BARINGS

Barings Europe Select Trust

SUMMARY

The Trust will seek to achieve its investment objective by investing at least 75% of its Net Asset Value directly and indirectly in equities and equity-related securities of smaller issuers incorporated in, or exercising the predominant part of their economic activity in Europe excluding the United Kingdom, or quoted or traded on the stock exchanges in Europe excluding the United Kingdom.

Smaller European issuers can be defined as those issuers which are constituents of the bottom 30% of total market capitalisation of Europe's listed issuers (this excludes issuers in the United Kingdom).

The Trust will invest at least 50% of the Trust's Net Asset Value in equities of issuers that exhibit positive or improving environmental, social and governance (ESG) characteristics. Such issuers are selected through the use of proprietary research supported with the use of third party data. This analysis is also an important driver behind the Investment Manager's policy of active issuer engagement in which the Investment Manager seeks to influence (or identify the need to influence) ESG practices and to improve disclosure. Further detail of the Investment Manager's, Public Equity: ESG Integration & Active Engagement Policy for equity funds including the Trust is available on the Manager's website at www.barings.com.

The Trust may invest up to 25% of its Net Asset Value directly and indirectly in equities and equity-related securities outside of Europe (including in the United Kingdom), as well as in larger issuers, and in fixed income and cash. Furthermore, it may also invest up to 50% of its Net Asset Value in equities and equity related securities of issuers that exhibit less positive environmental, social and governance (ESG) characteristics.

In order to implement the investment policy, the Trust may gain indirect exposure through American depositary receipts, global depositary receipts and other equity related securities including participation notes, structured notes, equity-linked notes and debt securities convertible into equities. The Trust may also obtain indirect exposure through investments in collective investment schemes (including collective investment schemes managed by the Manager or an associate of the Manager) and other transferable securities. It may also use derivatives including futures, options, swaps, warrants and forward contracts for efficient portfolio management (including hedging).

The Investment Manager considers that equity markets are inefficient and looks to identify inefficiencies through fundamental analysis. Equity investment teams at the Investment Manager share a common investment approach, best described as Growth at a Reasonable Price (GARP).

The Investment Manager considers that long term earnings growth is the driver of stock market performance and that structured fundamental research and a disciplined investment process combining growth, valuation and quality disciplines can identify attractively priced, growth issuers. The Investment Manager also considers that the best way of finding unrecognised growth is to identify quality issuers with visibility of earnings over a longer time period of five years especially as market consensus data tends to be only available for shorter term periods. The Investment Manager values issuers utilising proprietary valuation models that incorporate environmental, social and governance (“ESG”) analysis and macro considerations.

The Investment Manager’s strategy favours issuers with sustainable or improving business franchises, strong management and improving balance sheets. We regard these issuers as higher quality as they provide transparency and allow our investment professionals to forecast earnings with greater confidence. This is further strengthened through the incorporation of a dynamic and forward-looking approach to ESG analysis, with the aim to identify sustainable business practices. This empowers the Investment Manager to better assess both the potential risks facing the issuer and the opportunities presented to it, particularly those not apparent or included in traditional fundamental analysis. This should facilitate the construction of funds which exhibit lower volatility over time while propagating better ESG practices. The Investment Manager believes that ESG integration, a focus on forward-looking dynamics and active engagement is key to unlocking long-term returns in equity investments.

“Bottom up” investment analysis is therefore central to the Investment Manager’s investment thesis. However, macro concerns are integral to the Investment Manager’s issuer analysis and country and other macro factors are incorporated in the Investment Manager’s analysis through the use of an appropriate Cost of Equity, which also incorporates ESG considerations, to arrive at price targets for the equities of issuers held by the Trust or which the Investment Manager is considering purchasing.

The Trust has implemented a binding constraint into its investment policy that allocates at least 50% of its Net Asset Value in equities of issuers that exhibit positive or improving environmental, social and governance characteristics.

The sustainability indicator used to measure the attainment of the environmental and social characteristics promoted by the Trust will be the percentage of the Trust’s Net Asset Value invested in equities of issuers that exhibit positive or improving ESG characteristics. Issuers defined as having positive or improving ESG charateristics must be assessed as having a higher than average quality score, and not exceed a maximum adjustments to its Barings Cost of Equity threshold. Pre- and post-trade checks are carried out on a daily basis to ensure the Trust continues to meet the minimum threshold of 50%. Where the Trust falls below this threshold, due to market movements or because the issuers it holds no longer meet the criteria of a “green” investment, then the passive breach will be corrected at the earliest opportunity.

The Investment Manager also adopts an active management policy in relation to ESG topics and has a preference to focus on engagement to improve issuer behaviour.

The Investment Manager's investment decisions are based on internal research, which encompass both its proprietary financial forecasts and ESG assessment. The Investment Manager aims to meet with all issuers in which it seeks to invest at least annually and discuss a range of topics including ESG issues with management. The investment professional within the Investment Manager responsible for evaluating the issuer is also responsible for its ESG assessment: this is an integral part of its analysis. In addition to the Investment Manager’s in-house evaluation of ESG risks, it also has access to third party resources that provide ESG information.

In evaluating an investment, the Investment Manager is dependent upon information and data, which may be incomplete, inaccurate or unavailable. The inconsistent quality, availability and timeliness of ESG data presents both a challenge and an opportunity for the investment professionals within the Investment

Manager. Interacting directly with issuers allows the Investment Manager to generate its own insights and exploit such market inefficiencies, whilst attempting to mitigate the risks that come with them.

NO SUSTAINABLE INVESTMENT OBJECTIVE

This Trust promotes environmental or social characteristics but does not have as its objective sustainable investment.

ENVIRONMENTAL OR SOCIAL CHARACTERISTICS OF THE FINANCIAL PRODUCT

The environmental and social characteristics promoted by the Trust will be to invest at least 50% of its Net Asset Value in equities of issuers that exhibit positive or improving environmental, social and governance (“ESG”) characteristics.

The E and S evaluations are established using proprietary research based on issuer knowledge and regular management interaction. For all investment opportunities, a thorough ESG assessment is conducted using a proprietary scorecard of nine ESG topics, and a quality score, management score, and ESG cost of equity ("CoE") adjustment is assigned to each investment.

The Trust does not have a reference benchmark that has been designated for the purpose of attaining the environmental or social characteristics promoted by Trust.

INVESTMENT STRATEGY

a.) Investment strategy

The Trust will seek to achieve its investment objective by investing at least 75% of its Net Asset Value directly and indirectly in equities and equity-related securities of smaller issuers incorporated in, or exercising the predominant part of their economic activity in Europe excluding the United Kingdom, or quoted or traded on the stock exchanges in Europe excluding the United Kingdom.

Smaller European issuers can be defined as those issuers which are constituents of the bottom 30% of total market capitalisation of Europe’s listed issuers (this excludes issuers in the United Kingdom).

The Trust will invest at least 50% of the Trust’s Net Asset Value in equities of issuers that exhibit positive or improving environmental, social and governance (ESG) characteristics. Such issuers are selected through the use of proprietary research supported with the use of third party data. This analysis is also an important driver behind the Investment Manager’s policy of active issuer engagement in which the Investment Manager seeks to influence (or identify the need to influence) ESG practices and to improve disclosure. Further detail of the Investment Manager’s, Public Equity: ESG Integration & Active Engagement Policy for equity funds including the Trust is available on the Manager’s website at www.barings.com.

The Trust may invest up to 25% of its Net Asset Value directly and indirectly in equities and equity-related securities outside of Europe (including in the United Kingdom), as well as in larger issuers, and in fixed income and cash. Furthermore, it may also invest up to 50% of its Net Asset Value in equities and equity related securities of issuers that exhibit less positive environmental, social and governance (ESG) characteristics.

In order to implement the investment policy, the Trust may gain indirect exposure through American depositary receipts, global depositary receipts and other equity related securities including participation notes, structured notes, equity-linked notes and debt securities convertible into equities. The Trust may also obtain indirect exposure through investments in collective investment schemes (including collective investment schemes managed by the Manager or an associate of the Manager) and other transferable securities. It may also use derivatives including futures, options, swaps, warrants and forward contracts for efficient portfolio management (including hedging).

The Investment Manager considers that equity markets are inefficient and looks to identify inefficiencies through fundamental analysis. Equity investment teams at the Investment Manager share a common investment approach, best described as Growth at a Reasonable Price (GARP).

The Investment Manager considers that long term earnings growth is the driver of stock market performance and that structured fundamental research and a disciplined investment process combining growth, valuation and quality disciplines can identify attractively priced, growth issuers. The Investment Manager also considers that the best way of finding unrecognised growth is to identify quality issuers with visibility of earnings over a longer time period of five years especially as market consensus data tends to be only available for shorter term periods. The Investment Manager values issuers utilising proprietary valuation models that incorporate environmental, social and governance ("ESG") analysis and macro considerations.

The Investment Manager's strategy favours issuers with sustainable or improving business franchises, strong management and improving balance sheets. We regard these issuers as higher quality as they provide transparency and allow our investment professionals to forecast earnings with greater confidence. This is further strengthened through the incorporation of a dynamic and forward-looking approach to ESG analysis, with the aim to identify sustainable business practices. This empowers the Investment Manager to better assess both the potential risks facing the issuer and the opportunities presented to it, particularly those not apparent or included in traditional fundamental analysis. This should facilitate the construction of funds which exhibit lower volatility over time while propagating better ESG practices. The Investment Manager believes that ESG integration, a focus on forward-looking dynamics and active engagement is key to unlocking long-term returns in equity investments.

"Bottom up" investment analysis is therefore central to the Investment Manager's investment thesis. However, macro concerns are integral to the Investment Manager's issuer analysis and country and other macro factors are incorporated in the Investment Manager's analysis through the use of an appropriate Cost of Equity, which also incorporates ESG considerations, to arrive at price targets for the equities of issuers held by the Trust or which the Investment Manager is considering purchasing.

The Trust has implemented a binding constraint into its investment policy that allocates at least 50% of its Net Asset Value in equities of issuers that exhibit positive or improving environmental, social and governance characteristics.

For all investment opportunities, thorough ESG assessment is conducted using a proprietary scorecard of nine ESG topics, and a quality score, management score, and ESG CoE adjustment is assigned to each investment.

1. Quality Score – The quality score is a rating from 1 to 5 (1 = strong, 5 = weak), which is an expression of the Investmetn Manager's evaluation of an issuer's franchise, management, and balance sheet.

2. Management Score – The management score, which also carries a rating of 1 to 5 (1 = strong, 5 = weak), is an expression of the Investment Manager's evaluation of the strength of the issuer's management and corporate governance. Issuers with sound management structures, diverse and accessible executive teams, and remuneration policies aligned with the long-term interests of minority shareholders would generally be assigned a stronger management score.

3. ESG CoE Adjustment - Finally, each of the nine ESG topics in the proprietary scorecard is rated as one of the following: Exemplary, Improving, Not Improving, or Unfavourable. The sum of the nine ratings corresponds with an ESG discount or premium, which is added to the CoE. The CoE is the rate of return required from the issuer by the Investment Manager. An Exemplary rating will result in an ESG reduction to the issuer's CoE. Conversely, an Unfavourable or Not Improving rating will result in an ESG addition to the issuer's CoE.

Pre- and post-trade checks are carried out on a daily basis to ensure the Trust continues to meet the minimum threshold of 50%.

Screening Criteria

Companies the fund invests in are classified as either:

- "Green" – by exhibiting "**Positive**" or "**Improving**" ESG characteristics; or
- "Brown" – by not meeting the criteria illustrated below

The below tables illustrates the criteria used to classify companies

Company Classification		Quality Score*	Management Score*	ESG CoE Adjustment
Green	Positive ESG	Less than 2	Less than or equal 2.5	Less than or equal to 1%
Green	Improving ESG Characteristics	Less than 3	Less than or equal 2.5	Less than or equal to 1%
Green	Improving ESG Characteristics	3	Less than or equal 2.5	Less than 1%
Company Classification		**Quality Score**	**Management Score**	**ESG CoE Adjustment**
Brown	Brown	More than 3		
Brown	Brown		More than 2.5	
Brown	Brown			More than 1%

* (1= strong, 5 = weak).

Investments with a Quality Score of more than 3 or Management Score of more than 2.5 or ESG CoE adjustment of more than 1% will always be considered as "brown".

Issuers that exhibit positive or improving ESG characteristics are assessed through the Investment Manager's proprietary research. Proprietary research is based on issuer knowledge and regular management interaction, which is the basis to assess each issuer against nine key ESG topics:

- Employee Satisfaction;
- Resource Intensity;

- Traceability and/or Security in Supply Chain;
- Effectiveness of Supervisory and/or Management Board;
- Credibility of Auditing Arrangements;
- Transparency and Accountability of Management;
- Environmental Footprint;
- Societal Impact of Products and/or Services; and
- Business Ethics.

This assessment is captured within a standardised framework, and is dynamic, monitoring the attitudes of investee issuers for improvements or deteriorations toward ESG topics and reflected in the scoring of an issuer's quality and its valuation. With respect to issuer valuations, the Investment Manager's approach allows for ESG research to directly affect the discount rate (Barings Cost of Equity) applied to its 5-year earnings and dividend forecast for the issuer. By explicitly quantifying the ESG impact on the valuation of investee issuers, ESG is integrated into decision-making, issuer selection and the management of the portfolio.

b.) Policy to assess good governance practices of the investee issuers

The Investment Manager assesses the corporate governance of issuers, with respect to, but not limited to, sound management structures, employee relations, remuneration of staff and tax compliance. An internal management score ranging from 1 (strong) to 5 (weak) is assigned. Issuers which have a management score of 5 are excluded from the fund. The Investment Manager assesses the corporate governance of issuers, with respect to, but not limited to, sound management structures, employee relations, remuneration of staff and tax compliance. An internal management score ranging from 1 (strong) to 5 (weak) is assigned. Issuers which have a management score of 5 are excluded from the trust. Where the Investment Manager determines that a holding in the Trust's portfolio does not meet its good governance thresholds, the Investment Manager will engage with the relevant issuer in order to seek to bring it into compliance. If engagement with the relevant issuer is not deemed appropriate or engagement subsequently proves unsuccessful, the Investment Manager will consider its position and shall, if necessary and to the extent possible based upon market conditions and any specific investment considerations, attempt to divest the holding from the Trust.

PROPORTION OF INVESTMENTS

The Trust will invest at least 50% of its Net Asset Value in equities of issuers that exhibit positive or improving ESG characteristics. whilst the remaining will comprise of assets (including cash, cash equivalents, hedging instruments and other assets) which are neither aligned with the environmental or social characteristics, have no minimum environmental or social safeguards, nor are qualified as sustainable investments.

The Trust may also invest up to 50% of its Net Asset Value in equities and equity related securities of issuers that exhibit less positive ESG characteristics.

Derivatives are not used to attain the environmental or social characteristics promoted by the Trust.

MONITORING OF ENVIRONMENTAL OR SOCIAL CHARACTERISTICS

The sustainability indicator used to measure the attainment of the environmental and social characteristics promoted by the Trust will be the percentage of the Trust's Net Asset Value invested in equities of issuers that exhibit positive or improving ESG characteristics. Issuers defined as having positive or improving ESG charateristics must be assessed as having a higher than average quality score, and not exceed a maximum adjustments to its Barings Cost of Equity threshold.

The Trust is monitored on each business day to ensure it continues to meet the minimum threshold of 50%. Where the Trust falls below this threshold, due to market movements or because the issuers it holds no longer meet the criteria of a "green" investment, then the passive breach will be corrected at the earliest opportunity.

METHODOLOGIES

The Trust will invest at least 50% of its Net Asset Value in equities of issuers that exhibit positive or improving ESG characteristics.

Issuers the Trust invests in are classified as either:

- "Green" – by exhibiting "Positive" or "Improving" ESG characteristics; or
- "Brown" – by not meeting the criteria illustrated below.

The below tables illustrate the criteria used to classify issuers

Company Classification		Quality Score*	Management Score*	ESG CoE Adjustment
Green	Positive ESG	Less than 2	Less than or equal 2.5	Less than or equal to 1%
Green	Improving ESG Characteristics	Less than 3	Less than or equal 2.5	Less than or equal to 1%
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Company Classification		**Quality Score**	**Management Score**	**ESG CoE Adjustment**
Brown	Brown	More than 3		
Brown	Brown		More than 2.5	
Brown	Brown			More than 1%

* (1= strong, 5 = weak).

Investments with a Quality Score of more than 3 or Management Score of more than 2.5 or ESG CoE adjustment of more than 1% will always be considered as "brown".

The criteria the Investment Manager uses to determine if an issuer exhibits positive or improving ESG characteristics are described below. A full explanation of the criteria can be found in the Investment Manager's Public Equities: ESG Integration and Active Ownership policy.

Quality Score

The Quality Score is a rating from 1 to 5 (1 = strong, 5 = weak), which is an expression of the Investment Manager's evaluation of an issuer's:

- Franchise;
- Management; and
- Balance Sheet

Each of these categories is assessed under nine ESG topics – as set below:

Franchise	Management	Balance Sheet
1. Employee satisfaction	4. Effectiveness of supervisory/management board	7. Environmental footprint
2. Resource intensity	5. Credibility of auditing arrangements	8. Societal impact of products/services
3. Traceability/security in supply chain	6. Transparency and accountability of management	9. Business ethics

Management Score

Three of the nine key topics (4, 5 and 6) focus specifically on assessing the issuer's management. The Management Score, which also carries a rating of 1 to 5 (1 = strong, 5 = weak), is an expression of the Investment Manager's evaluation of the strength of the issuer's management and corporate governance.

Issuers with sound management structures, diverse and accessible executive teams, and remuneration policies aligned with the long-term interests of minority shareholders would generally be assigned a stronger Management score.

ESG CoE Adjustment

Finally, each of the nine key topics outlined above are rated as one of the following:

- Exemplary
- Improving
- Not Improving
- Unfavourable

Each key topic is rating is equally weighted. The average of the nine assessments corresponds with an ESG discount or premium, which is added to the cost of equity ("CoE"). The CoE is the rate of return required from the issuer by the Investment Manager. An Exemplary rating will result in an ESG reduction to the issuer's CoE. Conversely, an Unfavourable or Not Improving rating will result in an ESG addition to the issuer's CoE.

DATA SOURCES AND PROCESSING

a) the data sources used to attain the fund's environmental and social characteristics;

The Investment Manager's investment decisions are based on internal research, which encompass both its proprietary financial forecasts and ESG assessment. The Investment Manager aims to meet with all issuers in which it seeks to invest at least annually and discuss a range of topics including ESG issues with management.

Use of external sources of research remains limited and are utilised to mainly understand market consensus and as one of the ways to gather data. To supplement the Investment Manager's own ESG research, it also has access to third-party resources such as Bloomberg ESG, MSCI ESG and Sustainalytics, which provide institutional investors with issuer-specific ESG data.

b) the measures taken to ensure data quality;

The Investment Manager looks to gather information from multiple sources, which include direct interactions with issuers and utilising multiple third-party research datasets. This allows the Investment Manager to create a fuller picture of an issuer's ESG dynamics, gain insight on its practices and assess data quality and consistency.

The Investment Manager does not rely on third party research providers' conclusions to make investment decisions. The Investment Manager merely uses their research as one way to access data and as a challenge mechanism to its own views.

c) how data are processed; and

The investment professional responsible for evaluating and valuing the issuer in the Investment Manager is also responsible for the ESG assessment: this is an integral part of the Investment Manager's analysis.

d) the proportion of data that are estimated.

The Investment Manager uses data from multiple data sources, including from direct interactions with issuers, financial statements and external ESG data providers. There may be instances where the Investment Manager may perform internal calculations of ESG metrics to obtain a fuller understanding of an issuer's ESG performance and to enable comparison between issuers.

LIMITATIONS TO METHODOLOGIES AND DATA

a) any limitations to the methodologies referred to in "METHODOLOGIES" and "DATA SOURCES AND PROCESSING"; and

The inconsistent quality, availability and timeliness of ESG data presents both a challenge and an opportunity for the Investment Manager's investment professionals. Interacting directly with issuers allows the Investment Manager to generate its own insights and exploit such market inefficiencies, whilst attempting to mitigate the risks that come with them.

b) how such limitations do not affect how the fund's environmental and social characteristics are met.]

Many ESG considerations are challenging to assess quantitatively, making the judgement of investment professionals within the Investment Manager key. The Investment Manager looks to gather information from multiple sources, which include direct interactions with issuers and utilising multiple third-party research datasets. This allows the Investment Manager to create a fuller picture of an issuer's ESG dynamics, gain insight on its practices and asssess data quality and consistency.

DUE DILIGENCE

The Trust is monitored by Barings Guideline Management team, which is part of the Compliance function, on each business day to ensure it continues to meet the minimum threshold of 50%. Where the Trust falls below this threshold, due to market movements or because the issuers it holds no longer meet the criteria of a "green" investment, then the passive breach will be corrected at the earliest opportunity.

In addition, prior to each trade, the Investment Manager ensures that the trade will not lead to the Trust falling below the 50% threshold and if so, the trade will be stopped and the portfolio manager in the Investment Manager will be notified.

ENGAGEMENT POLICIES

The Investment Manager applies the PRI's definition of engagement, which is "…*Interactions between an investor (or an engagement service provider) and current or potential investees (e.g., issuers), conducted with the purpose of improving practice on an ESG issue, changing a sustainability outcome, or improving public disclosure*." Engagements can also be carried out with non-issuer stakeholders, such as policymakers or standard setters.

Engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosure. Through engagement, the Investment Manager aims to enhance the performance of its investments, for the benefit of its clients in line with its stewardship responsibility. The Investment Manager does not, however, attempt to impose an inflexible approach that ignores local norms and contexts. The Investment Manager believes that value is derived from transparent communication with the issuers in which it invests, coupled with the expertise and discretion of its experienced analysts and portfolio managers, and that a one-size-fits-all approach should not and cannot be applied across the wide range of assets that it manages across the globe.

A full explanation of the Engagement Policy can be found in the Investment Manager's Public Equities: ESG Integration and Active Ownership policy.

DESIGNATED REFERENCE BENCHMARK

The Trust does not use a reference benchmark to measure the attainment of its environmental and social characteristics.