such analysis having been conducted post investment, although it may subsequently potentially input into ongoing investment decision-making.

Rationale – sustainability

Improving childhood health in developing countries with preventative care

The IFFIm was created to promote improved medical health for children in lower-income countries through the 'Gavi' (formerly known as the Global Alliance for Vaccines and Immunization) immunisation programmes. It also supports health system strengthening in such countries and investments, as appropriate.

IFFIm accelerates Gavi's impact, enabling it to immunise children ahead of receiving donor funding due to the frontloading of the proceeds of the bonds IFFIm issues.

Key highlights:

- IFFIm has raised USD8 billion in global capital markets to fund Gavi programmes, representing 16% of Gavi's programme funding (% between 2006-2021);
- It has helped Gavi immunise >981 million children, reducing child mortality by half in 73 low-income countries across Africa and Asia;
- IFFIm serves as a vehicle through which donors can support the Gavi COVA AMC and help enable equitable access to COVID-19 vaccines; it has already generated USD780 million for Gavi.

Source: IFFIm website, August 2022.

Source: BlueBay Asset Management, August 2022. The information provided in this example of a holding is to illustrate the investment process of the strategy at BlueBay and should not be deemed a recommendation to buy or sell any security or financial instrument. Image/logo source: issuer's website.

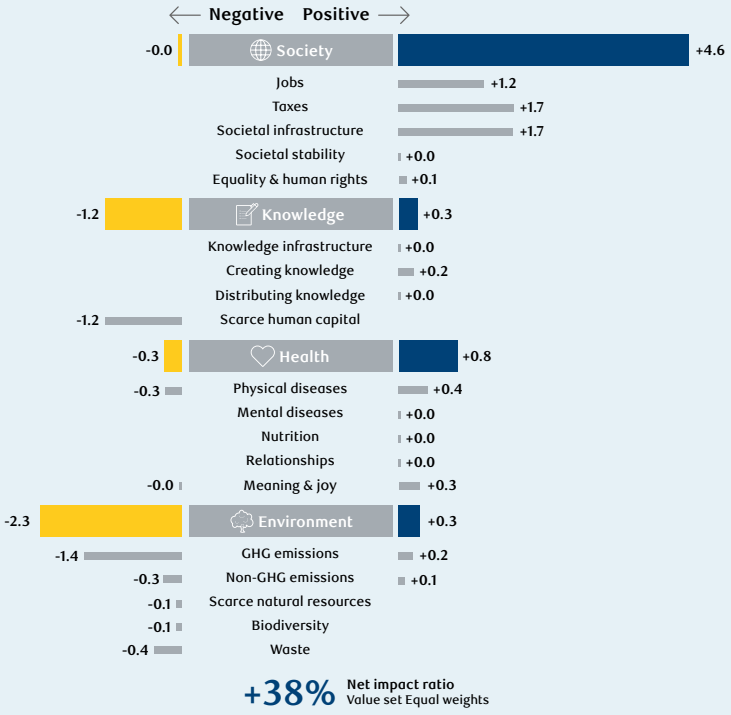
3.5 Environmental: Enabling a circular economy

Theme description: Solutions improving the quality of the environment through promoting sustainable consumption, and resource efficiency and stewardship.

Issuer	Johnson Controls
Issuer type	Corporates
Region of domicile	Developed markets
Credit rating	Investment grade
Qualification route	Route 1: Issuer's economic activities contributing to the theme(s)
Business description	Johnson Controls is an American Irish-domiciled diversified industrials company focusing on efficiency, controls and automation, the production of fire, heating, ventilation and air condition (HVAC), and security equipment for buildings.
Rationale – investment	Johnson Controls has transformed itself into a full building materials company focusing on heating, ventilation, and air conditioning, fire safety and security systems. This is a far more resilient business profile than previously, when it was solely exposed to the automotive industry. With its product portfolio the company will now be a beneficiary of the upcoming investment wave to make new and existing buildings more energy efficient and environmentally friendly; as such we see this as quite a defensive holding that should continue to outperform the market.

Net Impact Profile

Johnson Controls has a net impact ratio of +38%, meaning its positive impact is 38% larger than its negative ones, largely driven by its positive contribution to social infrastructure, taxation, and jobs.



Source: The Upright Project, as at 30th June 2022. Please see Section 5 for details of the Net Impact Ratio methodology. The Net Impact Ratio approach is used to evidence investee impact, with such analysis having been conducted post investment, although it may subsequently potentially input into ongoing investment decision-making.

Rationale – sustainability

Johnson Controls offers products and services which result in safer, healthier, more efficient and sustainable buildings, as well as supporting low carbon transition in energy (renewable energy) and transportation (electric vehicles) transition, and promoting renewable energy. It contributes to a number of our themes, with material exposure to areas which support improved resource efficiency.

Key highlights:

- From 2017-2020, reduced energy intensity by 5.5% and greenhouse gas (GHG) emissions intensity by ~ 26%;
- Has adopted 2025 goals related to GHG emissions, energy, water, waste, safety and diversity from a 2017 baseline;
- A UN Global Compact member.

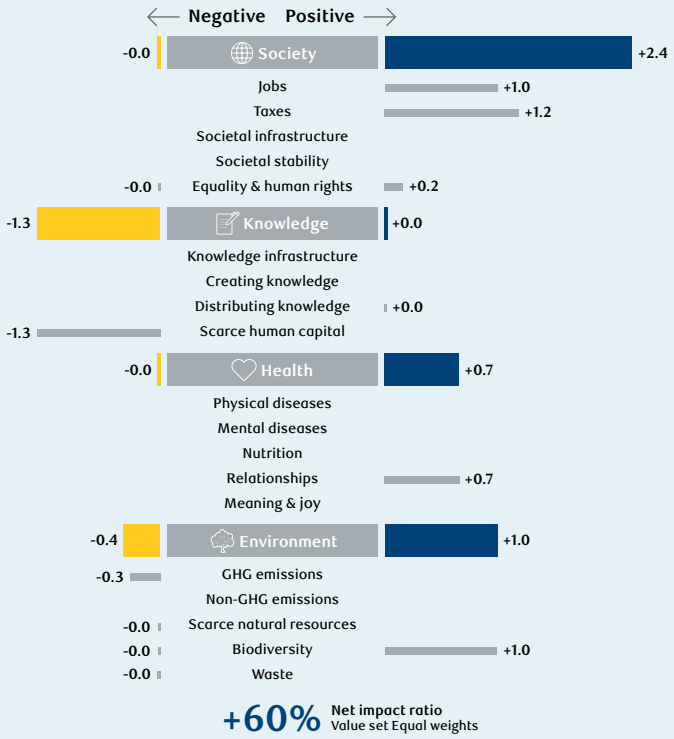
Source: Johnson Controls website, August 2022.

Source: BlueBay Asset Management, August 2022. The information provided in this example of a holding is to illustrate the investment process of the strategy at BlueBay and should not be deemed a recommendation to buy or sell any security or financial instrument. Image/logo source: issuer's website.

Issuer	THE WORLD BANK IBRD • IDA | WORLD BANK GROUP
Issuer type	Sovereigns, supranationals, and agencies (SSAs)
Region of domicile	Developed markets
Credit rating	Investment grade
Qualification route	Route 2: Issuance funding / supporting an activity contributing to the theme(s)
Business description	The Wildlife Conservation Bond (the 'rhino bond') is issued by the International Bank of Reconstruction and Development (IBRD) arm of the World Bank. It channels funds to conserve black rhino populations in South Africa.
Rationale – investment	The bond is a good example of the unique opportunities available in fixed income to invest for positive impact. This is a AAA-credit rated sovereign-backed issue and hence is one of the highest-quality instruments in the portfolio. The pay-out structure of the bond should enable it to deliver an internal rate of return (IRR) higher than an equivalent US treasury security. The valuation prospect is acceptable for the credit rating compared with other high credit-rated securities, despite not having the same alpha generation potential as other holdings.

Net Impact Profile

The IBRD 'rhino bond' has a net impact ratio of +60%, meaning its positive impact is 60% larger than its negative one, largely driven by its positive contribution to society and biodiversity.



Source: The Upright Project, as at 30th June 2022. Please see Section 5 for details of the Net Impact Ratio methodology. The Net Impact Ratio approach is used to evidence investee impact, with such analysis having been conducted post investment, although it may subsequently potentially input into ongoing investment decision-making.

Rationale – sustainability

Conserving nature biodiversity through protection of African rhinos

The bond offers an innovative use-of-proceeds issuance which is tied to targets for conservation success of the South African black rhino population. The bond is issued by the World Bank (via its International Bank for Reconstruction and Development, IBRD). The proceeds will finance eligible sustainable development projects and programmes globally. It does not pay a coupon to investors but instead uses coupons to make 'conservation investment payments' to finance two priority sites for rhino conservation activities. The UN-based Global Environment Facility (GEF) will pay investors at maturity of the bond, with the amount dependent on the level of ('growth rate') success outcome (with the maximum payment representing 1.83% annual return). Outcomes will be verified by the Zoological Society of London (ZSL).

Key highlights:

- Rhinos are threatened by poaching, habitat loss, conflict and corruption. This bond helps the conservation of over 150,000 hectares of ecosystems of high biodiversity where rhinos represent an 'umbrella' species;
- Environment co-benefits of the program relate to broader ecosystems and other species within them. Social co-benefits for local communities include increasing conservation and tourism employment opportunities in the poorest province of South Africa and share in the revenues as they are part-owners of the rhino sites;
- Other co-benefits will be measured over the life of the bond, including those relating to health, wellbeing and gender equality.

Source: IBRD Prospectus, March 2022.

Source: BlueBay Asset Management, August 2022. The information provided in this example of a holding is to illustrate the investment process of the strategy at BlueBay and should not be deemed a recommendation to buy or sell any security or financial instrument. Image/logo source: issuer's website.

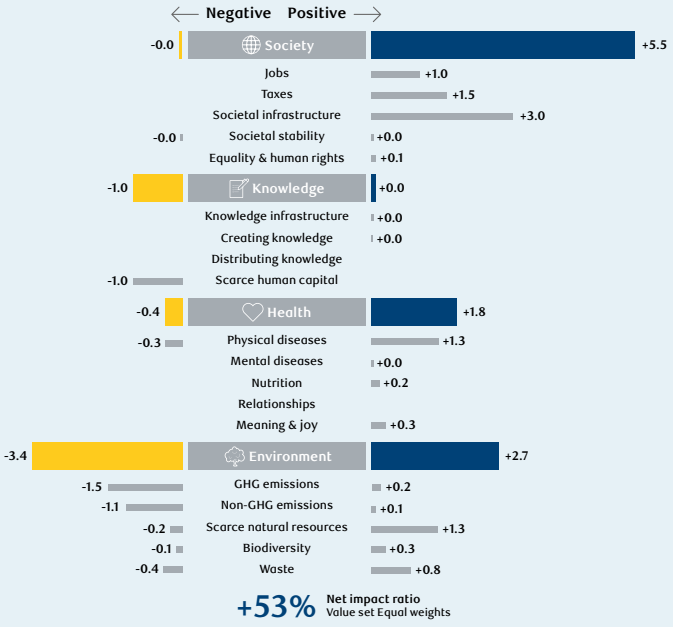
3.6 Environmental: Ensuring clean & plentiful water

Theme description: Solutions promoting sustainable water stewardship as well as good sanitation.

Issuer	SEVERN TRENT
Issuer type	Corporates
Region of domicile	Developed markets
Credit rating	Investment grade
Qualification route	Route 1: Issuer's economic activities contributing to the theme(s)
Business description	Severn Trent is a UK water utility operator offering water treatment, recycling and environmental solutions.
Rationale – investment	Severn Trent has one of the lowest gearing ratios (59.5%) in the sector, and a history of operational outperformance, however, the issuer trades in line with weaker peers such as Kelda, despite Kelda's higher gearing, weaker operational performance and greater risk of regulatory fines. In terms of retaining exposure to the UK, water companies remain one of the most insulated sub-sectors from energy crisis impacts and with all water company spreads caught in the broader widening, we see current levels as attractive.

Net Impact Profile

Severn Trent has a net impact ratio of +53%, meaning its positive impact is 53% larger than its negative one, largely driven by its positive contribution to social infrastructure, taxation, physical diseases and management of scarce natural resources.



Source: The Upright Project, as at 30th June 2022. Please see Section 5 for details of the Net Impact Ratio methodology. The Net Impact Ratio approach is used to evidence investee impact, with such analysis having been conducted post investment, although it may subsequently potentially input into ongoing investment decision-making.

Rationale – sustainability

Providing access to water and wastewater management services

Severn Trent (and its related businesses) provides drinking water and sewage treatment as well as other services to residential, commercial and industrial sectors within the UK, specifically the Midlands, as well as parts of Wales. It is one of Britain's largest water companies.

Key highlights:

- Has one of the strongest ESG/sustainability performances of the UK water utilities, as reflected in its regulatory performance, where it consistently rates amongst the highest in Environmental Performance Assessment (EPA) metrics – rating 4 stars (outstanding) in 6 of the last 10 years;
- Goal of 15% leakage reduction by 2025, current progress 3.5% reduction since 2020;
- Aim of per capita water consumption reduction of 3.5% by 2025, current progress 1% increase from 19/20 baseline;
- Science-based target of 46% reduction in carbon emissions (Scope 1 & 2); has achieved 25% reduction since 2019/20 baseline;
- Aims to improve biodiversity on 5,000 hectares of land by 2027, current progress 4,696 hectares.

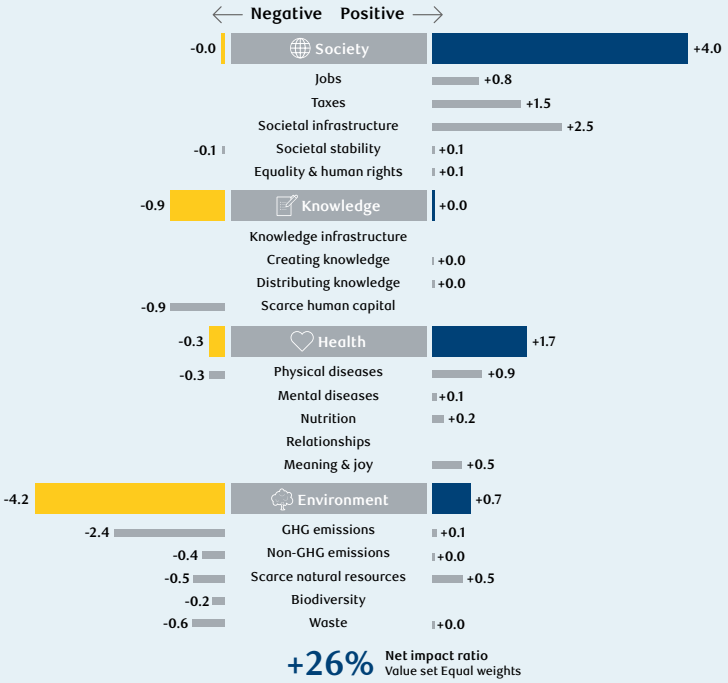
Source: Severn Trend Sustainability Report 2022.

Source: BlueBay Asset Management, August 2022. The information provided in this example of a holding is to illustrate the investment process of the strategy at BlueBay and should not be deemed a recommendation to buy or sell any security or financial instrument. Image/logo source: issuer's website.

Issuer	ADS Advanced Drainage Systems, Inc.
Issuer type	Corporates
Region of domicile	Developed markets
Credit rating	High yield
Qualification route	Route 1: Issuer's economic activities contributing to the theme(s)
Business description	Advanced Drainage Systems (ADS) is a US-domiciled manufacturer of products such as pipes and other drainage products for water infrastructure management solutions, using recycled material.
Rationale – investment	ADS is a good business with solid credit metrics operating at high yield credit ratings. The continued conversion of legacy water pipe materials to the re-cycled thermoplastic that ADS uses positions them for above-market growth. In 2021 they combined with Infiltrator Water Technologies which was a good strategic fit. ADS remains on track to be upgraded by the credit rating agency, S&P. The position has outperformed and is approaching levels where we would consider taking profit.

Net Impact Profile

ADS has a net impact ratio of +26%, meaning its positive impact is 26% larger than its negative one, largely driven by its positive contribution to social infrastructure, taxation and jobs.



Source: The Upright Project, as at 30th June 2022. Please see Section 5 for details of the Net Impact Ratio methodology. The Net Impact Ratio approach is used to evidence investee impact, with such analysis having been conducted post investment, although it may subsequently potentially input into ongoing investment decision-making.

Rationale – sustainability

Supporting improving water efficiency and quality

ADS is the global market leader in water management product, such as pipes, and drainage solutions for use in underground construction and infrastructure, such as septic tanks. The company plays a critical role in ensuring that buildings, roads and agriculture stay safe and use water efficiently. ADS's plastic pipes offer several advantages over concrete equivalents; namely, a lower carbon footprint, high recycling content in products (55% recycled plastic materials), and faster and less expensive installation (typically 3x faster and 20% less expensive).

Key highlights:

- Targeting 1 billion pounds of recycled materials used annually by 2032, with 600 million pounds used in FY 2022. For the same period, 59% of pipe revenue was derived from re-manufactured products;
- Goal of implementing closed loop water at all manufacturing sites by 2032: 87% of ADS' sites are operating with closed loop water in 2022;
- Adopted science-based net-zero climate commitment in April 2022. Seen 31% decrease in GHG emissions; 22% decrease in energy intensity for FY 2022.

Source: ADS Sustainability Report 2022.

Source: BlueBay Asset Management, August 2022. The information provided in this example of a holding is to illustrate the investment process of the strategy at BlueBay and should not be deemed a recommendation to buy or sell any security or financial instrument. Image/logo source: issuer's website.

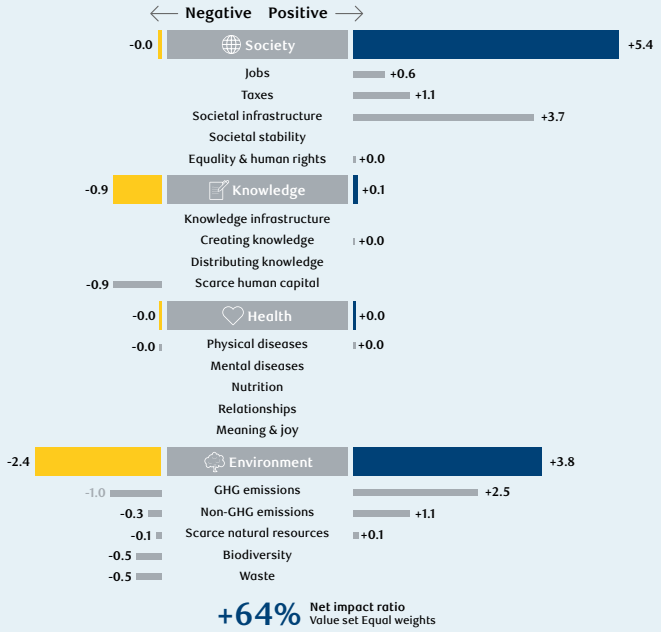
3.7 Environmental: Promoting clean & safe energy

Theme description: Solutions enabling the low-carbon transition through adoption of alternative energy sources.

Issuer	Vestas
Issuer type	Corporates
Region of domicile	Developed markets
Credit rating	Investment grade
Qualification route	Route 1: Issuer's economic activities contributing to the theme(s)
Business description	Vestas is a Danish manufacturer, seller, installer and servicer of wind turbines globally.
Rationale – investment	Vestas is enjoying strong tailwinds from heightened renewables demand against the backdrop of a European energy crisis, which has resulted in a strong order book and the ability to pass through much of the raw material inflation to a large degree. Given its strong sustainability credentials, Vestas enjoys very strong demand when it comes in the primary market and we were able to access some of the 12-year bond when it came in March 2022. We see this as a particularly defensive investment which should outperform in more difficult markets.

Net Impact Profile

Vestas has a net impact ratio of +64%, meaning its positive impact is 64% larger than its negative one, largely driven by its positive contribution to social infrastructure and addressing carbon emissions.



Source: The Upright Project, as at 30th June 2022. Please see Section 5 for details of the Net Impact Ratio methodology. The Net Impact Ratio approach is used to evidence investee impact, with such analysis having been conducted post investment, although it may subsequently potentially input into ongoing investment decision-making.

Rationale – sustainability

Promoting renewable energy power generation

Vestas is one of the world's largest wind energy companies. Addressing climate change requires transitioning away from fossil fuel-based energy sources, towards clean and renewable energy.

Key highlights:

- Vestas turbines produced by the company resulted in 532 million tonnes of CO_2e avoided over their lifetime – also providing enough electricity to power 96.6 million homes;
- Goal to be carbon neutral by 2030 without using carbon offsets. Achieved 45% reduction per MWh in Scope 3 emissions since 2019; 55% reduction in Scope 1 and 2 emissions. 100% renewable electricity across operations;
- Target of zero waste by 2040;
- In January 2022, named the most sustainable company in the world by Corporate Knights, with circularity and ambitious carbon emission reduction goals cited as amongst the highest of the peer group assessed.

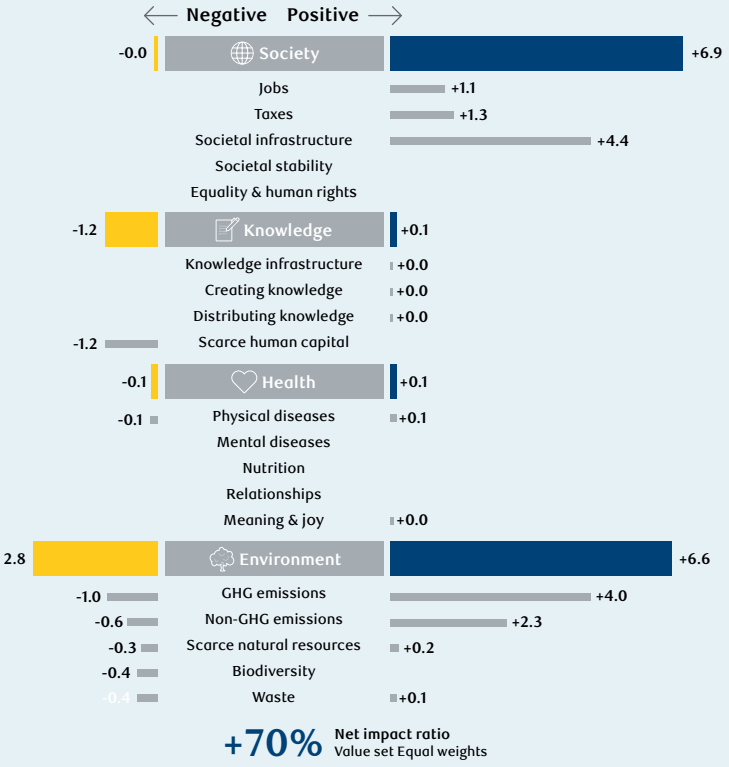
Source: Vestas Sustainability Report 2021.

Source: BlueBay Asset Management, August 2022. The information provided in this example of a holding is to illustrate the investment process of the strategy at BlueBay and should not be deemed a recommendation to buy or sell any security or financial instrument. Image/logo source: issuer's website.

Issuer	ReNew POWER
Issuer type	Corporates
Region of domicile	Emerging markets
Credit rating	High yield
Qualification route	Route 1: Issuer's economic activities contributing to the theme(s)
Business description	ReNew Power is a leading Indian renewable energy operator active in solar and wind power.
Rationale – investment	ReNew Power has strong shareholders who have demonstrated equity support over the recent years. The strong asset base and geographical diversification provide strength to the financial position. While the route by which the issuer qualified for investment meant it was possible to invest in a vanilla issuance, the bond selected was an ESG-labelled green bond. The yield on offer from this position compensates us for the EM risk and the lower credit rating. We like that this position commands strong support from the investor community, due to its sustainability profile, and note also that the bond is part of the issuer's green bond framework, which provides some additional support.

Net Impact Profile

ReNew Power has a net impact ratio of +70%, meaning its positive impact is 70% larger than its negative one, largely driven by its positive contribution social infrastructure and mitigating harmful emissions.



Source: The Upright Project, as at 30th June 2022. Please see Section 5 for details of the Net Impact Ratio methodology. The Net Impact Ratio approach is used to evidence investee impact, with such analysis having been conducted post investment, although it may subsequently potentially input into ongoing investment decision-making.

Rationale – sustainability

Providing renewable wind and solar energy

ReNew Power is India's largest and the world's tenth largest renewable energy company by generation capacity, which is equally split between wind and solar power. It builds and operates large grid-scale power projects across the country.

Key highlights:

- Through its renewable energy operations, ReNew avoided over 10 million tonnes of carbon emissions in 2021 (~ 0.5% of India's total carbon emissions) and these avoided emissions amounted to more than 200x that of the business' own Scope 1 & 2 emissions;
- The company has saved over 66,000 kilolitres of water annually, by deploying robotic cleaning of solar panels across seven sites in Rajasthan – its total water consumption in 2021 was ~ 170,000 kilolitres;
- In 2021, ReNew sent all e-waste (including solar modules and cables) and batteries to authorised recycling facilities.

Source: ReNew Sustainability Report (2021), ReNew Q4 FY22 Earnings Review (2022).

Source: BlueBay Asset Management, August 2022. The information provided in this example of a holding is to illustrate the investment process of the strategy at BlueBay and should not be deemed a recommendation to buy or sell any security or financial instrument. Image/logo source: issuer's website.

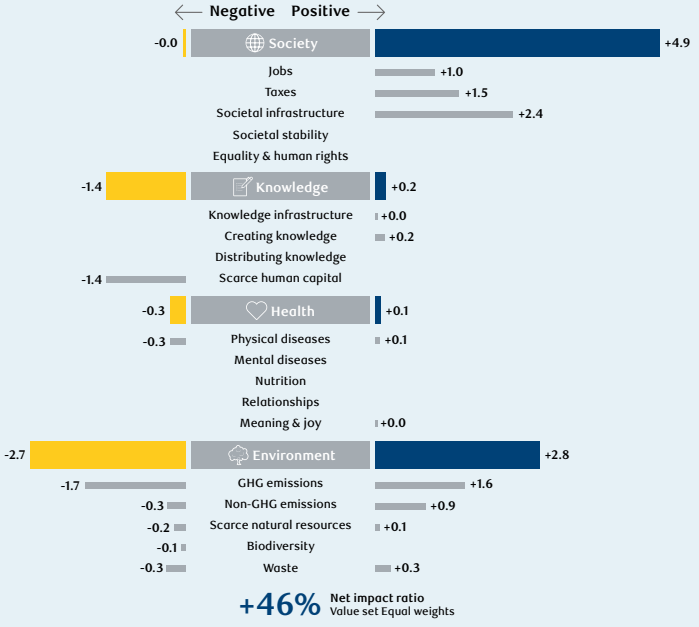
3.8 Environmental: Promoting sustainable mobility & infrastructure

Theme description: Solutions delivering the shift to more sustainable transportation modes, buildings and infrastructure.

Issuer	CATL
Issuer type	Corporates
Region of domicile	Emerging markets
Credit rating	Investment grade
Qualification route	Route 1: Issuer's economic activities contributing to the theme(s)
Business description	CATL is a global China-based leader in new energy innovation technologies, developing products and services for the electric vehicles (EVs) industry including power battery systems, lithium battery materials and battery recycling services.
Rationale – investment	CATL is well positioned to take advantage of the increasing demand and policy traction for EV transportation, and we think these tailwinds will be a key support for the credit. It is rated at the high end of investment grade with stable credit metrics. As such this is an attractive investment allowing us to support a key part of the low carbon EV value chain.

Net Impact Profile

CATL has a net impact ratio of +46%, meaning its positive impact is 46% larger than its negative one, largely driven by its positive contribution to social infrastructure, taxation and mitigation of harmful emissions.



Source: The Upright Project, as at 30th June 2022. Please see Section 5 for details of the Net Impact Ratio methodology. The Net Impact Ratio approach is used to evidence investee impact, with such analysis having been conducted post investment, although it may subsequently potentially input into ongoing investment decision-making.

Rationale – sustainability

Promoting more sustainable transportation through EV adoption

CATL's products and services support the growth of the EV industry through the provision of critical components such as EV battery systems, energy storage systems and lithium-ion battery materials.

Key highlights:

- Established as the world's first zero-carbon battery factory in 2022, in Yibin, Sichuan Province, CATL is targeting carbon neutrality across its ten production bases globally;
- Investing ~ USD5 billion in building a new factory specifically designed for battery recycling, extracting cobalt and lithium from scraped batteries of EV, and aiming to realise carbon neutrality throughout the life cycle of batteries;
- Committed to responsible sourcing of minerals in its supply chain.

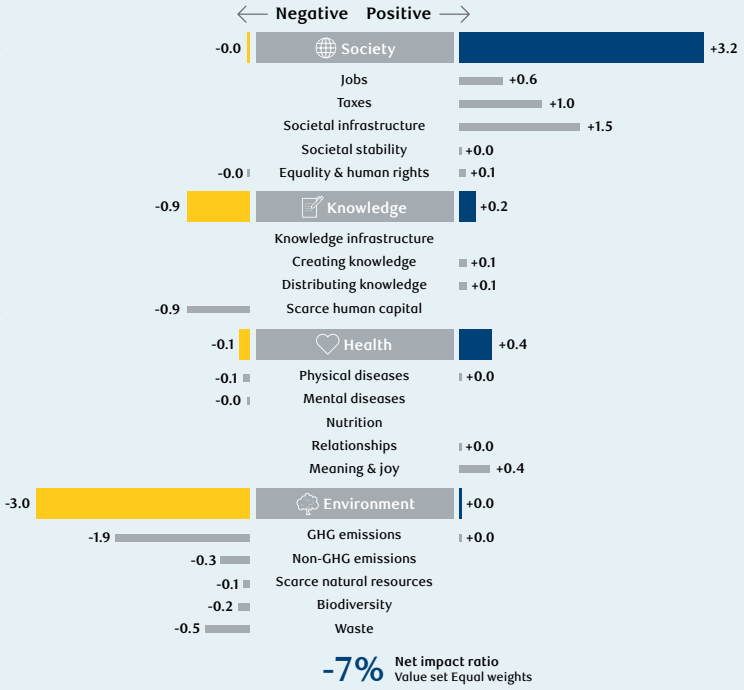
Source: CATL ESG Report 2021.

Source: BlueBay Asset Management, August 2022. The information provided in this example of a holding is to illustrate the investment process of the strategy at BlueBay and should not be deemed a recommendation to buy or sell any security or financial instrument. Image/logo source: issuer's website.

Issuer	kb HOME
Issuer type	Corporates
Region of domicile	Developed markets
Credit rating	High yield
Qualification route	Route 1: Issuer's economic activities contributing to the theme(s)
Business description	KB Home is a US residential construction business focused on single-family homes, primarily targeting first-time and first move-up buyers.
Rationale – investment	KB Home is one of the largest homebuilders in the US and its focus on energy-efficient homes and the more 'affordable' part of the housing market puts it in a good position to be more resilient in times of stress. The current high yield ratings are on 'positive outlook' from the credit rating agencies (CRAs), highlighting the improving momentum in terms of its credit profile. This may come under the spotlight in the coming quarters but valuations are attractive at current levels.

Net Impact Profile

KB Home has a net impact ratio of -7%, meaning its positive impact is 7% smaller than its negative one, largely driven by its carbon emissions resulting from the construction process.



Source: The Upright Project, as at 30th June 2022. Please see Section 5 for details of the Net Impact Ratio methodology. The Net Impact Ratio approach is used to evidence investee impact, with such analysis having been conducted post investment, although it may subsequently potentially input into ongoing investment decision-making.

Rationale – sustainability

Building sustainable homes

KB Home builds sustainable homes. All of its constructions are built to be eco-friendly and in accordance with the US 'Energy Star' certification which focuses on energy efficiency. Its focus on first-time buyers also promotes access to affordable housing. The company has built more than 655,000 homes since 1957. In 2021, it built 13,472 homes, 62% of which were bought by first-time buyers.

Key highlights:

- KB Home's 'Energy Star' homes are up to 20% more energy efficient than standard new build homes built to code. Each Energy Star-certified home is estimated to reduce GHG emissions by c. 1.5 metric tons per year;
- It has constructed 14,000 'solar' homes, saving homeowners an estimated USD856 million in energy utility bills and reducing GHG emissions by 6.3 bn pounds;
- KBH also uses the HERS (Home Energy Rating) index score and had an average HERS of 50 in 2019, with a goal to reduce this to 45 by 2026.

Source: KB Sustainability Report 2021.

Source: BlueBay Asset Management, August 2022. The information provided in this example of a holding is to illustrate the investment process of the strategy at BlueBay and should not be deemed a recommendation to buy or sell any security or financial instrument. Image/logo source: issuer's website.

4 Fund financial performance review

4.1 Market review

The launch of the BlueBay Impact-Aligned Bond Fund coincided with one of the most difficult periods for financial markets. For most developed market fixed income indices, H1 2022 was the worst start to a calendar year on record, and for the S&P 500 Index, it was the worst start to a year since 1962.

The period from the inception of the fund to the end of 2021 was relatively benign in comparison to H1 2022. Investment grade (IG) and high yield (HY) credit spreads finished the year marginally wider and apart from a brief period at the end of November 2021, generally displayed an extremely low level of volatility, the likes of which we became more accustomed to during periods of loose central bank policy. Core government bond yields also plodded along at low levels into the end of the year, which highlights the fact that the fireworks of 2022 were far from investors' expectations.

The inflationary pressures we saw build at the beginning of 2022 were initially dismissed by many, including central banks, as being transitory due to COVID-19 supply constraints easing. A number of factors led to ensuring this was not the case. The supply chain bottlenecks caused by the pandemic were further impacted by a rapid increase in demand as activity increased, and demand began to shift towards goods and away from services. The magnitude of central bank stimulus in financial systems has also ensured that inflationary pressures are high and are likely to remain high going forward. On top of the many factors resulting from the pandemic, the Russian invasion of Ukraine led to a sharp rise in energy and food prices, which has impacted inflation globally. Both countries are major exporters of commodities, and disruptions from the war have had a huge impact which is disproportionately affecting lower-income countries and emerging markets, where food and energy are a greater share of consumption.

Central banks' reaction to the acceleration in inflation has been to progressively increase the pace of rate hikes, and tighten monetary policy, throughout the first half of 2022. This in turn drove core government bond yields materially higher and caused curves to flatten. The most volatile periods in markets were often straight after Consumer Price Index (CPI) prints which surprised to the upside, and which reset investor and central bank expectations for the magnitude of action required. All of these elements created an extremely volatile period for almost all asset classes.

4.2 Performance

Overall, we have continued to observe outperformance of securities from issuers with good sustainability profiles but this has not been enough to shield the fund in such a broad-based market sell off, which was driven by rising yields and widening spreads. Fund performance has been challenging amidst the unprecedented market conditions. The drawdown has been relatively in line with market moves which is disappointing; lower-quality bonds in the portfolio have underperformed as the market sell off created a large bout of 'decompression', where bonds with lower credit ratings underperformed the higher-quality parts of the market.

> **"Fund performance has been challenging amidst the unprecedented market conditions."**

The period from the inception of the fund to year end saw steady returns with core government bond yields and spreads remaining stable. Our positioning was able to deliver performance of approximately 1.98% (for the period from inception to the end of December 2021), which was an outperformance versus most corporate bond indices (Figure 1).

Figure 1: Fund monthly performance (USD gross of fees, since inception to 30th June 2022)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021						1.09%	1.11%	0.28%	-0.40%	-0.08%	-0.39	0.35%	1.98%
2022	-1.97%	-2.68%	-1.36%	-4.11%	-0.63%	-4.23%							-14.12%

Past performance is not indicative of future results.

The return on your investment may increase or decrease as a result of currency fluctuations if your investment is made in a currency other than that used in the past performance calculation. Fees and other expenses will have a negative effect on investment returns. For example, if there was an annualised return of 10% over a 5-year period then the compounding effect of a 0.60% management fee and a 0.20% performance fee would reduce the annualised return to 9.32% (figures used are only to demonstrate the effect of charges and are not an indicator of future performance).

Source: BlueBay Asset Management, as at 30th June 2022.

By contrast, 2022 has been an extremely difficult year for performance in line with almost every fixed income financial product. Figure 2 illustrates the performance of the main asset classes in which we operate, the BlueBay Impact-Aligned Bond Fund was not out of context with these moves.

Figure 2: Performance of corporate bond markets (since inception to 30th June 2022)

	2021: 04/05/21-31/12/21	2022: 31/12/21-30/06/22	Since inception: 04/05/21-30/06/22
Euro Investment Grade	0.05	-11.40	-11.35
US Investment Grade	2.17	-13.93	-12.06
Global Investment Grade	1.48	-12.81	-11.52
Global High Yield	1.18	-14.90	-13.90
BlueBay Impact-Aligned Bond Fund	1.98	-14.12	-12.42

The above indexes are not a benchmark for the BlueBay Impact-Aligned Bond Fund and are purely for illustrative purposes.

Source: Bloomberg, BofA as at 30 June 2022. Euro IG - ICE BofA Euro Corporate Index (ER00); US IG - ICE BofA US Corporate Index (C0A0); Global IG - ICE BofA Global Corporate Index (G0BC); Global HY - BofA Global High Yield Index (HW00); Euro HY - ICE BofA Euro High Yield Index (HE00); US HY - ICE BofA US High Yield Index (H0A0).

Source: BlueBay Asset Management, as at 30th June 2022.

Holdings (Figure 3) with exposure to the following themes were the largest contributors to performance: '*Promoting clean & safe energy*', '*Building knowledge & skills*' and '*Enabling a circular economy*'. On the other hand, the larger detractors came from holdings with the exposure to '*Promoting sustainable mobility & infrastructure*', '*Ensuring good health, safety & wellbeing*' and '*Achieving an inclusive society*' themes.

Figure 3: Top & bottom credit returns by issuer (since inception to 30th June 2022)

Issuer (top contributors)	Contribution to credit excess return (bps)	Theme	Fundamental ESG (Risk) Rating
Vestas Wind Systems	+8	Promoting clean & safe energy	Low
American Campus Communities	+7	Building knowledge & skills	Low
Switch Ltd	+7	Promoting clean & safe energy	Medium
Renewi plc	+6	Enabling a circular economy	Low
University College London	+5	Building knowledge & skills	Low

Issuer (top detractors)	Contribution to credit excess return (bps)	Theme	Fundamental ESG (Risk) Rating
SBB Treasury OYJ	-91	Achieving an inclusive society	High
Bupa Finance plc	-35	Ensuring good health, safety & wellbeing	Low
Aptiv plc	-32	Promoting sustainable mobility & infrastructure	Low
Deutsche Bahn Gin GMBH	-27	Promoting sustainable mobility & infrastructure	Medium
Iberdrola Intl BV	-25	Promoting clean & safe energy	Medium

Source: BlueBay Asset Management, as at 30th June 2022. The information provided in this example of a holding is to illustrate the investment process of the strategy at BlueBay and should not be deemed a recommendation to buy or sell any security or financial instrument.

SBB has been the most notable underperformer. This is a Swedish real estate company which owns and develops assets which predominantly promote social sustainability. These assets consist of social housing projects, properties delivering education, elderly care, support for disabled, healthcare and municipal administration. The company has very long tenancy contracts which are indexed to the CPI, and counterparties tend to be AAA-rated government agencies. During H1 2022 the short seller Viceroy made a number of allegations concerning accounting irregularities which have caused a huge dislocation in issuers' bond prices. These allegations have been rebutted by SBB and more than one external auditor has corroborated SBB's stance as well. We reduced our position size before the bulk of the spread widening and we now continue to monitor the position very closely. We have had multiple engagements with the issuer to go through the allegations in detail and are optimistic about the recovery path, considering the quality of the assets and the fact that these assets are so crucial to the social infrastructure of the region.

Outside of SBB, the other detractors performed largely in line with market beta, rather than as a result of idiosyncratic, fundamental factors. On the positive side **Vestas Wind Systems** managed to defy market dynamics and deliver positive excess returns. We supported this issuer in the primary market, and it is a good example of an issuer which is crucial to the clean energy transition doing well as a result of investor support. Its fundamental position is supported by the company's leading market and technology position for onshore wind turbines. The business is growing fast due to the demand for renewable energy, and we expect its strength in credit markets to continue.

Also, on the positive side both **American Campus Communities** (providing student accommodation – building skills and knowledge theme) and **Switch Ltd** (developing efficient sustainable data centers – promoting sustainable mobility and infrastructure theme) were both the subject of M&A activity, which led to the securities being bought back above market prices in the case of ACC, and likely triggering a change of control option higher than market prices in the Switch bonds, which contributed to performance.

Figure 4: Performance by theme (since inception to 30th June 2022)

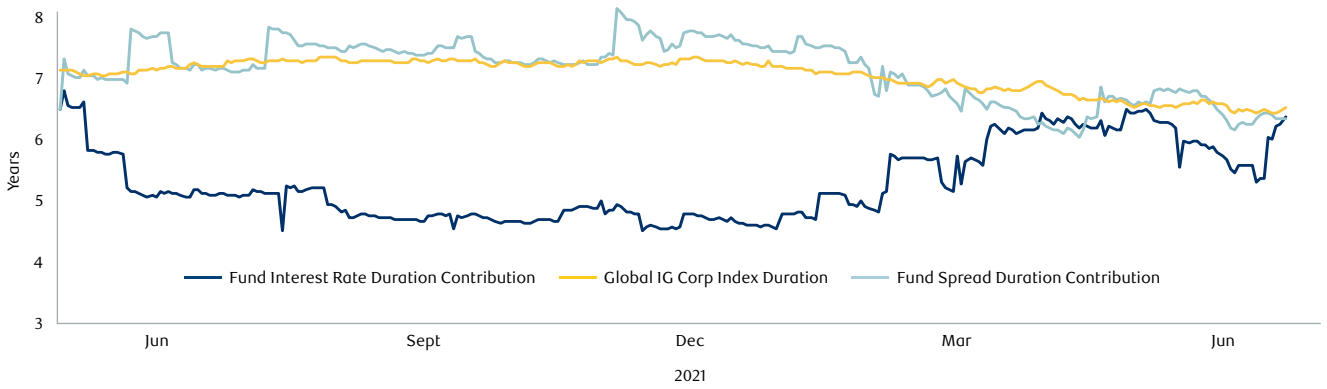
Theme	Key trends / highlights
Achieving an inclusive society	One of the weaker themes driven by exposure to European real estate and financials, which qualifies in terms of facilitating financial inclusion. The more resilient positions came from higher credit-rated UK issuers.
Building knowledge & skills	A resilient theme with issuers generally outperforming. Highlights came from higher education providers, **University College London** and **GEMS Education** which outperformed. Opportunity set has been more limited to date in this theme.
Ensuring good health, safety & wellbeing	One of the most fruitful themes in terms of potential ideas and opportunities. Performance across the theme was mainly resilient due to the defensive nature of many of the issuers. **BUPA**, a provider of health insurance and healthcare services, was the main underperformer. Outperformers came from drug companies **CSL Ltd**, **Hikma** and natural ingredient producer, **Firmenich International**.
Enabling a circular economy	We observed a number of interesting new deals from issuers that aligned with this theme, resulting in the fund participating in the primary market. One of the highlights came from **Renewi** – a company dedicated to recycling all types of waste – which outperformed the market.
Ensuring clean & plentiful water	Theme performance was disappointing, with European water utilities caught up in general European market weakness. Issuers from the US and emerging markets fared the best against the challenging market conditions.
Promoting clean & safe energy	Performance within clean & safe energy was mixed with weak performance from issuers in Europe apart from **Vestas**, the wind turbine manufacturer, which defied the weak market to deliver positive excess returns. Generally, we found the opportunity set in this theme a bit more challenging in terms of new ideas over the period.
Promoting sustainable mobility & infrastructure	A difficult theme over the period with weak performance from mass transport providers in Germany and Chile. Some of the holdings with cyclical exposure also struggled in the weak conditions. However, **CATL**, the Chinese EV battery manufacturer, was extremely resilient with credit spreads narrowing over the period.

Source: BlueBay Asset Management, as at 30th June 2022.

4.3 Positioning

The figures provided in this section give some indication of how the fund's positioning has evolved since inception, and where we were positioned at the end of June 2022. We kept the duration (Figure 5) below five years for a considerable period of time, while interest rates remained low and were beginning to rise. The average duration of the Global IG Corp Index was approximately 7.25 years as at the end of 2021. During 2022, as interest rates reached levels not seen for many years, we started to increase the average duration we were running. It can also be seen that for 2022 up to June, we ran less credit exposure than during the more benign periods in 2021.

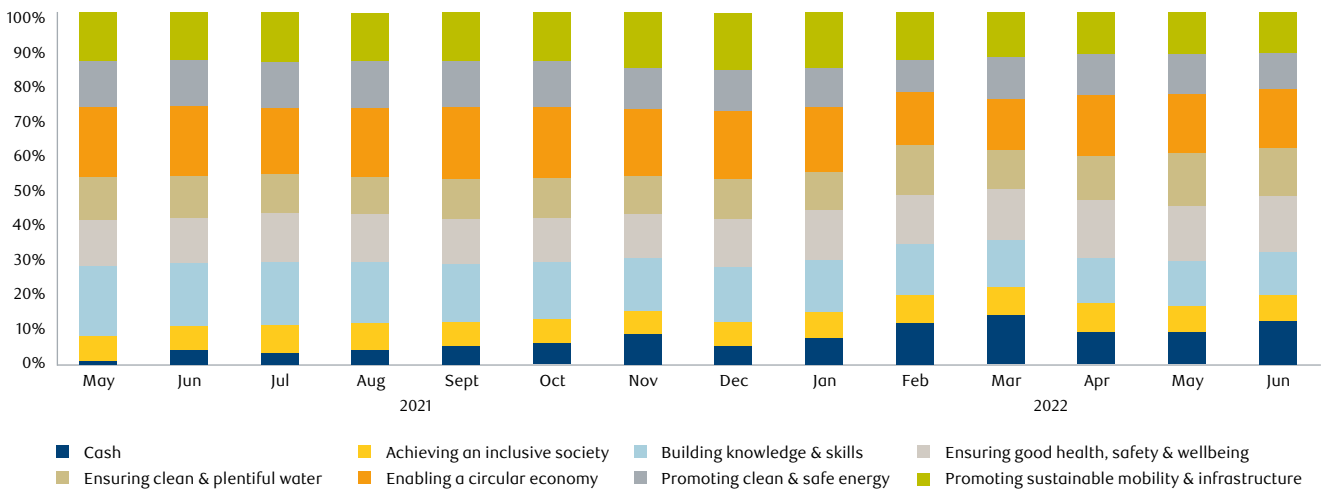
Figure 5: Evolution of fund duration (since inception to 30th June 2022)



Source: BlueBay Asset Management, as at 30th June 2022.

The evolution of theme allocation has been relatively consistent over the period under consideration (Figure 6). The main trends have been a reduction in allocation to '*Building knowledge & skills*' theme and an increase in '*Enabling a circular economy*' theme. The reduction in the '*Building knowledge & skills*' theme was driven by taking profits in **University College of London**, and our holding in **American Campus Communities** being aquired as previously discussed. In the '*Enabling a circular economy*' theme, we added positions in **Itelyum** (waste management), **Verallia** (recycled and recyclable glass packaging), and **Graphic Packaging** (recycled and recyclable paper/card packaging). We increased cash levels in 2022 as the investment landscape became more challenging. This was to ensure we had liquidity to take advantage of dislocations and rising volatility in fixed income markets.

Figure 6: Evolution of theme allocation (since inception to 30th June 2022)



Source: BlueBay Asset Management, as at 30th June 2022.

Figure 7: Fund characteristics

	Expected range	Fund
Average Mty	5–10yrs	8.12
Average Rating	IG	BBB
Average Mod Duration	4–9yrs	6.39
Number issues	50–200	94
Number issuers	50–125	84
Green Bonds	–	14.02%
Social Bonds	–	4.10%
Sustainability Bonds	–	3.64%
EUR Yield		2.93%
USD Yield		5.50%

- IG average rating.
- Attractive yield of 5.50% in USD terms.
- Top holdings have varied substantially over the period.
- Larger holdings at the end of June tended to be from higher quality investment grade rated issuers.

Source: BlueBay Asset Management, as at 30th June 2022.

Figure 8: Fund top 5 holdings by % NAV

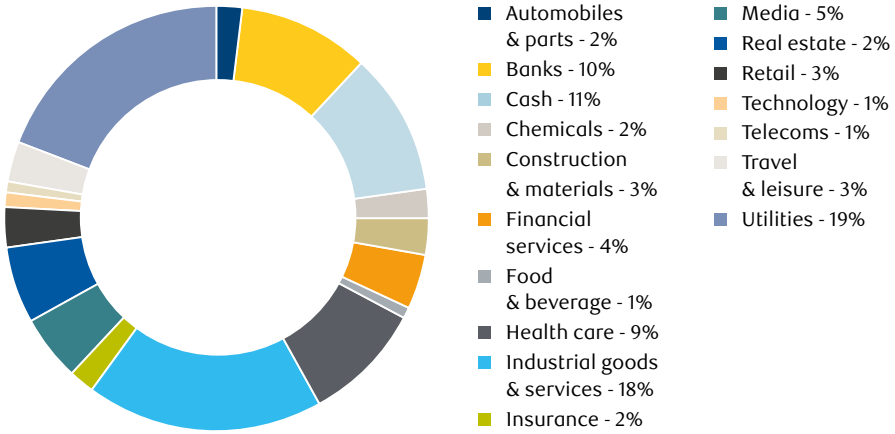
Issuer	Theme	% of NAV	Contribution to credit excess return (bps)	Fundamental ESG (Risk) Rating
Inter-American Development Bank	Achieving an inclusive society	2.96	-9	Very low
Sanoma Oyj	Building knowledge & skills	2.22	-1	Low
Suez SAXA	Ensuring clean & plentiful water	2.06	-13	Low
National Central Cooling Co PJSC	Enabling a circular economy	2.00	+3	Medium
CSL Finance CSC	Ensuring good health, safety & wellbeing	1.98	+4	Medium

Source: BlueBay Asset Management, as at 30th June 2022.

Figure 9: Fund sector exposure by % NAV

Traditional sector exposure is well diversified.

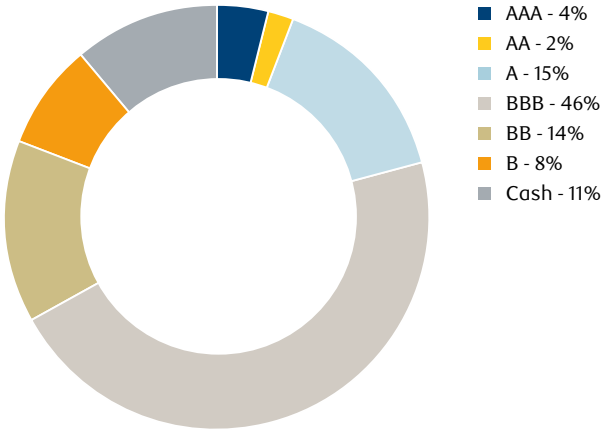
- The largest sector exposures come from Utilities, where we have focused on the pioneers of clean energy and issuers delivering clean and plentiful water, and Industrial goods and services where we have found issuers contributing to the '*Enabling a circular economy*' theme.



Source: BlueBay Asset Management, as at 30th June 2022.

Figure 10: Fund credit rating breakdown by % NAV

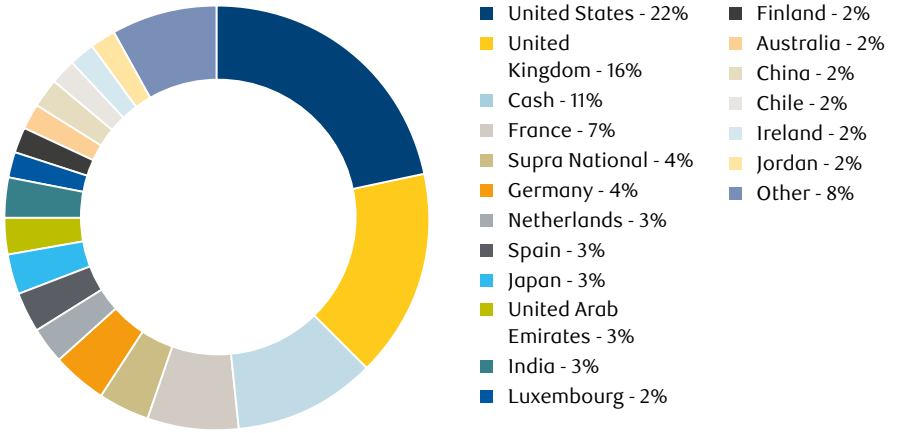
- We have reduced HY exposure in 2022 versus 2021 due to increased market volatility.
- We still have just over 20% in HY focused on issuers we find to have particularly impactful sustainability profiles and resilient credit metrics.



Source: BlueBay Asset Management, as at 30th June 2022.

Figure 11: Fund country breakdown by % NAV

- Diversified country exposure.
- Approximately 15% exposure to emerging markets where we find issuers that are particularly relevant to our sustainability themes, in some of the most disadvantaged parts of the world.



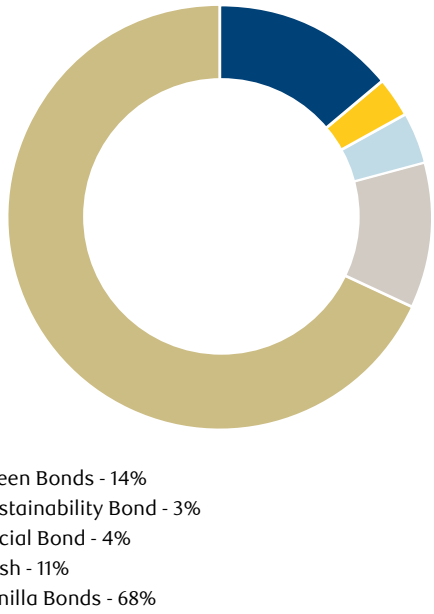
Source: BlueBay Asset Management, as at 30th June 2022.

ESG-labelled bonds

The strategy allows for potential investment in ESG-labelled bonds, such as use-of-proceeds ones, which can be green, social or sustainability/SDG bonds. This can occur via two routes; the first route, where the focus is on the issuer's economic activity qualifying – hence we are agnostic about whether the bond is a vanilla bond or whether it is ESG-labelled. That decision is an investment one, based on our decision regarding which instrument is the best way to gain exposure to the issuer. The second route is not issuer focused (although the issuer must pass our ESG criteria), but rather we look at what a bond is funding or supporting, and whether this meets at least one of our themes.

As of June 2022, the fund had 20% allocation to ESG-labelled bonds, all purchased in the primary market after launch. The majority of these related to issuers which would have qualified via the first route (economic activity), and so we could have purchased a vanilla bond, but we had deemed investing in the ESG-labelled bond the most appropriate way to capitalise on the investment opportunity. Within this category of issuance allocation, the majority fell into the green bond category.

Figure 12: ESG-labelled bonds breakdown by % NAV



Source: BlueBay Asset Management, as at 30th June 2022.

Figure 13: Fund positions divested (since inception to 30th June 2022)

Issuer	Theme	Rationale for divestment	Fundamental ESG (Risk) Rating	Contribution to credit excess return (bps)
HCA Healthcare Inc	Ensuring good health, safety & wellbeing	Valuation after outperformance	Medium	+4
IQVIA Holdings Inc	Ensuring good health, safety & wellbeing	Valuation after outperformance	Low	-1
Adtalem Global Education Inc	Building knowledge & skills	Bond divested after partial tender in profit	Medium	+4
Fresenius Medical Care AG & Co	Ensuring good health, safety and wellbeing	Change in credit view	Medium	0
American Campus Communities	Building knowledge & skills	Issuer acquired and bond called at 'make whole'	Low	+7
Hannon Armstrong Sustainable Infrastructure	Promoting clean & safe energy	Change in credit view	Low	-2

Source: BlueBay Asset Management, as at 30th June 2022.

Figure 14: New positions added (since inception to 30th June 2022)

Issuer	Theme	Primary / secondary market	Fundamental ESG (Risk) Rating	Contribution to credit excess return (bps)
Korian SA	Ensuring good health, safety & wellbeing	Primary	Medium	-6
Renewi PLC	Promoting clean & safe energy	Primary	Low	+6
Anchor Hanover Group	Achieving an inclusive society	Primary	Very low	-12
Azure Power Energy Ltd	Promoting clean & safe energy	Primary	Low	-4
East Japan Railway Co	Promoting sustainable mobility & infrastructure	Primary	Very low	-6
Holding D'Infrastructures des Metiers de L'Environnement	Ensuring clean & plentiful water	Primary	Low	-11
Itelyum (Verde Bidco)	Enabling a circular economy	Primary	Medium	-2
Smurfit Kappa Group PLC	Enabling a circular economy	Primary	Low	-9
Graphic Packaging Holding Co	Enabling a circular economy	Primary	Medium	-2
Eco Material Technologies Inc	Enabling a circular economy	Primary	Medium	-2
Vestas Wind Systems A/S	Promoting clean & safe energy	Primary	Low	+8
Trimble Inc	Enabling a circular economy	Secondary	Low	-4
International Bank for Reconstruction and Development	Enabling a circular economy	Primary	Very low	-1
SSE PLC	Promoting clean & safe energy	Primary	Low	-16
CSL Ltd	Ensuring good health, safety & wellbeing	Primary	Medium	+4
Aegea Finance Sarl	Ensuring clean & plentiful water	Primary	High	-4
Suez SACA	Ensuring clean & plentiful water	Primary	Low	-13

Source: BlueBay Asset Management, as at 30th June 2022.

5 Fund sustainability performance review

5.1 Sustainability trends and developments

2021 followed on from the first year of the global COVID-19 pandemic and it was already becoming apparent that the event would leave a lasting impact on society and the economy. The pandemic accelerated many pre-existing ESG and sustainability trends and developments, triggering a growth in awareness and interest towards ESG-related investments on a scale not previously seen.

"Short termism could undermine action to tackle long-term sustainability issues."

Early in 2021 we had surmised that some key themes were expected to prevail, the main ones being: increasing impact of ESG/sustainability policies and regulations; rising importance of data and disclosure; continuing focus on governance and social factors; broadening of focus on environmental matters beyond climate change to encompass nature and biodiversity, as well as a greater interest in investing practices to deliver real economy outcomes. Reflecting on the year, these themes did indeed play out over the course of what was another challenging year.

Coming into 2022, our expectations were for a continuation of the momentum driven by these themes in the previous year. However, the scale and pace we have witnessed to date has not been as predicted. This is because for this first half of the year, alongside continuing challenges of implementing new ESG regulations, several unprecedented events have taken place which have caused some of the optimism around progress to falter. Specifically, headwinds from the ongoing impact of the COVID-19 recovery, rocketing inflation, and severe energy and food shocks resulting from the Russia/Ukraine conflict have resulted in a perfect storm, where short termism could undermine action to tackle long-term sustainability issues.

We have also observed two new developments over the course of H1 2022 which are further increasing tensions and risks, derailing the impetus for urgent and large-scale action to achieve the SDGs. These relate to an emerging anti-ESG sentiment and associated 'weaponisation' of ESG factors for differing political agendas. It remains unclear exactly how these dynamics will ultimately play out, in terms of delaying the necessary action and negative impacts that will result.

Figure 15: Sustainability review by theme (since inception to 30th June 2022)

Theme	Key trends / highlights
Achieving an inclusive society	COVID-19 has worsened trends in global income and wealth inequalities, with emerging markets disproportionately positioned to respond and rebuild, although within developed markets, some countries have also struggled more than others. The pandemic has also enabled communities to engage in ways and to an extent not seen before, fostering social cohesion.
Building knowledge & skills	As the world continues to recover from COVID-19, what is likely to stay will be new models of working and learning. Many companies and institutions have rapidly overhauled their technological facilities to support more remote and flexible working. Individuals have also sought to reskill, upskill or retrain as the pandemic has promoted reassessments of roles and careers.
Ensuring good health, safety & wellbeing	As the world has moved to developing medical solutions and building resilience into public health systems to manage the COVID-19 pandemic and cope with the evolving variants, health disparities have emerged in terms of vaccine access, such as between emerging and developed markets, despite the WHO stating that all people need to be treated if the world is to manage future crises. The pandemic put human health and wellbeing front and centre, highlighting how those organisations which have a progressive and flexible approach in this area can better engage and maintain talent.
Enabling a circular economy	The nature/biodiversity aspect of this theme has been the most prevalent with forests and oceans being two particular areas to receive growing attention. During H1 2022, there have been notable analyses and publications from key stakeholders, such as central banks and financial supervisors, giving more predominant signalling on the systematic risks posed by the loss of nature. Progress on the nature/biodiversity data front came in June 2022 with the release of the beta version of the Taskforce for Nature-Related Financial Disclosure (TNFD), a corporate disclosure framework which seeks to emulate the success of the Taskforce for Climate-Related Financial Disclosure (TCFD) corporate climate framework. The energy and food shocks which have resulted from the Russia/Ukraine war have put the spotlight on ensuring better energy efficiency and resource management, as well as ensuring agricultural systems are more resilient and sustainably managed to mitigate global food security issues.
Ensuring clean & plentiful water	The physical consequences of climate change have continued to impact water stress dynamics globally and within specific regions and countries, with some experiencing weather which has resulted in more sustained droughts, while others are seeing increased occurrences of floods.
Promoting clean & safe energy	Whilst GHG emissions fell over the worst of the COVID-19 pandemic, with the subsequent recovery, emissions have been rapidly rising back up to pre-COVID-19 levels. Over the course of 2021 and H1 2022, the world has continued to experience more extreme weather events of a changing climate, with occurrence of hurricanes, droughts, wildfires, and heatwaves. Late 2021 saw the UN global climate conference (COP26) take place, with mixed outcomes. Progress was seen on some topics such as carbon markets, but less made in others such as countries failing to rachet up their carbon commitments, although many promised to revisit this at the COP27 event to come in November later this year. The Russia/Ukraine conflict has triggered an energy crisis as governments look to diversify away from Russian gas. Some governments have responded by looking to aggressively spend this winter on new and expanded fossil fuel infrastructure and supplies, or delay shutdown of coal power plants. Others are strengthening their commitments and investments in clean and renewable energy technologies, and energy efficiency.
Promoting sustainable mobility & infrastructure	With the continued spotlight on climate change mitigation efforts, attention has continued to broaden, to consider how to promote energy efficiency in buildings, design smart buildings, as well as electrifying transportation systems. Talks of a hydrogen economy have reemerged, with the focus on fuel cell vehicle technology, although is not yet a near-term reality.

Source: BlueBay Asset Management, as at 30th June 2022.

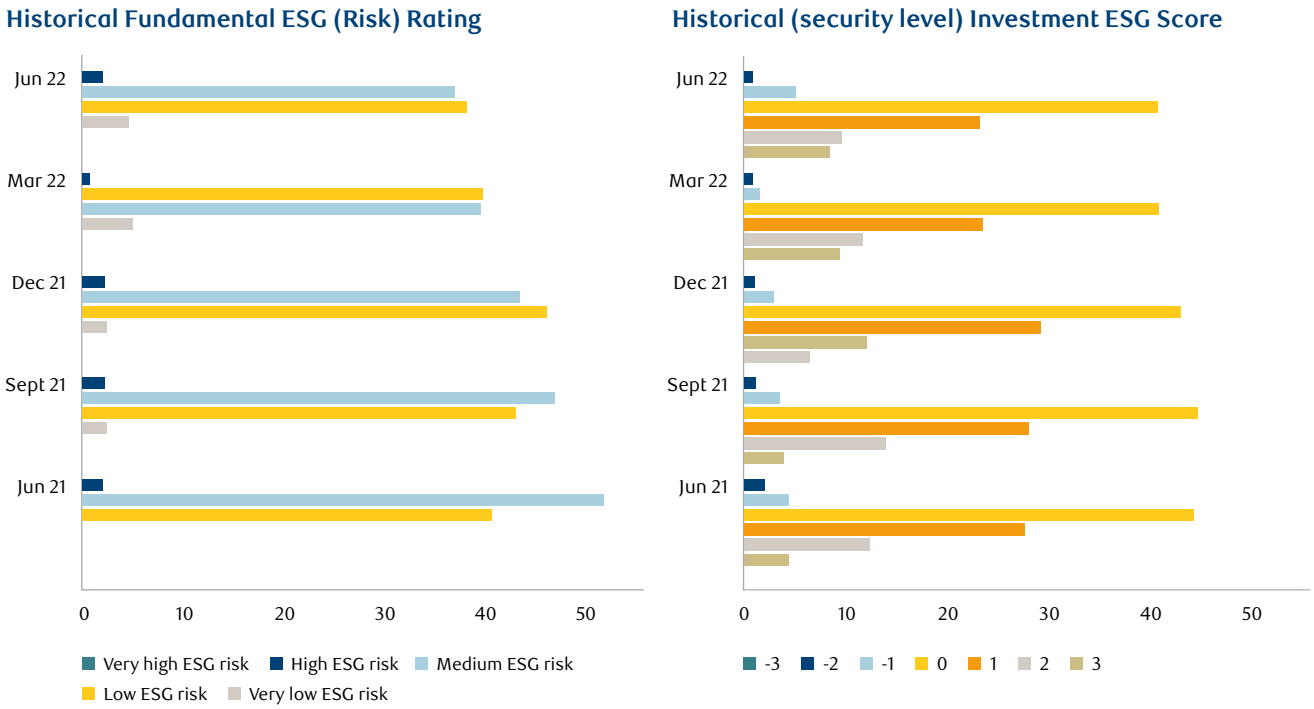
5.2 ESG profile

While we subscribe to third-party ESG vendor data and insights to inform on our in-house ESG investment views, since 2018 we have conducted our own issuer ESG evaluation which results in distinct but complementary ESG metrics to distinguish between our view of an issuer's sustainability risk level (the Fundamental ESG (Risk) Rating), and the extent to which this has any investment relevance and materiality at the bond level (the Investment ESG Score).

Figure 16 presents how the fund has performed according to this internal ESG framework, which is conducted for held in-scope investments. The results show that the portfolio is tilted towards issuers exhibiting lower ESG risks; this is not surprising given we have set investment restrictions which tilt the portfolio away from issuers with the worst ESG risk ratings. In terms of how the ESG risk rating associated with our investments is considered to be relevant and investment material, broadly speaking the allocation has been towards those where the ESG performance of the issuer is considered to either have limited or a positive investment impact.

Figure 16: Fund ESG profile using BlueBay's ESG metrics (June 2021-June 2022)

Quarter	Average Fundamental ESG (Risk) Rating (issuer level)	Average Investment ESG Score (security level)
June 21	Medium	1
September 21	Medium	1
December 21	Low	1
March 22	Low	1
June 22	Low	1



Note: Fundamental ESG (Risk) Rating is assigned at an issuer level by BlueBay. Ratings range from 'very high' to 'very low' ESG Risk and is a function of the ESG risk profile of an issuer and how well it manages these risks. Investment ESG Score is assigned at an issuer level by BlueBay unless otherwise stated (i.e. assigned at the security level). Scores range from '+3' to'-3' and indicate the extent to which ESG is considered investment material, as well as the nature and scale of the materiality impact (i.e. positive credit impact, negative credit impact, no impact). Both metrics are derived from BlueBay's proprietary ESG evaluation framework applied. ESG evaluations are only completed for 'in scope' strategies, for specific issuer and security types and certain investment exposures.

Source: BlueBay Asset Management, as at 30th June 2022.

Carbon analytics

Portfolio measurement (current profile): carbon emissions and carbon emissions reductions targets

Carbon emissions analysis looks at how a portfolio is contributing to climate change in terms of its current emissions profile, which may be referred to as 'financed emissions'. These may be absolute-or intensity-based metrics that identify a portfolio's greenhouse gas (GHG) emissions and so its exposure to climate transition risks. We have subscribed to an external third-party ESG vendor (MSCI ESG Research) for this purpose, with Figure 17 summarising a range of carbon emissions metrics, as well as the level of data coverage available, for both the fund and the Global IG Corps Index.

With regards to the methodology:

- As this is a fixed income portfolio, the investor allocation base we have used for the metrics is enterprise value including cash (or EVIC for short) in the calculation, as opposed to using market capitalisation (which tends to be the measure for equity portfolios). In addition, the weighted average carbon intensity (WACI) metric we have used is also more appropriate for fixed income portfolios;
- We have also included both 'reported' and 'estimated' data supplied by our ESG vendor, as well as applied subsidiary mapping to the investment universe. This improves the data coverage for both the portfolio and the Global IG Corps Index positions, but may result in lower data quality in some cases.
- With regards to the calculations, derivatives such as options, non-corporate issuers or companies outside of our ESG vendor's coverage are excluded from the analysis, with the weights of the remaining companies rebalanced such that the 'covered' portfolio weight equals 100%;
- Whilst there is data on Scope 3 emissions in the figures, we are cognisant of some of the limitations surrounding such data (e.g. data availability and quality, and potential double-counting issue). We have greater confidence in Scope 1 and 2 emissions data, as it is generally reported by the issuer and of higher quality.

It can be seen from Figure 17 that data coverage by the ESG vendor for the fund is lower (ranging from 53% to 65% depending on the scope of emissions included) than for the Global IG Corps Index (ranging from 75% to 90% depending on the scope of emissions included). This difference in coverage is meaningful (and due to the fund's larger allocation to emerging market and high yield). This is important to bear in mind when drawing conclusions.

The results show a mixed picture: in terms of Scope 1 and 2 emissions across some of the metrics (such as emissions/$M invested and carbon intensity), the fund has higher emissions intensity than the Global IG Corps Index, which is not surprising given the latter has a material weighting towards financials, which have a lower operational (Scope 1 and 2 emissions) footprint.

However, for total financed carbon emissions and the weighted average carbon intensity (WACI) metric, the fund performs better for Scope 1 & 2 emissions against the Global IG Corps Index. Specifically the WACI (Scope 1 & 2) is >50% lower in the fund than the reference index. In the case of Scope 3 emissions, there is no consistent trend between the fund and reference index, although in the majority of cases, the fund performs better. This would be consistent with the fund being structurally underweight sectors such as financials and energy, for which the majority of emissions are indirect Scope 3. Given the under-reporting of Scope 3 emissions by companies and use of estimates by our ESG vendor for this analysis, it is not necessarily straight forward to draw an meaningful conclusions on trends.

Figure 17: Fund and Global IG Corps Index carbon emissions metrics

The fund's weighted average carbon intensity (WACI) for Scope 1 and 2 emissions, is 50% less than the Global IG Corps Index.

		Fund - performance	Global IG Corp Index - performance	Fund performance comparison (%)	Fund - data coverage (%)	Global IG Corp Index - data coverage (%)
Carbon footprint or "Emissions / $M invested" (tons CO_2e / $M invested) *"How many emissions are generated for every $M invested?"*	Scope 1 & 2	71.5	76.0	**-5.9**	53.6	80.5
	Scope 3 - upstream	127.1	110.6	**14.9**		79.7
	Scope 3 - downstream	50.5	284.4	**-82.3**		
Total financed emissions (tons CO_2e) *"What are the absolute GHG emissions associated with the portfolio?"*	Scope 1 & 2	2,273	N/A	**N/A**		80.5
	Scope 3 - upstream	4,037	N/A	**N/A**		79.7
	Scope 3 - downstream	1,603	N/A	**N/A**		
Carbon intensity (tons CO_2e / $M sales) *"How efficient is my portfolio in terms of carbon emissions per unit of output?"*	Scope 1 & 2	229.1	199.6	**14.8**		80.5
	Scope 3 - upstream	407	289.2	**40.7**		79.7
	Scope 3 - downstream	161.6	743.7	**-78.3**		
Weighted average carbon intensity (WACI) Corporate constituents (tons CO_2e / $M sales) *"What is my portfolio's exposure to carbon intensive companies?'*	Scope 1 & 2	152.5	323.6	**-52.9**	65.5	92.5
	Scope 3 - upstream	290.3	256	**13.4**	63.6	90.1
	Scope 3 - downstream	152.4	577.6	**-73.6**		

Note: References to carbon emissions refer to tons of CO_2 equivalents (tCO_2e), which is inclusive of all GHG emissions. The above is purely for illustrative purposes. Bloomberg Barclays Global Aggregate – Corporate Index is not a benchmark for the BlueBay Impact-Aligned Bond Fund.

- Carbon Footprint or "Emissions/$M invested": Measures the carbon emissions, for which an investor is responsible, per USD 1 million invested, by their total overall financing. Emissions are apportioned across all outstanding shares and bonds (% Enterprise Value including cash, EVIC);
- Total Financed Emissions: Measures the carbon emissions for which an investor is responsible by their total overall financing. Emissions are apportioned across all outstanding shares and bonds (% EVIC);
- Carbon Intensity: Measures the carbon efficiency of a portfolio, defined as the ratio of carbon emissions for which an investor is responsible to the sales for which an investor has a claim by their total overall financing. Emissions and sales are apportioned across all outstanding shares and bonds (% EVIC);
- Weighted Average Carbon Intensity – corporate constituents make up the majority of the portfolio (4.35% of portfolio by NAV are non-corporates e.g. SSAs): Measures a portfolio's exposure to carbon-intensive companies, defined as the portfolio weighted average of companies' Carbon Intensity (emissions/sales).

Source: BlueBay Asset Management, calculated on MSCI Analytics, as at 30 June 2022, using EVIC as the investor allocation base for the footprint metrics.

Another way to view current climate risks and opportunities within the fund is to understand how the issuers in the portfolio are positioned to respond to the transition risks that will arise from efforts to limit global warming in line with the Paris Agreement. Figure 18 shows the exposure to companies that are addressing climate change by adopting carbon reduction targets, and those which are science-based and approved by the Science Based Targets initiative (SBTi), for the fund and the reference index. The analysis reveals that whilst the fund has exposure to such issuers, the proportion is lower than the Global IG Corps Index, which is not necessarily surprisingly given the lower data coverage of our fund by the third-party ESG vendor as compared to the reference index, and our greater exposure to high yield and emerging market issuers.

Figure 18: Companies' emissions reduction targets - fund and Global IG Corps Index

	Fund	Global IG Corp Index	Active
Companies with GHG emission reduction targets	50.5%	77.0%	-26.5%
Companies with targets across all scopes	11.4%	26.8%	-15.3%
Companies with SBTi approved targets	20.0%	23.1%	-3.1%
Companies with top quartile carbon management score	41.0%	53.1%	-12.2%

Source: calculated on MSCI Analytics, as at 30th June 2022.

Portfolio alignment to a net-zero trajectory

Whilst it is helpful to understand what the current carbon risk profile of the fund is, many of the measures can be somewhat backward-looking and do not consider future trajectory. Fluctuations in carbon intensity over time may be due to other factors, such as inflation or interest rates, and not indicative of actual emissions reductions in the real economy. Furthermore, the focus on a relative measure such as carbon intensity may be useful in terms of insight into efficiency of practices, but this can distract from the need to reduce absolute emissions. As such, considering metrics and analytics which also enable an understanding of a portfolio's alignment with a net-zero trajectory, is helpful. Taken together with the previous datapoints, they can provide complementary perspectives.

For the forward-looking analysis, Figure 19 summarises the results from our third-party ESG vendor (MSCI ESG Research), to consider the portfolio's temperature alignment. In other words, if the entire economy looked like my portfolio, what temperature pathway would this represent? The Implied Temperature Rise (ITR) metric provides the temperature alignment of a portfolio and of underlying issuers, in degrees Celsius. In this instance, the portfolio is deemed as having an ITR of 2.4 degree C (based on 55.2% coverage, by issuer/securities where for such analysis, weights are rebalanced such that the "covered" portfolio weight equals 100%), as compared to the Global IG Corps Index, which has an ITR of 2.7 degree C (based on 80% coverage).

Whilst an increasingly popular metric, we believe investors also need to approach an ITR with caution as the methodologies can vary by ESG vendors. Beyond data issues (e.g. what emissions scope, whether carbon targets are used and to what degree), the specifics of the underlying methodology (e.g. what scenarios are used, what is the decarbonisation benchmark etc.) also matters to the output.

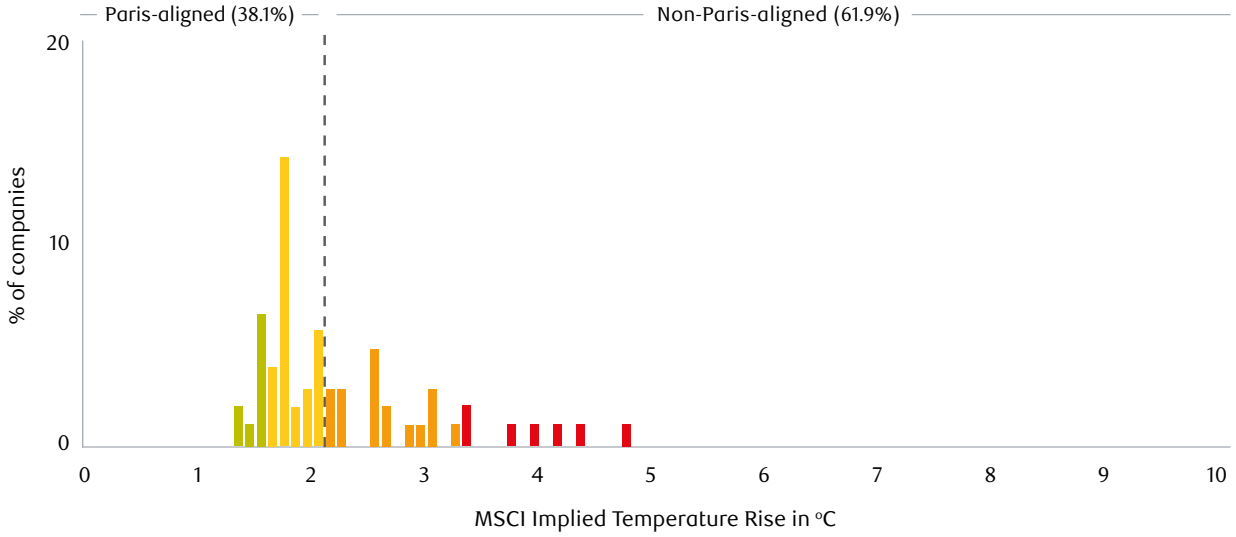
Figure 19: Fund and Global IG Corps Index - alignment to a net-zero trajectory

Fund
2.4 °C

Global IG Corp Index
2.7 °C

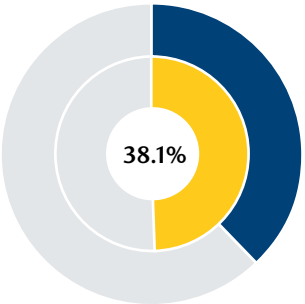
"The fund has a better net-zero temperature alignment than the Global IG Corps Index."

Portfolio Implied Temperature Rise distribution



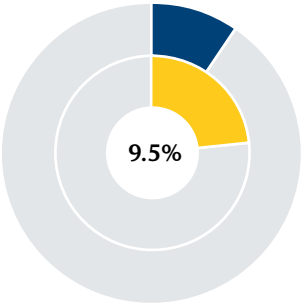
Implied Temperature Rise categories		Companies in category (%)
1.5°C Aligned	< =1.5°C	9.5%
2°C Aligned	> 1.5°C - 2°C	28.6%
Misaligned	> 2°C - 3.2°C	18.1%
Strongly misaligned	> 3.2°C	6.7%

<2.0°C aligned



38.1% of companies within the portfolio (vs 49.5% for the reference index) align with the goal of limiting temperature increase to 2°C

<1.5°C aligned



9.5% of companies within the portfolio (vs 23.6% for the reference index) align with the goal of limiting temperature increase to 1.5°C

Portfolio Global IG Corps Index

Note: The portfolio-level ITR uses an aggregated budget approach: it compares the sum of 'owned' projected GHG emissions against the sum of "owned" carbon budgets for the underlying fund holdings. The portfolio's total estimated carbon budget over/under shoot is then converted to a degree of temperature rise (°C) using science based TCRE (Transient Climate Response to Cumulative Emissions). The allocation base used to define ownership is EVIC in order to enable the analysis of equity and corporate bond portfolios.

Source: calculated on MSCI Analytics, as at 30th June 2022.

5.3 Positive impact profile

'Additionality' and public debt market impact investing

Alongside seeking to deliver on financial returns, the fund has intentions to help realise positive sustainability outcomes, which will be delivered through the contributions we make. On the latter, we are committed to working to measure such contributions.

We recognise that for many traditional impact investors, beyond having 'intentionality' and 'measurement', there is a need to also evidence 'additionality'. With additionality being the ability to prove that the positive outcome would not have occurred in the absence of an investor's specific investment. Such criteria is more readily demonstrable in private markets rather than public markets; as in the case of the latter, transactions generally occur between investors rather than between issuers and investors for new financing needs. It is also more likely to occur in circumstances where investment attractiveness is low. As such, additionality is commonly linked with philanthropy endeavors. Whilst these are important activities, they are not the only activities which should be considered to have positive impact. Given the need to scale up and accelerate action, and the public sector funding gap that exists, we strongly believe there is a need to further explore how additionality should be defined and evidenced in the context of public markets which are not necessarily any less valid. They are just different and ultimately complementary.

Specifically in the context of the Impact-Aligned Bond strategy which invests in public debt markets, we would make the following points about the need for a more holistic approach:

- A full life cycle approach to investing is needed, where positive impact is considered across an issuer's life cycle, from start up, private to public markets, as well as from the perspective of the value and appropriateness of different funding sources. In their early stages, companies rely heavily on loans and debt markets, and giving up equity is only an attractive option in certain circumstances. Investing in public markets is critical for companies to grow to scale and so maximise their potential positive impact. By continuing to offer a source of capital and helping to grow the market (with investors signaling to others the attractiveness of a particular company) which could potentially improve liquidity and lower the cost of capital over time, public debt markets can support the growth of such companies and industries;
- The relative size of the debt market itself (as measured by assets under management) when compared with others, such as equities, is evidence of the scope of positive impact the asset class can have if directed appropriately;
- The risk/return profiles of some of investments requiring funding which are critical to the low carbon transition are ones which are more attractive to debt investors than they are to equity investors;
- Fixed income also affords investors the opportunity to directly fund non-corporate entities such as sovereigns, supranationals and agencies (SSAs) which themselves play a critical role in determining policy and regulation of systemic risks such as climate change. Given many environmental assets have the nature of 'public goods', there are limits to what the private sector can reasonably do alone to address such challenges;
- The emergence of the ESG-labelled bond market has enabled investors to explicitly signal where and how they want to allocate their capital, making it clear what they prioritise and are willing to support;
- Whilst ours is a public debt strategy, we do have opportunities to participate in primary market issuances, and so provide access to new funding for issuers which are playing a positive role in enabling and facilitating the sustainability transition;
- Where engagement activities with issuers or other stakeholders are particularly focused on strategic important matters which can be transformational as opposed to incremental, this can be an enormously valuable outcome.

"We strongly believe there is a need to broaden the scope of what is considered to be impactful investing as there are other ways to assess impact which are not necessarily any less valid."

Some considerations when conducting impact analysis

Debt and equity investors – who owns the impact, and how much of it?

In assessing contribution, we acknowledge that in some instances, the activities of the investor result in an impact, but in others, it is the activities of the issuers we are providing funding to, that are generating the impact. But, clearly investors are playing an enabling role in providing financing to these issuers.

However, it is interesting to consider to what degree different types of investors can claim the full impact. We have observed that that some equity funds are using equity ownership (applying 'Total Ownership' methodologies which use market capitalisation) to apportion the positive impact of their underlying companies. This risks overstating the impact as they would not have funded the debt component. As such, our preference is to use the enterprise value (EV) metric which allows for consideration of impact linked to the debt financing component.

In running the analysis to the fund holdings, we revised the weighting methodology from market capitalisation to use enterprise value (EV). This allows for debt to be considered and apportions a share of the impactful revenues across the entire capital structure. The downside of this approach, however, is that the impacts 'achieved' will be artificially low when compared to a similar analysis done using the equity methodology. However, we felt it was more accurate to use the EV metric.

Issuers – what role is played in creating the impact?

There is a need for more transparency in what is reported and attributed to issuers when it comes to the impact created, and have more suitable metrics which signpost to this. Our observation from market practice is that the methodologies that seem to have the most traction revolve around apportioning impactful revenues/products throughout the value chain. However, this can overstate the overall level of impact for a portfolio where there is multiple exposure to issuers across that value chain, as it does not split out how this impact is between each issuer in the chain.

We have sought to address this issue by exploring alternative methodologies to account for this, but there remains limitations in doing so.

Financials and attributing emissions

One of the key challenges we have identified is the ability to accurately attribute the real economy climate change impact of financing (e.g. lending, investing) activities when it comes to investments in financial institutions. These 'financed emissions' comprise a financials company's indirect (Scope 3) emissions. Whilst the challenge lies with Scope 3 emissions data generally, the significant of the issue increases when such sources represent the majority of a company's overall emissions, and for us is particularly important when it comes to the financials sector given the meaningful difference in holdings of this sector in the fund as compared with the Index.

Due to a fear of double-counting emissions, as well as for reasons of lack of data on the underlying companies/sectors being financed, financial institutions typically have carbon emissions profiles associated with such activities being either understated or not counted. Even our third-party ESG provider for this analysis (The Upright Project), which specialises in looking at impact analysis by attributing impactful products and revenues along the value chain), does not fully deal with the financing of emissions.

By not fully capturing the greater proportion of their indirect emissions exposure, and given their limited direct operational footprint, there is a risk the analysis understates the environmental impact of investments in financials. We acknowledge that emissions attribution gets ever more complicated when one starts considering double counting.

Investee-level contributions

Beyond considering the fund's ESG profile, we have been conducting more applied analysis, which looks at determining the positive impacts of the fund.

The first type of impact analysis looks at those generated by investments in the fund associated with specific themes, based on revenue exposure. By breaking down companies' sustainable impactful revenue contributions to a range of factors, the ESG vendor (MSCI ESG Research) have provided the building blocks for impact attribution. Utilising the 13 impact factors defined by our ESG vendor, we then recategorised these to our seven People and Planet themes. The data coverage of the fund from our ESG vendor is 80.9% (by market value, representing 78% of covered securities), and 95.5% (also by market value, comprising 93% of covered securities) of the Global IG Corps Index.

As shown in Figure 20, the active relative exposure to sustainable impact solutions (based on our ESG vendor's methodology) of the fund in comparison to the reference index is +15.5% and has been assessed as having 'high' active impact. The fund itself scores (in absolute terms) 19.9%. Whilst it is useful to have an external reference point such as this, we believe the results meaningfully understates our exposure, as a result of the data coverage issue, not considering the positive impact of ESG-labelled bonds, and the differences in methodology (between ours and theirs) such as the limited focus on revenues.

Figure 20: Fund and Global IG Corps Index exposure to sustainable impact solutions

The fund has greater exposure to investments considered to deliver sustainable impact solutions than the Global IG Corps Index.

Revenue exposure to sustainable impact (SI) solutions

	Fund	Global IG Corp Index	Active exposure
People-related themes - total %	**6.8%**	**2.0%**	**+4.8%**
Achieving an inclusive society	2.0%	0.9%	1.1%
Building knowledge & skills	2.4%	0.0%	2.4%
Ensuring good health, safety & wellbeing	2.4%	1.1%	1.3%
Planet-related themes - total %	**13.1%**	**2.4%**	**+10.7%**
Enabling a circular economy	5.8%	1.0%	4.9%
Ensuring clean & plentiful water	2.4%	0.2%	2.3%
Promoting clean & renewable energy	4.1%	0.5%	3.5%
Promoting sustainable mobility & infrastructure	0.8%	0.7%	0.1%
Total Revenue Exposure	**19.9%**	**4.4%**	**+15.5%** 'High' SI assessment

Classification		Exposure
Very high	●●●●	>20%
High	●●●○	>10% and <=20%
Moderate	●●○○	>5% and <=10%
Low	●○○○	>1% and <=5%
Negligible	○○○○	<=1%

Note: Revenue exposure to Sustainable Impact Solutions reflects the extent to which company revenues is exposed to products and is a third-party assessment and services that help solve major environmental and social challenges. It is calculated as a weighted average of each company's percent of revenue generated by sustainable impact solutions goods and services. To avoid the possibility of overstating revenue exposure, companies outside of the coverage universe are treated as having 0% revenue from Sustainable Impact Solutions. Portfolio-level results for Sustainable Impact categories may not equal the sum of results for underlying categories due to the existence of revenue associated with multiple categories. The 13 impact solutions are grouped within four broad categories: basic needs (nutrition, affordable real estate, major disease treatment, sanitation), empowerment (SME finance, education, connectivity), climate change (alternative energy, energy efficiency, green building), and natural capital (sustainable water, pollution prevention, sustainable agriculture).

Additionally, to be eligible to contribute, an issuer also must maintain minimum ESG standards of conduct, which has been defined as companies with very severe and severe controversies, with their worst ESG Ratings of 'CCC' and 'B', direct involvement in predatory lending, involvement in controversial weapons, >5% revenue from conventional weapons or firearms, and >10% revenue from alcohol or tobacco production).

Source: calculated on MSCI Analytics, BlueBay Asset Management, as at 30th June 2022.

Figure 21 further reiterates the excess active impact achieved by the fund, where the analysis (again using the impact revenue figures) shows the difference in actual dollar (USD) figures between a USD 1 million investment in the fund and the Global IG Corps Index as a proxy for the general credit market. It shows that across all seven of our People and Planet themes (maintaining the recatgorisation we had applied to the ESG vendor's own one), our investments contributed more per year in monetary value than the Global IG Corps Index to sustainable impact solutions. Looking at data analysis from a fixed income perspective, we determined how to apportion those impactful revenues between debt, as compared to equity holders. Our third-party ESG vendor's (MSCI ESG Research) default 'Total Ownership' methodology excluded fixed income entirely, claiming that because such investors do not have an ownership stake in the investee companies it is not valid to 'claim' those impactful revenues.

We disagree with such an approach. In a situation where a listed company has turned to debt markets to raise capital (such as when debt financing is cheap), to finance expansions into more green or sustainable ventures, to see attribution of any benefit of that expansion only to the equity holders and not to the debt holders, does not seem correct. We shared our views with our vendor, and by making the case that projects financed through debt are no different in their impacts to projects financed solely through equity, we were able to work with our vendor to apply a new methodology for allocation of impactful revenues by using percentage of enterprise value including cash (EVIC) as the basis for ownership, rather than the traditional percentage ownership of market capitalisation.

Figure 21: Fund and Global IG Corps Index sustainable impact solutions snapshot

Estimated annual revenue generated by companies from products & services providing sustainable impact solutions

People-related themes			
Social Impact Solutions For a $1mm investment in the portfolio or a hypothetical investment of $1mm allocated to replicate the index:	**Achieving an inclusive society**	**Building knowledge & skills**	**Ensuring good health, safety & wellbeing**
Fund: $11,320 per year in Social Impact products & services	**$439** per year of revenues from affordable real estate, SME lending, and connectivity - digital divide	**$8,034** per year of revenues from education services	**$2,847** per year of revenues from nutritious food, top 20 diseases treatment, and sanitation
Global IG Corps Index: $2,254 per year in Social Impact products & services	**$361** per year of revenues from affordable real estate, SME lending, and connectivity - digital divide	**$20** per year of revenues from education services	**$1,873** per year of revenues from nutritious food, top 20 diseases treatment, and sanitation

Planet-related themes				
Environmental Impact Solutions For a $1mm investment in the portfolio or a hypothetical investment of $1mm allocated to replicate the index:	**Enabling a circular economy**	**Ensuring clean & plentiful water**	**Promoting clean & renewable energy**	**Promoting sustainable mobility & infrastructure**
Fund: $21,315 per year in Clean Tech products & services	**$9,387** per year of revenues from energy efficiency technologies, pollution prevention technologies, and sustainable agriculture	**$5,154** per year of revenues from sustainable water technologies	**$2,865** per year of revenues from alternative energy technologies	**$3,908** per year of revenues from green building
Global IG Corps Index: $3,259 per year in Clean Tech products & services	**$1,985** per year of revenues from energy efficiency technologies, pollution prevention technologies, and sustainable agriculture	**$185** per year of revenues from sustainable water technologies	**$683** per year of revenues from alternative energy technologies	**$406** per year of revenues from green building

Source: calculated on MSCI Analytics, BlueBay Asset Management, as at 30th June 2022.

While we believe the impact revenues approach is valid and provides interesting insights that help inform consideration of impacts, there are some limitations of the methodology to be aware of:

- It does not account for an issuer's goods and services provided upstream and downstream in the value chain from the issuer with the impactful revenues. This ignores the enabler role these other issuers play in facilitating the sustainability transition;
- There is no netting of positive benefits against any negative externalities produced which are associated with the solutions. The approach does account for any negative externalities resulting from the conduct of the issuer but this does not fully address the issue. For example, a waste-to-energy electricity producer that provides alternate energy to the grid would still screen highly using this methodology even though waste-to-energy generates as much or more GHG emissions as a coal-fired power station, with the added issue of harmful particulates for the populations living nearby. So, while simplistically waste-to-energy sounds like a sensible idea the negatives seem to far outweigh the positives and these negatives would not have been captured using this framework.

"We were keen to further explore the concept of 'net' sustainable impact, recognizing that ... the footprint of a company is likely to be mixed."

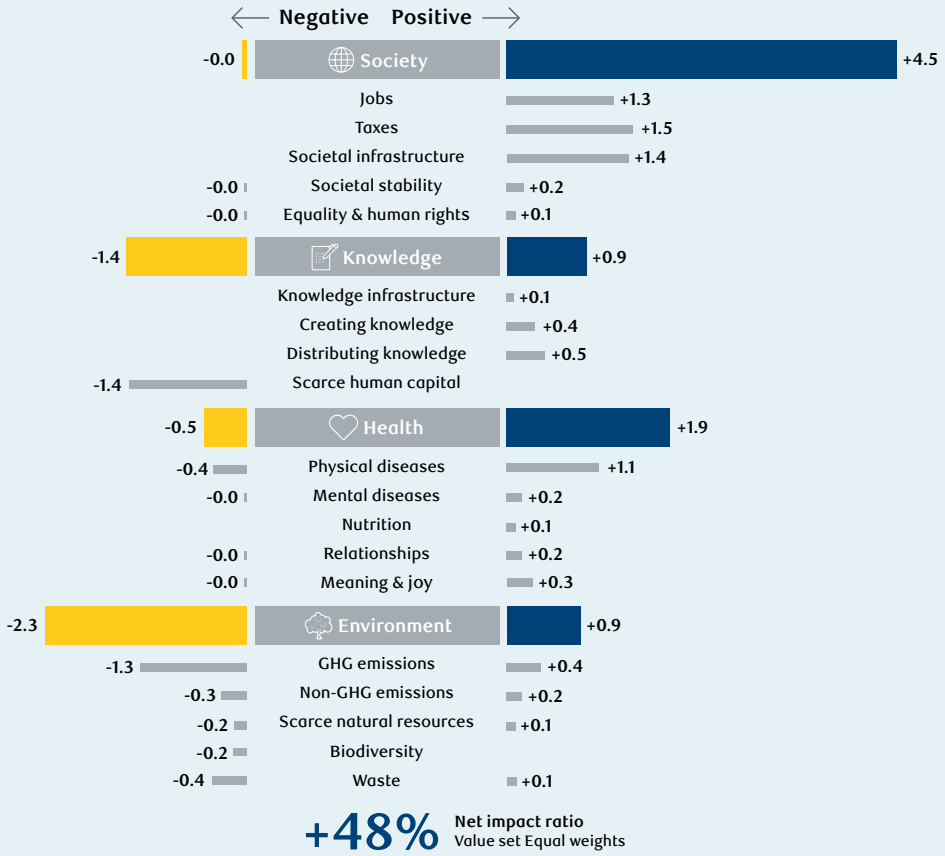
We were keen to further explore the concept of 'net' sustainable impact, recognizing that across a range of environmental and social parameters, the footprint of a company is likely to be mixed. For this, we partnered with a third-party ESG vendor (The Upright Project) which has developed a 'net impact ratio' model that measures in relative terms, the net sum of the costs ('negative') and benefits ('positive') that a company creates from the products and services it offers. Since net impact is a measure of the costs and benefits, it can also be thought of as net value creation of a company. The logic of a net impact ratio is similar to net profit ratio.

The net impact model produces quantitative estimates of the costs and benefits related to each product and service in each of the various impact categories that form the four impact dimensions (of environment, health, knowledge and society) as they occur within the company, as well as upstream and downstream in the value chain. Utilising artificial intelligence (AI) and machine learning, the model collects information from scientific literature and public statistical databases, combines it with the product information, to arrive at impact estimates of each product or service, and allocates a proportion of the global budget for each of the impact categories to enable aggregation up to a portfolio level. The maximum value for a net impact ratio of a company is 100%, representing a theoretical company with no negative impacts. A company's contribution to the portfolio net impact ratio is affected by its share of the portfolio and score for the impact in question.

The results (Figure 22) of the analysis we ran (where 97% of the portfolio was covered by % NAV) showed that the fund has a net impact ratio of +48% indicating that its positive impact is 48% larger than its negative one, thus the investments create more value compared to the resources used.

Figure 22: Fund Net Impact Ratio assessment

The fund has a net impact ratio of +48%, meaning its positive impact is 48% larger than its negative one, largely driven by its positive contribution to society and health outcomes.



Note: the impact estimates created by the model are presented as relative and absolute impact scores. Absolute impact scores capture the absolute value of the impacts of a company, while relative scores relate the absolute value of each impact on the size of the company.

Key drivers on the positive side come primarily from the 'society', 'knowledge' and 'health' impact dimensions:

- **Society:** societal Infrastructure positive impacts are driven by our holdings in social real estate (e.g. **London & Quandrant Housing**), transport (**Deutsche Bahn**), and district cooling & heating providers (**SSE** and **Tabreed**);
- **Knowledge:** main drivers here are holdings in university operators (e.g. **George Washington University**, **College of London**), media or technology companies (e.g. **Aptiv**, **Pearson**, **Sanoma**, **Trimble** and **RELX**), as well as healthcare companies;
- **Health:** the positive impact come from our holdings of drug companies that produce products that are very cost-efficient in preventing and curing diseases that cause a lot of deaths and negative health effects (e.g. **CSL**, **Hikma** and **Takeda**).

On the negative impact side, key drivers fall into the 'environment' and 'health' impact pillars:

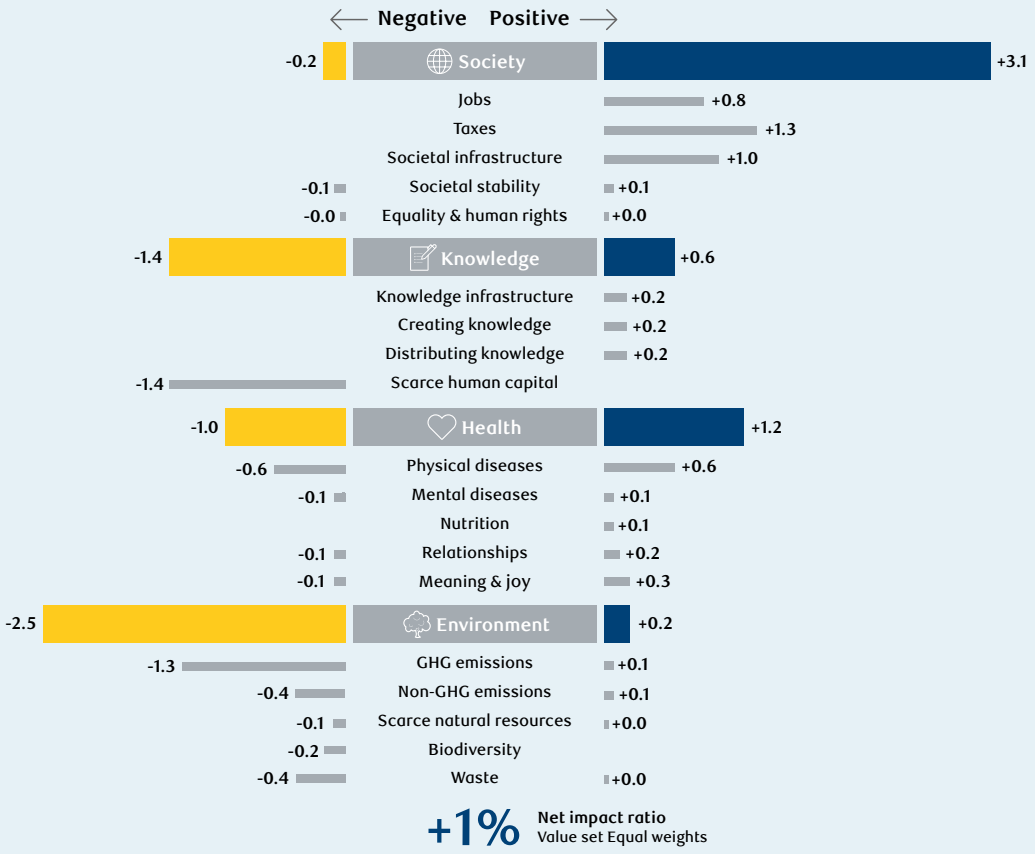
- **Health:** some of the companies service certain industries which are linked to adverse health impacts e.g. **Verallia** (produces glass bottles which are used in the alcohol industry), **Aptiv** (services the auto industry), drug companies (where some products can have negative side effects);
- **Environment:** key drivers were GHG emissions generated by companies invested in, as part of their operational footprint despite their products helping others to reduce impacts e.g. utilities (e.g. **ReNew Power** and **Iberdrola**) and industrials (e.g. **CATL**) companies; as well as those which produce waste as part of their manufacturing practices (e.g. drug and beverage companies).

Source: The Upright Project, as at 30th June 2022.

By comparison a separate analysis of the Global IG Corps Index (Figure 23) reveals a net impact ratio of +1%, showing that it only has a marginally net positive impact, with positive and negative impact nearly in balance. However, we also ran the analysis for the Global IG Corps Index excluding financials as well to see what the impact would be, given this sector makes up a meaningful part of the index (financials account for 39% as of end June 2022, the figure is just over 36% if REITs are excluded) but is not a material exposure for the strategy. Doing so we felt could yield a more representative comparison. This resulted in a new net impact ratio of -5% for the Global IG Corps Index, meaning the negative impacts are 5% larger than its positive ones. This was driven by the increased allocation towards high carbon impact sectors such as utilities and manufacturers which drive the negative environmental emissions impact.

We were surprised financials did not make much difference in terms of the net impact ratio, given the potential negative impacts of the sector from their financing activities. Upon further investigation, it emerged that the methodology focuses on the social aspects such as jobs and taxes, and does not fully capture their financing of emissions, and as such continues to understate the impacts of financials. Were these to be fully reflected in the model, we believe the Global IG Corps Index's net impact ratio would be significantly more negative.

Figure 23: Net Impact Ratio assessment of the Global IG Corps Index



Source: The Upright Project, as at 30th June 2022.

Whilst providing an alternative lens to evaluate impact, the net impact approach is not without its limitations. Some of the issues to be aware of when interpreting the Net Impact assessment tool are:

- The ESG vendor assigns different impact category size factors, with two size factors for each category, one representing costs and one representing benefits. The size factors assigned to the costs and benefits of each specific impact categories matters. Whilst efforts have been taken to base an assessment of the significance of the impact on independent and credible information sources, there will be information gaps which impact on the accuracy of the analysis, and views are likely to differ on the relative significance of one cost over another, and one impact as compared to another;

- Understanding and quantifying specific impacts, as well as between impacts, is complex and multi-dimensional. For instance, within the 'social' impact pillar, how the model accounts for 'Jobs and Taxes' figures is in our view, too simplistic, and as all companies provide jobs (and most pay taxes), in most cases, this is likely to materially skew the analysis to the positive. A more nuanced approach may be to qualify the information somehow, for instance by differentiating between the quality of jobs created, and how taxes are used;

- Given the nature of the analysis, which is specific to products and services, it requires companies to disclose detailed information on these, which unfortunately is not always readily available. As such, the quality of the analysis is limited by data availability. The ESG vendor creates estimates where the information is not available;

- The logic applied to how impact is allocated through the value chain methodology, and the scope of impacts being considered, is another area where there were some interesting and conflicting results, showing there remains some level of subjectiveness. For instance, a glass manufacturer who specialises in glass used for alcoholic beverages was being penalised as the negative health impacts of alcohol consumption were also being allocated to them (under the 'health' impact pillar), and yet companies making fast food or soft drinks were not seeing the negative effects of obesity caused by their products. Even if we agree in principle with the allocation of negative health ramifications assigned to a glass manufacturer due to its place in the alcohol supply chain, the fact is that this logic was not being consistently applied to the analysis. Another example is that the role of financial institutions in fossil fuel financing was not factored in.

Clearly trying to model impacts is far from being straightforward: how assumptions and decisions taken on what to include/exclude, the scope of analysis of the value chain, and what weightings of factors are used, all matters. We appreciate this type of analysis is still nascent, and as such we continue to engage with the ESG vendor to review and refine their methodology. It has been a mutual process of learning and refining, and whilst the methodology is not without its limitations, we believe it does provide a valuable contribution towards thinking on net value creation.

"Whilst providing an alternative lens to evaluate impact, the net impact approach is not without its limitations."

Alignment to the UN Sustainable Development Goals (SDGs)

Whilst our impact-aligned themes take inspiration from the SDGs, they do not explicitly seek to use these as an investment filter. However, we do see value in being able to report on how our investments may be aligned to these global goals. Given our focus is primarily on issuers where their economic activities and/or the bond issuance is funding or supporting activities, in our analysis of SDG alignment, we have limited the mapping to those goals which can be linked to revenues.

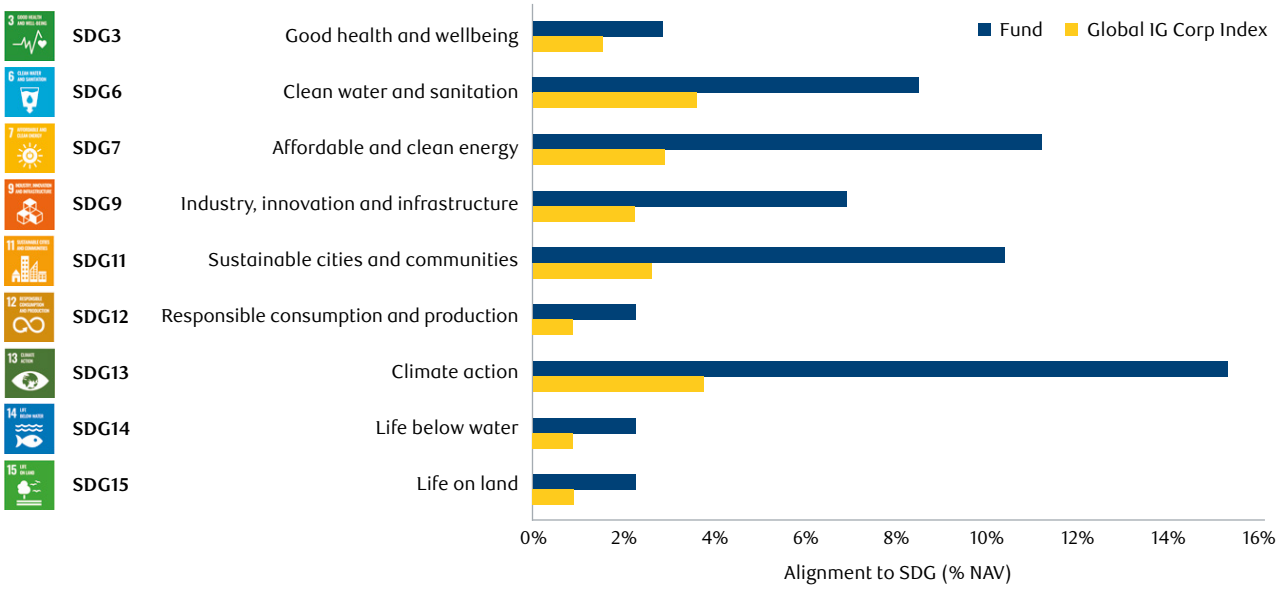
The analysis applied (using Sustainalytics) maps to issuers where the company derives at least 5% of revenues from the qualifying activities which align to the specific SDGs. A comparison of exposure was possible for the fund and the Global IG Corps Index. As can be seen from Figure 24, according to the ESG vendor's methodology, our fund has a greater allocation towards investments which contribute to these SDGs than the Global IG Corps Index, with the difference in exposure greater for SDG goals 13 (climate action), 7 (affordable & clean energy), and 11 (sustainable cities and communities).

In reviewing the outputs, the absence of any mapping of alignment to SDG 4 (quality education) surprised us, but upon further analysis of the methodology, revealed the ESG vendor felt the companies we had selected (such as Pearson) did not qualify as their methodology has a narrow qualification criteria. Specifically, it looks at revenues from educational activities which enhance opportunities for disadvantaged groups, which we consider to be too narrow a scope. As such, we believe analysis understates our exposure in investee companies which align to this goal. We are aware that according to another ESG vendor's methodology for a similar theme, our investments would be considered aligned. Such findings further highlight the importance of digging into the data, criteria and methodology beyond just looking at the figures at the aggregated portfolio level.

"Our fund has a greater allocation towards investments which contribute to SDGs than the Global IG Corps Index."

Figure 24: Fund and Global IG Corps Index alignment to the SDGs

The fund has greater alignment than the Global IG Corps Index to the SDGs



Note: this strategy is considered to be actively managed and does not have a benchmark to define the portfolio composition of the strategy or as a performance target. The above is purely for illustrative purposes. The Global IG Corps Index is not a benchmark for the BlueBay Impact-Aligned Bond Fund.

Source: Sustainalytics, as at 30th June 2022. Cash positions are excluded from the analysis. The weights of the remaining companies are rebalanced such that the 'covered' portfolio weight equals 100%. Mapping only to SDGs which are economic activities focussed (linking to revenues from corporates, where >5% revenues) based on Sustainalytics methodology.

Investor contribution – issuer & systems level stewardship

Whilst the strategy predominantly focusses on selecting issuers and bond issuances which support economic activities contributing to real economy positive outcomes and impacts, we recognise that there is also a role for ensuring responsible stewardship practices.

Particularly for a strategy which is focused on enabling a sustainable transition to an environmentally responsible, and socially responsible world, there is a clear need to facilitate policy frameworks which facilitate the outcomes and impacts we are seeking to target. This means expanding and complementing the scope of our engagement beyond companies in the private sector to other key stakeholders such as governments, policymakers and regulators.

The systemic nature of many of the environmental and social challenges which exist means we recognise the need to collaborate and partner with other stakeholders to increase our influence and reach to deliver on progress. We must also be pragmatic about the scale and pace of change possible over time, given how multi-dimensional and complex the issues and interactions are.

Furthermore, with the need to support and foster new types of economic activities which are more sustainable, this can potentially mean investing in companies which may offer products and services that contribute positively, but have less well established ESG operational practices as they are smaller and less well resourced. This means needing to manage expectations appropriately, hence the strategy's focus on ensuring a minimum level of acceptable ESG practices rather than necessarily requiring advanced ESG practices. However, as can be seen in our example of engagement with the UK water utility sector, as relevant and appropriate we may go set a higher bar, depending on the level of associated ESG risks.

Our stewardship efforts also encompass working with other businesses across the investment industry to promote good/best practice on ESG and sustainability matters.

The next section provides examples of our engagement efforts across the different areas described above.

Issuer focused

Issuer CHEPLAPHARM

Theme

Domicile	Developed markets	**Credit rating**	High yield

Engagement summary

- Cheplapharm is a German drugs company. It qualifies for investment as its products contribute to positive health outcomes;
- We have continued to engage with the company over the past two years across the firm. The latest interaction occurred in June 2021, on the continued theme of ESG disclosure. In the latest exchange, Cheplapharm provided updates on ESG. We were pleased to observe that the company has improved its financial transparency, helping investors to improve their understanding of the accounts in light of the numerous acquisitions that have occurred. Although the group has yet to produce an annual ESG report, as part of its bondholder annual report, more information has been communicated on such practices;
- Additionally, we heard of progress on the adoption of a formal code of conduct. In line with the company's previous commitment in 2020, a supervisory committee has been established that comprises three independent members, which goes some way towards addressing concerns around board independence (given its family ownership structure). There have also been some changes at the board level, including a new Co-CEO and CIO, the latter of which has been made to strengthen the board's expertise in relation to healthcare and sciences. These developments are encouraging, but there remains room for improvement, which we will continue to encourage.

Issuer focused

Issuer helios towers

Theme

Domicile	Emerging markets	**Credit rating**	High yield

Engagement summary

- Helios Tower is a leading independent telecoms tower and infrastructure company, facilitating access to technology by enabling the delivery of telecoms services from Africa's major mobile network operators to consumers and businesses, in order to support social and economic development. Its geographical footprint includes the DRC, Tanzania, Congo and Ghana, where it provides connectivity to over 109 million people, and its future plans include increasing the number of sites in rural and underserved regions;
- Engagement occurred during April 2022 when we met with company representatives to discuss its organisational carbon management practices, given the high carbon intensity of its activities. We noted the continued performance improvement trend witnessed at Helios, and welcomed its plans to advance a more strategic approach on climate risk assessment and develop a carbon reduction strategy. This includes investments in renewables and improving energy efficiency in its operations, although there are limits on what the company can reasonably control, as to some extent some emissions are dependent upon actions of the state.

Issuer CSL™

Theme

Domicile	Developed markets	**Credit rating**	Investment grade

Engagement summary

- CSL is a global biotech company established in Australia. It develops human plasma-derived therapies as well as influenza related products. As such its products address medical health, enabling access to preventative care and treatment;
- During early 2022, as part of our review of its eligibility for investment, we engaged with the company on its policies and practices for obtaining blood plasma donations. Concerns had been flagged on its payment policies and those around patient safety when it comes to low-income donors, such as those coming from Mexico into America, and whether this was in compliance with US regulations;
- Our dialogue with CSL gave us reassurances that its policies were in line with best practice when it comes to donor safety and wellbeing, and were being managed to limit abuse of the regulation and exploitation of donors.

Sector focused

Sector	**Metals & mining**	**Theme(s) relevance**	
Domicile	Both developed and emerging markets	**Credit rating**	All

Engagement summary

- The mining sector has impacts across a range of ESG areas, which can be either positive or negative depending on how they are managed. While the sector has the potential to supply materials to facilitate the low-carbon transition in terms of energy and transportation, current practices in many ways can be far from environmentally sustainable and can contribute to human rights abuses or be vulnerable to corrupt practices. In recent years, the sector has come under the spotlight for its failure to effectively manage its tailing dams (which are earth-filled embankment dams storing waste mining material). The advent of automation and digitalisation of the industry could carry risks of worker talent management as new expertise and skills are needed in some areas of the operations;
- With ongoing investment exposure in the mining sector across across our firm, and its significance in terms of enabling activities to facilitate the low-carbon transition in the transportation sector, this is a sector we have continued to engage with to promote more sustainable practices. With the last couple of years, we have been active in a number of collaborative investor initiatives seeking improved industry disclosure on the management of tailings dams, such as supporting efforts to establish a public database containing information on tailings dams and the adoption of global standards and how they are being managed, encouraging companies to address such risks;
- During 2022, there has been ongoing exploration of other ESG areas of priority that investors can work collaboratively on. The Mining 2030 initiative, which focuses on how the industry can ensure it contributes positively to a sustainable society and minimise potential harm, being one. The initiative has involved a series of roundtables – examining strategically important issues such as critical minerals and the low-carbon transition, automation, deep sea mining, indigenous community rights, artisanal mining and child labour, among others – with the aim for investors to explore best practice, build awareness of existing standards, and determine the quality of reporting on the management of these issues. The investor group will aim to develop the Mining 2030 investor agenda by the end of 2022. Investors can then determine if they would move to formally support the initiative and work to advance its goals. We are is keen to continue exploring our involvement in the Mining 2030 initiative in order to drive collective industry-wide action and to apply it to our in-house ESG analysis of the companies we invest in.

Sector focused

Sector	**UK water utility**	**Theme(s) relevance**	
Domicile	Developed markets	**Credit rating**	Investment grade

Engagement summary

- Billions of people worldwide lack access to safe drinking water and issues of water scarcity and stress are increasing, driven by a combination of factors such as over-extraction, wasteful consumption in agricultural and industrial activities and climate change. Inadequate sanitation can also be a problem, where water pollution may potentially expose people to water-borne diseases whilst also negatively impacting ecosystems;
- Companies operating in the water utility industry play an important role in the provision of drinking water and wastewater services (including sewerage treatment) to the residential, commercial and industrial sectors of the economy. However, their social licences to operate are at risk when their practices fall short of expectations, highlighting the need for investors to take a considered approach when investing in the sector;
- During 2021, allegations emerged that some of the UK water companies were illegally discharging untreated sewage into rivers. Recognising the seriousness of the issue, in June we engaged with several companies (**Yorkshire Water**, **Severn Trent**, **Northumbrian Water**, **Anglian Water**, **Thames Water**, **DWR Cymru**, **Southern Water** and **United Utilities**). The aim was to hear the companies' responses to the allegations and to better understand their water pollution management practices. Beyond this, we also used the opportunity to discuss broader ESG matters, including efforts to address water scarcity and leakages, climate change and customer relations;
- Overall, our dialogues were constructive, revealing to us companies with progressive practices (such as **Severn Trent**, **Anglian Water** and **Northumbrian Water**), as well as those where there is scope for improvement (e.g. **Thames Water** and **Southern Water**). Leveraging off the insights we gained, we elected for a best-in-class approach to the sector, deciding to only invest in **Severn Trent**. Since then, there have been further reports of continued sewage discharges for 2022 so far, increasing the likelihood the UK water regulator will intervene and require companies to take measures to prevent such occurrences;
- We believe the discussions we held with companies on their sustainable finance strategy have informed on the sustainability-linked bonds frameworks which have subsequently been issued by **Anglian Water** and **Thames Water**.

Thematic focused

Topic/issue **ESG/climate change disclosure & reporting**

Engagement summary

- As well as encouraging individual issuers to advance transparency of their ESG/sustainable practices, we have also worked at an industry level on corporate reporting standards globally on ESG and climate change. Improved reporting is important as it is the means by which investors and other key stakeholders can determine how companies are addressing these issues. Reporting also encourages accountability of an issuer's commitments. Yet it remains challenging to effectively gauge an issuer's performance, both from an absolute and relative (to relevant peer groups) basis, as so far there has been a lack of comparable, relevant ESG data and information;
- Two particular areas we have provided input include:
  - **Global ESG reporting standards:** towards the end of 2021, the outlook for a global ESG reporting accounting framework improved markedly when at the global UN climate change conference in Glasgow (COP26), the International Financial Reporting Standards (IFRS) Foundation announced the establishment of the International Sustainability Standards Board (ISSB), tasked to develop a global baseline of sustainability disclosure standards and to help consolidate the various standards. During March 2022, the ISSB published for public consultation, a proposed exposure draft related to general sustainability related disclosure requirements and another on climate related disclosures specifically). We worked closely with one of the trade bodies we belong to the European Leveraged Finance Association (ELFA) to inform on its consultation response. Given the particular characteristics of the leveraged finance market which this strategy can potentially have exposure to (which is not only made up of larger companies, but also many small and private ones), it is important that the resulting global voluntary sustainability disclosure standards take into account the need to be inclusive and encourage a race to the top when it comes to reporting. The final response included feedback on a range of matters including encouraging a wider focus beyond just risk and financial materiality over time, ensuring other specific ESG issues beyond climate change are sufficiently captured, and the need to work with key stakeholders across jurisdictions to promote uptake and alignment of any existing and/or future initiatives. The ISSB will look to develop revised disclosure requirements, with the timeline being by the end of this year;
  - **US climate reporting standards:** the US market represents a meaningful investment market for the strategy. Yet companies domiciled in the US are often considered to have less progressive ESG practices and transparency than their counterparts in other regions, such as in Europe. H1 2022 saw efforts in the United States which could start to narrow that gap, at least on climate-related matters. During Q2 2022, the US Securities and Exchange Commission (SEC) proposed a new climate rule that, if adopted, would require US publicly-listed companies to significantly increase their carbon reporting. We provided input into the public consultation on the SEC's proposed climate rule via the trade association, the Alternative Investment Management Association (AIMA), of which we are a member. The response outlined investor support for the initiative, encouraged alignment and harmonisation with other climate-related reporting requirements, where possible, whilst also allowing for the principle of proportionality in how companies respond to the requirements.

Thematic focused

Topic/issue **Climate change/nature & biodiversity (deforestation)**

Engagement summary

- Whilst sustainable management of natural resources such as forests features within our 'Enabling a circular economy' theme, this is an issue of broader relevance to the strategy and the positive impact it is seeking to contribute to. Specifically halting deforestation is critical to tackling climate change, nature/biodiversity loss and human rights abuses. Forests' functions, such as carbon sinks and critical ecosystems services, contain an important source of global biodiversity and provide a home and livelihood for many communities which exist within and alongside forests. Land-use emissions caused by deforestation (due to agriculture, urbanisation and infrastructure), particularly in the tropics, is a key driver of climate change;
- Our engagement efforts associated with addressing deforestation have been grounded in the recognition of the need to go beyond company-level engagement and complement this with dialogue with governments and policymakers given the systemic nature of the risks and the 'common goods' characteristics of such assets. We also acknowledge the need for collaborative efforts to ensure a consistent voice and elevate our influence. As such, over the course of 2021 and 2022, our stewardship activities have taken many forms, with highlights including:
  - Through our co-chairmanship of a global collaborative investor initiative formed in July 2020 (the Investor Policy Dialogue on Deforestation (IPDD) which had 59 investors with USD8.6 trillion AUM (as at June 2022), we have been engaging with both Brazilian and Indonesian governments on halting deforestation, as well as other key stakeholders who can influence how these governments are addressing this issue;
  - Continuing to work with the Emerging Markets Investors Alliance (EMIA) as a member, to participate in its agricultural workstream which has been engaging with Brazilian food companies and civil society groups to mitigate deforestation;
  - In 2021, we signed to PRI's-supported Sustainable Commodities Practitioners Group, a global investor initiative which seeks to build awareness and share current thinking and practice in addressing (soft) commodity-driven deforestation;
  - Also in 2021, during June we became an investor signatory to a public statement (coordinated by the FAIRR initiative of which we are a network member) directed at G20 leaders to incorporate agricultural emissions (setting clear targets) in their nationally-determined commitments (NDCs) to meet the climate Paris Agreement (as of June 2022, there are 88 investors, with USD12 trillion AUM, supporting the statement);
  - In line with UN climate conference (COP26) that occurred in Glasgow in 2021, we provided input to the efforts to encourage greater government action deforestation via our membership of the Multi-stakeholder Taskforce, which fed into the Forest, Agriculture and Commodity Trade (FACT) Dialogue, a government-to-government dialogue on sustainable land use and trade in forest and agricultural commodities;
  - Conducted bilateral engagement with individual sovereign and corporate issuers, where deforestation is a meaningful sustainability and financial investment risk, to both better understand risk exposure as well as management approaches and reporting.

Thematic focused

Topic/issue **Sustainable finance (ESG-labelled issuances)**

Engagement summary

- Unique to the fixed income asset class, and a relatively new development over the past few years, is the emergence of the ESG-labelled issuance market. This enables investors to explicitly direct where they provide funding to issuers, helping them to signal their support for specific ESG/sustainability priorities;
- The use-of-proceeds market was the first to develop, whereby funding is earmarked for spending on eligible products. These can range from green (e.g. clean energy or energy efficiency, to water or waste management), to social (such as education or health projects), or a combination of products (based on SDGs). A more recent development is the sustainability-linked issuance market, where instead of funding being associated with projects, the focus is on specific ESG targets with payment of coupons typically linked to the achievement of these. Such developments are very much welcomed and can play a critical role in linking investors with issuers who want to deliver positive contributions, helping to channel much-needed private capital. However, the growth of the market could be undermined if the integrity of the market is undermined by poor industry markets;
- Given the potential opportunity and risks, we have been engaging with a range of stakeholders at different levels to encourage industry best practice and foster trust and confidence in the market. Such efforts also help to ensure we have access to information from issuers to better evaluate the quality of such issuances. Some examples of these activities include:
  - Inputting the investor perspective into the Inter-American Development Bank (IDB)'s Green Bond Transparency Platform (GBTP), an innovative open access digital tool that brings greater transparency to the Latin American and Caribbean green bond market and aims to provide a benchmark for best practice disclosure and support to all market actors. Initial work started in December 2019 on the development of the platform, although it was not officially launched until late April this year due to the COVID-19 pandemic. BlueBay is a supporter of the GBTP and we have provided feedback and input into the newly-launched platform to ensure it serves as a useful resource for investors;
  - We also continued to work via the Emerging Markets Investors Alliance (EMIA) where there are acute needs from both sovereigns and companies to access investor capital to fund their sustainability transition. During August 2021, we provided input into its development of Principles of ESG-labelled issuances;
  - In our interactions with individual sovereign and corporate issuers, we also discuss whether developing a sustainable finance strategy is appropriate, and also what is relevant and appropriate in terms of the design and structure of these.

ESG industry memberships & collaborations

To inform and support our ESG investment framework both at the firm-level, and strategy-level, we collaborate and partner with a number industry bodies and initiatives (whether these are ESG focussed, or an area of focus in the case of the industry trade bodies). This includes those with a specific focus on the sustainable and impact investing space, such as the GIIN (Global Impact Investing Network) and Pensions for Purpose.

Our commitment is to evolve our practices in line with industry best practice, and to actively input and share insights in terms of what this looks like. We actively work with and engage with the following industry bodies on responsible investing. In addition to those listed below, BlueBay is represented and included in responsible investing groups as part of RBC Global Asset Management.

Signatory to the UK Stewardship Code

The UK Stewardship Code 2020 (Code) sets out good stewardship practice for asset managers, asset owners and service providers when engaging with investee companies. It is a voluntary initiative.

BlueBay is committed to the Code. We have applied and have been accepted as signatories to the Code by the FRC for the 2021 and 2022 application years. Our 2021 annual Stewardship Report (as of September 2022) is available on our website.

Our firm net-zero ambition

BlueBay recognises the significance of the climate change challenge and as a result, in October 2021, we issued a Net-Zero ambition statement jointly with our parent company, RBC Global Asset Management, reaffirming our support of the global goal to achieve net-zero emissions by 2050 or sooner, and the need to ensure a just transition as part of this. The statement is available on our corporate website:

> **"We support the global goal to achieve net-zero emissions by 2050 or sooner."**

BlueBay has membership of several climate-related investment initiatives such as the Climate Action 100+ (members), Task Force on Climate-Related Financial Disclosures (TCFD) (investor supporter), Transition Pathway Initiative (supporter), and the CDP (investor signatory).

We are also active in engaging collaboratively with other stakeholders on climate-related investment matters such as through our Climate Action 100+ work, the Investor's Policy Dialogue on Deforestation (which BlueBay co-chairs) and our membership of the EMIA.

The 'blue economy' – ensuring more sustainable management of our marine environment

Much attention has been placed on addressing deforestation which drives climate change, biodiversity loss and natural resource degradation. While important, we believe attention and action also needs to be directed towards our marine ecosystems which span oceans, seas and coasts. The 'blue economy' is a term which has emerged in recent years to describe the sustainable use of ocean resources for economic growth, improved livelihoods and jobs, while preserving the health of ocean ecosystems. Sustainable marine management is critical, as the ocean represents the world's largest carbon sinks, playing a key role in maintaining a stable climate. It is also one of the main repositories of the world's biodiversity.

In 2020, BlueBay selected the Blue Marine Foundation (Blue Marine) as one of our corporate charity partners. Blue Marine is dedicated to restoring the ocean to health by addressing overfishing and supporting the global campaign calling on the protection of at least 30% of the ocean by 2030. Our donations have helped set up BLUE Economics, a specialist team within Blue Marine which is working on quantifying the true value of the blue economy, the cost of overfishing and developing new ways of directing capital at scale towards ocean protection and restoration.

Investing in the blue economy is an area that features within our Planet theme, '*Enabling a circular economy*', but to date the investable opportunities have been limited in terms of the issuers that would qualify. However, we believe the emergence of the ESG-labelled bond market presents a potentially important opportunity for fixed income investors to uniquely support corporates and sovereigns, supranationals and agencies (SSAs), where so called 'blue bonds' could channel capital to such purposes. Continuing to engage and work with organisations and initiatives like Blue Marine, alongside others will be important in building the momentum and action on protecting our oceans and ensuring economic and social prosperity.

"Sustainable marine management is critical, as the ocean represents the world's largest carbon sinks, playing a key role in maintaining a stable climate."

6 Looking ahead

6.1 Market outlook

The path ahead for markets remains uncertain, and as such we believe a cautious investment stance is merited for now. Recession fears have risen and for markets to stabilise, we need to see evidence that inflation is heading back towards central bank targets. Ultimately, where growth ends up seems to rest on how far central bank tightening has to go, which in turn depends on when inflation rolls over. Here we do feel that better inflation news is close as base effects drop out and demand cools.

"We believe the medium-term return profile is looking more promising than it has done for some time."

The reality is that central banks have little choice but to deal with inflation for the sake of long-term economic prosperity, but aggressive near-term rate hikes have now been well telegraphed and so are built into forward market pricing. As such further pressure on core government yields should start to abate.

Investment grade corporate bonds are looking attractive on both a spread and yield basis, but where they go next likely depends on the growth outlook, and the level of stability in core rates markets. US corporate spreads have held up better, reflecting a lower probability of recession, while European spreads have underperformed, reflecting the weaker forward-looking growth prospects. However, with spreads in Europe now above 200bp, we are back to levels last seen in April 2020 in the immediate aftermath of the COVID-related sell-off and before that, levels last seen in 2012. Clearly recessionary fears make it hard to take a more constructive stance as a credit investor, but at the same time credit fundamentals are generally in better shape than those going into previous recessions. As such, we believe the medium-term return profile is looking more promising than it has done for some time and we can perhaps look forward to a more traditional correlation of core rate markets which compensate for periods of spread widening, something which has not been the case so far in 2022.

Uncertainties surrounding the path of growth and inflation and the resulting monetary policy response, as well as the fallout from COVID -19 and the Russian invasion of Ukraine will likely lead to alpha opportunities from a macro and credit-positioning perspective. Similarly, opportunities may arise from playing the geographic/sectoral/issuer performance dispersion that follows, as the market starts to differentiate between the winners and losers.

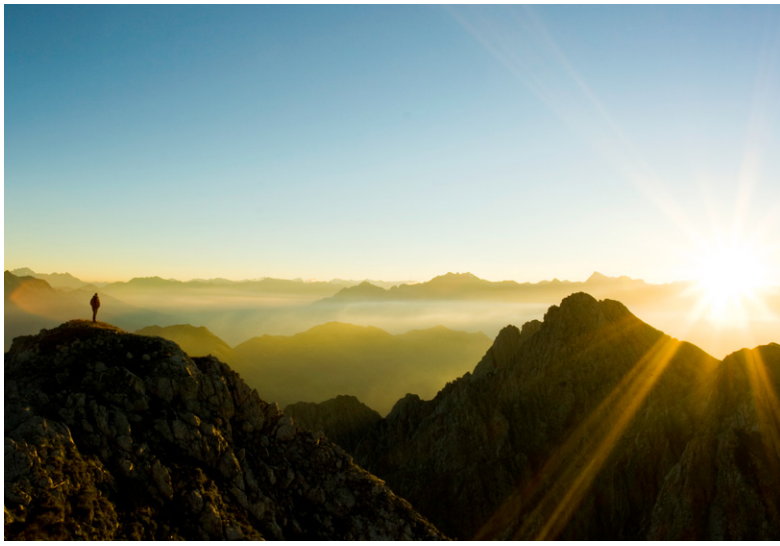
6.2 Sustainability outlook

The theme of uncertainty is certainly not confined to financial markets. It is equally applicable when it comes to thinking about how sustainability trends and developments will evolve going forward.

Near term, there are some key upcoming events before year end (such as the UN climate conference (COP27) in November, and another on the Convention on Biodiversity (COP15) in December) where we will find out just how much short-term economic worries will override efforts to tackle longer-term priorities, which if left unaddressed, will lead to significant material costs in financial, human and environmental terms.

Despite the challenging headwinds, we still maintain that there is long-term structural demand for investment practices which take account of ESG factors to better manage risks ('doing well'), as well as growing interest to direct capital towards 'doing good'. The themes we have outlined for this strategy span many of the critical areas where solutions will be needed, and focus on the opportunities where investors can look to 'do well' whilst also 'doing good'. This is because beyond the sustainability case, we believe the economic case continues to grow. However, there is an increasing sense that the window of opportunity to reduce the worst effects of climate change and nature loss is fast closing, with some of these being irreversible.

At a time when we are seeing more and more scrutiny towards sustainable investing practices, and rightly so, we are proud of the impact-aligned framework we have created, and the growing portfolio we have of issuers and bonds seeking to make a positive difference.



Exploring setting a fund net-zero commitment

Given the nature of this strategy includes an explicit aim to contribute positively to environmental (and social) outcomes, over the course of the next year, we are considering the extent to which it is also possible to incorporate a portfolio level net-zero goal.

However, we continue to reflect on what is the most credible approach to take to do this, such as what is the most relevant metric to adopt. Currently, a common and popular approach appears to be to mirror the global targets i.e. making the portfolio Paris Aligned by 2050 to a 1.5 degree Celsius scenario, setting an interim target of 50% reduction by 2030 (adopting the metric of WACI), as well as an annual portfolio self-decarbonisation target of 7%. Looking at our portfolio WACI (for Scope 1 & 2) shown in Figure 17, we are already performing favourably with a footprint that is 50% less carbon intensive than the Global IG Corp Index.

However, we view the use of the WACI metric to be problematic, given the backward-looking nature of this datapoint and its limited focus on Scope 1 and 2 emissions. This can penalise companies with a high operational footprint but which are producing products to help other companies reduce their associated emissions. Yet, if we elect to use a forward-looking metric like percentage of issuers with net-zero (science-based) targets (and potentially require them to be certified to the science-based target initiative (SBTi)), not only is the coverage of such issuers currently low, but we risk undermining our ability to invest in small-to mid-cap companies or those in emerging markets where resourcing and awareness are limited.

We could allocate more resources into wide-scale systemic engagement efforts, but whilst this strategy seeks to conduct appropriate stewardship practices, it does not have engagement as its primary emphasis. It is not enough to be better than the index, as the portfolio itself needs to decarbonise. Furthermore, the danger with any approach is that whilst it may lead to decarbonisation at the portfolio level, this may not necessarily translate into lower emissions in the real world.

Given these dynamics, we will further explore how best to approach this issue given we see how this would be consistent with the fund's broader aim to contribute positively to environmental outcomes.

Deepening our approach to reporting on positive impact

Our impact-aligned strategy seeks to contribute towards addressing sustainability challenges aligned with our themes. We have initiated efforts to explore how to do this within this report but recognise the need to further enhance and refine our approach. As such, a priority for next year will be to better understand how the theory of change, or systems change concept (which sets out a framework for thinking about how change comes about, through looking at the different building blocks of inputs, activities, outputs, impact and outcomes), can be applied to our future reporting, and continue to evaluate data, tools and methodologies to evidence positive contributions.

We look forward to working with peers and organisations active in the sustainability and impact investing space to better understand how we can contribute to thinking and practice on this when it comes to fixed income investing.

Appendix

The ESG approval status of issuers profiled within this report (sections 3, 4 and 5) was maintained over the period under review, unless otherwise stated. Any divestments that occurred were for investment-related reasons (and rationales provided), and not ESG-related, unless stated otherwise.

The engagement case study on the UK water utilities sector, (section 5) referred to companies which were not formally taken forward for ESG investment consideration due to a decision to select more of a best-in-class approach, with the exception of **Severn Trent**. As such, any other issuers with no formal ESG approval status, remained not investable.

Figure 25: List of portfolio holdings

Issuer	Theme
Anchor Hanover Group	Achieving an inclusive society
Helios Towers PLC	Achieving an inclusive society
Inter-American Development Bank	Achieving an inclusive society
IHS Towers	Achieving an inclusive society
London & Quadrant Housing Trust	Achieving an inclusive society
Motability Operations Group PLC	Achieving an inclusive society
NatWest Group PLC	Achieving an inclusive society
Nationwide Building Society	Achieving an inclusive society
OneMain Holdings Inc	Achieving an inclusive society
Cooperatieve Rabobank UA	Achieving an inclusive society
Samhallsbyggnadsbolaget i Nord	Achieving an inclusive society
Millicom International Cellular	Achieving an inclusive society
American Campus Communities	Building knowledge & skills
Adtalem Global Education Inc	Building knowledge & skills
Global Education Management System	Building knowledge & skills
George Washington University	Building knowledge & skills
Pearson PLC	Building knowledge & skills
RELX PLC	Building knowledge & skills
SLM Corp	Building knowledge & skills
Sanoma Oyj	Building knowledge & skills
University College London	Building knowledge & skills
UNITE Group PLC	Building knowledge & skills
Ball Corp	Enabling a circular economy
Constellium SE	Enabling a circular economy
Eco Material Technologies Inc	Enabling a circular economy
Servicios Medio Ambiente	Enabling a circular economy

Figure 25: List of portfolio holdings (cont'd)

Issuer	Theme
Graphic Packaging Holding Co	Enabling a circular economy
International Bank for Reconstruction & Development	Enabling a circular economy
Infineon Technologies AG	Enabling a circular economy
Itelyum (Verde Bidco)	Enabling a circular economy
Johnson Controls International	Enabling a circular economy
Renewi PLC	Enabling a circular economy
Smurfit Kappa Group PLC	Enabling a circular economy
National Central Cooling Co PJSC	Enabling a circular economy
Interface Inc	Enabling a circular economy
Trimble Inc	Enabling a circular economy
Verallia SA	Enabling a circular economy
Aegea Finance Sarl	Ensuring clean & plentiful water
FCC Aqualia	Ensuring clean & plentiful water
Ecolab Inc	Ensuring clean & plentiful water
Holding D'Infrastructures des Metiers de L'Environnement	Ensuring clean & plentiful water
Suez SACA	Ensuring clean & plentiful water
Severn Trent PLC	Ensuring clean & plentiful water
Veolia Environnement SA	Ensuring clean & plentiful water
Advanced Drainage Systems Inc	Ensuring clean & plentiful water
Xylem Inc	Ensuring clean & plentiful water
Becton Dickinson	Ensuring good health, safety & wellbeing
British United Provident Association	Ensuring good health, safety & wellbeing
Cheplapharm Arzneimittel GmbH	Ensuring good health, safety & wellbeing
CSL Ltd	Ensuring good health, safety & wellbeing
Catalent Inc	Ensuring good health, safety & wellbeing
Encompass Health Corp	Ensuring good health, safety & wellbeing
Eurofins Scientific SE	Ensuring good health, safety & wellbeing
Firmenich	Ensuring good health, safety & wellbeing
Gilead Sciences Inc	Ensuring good health, safety & wellbeing
Grifols SA	Ensuring good health, safety & wellbeing
Hikma Pharmaceuticals PLC	Ensuring good health, safety & wellbeing
Healthcare Realty Trust Inc	Ensuring good health, safety & wellbeing
International Finance Facility	Ensuring good health, safety & wellbeing

Figure 25: List of portfolio holdings (cont'd)

Issuer	Theme
Johns Hopkins Health System Co	Ensuring good health, safety & wellbeing
Korian SA	Ensuring good health, safety & wellbeing
Kerry Group PLC	Ensuring good health, safety & wellbeing
Legacy LifePoint Health	Ensuring good health, safety & wellbeing
Takeda Pharmaceutical Co Ltd	Ensuring good health, safety & wellbeing
Voyage Care HoldCo Ltd	Ensuring good health, safety & wellbeing
Azure Power Energy Ltd	Promoting clean & safe energy
Clean Renewable Power	Promoting clean & safe energy
Hannon Armstrong Sustainable Infrastructure	Promoting clean & safe energy
Iberdrola SA	Promoting clean & safe energy
Orsted	Promoting clean & safe energy
Pattern Energy Group LP	Promoting clean & safe energy
ReNew Energy Global PLC	Promoting clean & safe energy
SSE PLC	Promoting clean & safe energy
Switch Inc	Promoting clean & safe energy
Terna - Rete Elettrica Nazionale	Promoting clean & safe energy
Verbund AG	Promoting clean & safe energy
Vestas Wind Systems	Promoting clean & safe energy
Aptiv PLC	Promoting sustainable mobility & infrastructure
Empresa de Transporte de Pasajeros Metro S.A.	Promoting sustainable mobility & infrastructure
Contemporary Ruiding Development Limited	Promoting sustainable mobility & infrastructure
Deutsche Bahn Fin GMBH	Promoting sustainable mobility & infrastructure
East Japan Railway Co	Promoting sustainable mobility & infrastructure
KB Home	Promoting sustainable mobility & infrastructure
MTR Corp Ltd	Promoting sustainable mobility & infrastructure

The Fund's portfolio will contain a much larger number of positions and the example is not intended to indicate overall portfolio performance that may be expected to be achieved by the Fund.

Source: BlueBay Asset Management, as at 30th June 2022. The information provided in this example of a holding is to illustrate the investment process of the strategy at BlueBay and should not be deemed a recommendation to buy or sell any security or financial instrument.

Contact us

We hope you have enjoyed reading our sustainability impact report, and found it informative.

To ensure we continue to meet the needs of our key stakeholders, we would welcome feedback on how we can improve our future efforts. Details of how to contact us are provided below.

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Published October 2022.

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