Responsible Investment Policy

Contents

Philosophy

At Affirmative Investment Management (AIM), responsible investment is integral to everything we do. Our mission is to manage fixed income portfolios that generate both financial returns and meaningful and positive environment and social impacts. We invest for impact, with all investments supporting the Paris Agreement and/or the UN Sustainable Development Goals.

We believe in positive selection of securities, integration of environmental, social and governance (ESG) standards, application of exclusionary criteria and support for allocating capital to issuers transitioning to a low carbon economy and generating positive environmental and social impact.

Our investment beliefs

- We believe we can generate both mainstream investment returns and deliver positive environmental and social impact.
- We believe countries, organisations and companies with higher ESG standards will have more sustainable business models.
- Our view generation is underpinned by research, both fundamental macro-economic research and credit research.
- Portfolio construction, risk management and operational infrastructure are integral to successful fixed income portfolio management.
- Debt holdings play an important role in investment portfolios and are critical mechanisms for positive change and transition to net zero.

Our impact investment beliefs

We believe in focus, engagement, collaboration and transparency.

- Focus: We seek to do one thing at a level of excellence rather than many things. We manage fixed income portfolios that seek to generate market returns plus financial alpha that also have a net positive environmental and /or social impact.

- Engagement: We actively engage with potential and current impact bond issuers and intermediaries to promote the development and maintenance of standards that will ensure a high level of transparency and a clear ongoing commitment to positive environmental and/or social impact. Our goal is to work with issuers and intermediaries to encourage ambition, enhance impact reporting and harmonise post issuance disclosure in the impact bond market.

- Collaboration: We believe positive change is only truly meaningful when it is shared. We actively collaborate with global sustainability experts and initiatives to support collective action.

- Transparency: We expect high levels of transparency from issuers and hold ourselves to the same standards. Our annual Impact Report underpins our commitment to transparency to our clients.

UN Principles for Responsible Investment

We actively incorporate the UN Principles for Responsible Investment ("Principles'), into our business and
investment process.

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

- Principle 6: We will each report on our activities and progress towards implementing the Principles.

Our verification approach

Verification is the structured and detailed assessment process undertaken by our credit and sustainability teams to determine whether an issuer or security has sufficient positive impact to enter our investable universe. It is a key facet of our approach to impact investing. Over the years we have established, developed and refined our proprietary verification framework, SPECTRUM, and it will continue to evolve. SPECTRUM provides the credit and sustainability teams with a framework to structure a detailed assessment around. It is an active, forward-looking framework, leveraging the expertise and judgement of our experienced team of analysts. SPECTRUM uses a positive selection approach to identify and screen both issues and securities for meaningful and measurable impact. We only invest in bonds that fulfil our proprietary SPECTRUM criteria.

S USTAINABLE	Aligned with our purpose to support the UN SDGs and Paris Agreement on Climate Change.
P OSITIVE EXTERNALITIES	**Positive environmental and/or social externality** associated with their issuance. *Criteria include: social and environmental sectors, geographical and socio-economic context, policy and strategy context.*
E THICS & ISSUER CONDUCT	Issuers must have appropriate **governance**, policies and operational conduct. *Criteria include: human resources management, tax transparency, marketing practices and technology resilience.*
C REDIT	Issuers must be **credit worthy** from a financial perspective. *Criteria include: industry outlook, competitive position, country risk.*
T RANSPARENT	Clear and **transparent** investment policies and processes on reporting and disclosure. *Criteria include: disclosure of project portfolio, project assessment disclosure, commitment to output reporting.*
R ESPONSIBLE ISSUER	Issuers with **strong integrity and ESG standards**, as well as a clear commitment to a sustainable model. *Criteria include: positive ESG policies, programs and performance.*
U SE OF PROCEEDS	Ability to determine **use of proceeds** in the issuer framework to assure funded activities meet the AIM criteria. *Criteria include: separate accounting for impact bond proceeds, external review, project alignment.*
M EASURABLE IMPACT	All securities must offer mainstream market yields and provide reporting on the **material & measurable** environmental and social impacts. *Criteria include: impact KPIs, baseline and target disclosures, impact reports to stakeholders.*

ESG integration

We believe that environmental, social and governance (ESG) issues are critical and can influence investment risk and return. We integrate ESG considerations into our investment analysis through the SPECTRUM process.

We believe that it is equally important to apply ESG analysis to issuers of bonds as it is to the projects funded by the bond itself. ESG factors include environmental impact reporting, climate change strategies and targets, labour standards and relations, board diversity, equality of opportunity, human rights, global supply chain management, diversity, marketing practices (including demand-side management to shape responsible consumption), corporate governance, business ethics and integrity. We consider policies, programs and performance in our ESG analysis.

Engagement

Why we engage

As a specialist in fixed income impact investing, we view engagement as an integral part of our impact investing strategy, and it forms the foundation of our SPECTRUM process. We actively engage with potential and current impact bond issuers to promote the development and maintenance of standards that will ensure a high level of transparency and a clear ongoing commitment to positive environmental or social impact. Our goal is to work with issuers to enhance impact reporting in the market and to harmonise post issuance disclosure. We also engage for market development, participating in market initiatives and working groups, supporting collaborative investor statements and responding to investor surveys. This is an effective way to encourage best-practice development of the impact investing market, particularly as collaborations increase the weight of our voice. Working groups also provide important learning opportunities for our team.

Our engagement can be classified into five different categories:

1. Engaging with issuers at roadshow to gain further details on an issuer's framework such as choice of eligibility criteria, commitment to impact reporting, and on their ESG-related policies and performance. We engage with issuers that end up being included and excluded from our investable universe.

2. Engaging with issuers about impact reporting during our annual impact reporting data collection cycle, we engage with held issuers to confirm details or get further information related to the allocation and impact of their labelled bonds.

3. Updates / thematic engagements with issuers are carried out as necessary. We will engage with issuers on a specific theme or issue. For example, this could be a particular theme we want to learn more about, a controversial project that has been financed through a labelled bond, or an issuer-level ESG concern.

4. Market development engagements through participation in market initiatives and working groups, supporting collaborative investor statements and responding to investor surveys.

5. Engaging with intermediaries often through brokers contacting us with questions about issuer best practice or feedback on labelled bond frameworks or the quality of issuer impact reporting. Providing feedback on frameworks and reporting is an important way to improve market practice.

Objectives of engagement

The impact bond market is relatively new. Our goal is to help the market grow quickly while avoiding greenwashing or the weakening of standards. During our dialogue with issuers and the broader market, we advocate high standards in environmental and social criteria.

Examples of key topics from our engagements:

- Business ethics and tax transparency.
- Human rights and community relations.
- Climate risk management aligned with TCFD.
- Governance factors such as board independence and diversity.
- Issuer strategy in relation to global climate and SDGs.
- Transparency of green and impact bond frameworks.
- Process of use of proceeds management.
- Eligible project criteria.
- Impact reporting practices and methodologies.
- Annual sustainability reporting.

Engaging as a bondholder

We believe that establishing dialogue with issuers is part of being an active owner of bonds. While active ownership and engagement are typically associated with equity investors, bondholders, as providers of capital to issuers, are also able to influence practices. In this context, we use our position to advocate for fair, responsible and sustainable business practices.

As bondholders, our avenues for engagement differ from equity holders. While shareholders may vote proxies at company general meeting to express views, bondholders typically have no formal avenues for feeding back to an issuer. Therefore, we take the opportunity to enter into dialogue with issuers on key topics, such as environment, social and governance risk management, during roadshow meetings. In addition to the roadshow meeting cycle, we pro-actively engage through calls, letters and in-person meetings with issuers to influence where practices have fallen short of our expectations, concerns have been raised because of controversies or impact reporting is not sufficiently transparent for our in-house portfolio calculations.

Reporting on engagement

Our annual Impact Report includes measurement and reporting on our engagements for the year. We give both quantitative and qualitative information to provide a complete picture of our engagement activity.

Impact Reporting

We deliver an annual Impact Report for each portfolio to provide evidence of the positive environmental and social impacts of the investments made, For example, our annual Impact Reports include:

- Calculation of portfolio greenhouse gas emissions avoided.
- The portfolio's Weighted Average Carbon Intensity (WACI).
- Portfolio alignment with UN SDGs.
- Case studies of the projects supported.
- Sector, geography and number of projects supported.
- A variety of other impact metrics selected depending on the projects supported.

Our Impact Reports are based primarily on impact data collection from issuers. We collect the most granular data available, aiming to collect project level information wherever possible. Engagement with issuers and collaborations with research partners also feed in important information to our impact reports. For example, we developed the Carbon Yield methodology with ISS ESG and Lions Head Global Partners, funded by The Rockefeller Foundation.

In addition to our annual Impact Report, we provide quarterly reports which include example profiles on issuers and issuance held within the portfolios.

Exclusionary Criteria

Issuers and issuances must meet our SPECTRUM Bond® criteria to be eligible for the investment universe that is used to build AIM portfolios.

We would exclude investments in corporate issuers that:

- Are involved in manufacturing and wholesale trading of tobacco products.
- Are involved in the manufacture or sale of weapons and/or ammunition.
- Are involved in gambling operations.
- Are involved in thermal coal mining or production.
- Are involved in exploration or extraction of unconventional oil and gas.[1]

On a best effort basis, we seek to apply these exclusion policies with a zero-tolerance threshold. We expect issuers to have robust policies and reporting around their own excluded sectors.

For non-corporate issuers, such as sovereigns, states and agencies, we review sanctions lists and avoid poor ESG performers as characterised by international organisations, such as The United Nations, The World Bank Group, International Monetary Fund, World Economic Forum and others. Overall, we examine sovereigns, states and state-controlled institutions and agencies on a case-by-case basis under our SPECTRUM Bond® criteria rather than have a rigid exclusion checklist.

Definition of "involvement" – Issuers that are doing the production or manufacture of tobacco, ammunitions, weapons, gambling. This would be our zero-tolerance exclusion. In terms of banks/financial institutions that provide any form of financing to these entities, they would not trigger an automatic exclusion as they would be outside our definition of 'involved in' but we should examine them on a case-by-case basis through our SPECTRUM process.

Portfolio Screening

Sanctions

We monitor issuers under UN, EU and U.S sanctions. These issuers are updated and loaded into our investment management solution on a monthly basis, where coded compliance rules are in place to ensure our portfolio management team are alerted and blocked from transacting on those issuers at the earliest opportunity.

We also maintain the ability to run any of our portfolio holdings through sanctions screening at the holding level at any time.

Controversies

We monitor issuers for controversies including breaches of the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles for Business and Human Rights. Held issuers are run through a screening tool on a quarterly basis and interim alerts are in place to ensure we receive up to date information about any new breaches. A breach would trigger a rescore of the issuer using the SPECTRUM process, which would most likely involve engagement. Rescoring would assess whether a breach had occurred and therefore whether the issuer should be excluded from the SPECTRUM universe.

[1] Including tar/oil sands, shale gas and oil and arctic oil and gas.

Divestment Criteria

If updated research moves an issuer / security from suitable for inclusion in our investable universe to unsuitable for inclusion, the Sustainability or Credit team removes it from our investable universe. In the case where we are currently invested in a security which is to be removed from the investable universe, the Portfolio Management team has 30 days to sell the security, unless, with the approval of the Investment Committee, we believe that selling in that time frame would be detrimental to client interests, in which case an extension would be authorised.

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