

## ANNEX II

### Template pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

**Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.



**Sustainability indicators** measure how the environmental or social characteristics promoted by the

**Product name:** Barings Hong Kong China Fund

**Legal entity identifier:** 549300BT29YFG8CKKD32

## Environmental and/or social characteristics

### Does this financial product have a sustainable investment objective?

☒ ☒ ☐ **Yes**

☒ ☐ ☒ **No**

☐ It will make a minimum of **sustainable investments with an environmental objective**: \_\_\_\_%

☐ in economic activities that qualify as environmentally sustainable under the EU Taxonomy

☐ in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

☐ It will make a minimum of **sustainable investments with a social objective**: \_\_\_\_%

☐ It **promotes Environmental/ Social (E/S) characteristics** and while it does not have as its objective a sustainable investment, it will have a minimum proportion of \_\_\_\_% of sustainable investments

☐ with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy

☐ with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

☐ with a social objective

☒ It promotes E/S characteristics, but **will not make any sustainable investments**

### What environmental and/or social characteristics are promoted by this financial product?

The environmental and social characteristics promoted by the Fund will be to invest at least 50% of its total assets in equities of companies that exhibit positive or improving environmental ("E"), social ("S") and governance ("ESG") characteristics.

The E and S evaluations are established using proprietary research based on company knowledge and regular management interaction. For all investment opportunities, a thorough ESG assessment is conducted using a proprietary scorecard of nine ESG topics, and a quality score, management score, and ESG cost of equity ("CoE") adjustment is assigned to each investment.

The Fund does not have a reference benchmark that has been designated for the purpose of attaining the environmental or social characteristics promoted by it.

### ○ What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?

The sustainability indicator used to measure the attainment of the environmental and social characteristics promoted by the Fund will be the percentage of the Fund's total assets invested in equities of companies that exhibit positive or improving ESG characteristics. Companies defined as having positive or improving ESG characteristics must be assessed as having a

financial product are attained.

higher than average quality score, and not exceed a maximum adjustment to its Barings CoE threshold.

- ***What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?***

Not applicable.

- ***How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?***

Not applicable.

- *How have the indicators for adverse impacts on sustainability factors been taken into account?*

Not applicable.

- *How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:*

Not applicable.

**Principal adverse impacts** are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

*The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.*

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

*Any other sustainable investments must also not significantly harm any environmental or social objectives.*

**Does this financial product consider principal adverse impacts on sustainability factors?**

- ✓ **Yes,** The Investment Manager considers the following principal adverse impacts (PAIs) of each investment as part of its proprietary investment process: GHG emissions, carbon footprint and GHG intensity of investee companies and exposure to companies active in the fossil fuel, board gender diversity and exposure to controversial weapons. The Investment Manager will not directly invest in companies that violate international conventions on cluster munitions, antipersonnel mines and chemical and biological weapons. The Investment Manager will not knowingly hold securities that are materially involved in the production, stockpiling and use of these weapons at the time of investment.

The impact of the above indicators is linked to the overall quality score of every company which corresponds with a premium or discount that is added to the CoE (discount rate).

Where through its proprietary research, the Investment Manager identifies a need for a potential or current investee company to improve its disclosure or

change its behaviour with regards to a material E, S or governance issue, the Investment Manager will engage with the company on this issue and agree clearly defined remedial objectives to be achieved by the company. Further information on the PAIs will be available in the annual report.

☐ **No**

**What investment strategy does this financial product follow?**

The Fund will seek to achieve its investment objective by investing at least 70% of its total assets at any one time, either directly in equities or through equity-related securities (including depositary receipts) of companies (i) incorporated, or (ii) exercising the predominant part of their economic activity, or (iii) quoted or traded on the stock exchanges in markets in Hong Kong or China. A description of equity-related securities is described under the section headed "Investment Policy: General". For this purpose, total assets exclude cash and ancillary liquidities.

The Fund will invest at least 50% of the Fund's total assets in equities of companies that exhibit positive or improving ESG characteristics. Furthermore, the Fund may also invest up to 50% of its total assets in equities and equity related securities of companies that exhibit less positive ESG characteristics. Further information about the environmental and social characteristics promoted by the Fund is available in the SFDR Annex appended to the Supplement.

The Investment Manager may also invest up to 30% of its total assets outside the fund's principal geographies (including but not limited to Taiwan), market sectors, currency or asset classes. With regard to investment in debt securities, the Fund does not have any specific restrictions or limits on the credit rating of the underlying debt securities.

The portfolio will be balanced according to the Manager's assessment of investment prospects but may, depending upon underlying investment conditions, emphasise investment in companies operating in those sectors of the Hong Kong or China economies that, in the Manager's opinion, provide the determinants for Hong Kong's or China's economic growth such as those involved in international trade, property and construction activity, engineering, electronics or the service sectors.

The Fund may also invest in collective investment schemes in accordance with the requirements of the Central Bank up to a maximum of 10% of the Net Asset Value of the Fund.

With regard to investment in China, no more than 20% of the Net Asset Value of the Fund at any one time may be invested directly or indirectly in China A shares and B shares. It is anticipated that this exposure will be obtained either directly through investment in China A shares listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange via the Connect Schemes and/or through the QFI regime (as further described in the section of the Prospectus entitled 'Investment Policies; General') or indirectly through investment in other eligible collective investment schemes or participation notes.

The Fund may invest in various FDIs as detailed under the section headed "Investment Policy: General" for investment purposes or for efficient portfolio management in accordance with the requirements of the Central Bank. When FDIs are used the Fund will be leveraged through the leverage inherent in the use of FDIs.

The Fund adheres to the investment restrictions required to qualify as "equity fund" pursuant to section 2 paragraph 6 GITA and continuously invests more than 50% of its Net Asset Value in equity participations within the meaning of section 2 paragraph 8 GITA.

The Investment Manager believes that equity markets contain unrecognised growth potential and seeks to identify this through the analysis of a company's business model whilst incorporating wider economic and social governance trends, often referred to as fundamental analysis. Equity investment teams at the Investment Manager share a common investment approach, best described as Growth at a Reasonable Price (GARP).

GARP seeks to identify reasonably priced growth companies whose qualities are unrecognised by market participants by performing structured fundamental analysis with a disciplined investment process. Based on the region, country or sector bias of a Fund, analysis of potential growth companies' includes their future financial performance as well as their business model and management style, while focusing on long-term earnings

growth of three to five years. The Investment Manager values companies utilising proprietary valuation models that incorporate ESG analysis and macro considerations.

The Investment Manager's strategy favours companies with sustainable or improving business franchises, profitability focused management and strong balance sheets that enable the company to execute its business strategy. The Investment Manager regards these companies as higher quality as they provide transparency and allow investment professionals to forecast earnings with greater confidence. This is further strengthened through the incorporation of a dynamic and forward-looking approach to ESG analysis, with the aim to identify sustainable business practices. This empowers the Investment Manager to better assess both the potential risks facing the company and the opportunities presented to it, particularly those not apparent or included in traditional fundamental analysis, and facilitates in propagating better ESG practices. The Investment Manager believes that ESG integration, a focus on forward-looking dynamics and active engagement is key to unlocking long-term returns in equity investments.

Companies that exhibit positive or improving ESG characteristics are assessed through the Investment Manager's proprietary research. Proprietary research is based on company knowledge and regular management interaction, which is the basis to assess each company against nine key ESG topics:

- Employee Satisfaction;
- Resource Intensity;
- Traceability and/or Security in Supply Chain;
- Effectiveness of Supervisory and/or Management Board;
- Credibility of Auditing Arrangements;
- Transparency and Accountability of Management;
- Environmental Footprint;
- Societal Impact of Products and/or Services; and
- Business Ethics.

This assessment is captured within a standardised framework, and is dynamic, monitoring the attitudes of investee companies for improvements or deteriorations toward ESG topics and reflected in the scoring of a company's quality and its valuation. With respect to company valuations, the Investment Manager's approach allows for ESG research to directly affect the discount rate (Barings Cost of Equity) applied to its 5-year earnings and dividend forecast for the company. By explicitly quantifying the ESG impact on the valuation of investee companies, ESG is integrated into decision-making, company selection and the management of the portfolio.

This approach enables the Investment Manager to rate companies on the basis of their dynamic ESG behaviour rather than making a static judgement based on historical ESG practices and is consistent with forward looking analysis and the intention to reward progress and improvement. Before investing, the Investment Manager considers internal recommendations regarding growth, quality and valuation, all of which reflect ESG issues and opportunities, alongside external issuer-specific data. Once invested, the Investment Manager continues to monitor each issuer to ensure that the thesis remains intact and that an investment's risk and return profile remains attractive relative to other opportunities available in the market.

Companies defined as having positive or improving ESG characteristics must have a higher than average quality score, and not exceed a maximum adjustment to its Barings Cost of Equity threshold. The Investment Manager also requires that such companies have good corporate governance, internally assessed with respect to, but not limited to, sound management structures and tax compliance.

The Investment Manager also believes that it can use its influence to effect positive change and improve ESG disclosure through active engagement with investee companies. These formal engagements are undertaken to influence (or identify the need to influence) ESG

practices and/or improve ESG public disclosure, which in the opinion of the Investment Manager, is material to the sustainability of the company's business model, aiming to enhance the performance of investments.

The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

○

**What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?**

The Fund has implemented a binding constraint into its investment policy that allocates at least 50% of its total assets in equities of companies that exhibit positive or improving environmental, social and governance characteristics.

For all investment opportunities, thorough ESG assessment is conducted using a proprietary scorecard of nine ESG topics, and a quality score, management score, and ESG CoE adjustment is assigned to each investment.

1. Quality Score – The quality score is a rating from 1 to 5 (1 = strong, 5 = weak), which is an expression of our evaluation of a company's franchise, management, and balance sheet.
2. Management Score – The management score, which also carries a rating of 1 to 5 (1 = strong, 5 = weak), is an expression of our evaluation of the strength of the company's management and corporate governance. Companies with sound management structures, diverse and accessible executive teams, and remuneration policies aligned with the long-term interests of minority shareholders would generally be assigned a stronger management score.
3. ESG CoE Adjustment - Finally, each of the nine ESG topics in the proprietary scorecard is rated as one of the following: Exemplary, Improving, Not Improving, or Unfavourable. The sum of the nine ratings corresponds with an ESG discount or premium, which is added to the CoE. The CoE is the rate of return required from the company by the Investment Manager. An Exemplary rating will result in an ESG reduction to the company's CoE. Conversely, an Unfavourable or Not Improving rating will result in an ESG addition to the company's CoE.

Pre- and post-trade checks are carried out on a daily basis to ensure the Fund continues to meet the minimum threshold of 50%.

**Screening Criteria**

Companies the fund invests in are classified as either:

- "Green" – by exhibiting "Positive" or "Improving" ESG characteristics; or
- "Brown" – by not meeting the criteria illustrated below

The below tables illustrates the criteria used to classify companies

Company Classification		Quality Score*	Management Score*	ESG CoE Adjustment
Green	Positive ESG	Less than 2	Less than or equal 2.5	Less than or equal to 1%
Green	Improving ESG Characteristics	Less than 3	Less than or equal 2.5	Less than or equal to 1%
Green	Improving ESG Characteristics	3	Less than or equal 2.5	Less than 1%
Company Classification		Quality Score	Management Score	ESG CoE Adjustment
Brown	Brown	More than 3		
Brown	Brown		More than 2.5	
Brown	Brown			More than 1%

\* (1= strong, 5 = weak).

Investments with a Quality Score of more than 3 or Management Score of more than 2.5 or ESG CoE adjustment of more than 1% will always be considered as "brown".

**Good governance** practices include sound management structures, employee relations, remuneration of staff and tax compliance.



**Asset allocation** describes the share of investments in specific assets.

Taxonomy-aligned activities are expressed as a share of:

— **turnover** reflecting the share of revenue from green activities of investee companies

- **What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?**

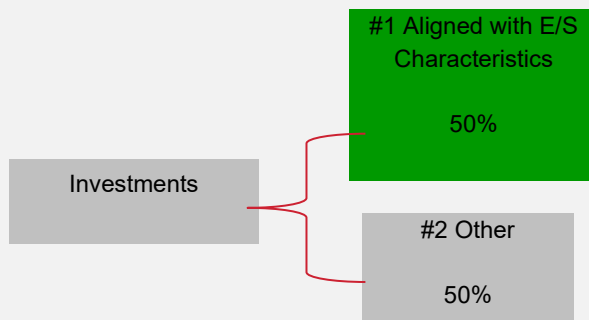
Not applicable.

- **What is the policy to assess good governance practices of the investee companies?**

The Investment Manager assesses the corporate governance of companies, with respect to, but not limited to, sound management structures, employee relations, remuneration of staff and tax compliance. An internal management score ranging from 1 (strong) to 5 (weak) is assigned. Companies which have a management score of 5 are excluded from the Fund.

#### **What is the asset allocation planned for this financial product?**

The Fund will invest at least 50% of its total assets in equities of companies that exhibit positive or improving ESG characteristics, whilst the remaining will be cash, cash equivalents, hedging instruments and in investments which are neither aligned with the environmental or social characteristics, have no minimum environmental or social safeguards, nor are qualified as sustainable investments.



**#1 Aligned with E/S characteristics** includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

**#2 Other** includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristic, have no minimum environmental or social safeguards, nor are qualified as sustainable investments.

- **How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?**

Not applicable.

- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

**Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.

**Transitional activities** are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.



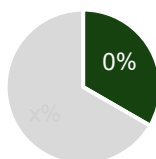
To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

As shown in the graphs below, 0% of the Fund's investments are sustainable investments with an environmental objective that align with the EU Taxonomy.

*The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.*

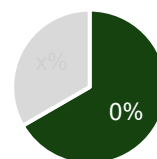
1. Taxonomy-alignment of investments including sovereign bonds\*

- Taxonomy-aligned
- Other investments



2. Taxonomy-alignment of investments excluding sovereign bonds\*

- Taxonomy-aligned
- Other investments



\* For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures



What is the minimum share of investments in transitional and enabling activities?

Not applicable.



What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?

Not applicable.



are sustainable



investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.



**What is the minimum share of socially sustainable investments?**

Not applicable.



**What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?**

Companies which do not exhibit positive or improving E and / or S characteristics will be included in the Fund where the Investment Manager, after conducting proprietary fundamental analysis and taking into account portfolio construction considerations, identifies mispriced investment opportunities on a longer term basis, centred on the Investment Manager's understanding of the company's strategy and the potential to improve returns and grow earnings. However, the Investment Manager divests from and does not invest in companies which have a quality score of 5 – the worst level on the Investment Manager's scale of 1 to 5 – and an ESG-related modification to the discount rate of +2%.

The investments included under “#2 Other” also includes cash, cash equivalents and hedging instruments. Cash and cash equivalents do not affect the promoted environmental and / or social characteristics of the Fund. The assessment of issuers and of counterparties for cash and hedging instruments focuses on the creditworthiness of these parties, which can be impacted by sustainability risks.



**Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?**

**Reference benchmarks** are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.

Not applicable.

- ***How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?***

Not applicable.

- ***How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?***

Not applicable.

- ***How does the designated index differ from a relevant broad market index?***

Not applicable.

- ***Where can the methodology used for the calculation of the designated index be found?***

Not applicable.



**Where can I find more product specific information online?**

**More product-specific information can be found on the website:**

Please see the relevant product page for the Fund at <https://www.barings.com/en-gb/institutional/funds/public-equities/barings-hong-kong-china-fund>