

## **ESG and sustainability-related disclosures**

Stone Harbor engages in fundamental analysis that integrates a review of ESG factors to evaluate the creditworthiness of issuers in which each Fund may invest. As set forth in their respective investment policies, certain Funds may apply additional screens to further ensure that the Fund promotes sound ESG characteristics and practices through the mix of issuers in which it invests.

Stone Harbor believes that sustainability factors are critical elements of thorough fundamental credit analysis. Stone Harbor considers engagement with issuers and policymakers to be an important component of such analysis, and an important aspect of its fiduciary responsibility to the Funds. Through its investment decision making and active engagement as a market participant, Stone Harbor aims to create incentives for corporate and sovereign issuers to improve their ESG performance and thereby ultimately support their economic development and financial results. Although ESG factors cover a broad range of topics, Stone Harbor has identified certain key sustainability risks that it believes are important to consider when conducting credit analysis.

In our assessment of the sustainability risk of a particular credit, our ESG research draws on a variety of inputs, both quantitative and qualitative. Stone Harbor has developed a proprietary ESG scoring model that combines a large set of climate other ESG indicators using quantitative data from independent institutions to derive ESG scores, including for specific ESG factors that impact sovereign issuers (e.g. greenhouse gas emissions, corruption, civil rights, etc.). This quantitative data is supplemented by commercial data sources (e.g. Sustainalytics), providing both quantitative scores and qualitative insights.

Stone Harbor has also developed an internal scoring system to evaluate corporate issuers. Investment analysts grade portfolio credits in each major ESG vertical in terms of both intrinsic company risk and management performance against their industry benchmarks. Research is based on critical drivers in each particular sector (e.g. pollution control, supply chain management, labour and community relations, product safety, data protection, board independence, and transparency of management's goals, policies and performance), relying on qualitative and quantitative information to develop an internal ranking of credits. This scoring system aims to assign proprietary quantitative ESG ratings to reflect a credit's ESG risk and performance, and facilitate discussion and comparison across industries and rating services.

Although Stone Harbor is not prohibited from purchasing or holding a security due to an ESG factor or rating unless otherwise specified in the investment policies of a Fund, consideration of these issues is generally a part of every investment decision nonetheless. There may be instances where a credit currently scores poorly on ESG factors, which do not preclude an investment or require an existing position to be sold. In instances where a Fund holding has been assigned a weaker ESG score, Stone Harbor generally would seek to confirm that the issuer has taken steps to address and improve the factors that led to a weaker ESG score.

Stone Harbor applies its ESG philosophy consistently across all asset classes, though the specific implementation varies depending on the materiality of various ESG factors for different countries or companies, developed or emerging markets, industries, and even specific issuers. Stone Harbor considers ESG factors to be financially material if they have significant potential to impact a corporate or sovereign issuer's financial results. For example, this could mean influencing potential cash flows through company-specific events or shifts in broader business conditions including legal and regulatory developments. It could involve tail risks or more likely events, and may include the risk of changing market perceptions and risk premiums for specific issuers.

Further information on the ESG factors considered by Stone Harbor in respect of the Funds can be found in its ESG Policy Statement available on this website and in the relevant prospectus.