A member of Prudential plc (UK)

EASTSPRING INVESTMENTS FIXED INCOME ENVIRONMENTAL, SOCIAL AND GOVERNANCE GUIDELINES

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BACKGROUND

Traditional credit research framework has focused on analysing the business and financial profile of an entity with investment risks examined across various spectrum of issues including industry fundamental, market position, management strategy, profitability, cash flow, leverage and liquidity as well as organisation/ bond structure.

Over the last decade, the investment community has been putting more emphasis on responsible investing and the incorporation of environmental, social and corporate governance (ESG) analysis into investment decisions to better manage risk and generate sustainable long term returns.

ESG ANALYSIS PROCESS

Assessment and monitoring of ESG factors are an integral part of our bottom-up credit research process. Our focus is on ESG issues that are material with regards to the issuer's credit fundamentals, i.e. those that have current or potential future impact on its operating or financial performance (through fines and compensations, operational disruption, reputational loss, reduced access to financing etc), its risk of default, and the valuation of the bonds it issues.

To truly incorporate ESG into fundamental analysis requires a more structured approach with focus on industry or region specific ESG risks or opportunities that the issuer faces (including materiality of the risks and how the materiality changes over time) and how prepared the issuer is in dealing with these ESG issues (which would depend on its policies and mitigating actions). It would also involve assessing the issuer's ESG practices relative to peers and how these may change over time.

It is important to recognise that different industries face different sets of ESG risks and the materiality of the same ESG risk factor varies. Some sectors such as metals & mining and chemicals may have high exposure to both social and environmental risks. Governance risks may be more prevalent in countries where regulations, reporting requirements, bankruptcy laws, and accounting standards are still developing or where the compliance and enforcement of such regulations or standards are weak.

It is also necessary to consider how the materiality of these ESG risks may change over time with shifts in regulations (e.g. more stringent emission standards), evolution of operating models (e.g. digitization increases data security risks) or change in government policies (e.g. stricter oversight of the financial sector).

The evaluation of the issuer's preparedness to deal with these ESG risks would take into consideration its policies and actions with regards to these risks (e.g. installation of emission reduction or waste recycling equipment, shifts to renewables, health & safety standards, board representation, anti-bribery and corruption policies). How the ESG practices or policies change over time is also something that needs to be considered.

Implicit in our approach is that we do not screen out companies solely on the basis of perceived ESG issues. Whilst the approach does not prohibit us from purchasing or holding a security based purely on an ESG issue, a consideration of these implications forms an integral part of our investment decision.

Our assessment and ongoing monitoring of ESG factors incorporates information obtained from both public sources (including financial/sustainability reports, news/media etc) and direct interaction with the companies, as well as from third-party ESG analysis providers, to assist us in identifying relevant ESG issues.

CORPORATE ENGAGEMENT

As a debt holder, we are not owners of the company we invest in and hence are not able to vote on key company matters. Nonetheless, we seek to influence a company's behaviour on ESG related issues by highlighting the relevant ESG risks during our interactions with management, and encouraging the company to adopt a more proactive approach to address these risks.

KEY ESG CRITERIA CONSIDERATIONS

Environmental
- **Greenhouse gas and other air emissions**
- **Water stress and pollution**
- **Waste management**
- **Biodiversity and ecosystem**
- **Energy use and management**
- **Climate change vulnerability**
- **Product carbon footprint**
- **Transportation and logistics impact**

Social
- **Labour and human capital management**
- **Community/stakeholder relations**
- **Workplace health and safety**
- **Product responsibility and customer service**
- **Privacy and data security**
- **Health and demographic risk**

Governance
- **Board composition and independence**
- **Anti-bribery and corruption**
- **Executive and employee remuneration**
- **Shareholder and creditor rights**
- **Related party transactions**
- **Transparency, reporting and accountability**

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These matters can directly impact company's performance;

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Governance
- **Revenue and profitability**
- **Cost of capital**
- **Leverage and liquidity**
- **Demand for its product and services**
- **Operational efficiencies**

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Which gets reflected in the fixed income market;

Indicators of Credit Risks
- **Credit ratings**
- **Bond yield**
- **Default probability**
- **Breach of covenant terms**