ESG and sustainability-related disclosures

The Stone Harbor Investment Partners division ("Stone Harbor") and Newfleet Asset Management division of Virtus Fixed Income Advisers, LLC (Stone Harbor together with Newfleet Asset Management, "VFIA") engage 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.

VFIA believes that sustainability factors are critical elements of thorough fundamental credit analysis. VFIA 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, VFIA 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, VFIA have identified certain key sustainability risks that it believes are important to consider when conducting credit analysis.

In assessment of the sustainability risk of a particular credit, Stone Harbor's 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.

In Stone Harbor's analysis of corporate issuers, ESG risk ratings from a third party vendor provide quantitative measures of companies' ESG risk exposure and management of ESG risks, encompassing material ESG risks, such as corporate governance, greenhouse gas (GHG) emissions, other pollution (air, water, and land), resource use, environmental and social impact of products and services, workforce management, and labor relations (e.g., non-discrimination, working hours, and minimum wages). The quantitative metrics are supplemented by qualitative inputs from a variety of sources, including meetings and discussions with company management and corporate analysts, company sustainability and media reports. A third party vendor also provides ratings on specific controversial incidents related to environmental, social, or governance matters. These metrics and qualitative insights are integrated into the fundamental credit research of the investment team. Issuers that score well are more likely to be included in the portfolio.

Although VFIA 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, VFIA generally would seek to confirm that the issuer has taken steps to address and improve the factors that led to a weaker ESG score.

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