

ESG Statement

January 2018

Our ESG Philosophy

In all of our investment strategies, Stone Harbor Investment Partners LP (Stone Harbor) views the risk factors commonly referred to as Environmental, Social and Governance (ESG) as integral components of our investment process. These sustainability factors are elements of thorough credit analysis, the basis for all Stone Harbor investment decisions. Our broader belief is that we serve our clients best by providing them with excellent risk-adjusted returns. Analysis of ESG factors is an important input to seeking those returns because good returns have little value in an unsustainable world. We are pleased that ESG factors are receiving greater prominence. We believe institutional investors should be cognizant of the potential impact their investments may have on the environment, countries and populations within that may be affected by the activities of entities financed by them. In this statement, we outline the role of ESG factors in our investment process.

Incorporating ESG Factors in Our Investment Process

As a credit specialist, we are acutely aware that ESG factors can impact the financial performance of the corporate and sovereign issuers in which we invest as well as the sustainability of the world in which we live. Before we invest in a sovereign or corporate credit, we assess the ability and willingness of the issuer to service their debt. Unsound ESG policies raise the likelihood of events that could cause a credit to deteriorate significantly and as such, consideration of ESG risks always forms part of the investment analysis of our analysts and portfolio managers. We see a very high correlation between good credit quality and good management of ESG risks. Expanding our approach beyond ESG and credit, we are broadening our focus to include the role that our investment decisions play in promoting long term sustainability. This has led us to a growing awareness of the impact of climate-related risks in our portfolios.

Key ESG Risk Factors

The nature of ESG issues is that the key risks and their relative importance can vary dramatically depending on the type and time horizon of the investment opportunities. This is why our approach leans toward utilizing experience and judgment over mechanical quantitative measures. In the following sections we will describe a few areas where ESG factors influence our investment decisions within a broader context of sustainability. Some of these issues also influence our engagement activities.

Governance Risks

The most widely applicable ESG risk from a bondholder viewpoint is governance. The ability of a sovereign or corporate entity to service its debt is ultimately dependent on ensuring it has the governance structures in place to protect the interests of bondholders. Regardless of the nature of the sovereign or the country of domicile of a corporation, our analysts formally review governance factors as an integral part of their due diligence process.

Buying sovereign debt implies that the investor has full faith in the credit standing of the country. We focus on the sovereign's willingness to pay and its ability to clearly articulate how its policies are structured to protect the interests of bondholders. We also track the sovereign's commitment to policies that improve creditworthiness. This includes governance factors such as the

character of key individuals with authority over debt issuance and servicing, their policies, and their track record in terms of issues such as corruption. Other areas of governance that are also important include the robustness and integrity of the institutional framework that underlies the financial sector, including aspects such as the strength of the rule of law, and the levels of political stability and security.

At the corporate level, governance risks, particularly as they relate to the character of individuals, are arguably even more important than the case for sovereigns. This holds true across both management and corporate ownership. Ultimately, we strive to invest in companies that are good corporate citizens and that recognize their responsibilities to the societies which they operate in beyond their purely narrow legal obligations. Our own governance due diligence encompasses both management and shareholders. We examine areas such as management incentives to ensure that their actions do not disadvantage bondholders in favor of stockholders, the historical record of the treatment of bondholders, the structure of the board of directors, the nature of the shareholding structure and the reputation and track record of shareholders having dominant stakes. We have declined to participate in deals where dominant shareholders have historically behaved in ways that have been disadvantageous to debt holders.

An increasingly important aspect of governance analysis is the role of regulations – formulated by sovereigns and typically directed at corporations. Regulatory risks related to climate change are rising in our view. While we view the actual impacts of climate change to be medium to long term in nature, the potential for governments to implement regulatory actions to fulfill climate change pledges carries immediate risks for investors. An awareness of how these regulatory risks are developing and the way they may impact corporations is a growing factor in our governance assessments.

Environmental Risks

Management of downside risks arising from unexpected costs as a result of environmental issues are extremely important in certain sectors. For example, relatively low maintenance capital expenditures for extractive industries may reflect under-spending on safety and environmental issues. In these sectors, we scrutinize the attitudes of companies toward safety and their responses to lapses and accidents. This has both moral and economic implications since any catastrophe arising from a mismanagement of environmental risks would have major economic ramifications for the company, affecting its debt servicing capabilities as well as causing potential fatalities. Clearly, extractive industries are more exposed to certain environmental risks than others and sector exposures are an area of focus. We also typically examine the reputation of each company in terms of its attitudes to environmental pollution, as evidenced by its historical track record.

Social Risks

Social issues that we routinely focus on include areas such as worker rights, fair pay and adequate living standards, the composition of the workforce, and the extent and nature of unionization within the workforce of the country and sector generally and of the borrower specifically. These vary by country and typically would be more important for corporations incorporated in many emerging markets than for U.S. and Western European corporations, for example. In general, as a bondholder, our ability to influence such factors is limited. Where these social issues are inequitable, they raise concerns about the stability of the country and may impact the ability of the sovereign and corporations to service their debt.

Engagement

As a key step in our investment process, we engage with both the management of companies and representatives of sovereign debt issuers on ESG risks alongside other risks that potentially have an impact on the borrower's credit worthiness and sustainability. On underwritten deals, we only participate in transactions that we believe use highly reputable underwriters. We use these placement agents to communicate any concerns, ESG and otherwise, back to the issuer. Post-investment, we maintain a continuing dialogue with senior management of companies and sovereign policymakers through regular meetings at which our questions are fully vetted.

If on analysis, we believe ESG risks together with other financial and economic risks and threats to sustainability are not receiving adequate management attention, we will sell those investments. The net effect of sales by ourselves and our peers would likely raise spreads thereby sending a strong signal to the borrower that remedial action would be linked to lower borrowing costs.

In addition to our engagement with investee entities, we engage with clients on their ESG concerns. Beyond our analysis of ESG factors described above, we also offer clients the flexibility to implement their own additional and specific ESG requirements. Stone Harbor has the ability to tailor segregated accounts to screen for geographic, sector or stock specific restrictions and upon request, we can create security lists and concentration limits which meet a client's own ESG criteria.

Conclusions

ESG factors should be regarded as integral components of thorough credit analysis and sustainability. As such, throughout Stone Harbor's history, we have continuously researched new sources of information that add value in the analysis of all risks including ESG. This process is ongoing and as a result, we are confident that we are able to monitor, manage and minimize specific ESG risks from our portfolios to be able to satisfy our fiduciary duties to our clients and seek to achieve our objectives of producing excellent risk-adjusted returns for them.

Of Additional Note

Stone Harbor became a signatory to the UN PRI in June 2012, and as a signatory we report annually on our responsible investment activity through the PRI's Reporting Framework. Our RI Transparency Report is publicly disclosed on the PRI website.

In addition, in 2016 Stone Harbor signed the PRI Statement on ESG in Credit Ratings, which we hope will enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness by credit rating agencies.

Lastly, Stone Harbor is an investor signatory to the Carbon Disclosure Project (CDP). The CDP, leveraging its signatories and members combined clout as investors, runs a global disclosure system that enables companies, cities, states and regions to measure and manage their environmental impact. Through canvassing data from over 5,600 companies and over 500 cities, the CDP transforms the data into detailed analysis on environmental risks, opportunities and impacts. The data is made available to investors, businesses and policy makers. Further information can be found at www.CDP.net.

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