

## 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.

**Product name:** Barings Global Bond Fund

**Legal entity identifier:** 549300R790Q0464QS874

## Environmental and/or social characteristics

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

<input checked="" type="radio"/> <input checked="" type="radio"/> <input type="checkbox"/> <b>Yes</b>	<input type="radio"/> <input checked="" type="radio"/> <input checked="" type="radio"/> <b>No</b>
<input type="checkbox"/> It will make a minimum of <b>sustainable investments with an environmental objective:</b> ____%	<input type="checkbox"/> It promotes <b>Environmental/ Social (E/S) characteristics</b> and while it does not have as its objective a sustainable investment, it will have a minimum proportion of ____% of sustainable investments
<input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy	<input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
<input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy	<input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
	<input type="checkbox"/> with a social objective
<input type="checkbox"/> It will make a minimum of <b>sustainable investments with a social objective:</b> ____%	<input checked="" type="checkbox"/> It promotes E/S characteristics, but <b>will not make any sustainable investments</b>

### 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 Net Asset Value in fixed income securities that exhibit positive or improving environmental ("E"), social ("S") and governance ("ESG") characteristics. The E and S current state scores are established using a proprietary industry-based scoring technique, utilizing baseline industry evaluations and adjusted for internal underwriting conclusions. The Investment Managers' consideration of factors when deriving a score is based on financial materiality and will encompass any number of E or S characteristics. More detail regarding the methodology is outlined below.

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 indicators used to measure the attainment of the environmental and social characteristics promoted by the Fund will be:

1. The percentage of the Fund's Net Asset Value invested in fixed income instruments of countries that exhibit positive or improving ESG characteristics; and

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



financial product are attained.

2. The percentage of the Fund's total assets in countries that exhibit strong or improving human development conditions, as measured by the United Nations HDI and calculated as an average of the five year period as of two years prior to the investment period

This is approached in both a quantitative and qualitative manner.

Quantitative:

The Investment Manager uses and analyses a proprietary and diverse selection of indicators of a country's institutional, social and environmental resilience and performance, and value ones that indicate future trends. The Investment Manager does this by:

- Gathering various selected indicators pertaining to different ESG dimensions from reliable international sources (UN, World Bank, academic institutions).
- Carefully shortlisting the most catered, unique and robust indicators.
- Assessing how the country performs relative to peers and itself over time.

Qualitative:

The Investment Manager assesses the policy framework (i.e., country management, and predictability of policies for sustainable financial performance) by:

- Visiting countries to take stock of important aspects of political, social and environmental evolution, and macroeconomic factors. These are often material in driving a country's creditworthiness.
- Regularly informing its country analysis based on latest data release and policy changes in the ESG space.
- Conducting semi-annual ESG country rating discussions, informed both by indicators and qualitative assessments. These rating decisions are based on in-depth debates around governance, institutional, social and environmental developments. The diversity of the team's background, and its collective personal and historical knowledge of political systems across the world, provides the Investment Manager with a unique perspective.

- **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.*

The Fund does not commit to any minimum level of Taxonomy alignment in their underlying investments; as such, 0% of the Net Asset Value of the Fund shall be invested in such investments.



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

- ☒ **Yes,** Principal adverse impact indicators are incorporated in the monitoring and analysis of sovereign debt that this Fund invests in. The Investment Manager monitors detailed statistics on carbon intensity of the countries in its investable universe, and has developed its own proprietary metrics of carbon intensity that it believes are the most relevant and adequate to assess the performance of Emerging Markets sovereigns in its investable universe. In addition, the Investment Manager performs detailed social analysis that allows it to track how Emerging Markets sovereigns perform in terms of social performance. This has led to negative screening and exclusion decisions based on poor social performance. Another important point is that the Investment Manager has established an exclusion list composed of countries in which, according to its assessment, ESG performance is so poor that it will affect any sustainable investment in the country in the short and medium term. Further detail on the principal adverse indicators will be available in the annual report.

☐ **No**

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

The Fund will invest primarily in an actively managed globally diversified portfolio of which at least 80% of its Net Asset Value is invested in fixed income instruments. The fixed income instruments in which the Fund invests include government bonds, covered bonds, global corporate bonds, notes (such as medium term notes and treasury notes), debentures, government obligations and sovereign issues and commercial paper. The Fund may invest in Investment Grade and up to 20% of the Fund's Net Asset Value in Sub-Investment Grade fixed income instruments; and up to 10% of its Net Asset Value in securities issued and/or guaranteed by a single sovereign (including its government, a public or local government of that country) which is rated Sub-Investment Grade. The Fund's weighted-average portfolio duration is expected to be greater than 1 year at all times. The Fund may invest in money market instruments, such as short term commercial paper, bankers' acceptances, bank notes, government securities and certificates of deposit, pending investment of subscription monies or payment of redemption proceeds or for temporary defensive purposes, where the Investment Manager determines that such holdings are in the best interests of Shareholders.

Where an eligible investment is split-rated, the higher quality rating will apply in order to determine eligibility for the Fund. Where an eligible investment is not rated by an internationally recognised rating agency, the Investment Manager may determine its own assessment of credit quality and assign an agency equivalent rating to the asset. In the case of new issuance expected ratings may be used and further issuer level ratings may be applied if available where security issue level ratings are unavailable. Subordinated issuer level ratings may also be used for unrated subordinated instruments. The Fund will invest at least 50% of the Fund's total assets in fixed income instruments of countries that exhibit positive or improving environmental, social and governance (ESG) characteristics. The Fund will also invest at least 75% of the Fund's total assets in countries that exhibit strong or improving human development conditions, as measured by the United Nations Human Development Index (HDI) and calculated as the average of the five year period as of two years prior to the investment period. Further detail of the Investment Manager's ESG policy for the Fund is available on the Manager's website at [www.barings.com](http://www.barings.com).

The Fund may invest in units and/or shares in collective investment schemes (subject to a limit of 10% of Net Asset Value) where such investment is consistent with the investment objective of the Fund.

The Fund may engage in transactions in FDI principally for investment, efficient portfolio management and/or for hedging purposes and subject to the limits laid down by the Central Bank. The Fund may use futures, options, warrants, currency forward contracts and swap agreements, including total return swaps. Such FDI will provide exposure to the asset classes detailed in the Fund's investment policy. The Fund seeks to attain its underlying exposure for investment purposes principally via direct asset purchases as opposed to via FDI. Such transactions may leverage the Fund and may establish speculative positions. This may result in a higher level of volatility and risk.

The Fund seeks diversification by market sector, industry and issuer. The Investment Manager will select individual investments based on an analysis of the value of the relevant investments as compared to other similar investments within the identified industry sectors and geographies which offer the best risk to reward opportunities. The Investment Manager determines where favourable value exists based on fundamental, bottom up analysis and assesses this value on a relative basis to other investment alternatives. The Investment Manager reviews country risk through macroeconomic health and political stability or unrest. In identifying and implementing trade ideas based on the preferred allocations, the Investment Manager takes into consideration investment guidelines, benchmark and risk budget criteria. The Investment Manager will only buy a security if it satisfies the Fund portfolio's return objectives and risk parameters, and if a relative value assessment deems the security to be appropriately priced. Once a position is added, it is monitored daily for its fit in the Fund's portfolio. A decision to sell a security is typically prompted by one or more of the following:

- the original thesis has either changed materially or simply has not worked out as expected;
- valuations on a particular issue have improved or deteriorated to a level where trading into another issue improves the risk and / or return profile; or
- macro conditions dictate either adding or reducing exposure to certain sectors or issuers within the portfolio to express a broader market view.

Although the Net Asset Value of the Fund is expressed in USD, the relative attraction of investments denominated in other currencies is a major consideration of the Investment Manager.

The Fund also promotes ESG by investing or seeking to positively influence practices to improve ESG characteristics described in further detail below. In particular, countries that exhibit positive or improving ESG characteristics are selected through the Investment Manager's proprietary research which is supported with the use of third party country and issuer-specific ESG data such as MSCI ESG, Sustainalytics and Bloomberg ESG, United Nations Human Development Index, Haver Analytics, the World Bank and the International Monetary Fund. In addition, the Investment Manager meets with the relevant bond issuers in the countries in which it seeks to invest to discuss a range of topics, including ESG issues, and may also carry out a thorough risk assessment of the relevant country.

For each asset, the Investment Manager examines the scores of the indicators to determine a country's sustainability over time and considers relevant shocks that may have impacted the scoring. Scoring indicators are used to determine whether investee countries exhibit positive or improving ESG characteristics and focus on government policies including environmental (carbon footprint, ecological footprint, waste management) social (guaranteed minimum income, poverty indices, education spending) and governance (government effectiveness, fragile states index, statistical capacity) assessments to screen countries where ESG standards are positive or improving. The approach consists of a threefold analysis determining a government's capacity and willingness to provide for:

- its population which is measured through the assessment of public opinions and surveys (such as the OECD satisfaction data, the World Values survey), the effective redistribution of resources (such as guaranteed minimum incomes thresholds, a commitment on educational spending) and whether a populations basic needs are met (examining data from the Global Multidimensional Poverty Index, the poverty headcount ratio);

- its resilience to shocks which is measured through the attainment of decreasing sensitivity to international shocks (such as the implementation of disaster risk reductions), participating in international efforts (i.e. a signatory to international conventions and protection of the environment to try and eliminate potential environmental disasters) and the domestic efforts at preserving the environment (through the assessment of internal policies and the execution of such policies); and
- its ability to grow sustainably which is measured by its stability to grow (examining data from the Fragile States Index, the Armed Conflict Location & Event Data project (ACLED)) and the assessment of governing with growth oriented policies.

These indicators, as well as the Investment Manager's specialised country expertise, are placed into the Barings sovereign ESG capacity and willingness framework (the "Framework") to determine the country's current sustainability as well as potential trends that should be considered from an ESG perspective. The Framework's focus is on ESG analysis specific to sovereign credits and forms the basis for analyst conversations around ESG ratings, as well as more in-depth case studies for particularly complex or timely credit decisions. Using the Framework, countries are assigned a current state ESG score assessing the current sustainability profile of the issuer and a trend score analysing momentum of a country's performance on environmental, social, and governance categories. Investee countries will be considered as being "positive" if they have a higher current state rating. Investee countries will be considered as being "improving" if they have a moderate current state rating and a higher trend score. Countries with the lowest current state rating cannot be purchased. The HDI measures the average achievement in key dimensions of human development. Countries with strong human development conditions represent countries with more developed governance, education, and healthcare resulting in higher overall human development scores. Countries with improving human development conditions represent countries with HDI scores which are trending upwards over time.

The Investment Manager also believes that it can use its influence to effect positive change and improve ESG disclosure through active engagement with issuers and has adopted an active management policy in relation to ESG topics. The Investment Manager has a preference to focus on engagement to improve issuer behaviour through arranging meetings with the issuers in which it is seeking to invest. The engagement process is built on robust analyst knowledge around the ESG challenges specific to each issuer covered. Each analyst is active in the ESG ratings strategy and aware of the steps necessary for sustainable growth paths in their respective covered countries. Engagement is therefore based on country specificities and analysts will conduct one-on-one calls with issuers in which they ask specific ESG-related questions around, for example, climate resilience, employment growth strategies and data availability and transparency. In addition, the Investment Manager has spearheaded more formal engagement with the Emerging Markets Investors Alliance with the goal of these individual and joint engagements to encourage issuers to consider policy improvements that are beneficial to long-term sustainability and resilience for the economy and the population.

In terms of reviewing the issuers in the portfolio from an ESG perspective on a regular basis, the frequency of update for each country depends on its significance in the portfolio and the Benchmark, but ESG scores are reviewed for all countries under coverage at least twice a year by the Investment Manager's Sovereign ESG Committee, which comprises all sovereign analysts within the Investment Manager. HDI scoring is calculated at least quarterly, where improvement is defined as having improved by more than five percentage points in the last ten years.

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 fixed income instruments of companies and countries that exhibit positive or improving environmental, social and governance characteristics and at least 75% of the Fund's total assets in countries that exhibit strong or improving human development conditions, as measured by the United Nations HDI and calculated as an average of the five year period as of two years prior to the investment period. The investment minimum of 50% is ensured by virtue of the Investment Managers' proprietary ESG scoring methodology whereby a rating is utilised to define assets. Pursuant to the ESG scoring methodology, issuers are assigned a 1–5 (excellent to unfavourable) current state ESG rating and a 1–3 (Improving to Deteriorating) ESG outlook rating for environmental, social, and governance categories.

**Commented [RM1]:** Barings please note that we have included this here which comes from the Global Bond supplement, and differs to the Em Mkts Sovereign base template

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

Not applicable.

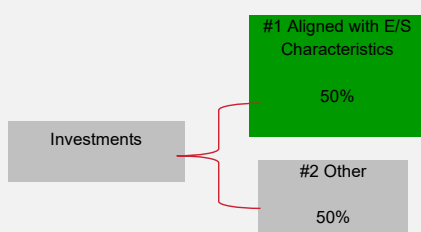
- **What is the policy to assess good governance practices of the investee companies?**

As the Fund primarily invests in bonds, the Investment Manager's team assesses the entities' governance by reviewing governance indicators including effectiveness, political stability, regulatory quality, control of corruption, amongst other factors, as well as how they compare versus peers. This is an integral aspect of the Investment Manager's underwriting process and factors in how the Investment Manager rates and/or invests in bonds.

**Commented [RM2]:** We amended this section as the Em Mkts Sovereign base refers to a sovereign focus here

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

The Fund will invest at least 50% of its total assets in fixed income instruments of companies that exhibit positive or improving environmental, social and governance (ESG) characteristics, whilst the remaining 50% will be cash, cash equivalents, hedging instruments and in investments which are neither aligned with the environmental or social characteristic, 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.

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
- **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.

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

Not applicable.

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

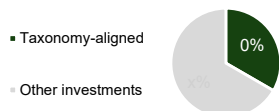


**To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?**

As shown in the graph 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\*



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



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

**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.

 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 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.



- **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?**

Holdings that qualify as being aligned with E/S characteristics are those that, based on the Investment Manager's internal rating methodology, are considered to be countries that exhibit positive or improving ESG characteristics. Holdings that do not meet this qualification would be part of the “#2 Other” bucket and would be held in the portfolio due to 1) a weak ESG starting point with potentially positive catalysts or 2) rate poorly from an ESG perspective but valuations suggest that the investment offers a strong risk/reward for the portfolio. The Investment Manager does exclude the worst performing ESG performers in the Fund's universe, per its in-house ESG ratings process. 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 focusses on the creditworthiness of these parties, which can be impacted by sustainability risks.



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

- **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?**

No specific index is designated as a reference benchmark to determine whether the Fund is aligned with the environmental characteristics that it promotes.

- **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 relevant product page for the Fund at [www.barings.com](http://www.barings.com)