

ESG Policy

Introduction

Affirmative Investment Management (AIM) is a private company, majority owned by employees, managing fixed income portfolios that generate environmental and social impact, without compromising returns. As a responsible impact investor, our vision is to mobilise capital to address the major challenges the world faces. Our mission is to move large scale capital into investments promoting environmentally and socially resilient communities, to support the 2015 UN Sustainable Development Goals (SDGs) and to support the global COP 21 Climate Change Accord to limit global temperature increases to 2 degrees Celsius. By establishing and growing an organisation that is concentrated on broadening and deepening the impact bond market, we believe impact investing can become a significant focus of the \$100tn global debt market¹. We promote robust verification, reporting and active engagement to ensure repeatable performance and sustainable impact.

ESG Integration

Our goal is to invest in fixed income and cash instruments that deliver both competitive returns and effect positive environmental and social consequences. 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 a robust and disciplined approach involving in-depth credit research and sustainability verification of both issuers of bonds and issues.

ESG analysis is core to our investment process. Our investment process starts with our verification evaluation of both issuers and their issues, which includes both sustainability and credit assessments. The ESG credentials of the issuing entity are evaluated against each pillar in our SPECTRUM process (outlined below) with respect to both sustainability and credit. In addition to evaluating the impact of use of proceeds, our sustainability evaluation of the SPECTRUM process has a dedicated section to analysing ESG policies, programmes and performance of the issuer. Our credit criteria also include ethics and issuer conduct, which focusses on appropriate governance, policies and operational conduct of issuers.

We analyse all green, social, sustainable and aligned bonds for their adherence to our ESG criteria. Issuers and issuances must meet the SPECTRUM Bond® criteria to be eligible for the investment universe that is used to build AIM portfolios. The SPECTRUM Bond® eligibility criteria are:

SUSTAINABLE	Aligned with our purpose to support the UN SDGs and Paris Agreement on Climate Change
POSITIVE EXTERNALITIES	Positive environmental and/or social externality associated with their issuance. <i>Criteria include: social and environmental sectors, geographical and socio-economic context, policy and strategy context.</i>
ETHICS & ISSUER CONDUCT	Issuers must have appropriate governance , policies and operational conduct. <i>Criteria include: human resources management, supply chain, business ethics, tax transparency, marketing practices and technology resilience.</i>
CREDIT	Issuers must be credit worthy from a financial perspective. <i>Criteria include: industry outlook, competitive position and country risk.</i>

¹ Source: BIS

TRANSPARENT	Clear and transparent investment policies and processes on reporting and disclosure. <i>Criteria include: disclosure of project portfolio, project assessment disclosure, commitment to output reporting.</i>
RESPONSIBLE ISSUER	Issuers with strong integrity and ESG standards , as well as a clear commitment to a sustainable model. <i>Criteria include: positive ESG policies, programs and performance in areas such as environment, climate change resilience, carbon footprint, human rights, diversity and inclusion, board accountability of ESG/sustainability etc.</i>
USE OF PROCEEDS	Ability to determine use of proceeds in the issuer framework to assure funded activities meet the AIM criteria. <i>Criteria include: separate accounting for impact bond proceeds, external review and project alignment.</i>
MEASURABLE IMPACT	All securities must offer mainstream market yields and provide reporting on the material & measurable environmental and social impacts. <i>Criteria include: impact KPIs, baseline and target disclosures and impact reports to stakeholders.</i>

We believe that it is equally important to apply ESG analysis to issuers of bonds as it is to bond projects. ESG factors include, among others, 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.

Our ESG analysis is framed under defined sustainability-focused environmental and social sector criteria for our eligible investment universe on a positive selection basis. The environmental sectors include energy, resource efficiency, infrastructure, land-management, water resource management and marine environment and fisheries. The social sectors include global health, financial inclusion and sustainable enterprises, education, training and employment, food security, empowerment of women and vulnerable groups and social housing. We may reassess these criteria, particularly when there is new information or emerging global challenges come forward.

Our SPECTRUM Bond® process is aligned with the 17 **UN Sustainable Development Goals**, which aim to eradicate poverty, fight inequality and tackle climate change. Goal 17: Partnership for the Goals, includes private sector engagement in sustainable development, particularly in developing countries, which is core to AIM's mission.

ESG Engagement

Engagement with issuers, including corporates, governmental agencies, non-governmental agencies, sovereigns, and supra-nationals, is core to our process throughout every stage of our SPECTRUM analysis. It is the bedrock of our business and underpins our investment process. We work with key stakeholders to support asset class growth and to ensure quality impact measurement. We actively engage with the market to promote the development and maintenance of standards that will ensure a high level of transparency and a clear ongoing commitment.

ESG Exclusion Criteria

We seek to avoid investing in bonds with major recent or ongoing material ESG controversies related to activities funded with proceeds. We also exclude corporate issuers significantly involved in tobacco, firearms, weapons, gambling and coal. For non-corporate issuers, such as sovereigns, states and agencies, we seek to avoid sanctioned entities and poor ESG performers. For more details, please see our exclusion policy on our website.

Impact Reporting

We deliver an annual Impact Report for each portfolio, which includes portfolio alignment with UN SDGs and an assessment of portfolio Greenhouse Gas Emissions avoided. Our impact reports are based on on-going engagement, including in ESG issues, and impact data collection from issuers and expert sources. For example, we developed the Carbon Yield metric with ISS Ethix 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.

Industry Leadership

We are a UNPRI signatory, member of ICMA (Green Bond Principles), partner of the Climate Bonds Initiative, a member of US SIF (The Forum for Sustainable and Responsible Investment) in the United States and a member of RIAA (Responsible Investment Association Australasia). We are committed to enhancing best practice across the industry and seek to do this by supporting responsible investment initiatives and developing industry methodologies. We developed an open source methodology to calculate the Carbon Yield metric with ISS-Ethix Climate Solutions and Lion's Head Global Partners, which was funded by The Rockefeller Foundation, as well as our own internal processes across verification and reporting. Our partners and team members are widely required to present on the subject and participate in industry workshops.

Corporate Sustainability

As a dedicated impact fixed income manager, sustainability is a key element of our company mission and integral to everything we do. Our corporate sustainability comprises four focus areas: our people, our clients, our climate and our community.

Our People

Our greatest asset is our people. We know that a high-performing team requires diversity of thought. This is why we have created, and continue to cultivate, an environment which promotes inclusion, flexibility and wellbeing, and encourages opportunities to learn and develop, individually and as a collective.

Our Climate

Our vision is to mobilise mainstream capital to address the major challenges the world faces. The greatest challenge of our generation is climate change. We are dedicated to reducing our carbon footprint and to being operationally carbon neutral.

Our Clients

From the production of our materials to bins around the workplace, we recycle as much as possible. All our booklets, if printed at all, are produced by an FSC-certified source using 100% recycled material. In our offices, we have on-side processes for the separation, collection and recycling of different types of waste materials. We recycle all paper, cardboard, printer toner cartridges, drinks containers and other items.

Our Community

We realise we cannot achieve our vision alone. We actively engage with our community through a number of initiatives, such as publishing our insights, collaborating with market specialists, participating in working groups and actively working with bond issuers to assist them in developing their frameworks.