

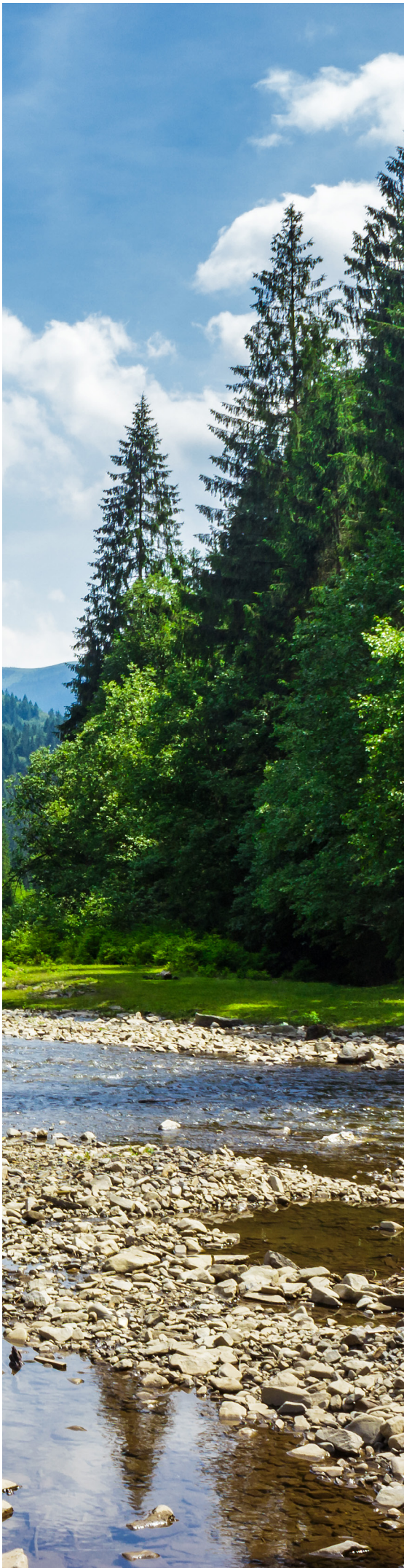
BARINGS

U.K. Stewardship Code Report

SUBMISSION FOR CALENDAR YEAR

2022

As of April 2023



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Foreword

Barings is committed to the principles of the U.K. Stewardship Code, and we are pleased to provide our 2022 Stewardship Report.

As we've said before, partnership and engagement remain central to good stewardship. In particular, partnership remains crucial to our success, as we work with our clients to navigate the emerging challenges the world faces and continue generating long-term returns for beneficiaries. In 2022, we continued to enhance the way we work as a firm with client service at the heart of everything we do.

In our experience, we believe that effective stewardship requires transparency, accountability and collaboration and we remain committed to reporting on this to show our ongoing commitment to progress.

Our report provides a comprehensive review of our stewardship practices and activities for the calendar year 2022, based on our governance, investment and engagement approach, and voting. While our U.K. entity, Barings Asset Management Limited (BAML), is submitting to the code, this annual stewardship report covers our global stewardship activities.

We welcome feedback on this report and our stewardship practices, as we believe that open dialogue and engagement are key to advancing stewardship practices across the industry.



A handwritten signature in black ink that reads "J. T. Swayne". The signature is fluid and cursive.

JULIAN SWAYNE

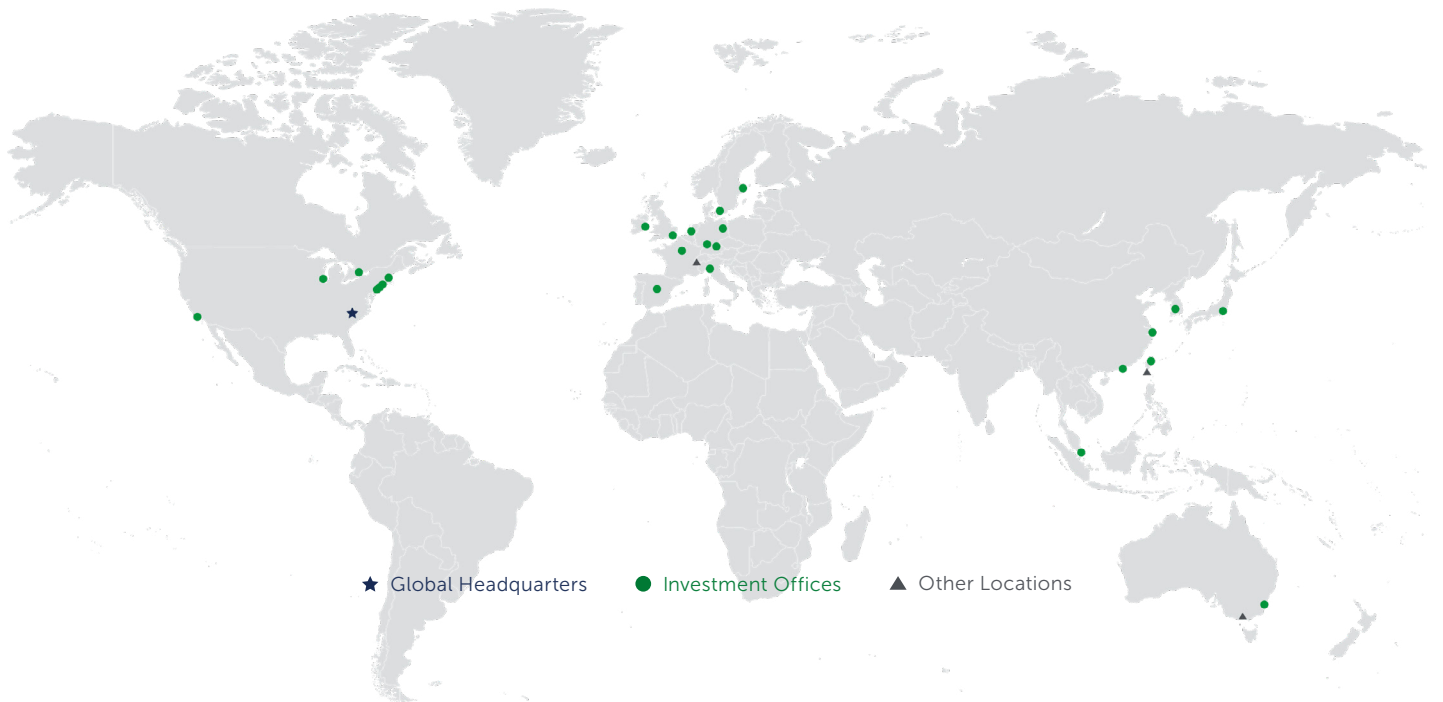
Chief Executive, Barings Europe



Barings Overview

Barings is a \$362+ billion¹ global investment manager sourcing differentiated opportunities and building portfolios across public and private fixed income, real estate and specialist equity markets. Barings, a subsidiary of MassMutual Life Insurance Company ('MassMutual'), aims to serve its clients, communities and employees.

We have 1,800+ staff across 18 countries, including 730+ investment professionals with on-the-ground local knowledge and broad investment experience. Our global presence enriches our understanding of market conditions and specific investment opportunities.



\$362+ B
Assets Under Management

1,200+
External Clients

1,800+
Professionals Globally

1. Barings and its subsidiaries managed a total of \$362+ billion in client assets as of March 31, 2023.

Purpose & Governance

Effective stewardship is a core tenet of Barings' investment philosophy. In this section, we provide examples of the key actions we took in 2022 to ensure that our investment philosophy and strategy align with this commitment and enable us to deliver sustainable long-term value to our clients. Main actions include:

- 1. Listening to our clients:** We engaged with key clients to understand their expectations and priorities regarding stewardship. This feedback has helped us to refine our approach and ensure that we are aligned with our clients' needs.
- 2. Empowering our team:** We believe that ongoing training and development are critical to delivering effective stewardship. To this end, we invested in sustainability and stewardship-focused training sessions for our team members to better equip them with the skills and knowledge needed to serve our clients.
- 3. Enhancing our technology infrastructure:** We made significant improvements to our proprietary technology system for ESG integration and engagement reporting. This system enables us to better integrate ESG factors into our investment processes, engage with companies on material ESG issues and report on our stewardship activities to our clients.

Looking ahead, we remain committed to continuous improvement of our stewardship practices and processes. We will continue to listen to our clients, invest in our team and enhance our technology infrastructure to ensure that we remain at the forefront of effective stewardship.

PRINCIPLE 1

Our Purpose, Beliefs, Strategy & Culture Related to Stewardship

CONTEXT

OUR PURPOSE

At Barings, we are committed to delivering the best investment experience for our clients through exceptional service and performance. As stewards of their capital, we recognize our privileged role and the value they expect in return.

We specialize in markets and asset classes where we see opportunities to generate alpha for our clients through fundamental research, active management and access to our network of long-standing relationships. Our investment approach is rooted in our shared values and team-based culture, which drive our commitment to integrity, accountability and client service.

We partner with our clients to understand their objectives and incorporate them into our investment strategies. Our global platform allows us to create long-term investment solutions that align with our clients' objectives.

Our teammates are empowered to share ideas, challenge perspectives and take decisive action, creating an environment that fosters innovation and adaptation in service to our clients. Rooted in shared values and a team-based culture, we aim to approach every interaction with integrity and accountability.

We strive to improve every day—to innovate, to adapt and to evolve in service to our clients.



SAFEGUARDING LONG-TERM VALUE THROUGH ESG & STEWARDSHIP

ESG topics are key considerations in our fundamental, bottom-up analysis because we believe that ESG issues can be material to investment performance. Through ESG analysis, we engage with issuers to encourage better ESG standards and disclosures that we believe can unlock value for our clients and may contribute to positive environmental and societal outcomes.

Our intentional and considered approach to ESG integration and stewardship is grounded in obtaining relevant data and a commitment to partnering with clients and investees to protect long-term value.² Our approach is founded on the belief that minimizing ESG risks and unlocking ESG opportunities helps us achieve risk-adjusted returns for our clients in line with their time horizons (Principle 6).

As stewards of our clients' capital, we seek to leverage our position with the entities in which we invest to minimize ESG risks. We engage and vote, where possible, in alignment with our investment strategy, to maximize returns and to guide our investments towards sustainable practices.

STEWARDSHIP IN PRACTICE

As stewards of our clients' capital, we act through a range of mechanisms, including:

- Our investment process, where ESG information is integrated into investment analysis.
- Our influence and control over certain assets, engaging with companies, issuers, sponsors, servicers, policymakers, service providers, and industry bodies, to improve transparency and sustainable practices, in pursuit of minimizing risks, maximizing returns and supporting a durable financial system.
- Our partnership with clients on their goals, timelines and stewardship preferences to ensure our investment strategies align with their values.

OUR APPROACH TO ENGAGEMENT

We believe in engaging with the entities in which we invest to enhance the performance of our investment for the benefit of our clients. While our preference is to engage, when possible, rather than exclude to support various sectors transition to a more sustainable future, we commit to excluding investments in companies that violate international conventions on cluster munitions, anti-personnel mines and biological and chemical weapons. We understand that local norms and contexts play a crucial role in driving positive change, and we do not attempt to impose an inflexible approach that ignores them. Our approach is based on transparent communication coupled with the expertise and discretion of our experienced investment professionals.

Given that we invest in multiple asset classes, we acknowledge that appropriate approaches and priorities for engagements may differ. We give our investment teams the flexibility to determine when to engage with investments, with guidance and support provided by the Sustainability & ESG team as needed. This approach allows us to act as stewards of our clients' capital and promote sustainable practices that benefit our clients.

2. We recognize the FRC's definition of stewardship, which acknowledges that creating long-term value for our clients involves considering the positive impact on the economy, environment and society.

ACTIVITY

We have undertaken the following initiatives to further enable effective stewardship:

TRANSFORMING OUR TECHNOLOGY PLATFORMS

In pursuit of an enhanced operating model, Barings recently initiated a program to implement new investment management technology. Our aim is to improve the consistency, connectivity and accessibility of our data in public and private markets, thereby providing better service and experience in our investment partnerships with our clients. The new platform will transform our technology and business processes enabling us to enhance client experience and engagement, investment analysis and the integration of ESG and stewardship activities (see Principles 2, 6, 7 and 9).

DEVELOPED ESG INTEGRATION POLICIES

Our investment teams have worked collaboratively with the Sustainability & ESG team and Sustainability Working Groups to develop formal ESG integration policies. These policies will help us to communicate our practices, especially with regard to the consistencies in approach to ESG integration and stewardship across teams.

EVALUATING THE ROBUSTNESS OF OUR ESG PROCESSES

Credibility and integrity are fundamental to the ongoing development of our approach. We have continued the investment in and development of our propriety system to log and standardize ESG scores (Principle 7) and engagements (Principle 9). In September 2022, Barings engaged a specialist consultant to conduct a review of our ESG investment policies and compliance procedures (see Principle 5), inclusive of each investment team's approach to ESG integration in the analysis and decision-making process, as well as their approach to stewardship. The consultant provided comprehensive feedback on our policies, highlighting opportunities to improve them. Additionally, they developed a roadmap to assist us in formulating a framework for ESG investment integration policies across all investment teams.

EMPOWERING BARINGS PROFESSIONALS TO ENHANCE STEWARDSHIP ACTIVITIES

The Sustainability & ESG team has continued to roll out its stewardship training across various teams in Europe and the U.S., including Public Equities, Public Fixed Income, Client Services, Real Estate, Infrastructure and Private Placements.

Topics covered include:

- Stewardship industry practices
- Defining effective engagement strategies
- Identifying effective reporting procedures

As an outcome of this training program, we have witnessed strengthened collaboration between the Sustainability & ESG team and investment analysts on individual engagements, such as the high yield engagement case study provided in Principle 9 and the collaborative engagements under Climate Action 100+ and the Emerging Markets Investors Alliance (EMIA) in Principle 10.

To build on this knowledge sharing in 2023, we are rolling out firmwide training, covering corporate sustainability, ESG investment integration and stewardship. This training will be required for all current employees and new hires. We also plan to continue to hold stewardship training sessions with individual investment teams across the U.S. and Europe. In addition to the topics outlined above, training sessions in 2023 will focus on how to best utilize new technology tools to record engagement activity.

INCORPORATING SUSTAINABILITY INTO THE STRATEGIC DIRECTION OF THE FIRM

The Head of Sustainability & ESG and the Sustainability Committee have liaised with the broader Barings Leadership Team on incorporating key ESG trends as per the materiality assessment findings (see Principle 4) into business strategy. This included focus sessions at leadership offsites.

ENHANCED CLIENT EXPERIENCE & ENGAGEMENT

At Barings, we are committed to continuously improving our client experience by understanding our clients' needs, building trust through reliable and informed client service and strengthening our partnership with them. Following a client experience interview process (Principle 6), Barings has begun development of a proprietary internal client service platform that brings a broad range of client data and information into a single repository, providing Barings' professionals with a more complete understanding of their clients.

Key features of the platform include:

- A comprehensive profile of all investments and opportunities a client has with us
- Client service issues, service levels and tenure
- A tear sheet summary of key client information, and
- Holistic views of the clients and products aligned with consultant relationships.

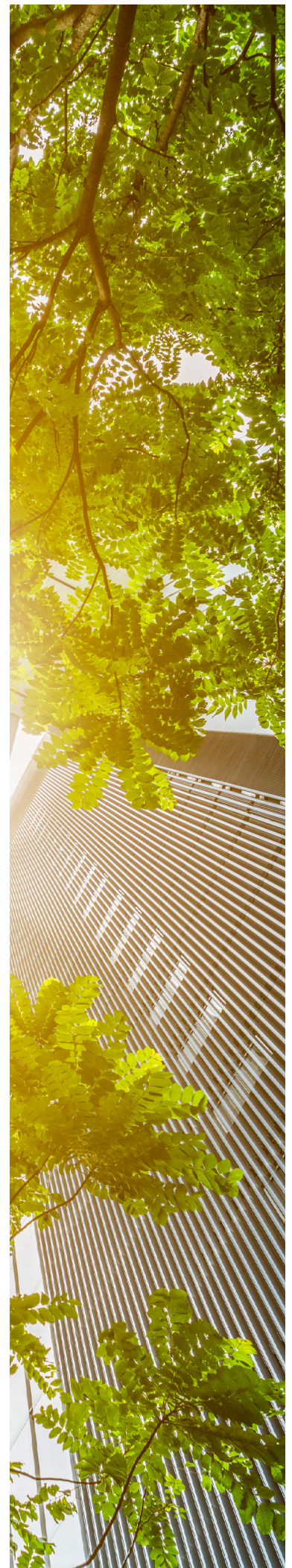
Our enhanced client service platform will provide better access to information and insights to help us proactively understand and respond to client needs. The data and information gathered through this platform can help our professionals provide insights that inform better decisions and improve the overall client engagement experience.

REFLECTING ON OUR PROGRESS

Continuing our efforts in 2021 to lay the foundations for enhanced stewardship activities, in 2022 we made significant progress in our efforts to prioritize meaningful stewardship practices with our clients' preferences at the forefront of our approach (with examples provided in Principles 6, 7 and 9). We centered client experience at the heart of our strategy, coordinated and standardized our ESG approach across investment teams and supported investment analysts to undertake strengthened engagement activities.

We recognize that delivering on the interests of our clients and identifying stewardship outcomes is a long-term process and we remain committed to this goal. To this end, we will continue to work on harmonizing our investment processes and navigating client experience through effective technology transformation. We will provide ongoing knowledge building and support to investment teams in their delivery of ESG integration and stewardship practices.

In 2023, we will deepen our conversations with our clients to better understand their stewardship needs alongside their broader priorities. This will be key to best serving our clients and delivering on our commitment to stewardship.





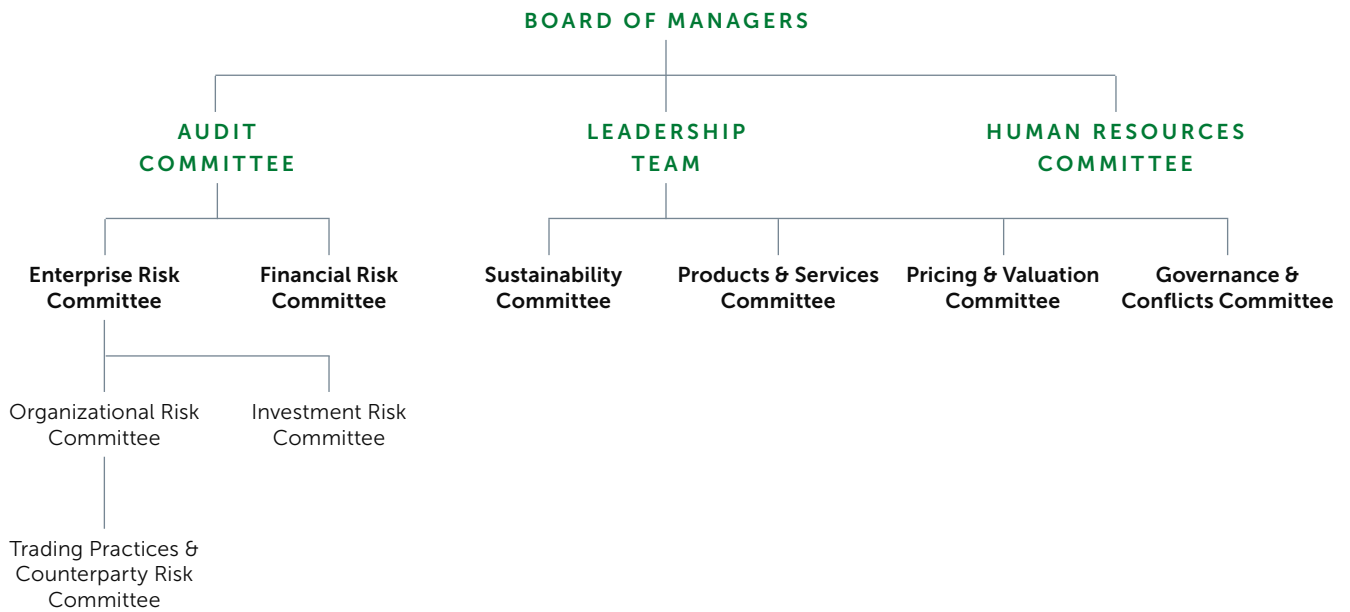
PRINCIPLE 2

Our Governance, Resourcing & Incentives Related to Stewardship

CONTEXT

Below captures our governance and resourcing mechanisms to enable our stewardship practices.

BARINGS GOVERNANCE STRUCTURE



LEADERSHIP TEAM

The Leadership Team is responsible for driving measurable and sustainable results and providing oversight of our stewardship practices. The Leadership Team meets on an-as needed basis, but no less than quarterly. Members are regularly updated on our ESG-related activities and progress towards our stewardship goals. This ensures that stewardship is a key consideration in senior-level decision-making, driving alignment and accountability throughout the organization.

SUSTAINABILITY OVERSIGHT

STAKEHOLDER GROUP



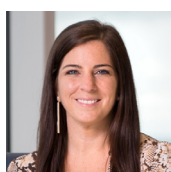
SUSTAINABILITY COMMITTEE

Barings' Sustainability Committee in its current iteration was formally established and chartered in April 2021. It is responsible for providing oversight of the Global Sustainability Policy, Barings' ESG integration and, stewardship-related strategies and programs. The Sustainability Committee, which is composed of senior leaders from across the firm, meets at least quarterly to discuss key issues and ensure compliance with its sustainability-related memberships and commitments. Three members of the Sustainability Committee also sit on the Leadership Team.

SUSTAINABILITY COMMITTEE

Responsible for oversight of the firm's sustainability strategy, our ESG integration and stewardship programs and our sustainability policies and commitments.

To ensure that the committee's oversight is comprehensive and inclusive, its members were selected to represent a diverse range of perspectives across asset classes, business units and external stakeholders. We believe this mix of expertise and experience enables us to shape and support sustainability practices across Barings globally, including stewardship. Committee members include:



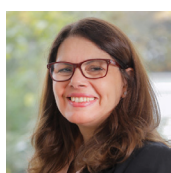
SARAH MUNDAY

*Senior Director,
Sustainability & ESG (Chair)*



MARTIN HORNE

*Managing Director,
Head of Public Fixed Income*



DR. GHADIR COOPER

*Managing Director,
Global Head of Equities*



DAVID MIHALICK

*Managing Director,
Head of Private Assets*



CHASITY BOYCE

*Managing Director, Chief Diversity,
Equity & Inclusion Officer*



MELISSA LAGRANT

*Managing Director,
Deputy Chief Compliance Officer*



MAUREEN JOYCE

*Managing Director,
Real Estate Equity*



CHARLOTTE PHILLIPS

*Managing Director,
Head of Client Experience*



JAKE WILLIAMS

*Senior Director,
Product Strategy*



ALEX HARLEY

*Managing Director,
U.K. Sales*



PAUL DIOURI

*Managing Director,
Chief Risk Officer*



MAJA LINDSTROM

*Managing Director,
EMEA Sales*



SUSTAINABILITY WORKING GROUPS

Barings maintains six Sustainability Working Groups, with reporting responsibilities to the Sustainability Committee. The Sustainability Working Groups aim to deliver on long-term sustainability-focused projects, including, but not limited to, coordinating corporate environmental and social efforts, developing ESG investment integration tools and policies, pursuing external partnerships and memberships, and reporting.

The working groups consist of representatives from investment and operational teams across various geographies and markets. This structure enables cross-business collaboration, encourages sharing best practices, and improves communication and consistency among teams. Example activities of the Stewardship Working are captured in Principles 4, 5 and 6.

SUSTAINABILITY COMMITTEE



**CORPORATE
RESPONSIBILITY**



**ESG INVESTMENT
INTEGRATION**



**REPORTING &
DISTRIBUTION**



**REGULATORY &
COMPLIANCE**



TECHNOLOGY



STEWARDSHIP

SUSTAINABILITY RESOURCES

SUSTAINABILITY & ESG AND PORTFOLIO SOLUTIONS & ANALYTICS (PSA) ESG TEAMS

Barings has dedicated resources to support the integration of ESG considerations into our investment process, our stewardship activities and our operations. The Sustainability & ESG team is responsible for maintaining and overseeing our relevant policies, processes and working groups to help drive our firm-level approach to delivering on our sustainability strategy through the following pillars:

- The integration of ESG information into the investment process in order to understand the factors that influence the financial sustainability of the investments we make.
- The facilitation of stewardship activities as active managers of our clients' capital.
- Embedding sustainability into our own operations, as well as investing in the communities in which we live and work through our social impact efforts.

This is supplemented by the efforts of our PSA ESG team who support investment teams with ESG integration and engagement activity through data evaluation and support, as well as providing ESG research, analysis and reporting. There are currently 11 professionals on the combined Sustainability & ESG and PSA ESG teams.

Role	Commentary
Senior Director, Head of Sustainability & ESG	Eight years at Barings, including six years focused on ESG integration, stewardship and corporate responsibility.
Associate Director, Stewardship	Nine years' experience in ESG covering sustainability consulting for corporates and investors. This time also includes a tenure at the Principles for Responsible Investment (PRI) in the Stewardship and Signatory Relations team.
Associate Director, ESG Investment Integration	Eleven years' investment and ESG investment integration experience in the asset management industry.
Associate Director, Head of Barings Social Impact	Seven years' social impact experience in the financial sector.
Associate Director, Sustainability	Two years' sustainability experience, including a certificate in Sustainable Management from Duke University, with more than four years' financial executive office experience.
Senior Associate, Sustainability & ESG	Four years' ESG experience in ESG real estate consulting and asset management.
Managing Director, Head of ESG Research & Analytics	More than 20 years' quantitative research and analysis.
Senior Director, ESG Portfolio Solutions & Analytics	More than 20 years' quantitative research and analysis.
Analyst, ESG Portfolio Solutions & Analytics	Two years' experience in ESG analytics, integration and research.
Analyst, ESG Portfolio Solutions & Analytics	Less than one year of experience in ESG analytics, integration and research.
Analyst, ESG Portfolio Solutions & Analytics	Less than one year of experience in ESG analytics, integration and research.

INVESTMENT TEAMS

Our investment professionals are ultimately responsible for integrating material ESG considerations into fundamental analysis and undertaking engagement activities. They evaluate ESG information, along with various other potential risks and opportunities that may impact their investments, portfolios and the economy to make informed decisions that align with relevant investment objectives. Investment teams are given the flexibility to assess the material ESG risks and opportunities of the investments they consider, allowing for informed investment decisions and engagement activity. They do this by using their industry and sector expertise to understand and identify the material ESG opportunities and risks in their investment universes, alongside their broader investment analysis. As part of this, they may meet with government officials and corporate management teams, visit operational facilities and analyze industry competitors. Once invested, teams monitor their investments' performance and progress, including on ESG matters.

To further assist investment professionals on ESG integration and engagement activities, Barings has 25+ ESG resources embedded across the firm. These individuals support their broader teams to understand and identify ESG risks and opportunities. Roles include:

- Director of ESG Integration and Active Ownership, Public Equities: Seven years' experience in ESG integration and active ownership in public equities, and five years' investment experience, with 13 years in the investment management industry in total. Holds the CFA Institute Certificate in ESG Investing, CFA U.K. Certificate in Climate and Investing. He is a Fundamentals of Sustainability Accounting Credential Holder and an EFFAS Certified ESG Analyst.
- ESG Director, Real Estate (E.U.): Eleven years' experience in ESG and sustainability, both in-house and consulting, with a focus on real estate.
- ESG Senior Director, Real Estate (U.S.): Over four years of ESG experience related to the built environment, with over 16 years of industry experience.
- Managing Director, Fixed Income: Nearly five years' ESG experience with 17 years' investment industry experience.
- Chief DEI Officer: Eight years' experience in DEI in legal and investment industry and seven years' legal experience prior.
- Associate Director, DEI (U.S.): Four years' experience in DEI.
- Associate, DEI (U.K.): Three years' experience in DEI.



OPERATIONAL TEAMS

Operational, or non-investment teams at Barings play a crucial role in supporting the review, maintenance and implementation processes for ESG and stewardship-related policies and practices. They work in tandem with investment teams to ensure the integration of ESG issues into the investment process. Members of operational teams participate in the working groups mentioned above, providing their input as needed.

Designated teammates from our Legal and Compliance teams support the review, maintenance and implementation of processes for ESG policies and disclosures in line with ESG regulatory requirements across all jurisdictions in which Barings operates. Legal, Compliance and Marketing teams are also responsible for providing input and reviews of ESG and stewardship materials and processes based on their functional knowledge.

INCENTIVIZING STEWARDSHIP & INVESTMENT DECISION MAKING

We design our compensation programs to reward for intangible, as well as tangible, contributions to our success, including corporate integrity and reputation, customer loyalty, risk management, the quality of our professionals and how effectively they collaborate. ESG is an important component of the investment philosophy and process, thus indirectly linked to the compensation of our investment teams.

Our long-term incentives (LTI) are designed to share with participants the longer-term value created in the firm and enhance retention of positions critical to the firm's long-term success. Programs include deferred-cash based components, which can be tracked against Barings earnings, Barings products and other specific investment vehicles. The LTI awards are typically deferred with a four-year vesting and pay-out. In addition, our long-term incentive plans are designed to tie a material portion of the incentive compensation received by our executive officers directly to the long-term performance of our company, as measured by our phantom stock price.

Our ESG and Sustainability, Portfolio Solutions and Analytics, and dedicated ESG resources in investment teams have woven ESG into the individual goals/objectives that they are evaluated on each year. Investment professionals across a number of our investment teams, including Public Equities and Emerging Markets Corporate Debt, have ESG explicitly integrated into their performance development goals relating directly to ESG integration and engagement. Additionally, each one of our teammates' individual performance is reviewed and measured against Barings Core Values (Value Our People, Take Accountability, Foster Collaboration and Deliver Excellence)—sustainability is a key element across these four pillars. As we look to the future, we are committed to continuously evaluating ways in which we can incorporate ESG criteria into our compensation strategy and programs.

OUR PEOPLE FOCUS: DIVERSITY, EQUITY & INCLUSION

At Barings, we are committed to building a team of talented individuals with diverse backgrounds, experiences and perspectives. We believe that the best talent is comprised of a diverse group of individuals with varied capabilities to challenge the status quo, solve complex problems and innovate beyond traditional norms and approaches to work. We believe that a diverse workforce leads to better decision making, increased innovation and better outcomes for our clients. As such, we have worked to ensure that we recruit top talent, mitigate bias throughout our talent processes and have the necessary support in place to develop, retain and promote our people at every level within the organization.

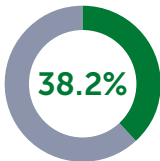
Diversity, equity and inclusion (DEI) was identified as a high-priority topic by stakeholders as a result of a comprehensive firm-level ESG materiality assessment (Principle 4). With this in mind, we seek to ensure that a DEI lens is applied across all our functions and take a leaders-first approach to advancing it. Our CEO and leadership team set DEI goals and regularly monitor our progress and performance against these goals at the organizational, team and individual level. Our mid-level managers also play an important role in promoting our DEI objectives, by providing a regular cadence for feedback, and promoting inclusive behaviors and practices within their teams.

We are proud of our successful global self-ID campaign, which has allowed us to measure representation across our applicant pool and workforce. This data helps us to identify areas where we need to improve and to track our progress over time. We are committed to using this information to drive meaningful change and fostering a workplace that values DEI.⁴

As of December 31, 2022, Barings' workforce is:

GENDER DIVERSITY

GLOBAL



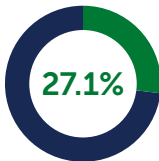
- 35.4%**
North America
- 55.1%**
Asia Pacific
- 36.8%**
EMEA

APAC leads our firm in gender representation, with over half of our workforce in the region identifying as women.

4.0%
LGBTQ +⁷

RACIAL/ETHNIC DIVERSITY⁵

GLOBAL

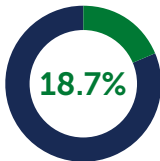


- 24.3%**
North America
- 33.8%**
EMEA

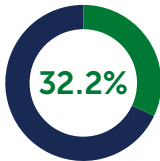
2.4%
VETERANS⁸

SENIOR-LEVEL DIVERSITY⁶

RACE/ETHNICITY



FEMALE



1.4%
PEOPLE WITH DISABILITIES⁹

4. Data representative of 87% of our population in the countries where we are legally authorized to request this information and teammates have self-identified.
 5. North America and EMEA only.
 6. Director, Senior Director and Managing Director levels combined.
 7. Representative as a percentage of total responses provided.
 8. United States.
 9. United States and United Kingdom only.

As of December 31, 2022, Barings' Leadership Team is 33% female and 67% male and 20% ethnic minority, 80% white.

SERVICE PROVIDERS

In addition to our in-house ESG integration and stewardship activities—which cover all our investment teams—Barings teams also work with third parties to provide the services listed in the table below. Third-party service providers play a crucial role in the creation, implementation and success of Barings’ stewardship and ESG activities. Monitoring of these services providers is discussed in Principle 8.

Provider type	Relevance to stewardship activities
Proxy voting	Supporting the Public Equities (and Fixed Income and Private Asset teams where equity positions are held) to exercise its voting rights based on voting guidelines and recommendations.
Financial and ESG research and data	Supporting investment teams across asset classes with an ESG integration process that in turn informs prioritized engagement activities.
Credit research and rating	Supporting Fixed Income teams with our ESG integration process, in turn informing engagement activities.
ESG strategy consulting	Helping to inform Barings’ sustainability strategy, including stewardship prioritizations.
ESG integration and compliance consulting	Preparing Legal, Compliance, and investment teams for potential regulatory inspections by reviewing ESG investment integration policies and compliance procedures.
Specialized ESG due diligence; monitoring and certification services	Providing in-depth due diligence for identifying ESG risks and opportunities to inform investment decisions for specific investments across several of our investment teams, including Real Estate and Private Debt. Exploring services related to supporting ESG-linked loans.
Financial analytics software	Supporting our Public Fixed Income teams with ESG screening.
Legal counsel	Provision of external views on the development of industry frameworks (i.e. LMA/ LSTA) for best practice on incorporating ESG ratchets into loan documentation for private credit.

ACTIVITY

We carried out the following activities to further strengthen our stewardship-related governance and resources.

ALIGNED APPROACH TO ESG THROUGH ENHANCED TEAM STRUCTURE

In August 2022, Barings’ two dedicated ESG functions were joined to enable a more holistic, coordinated approach to ESG strategy, prioritization and resource allocation. Previously, the ESG teams were aligned with separate organizations—the Chief Administrative Office (CAO) organization and the Portfolio Solutions and Analytics (PSA) organization. The former Sustainability & ESG team was primarily focused on firm-level strategy, stewardship and corporate sustainability, while the PSA ESG team retained responsibility for ESG investment integration, as well as portfolio solutions and analytics work. The new Sustainability & ESG team is now responsible for ESG investment integration strategy, while working closely with the PSA ESG team on solutions development and deployment.

Sarah Munday, Head of Sustainability & ESG, now reports to Barings’ President, Eric Lloyd. This updated alignment has facilitated better collaboration between various teams across the firm, including client-facing teams, investment teams, the broader PSA function and product management. By integrating ESG and sustainability across these functions, we can take a more proactive approach to partnering with clients to meet their unique ESG needs. This also means that we are better equipped to serve our diverse clients, and we continue to strive to improve our ESG integration and stewardship activities across all our investment teams.

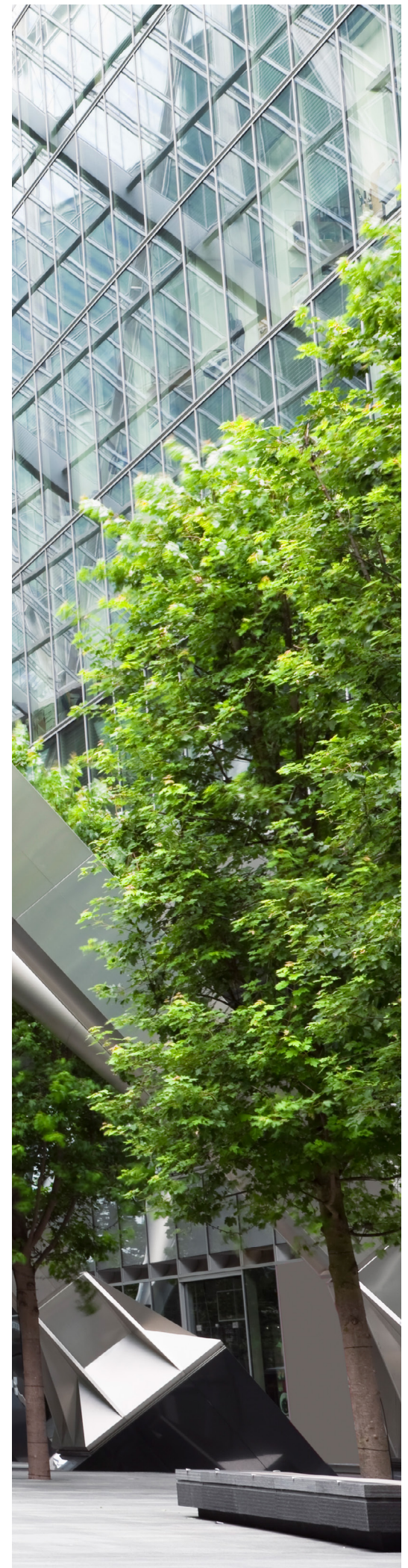
CONTINUED TO ENCOURAGE ESG KNOWLEDGE DEVELOPMENT

Barings supports the development of teammates with appropriate professional development opportunities to help them gain the knowledge, skills and abilities required to excel in their role. As part of our commitment to continued professional development, we offer the opportunity for teammates to pursue ESG-related accreditations. In 2022, qualifications achieved by Barings teammates included the CFA Certificate in ESG Investing, CFA UK Climate and Investing and the Fundamentals of Sustainability Accounting.

In 2022, Barings' teammates attended events by industry groups such as the Investment Association, the PRI, Loan Syndications & Trading Association (LSTA), and AIF Global. Topics covered developments of emerging best practice related to identifying and addressing ESG issues, undertaking effective stewardship and seeking enhanced ESG-related disclosure. Key findings were shared via the ESG Integration and Stewardship Working Groups. FAIRR (for which we have led a collaborative engagement provided in Principle 10) provided a training session to the Public Equities team related to the comprehensive assessment of the largest animal protein producers on critical ESG issues.

On a monthly basis, the Sustainability & ESG team met with representatives from MSCI to discuss market developments, review questions and share best practice. The PSA ESG team and investment teams use this shared knowledge to inform their processes. MSCI also hosted "Climate Day" teach-ins which included providing investment team representatives an overview of latest regulatory requirements, risk implications and modeling related to climate change. The Real Estate groups hosted weekly teach-ins during September 2022 to cover various ESG topics and implications for the built environment.

Finally, investment professionals are kept up to date on stewardship and engagement best practice in their relevant asset class by the Sustainability & ESG team during stewardship training sessions (as mentioned in Principle 1) which have been rolled out since Q4 2021 and will continue through periodic sessions. All Barings teammates can also access on-demand training materials provided by the Sustainability & ESG team, in addition to mandatory firm-wide training that will be rolled out in 2023. The Director of ESG Integration and Active Ownership for Public Equities also conducted an in-house training session to the Public Equities team on the integration of transition and physical climate risk within company analysis to support their enhanced ESG integration process (Principle 7).



LAID THE FOUNDATIONS FOR ESG-RELATED TECHNOLOGY IMPROVEMENTS

Barings' new proprietary technology and research platforms will further embed ESG and stewardship information within traditional fundamental analysis. These platforms, when complete, will act as the single source of truth for all Barings investment professionals, the BII (see Principle 4), and Sustainability & ESG team members. ESG and stewardship information will be displayed alongside investment research, including financial indicators.

In advance of Barings' technology transformation, the Sustainability & ESG team has been involved in ongoing conversations with members of Barings' Global Technology and Operations teams to ensure that the new systems will reflect all ESG and stewardship needs. Teammates leading the development of this technology transformation have attended ESG Integration & Stewardship Working Group meetings to give demos, solicit feedback, and answer questions about the new systems.

ROLLED OUT DEI TRAINING

In 2022, Barings' DEI team conducted the second year of global DEI training for all Barings teammates. In the mandatory training sessions, teammates were introduced to an array of DEI topics and asked to bolster their inclusive habits by completing courses such as building an inclusive culture, managing with a DEI lens, inclusive leadership and unconscious bias. This is done through our annual, all-firm training, manager's essentials training and development programs.

In the fourth quarter of 2022, we launched our APAC DEI Council. The APAC DEI Council is designed to drive DEI efforts in the APAC region. Council members will partner with Barings' DEI and broader human resources teams by providing insights, helping assess strategic DEI initiatives and championing DEI in the various Barings APAC offices.

REFLECTING ON OUR PROGRESS

Barings has created a single Sustainability & ESG team that reports to the President of Barings, ensuring enhanced accountability and alignment of our ESG strategy. In addition, the team will collaborate more closely with the investment, product and distribution teams, strengthening our approach to partnering with our clients on their stewardship preferences.

As part of Barings' technological transformation, we are introducing seven new systems, replacing 700–800 client reports, changing 191 processes and retiring 32 systems. This is a multi-year journey to reimagine and transform origination, investment and research platforms. The result will be a data-driven organization with the ability to meet future strategic objectives. The new platforms will help analysts better integrate ESG research and stewardship activities into the broader investor process.

In 2023, the Sustainability & ESG team will prioritize professional development opportunities for team members such as attending ESG and stewardship focused conferences and obtaining the CFA ESG certification, to expand core competencies that align with the needs of our business and our clients, as well as the expanded remit of the team.

While we aim to collect a broader range of DEI demographics over time, our early measures examine gender and race/ethnicity to help track progress. As we get more seasoned in our DEI journey, we expect to leverage a variety of metrics and measures to support our diversity initiatives.

Managing Conflicts of Interest

CONTEXT

At Barings, we have implemented a comprehensive framework to identify, prevent, manage and disclose conflicts of interest. This framework includes five core pillars:

1. Governance

Each Barings entity has a corporate governance structure in place (i.e., committees, a board of directors or similar body) which assists in the oversight of its investment management and business activities, including potential conflicts of interest.

2. Policies

We have established a suite of regional and global policies, designed to prevent and detect conflicts of interest. Our primary policy is made available to clients and disclosed on our [website](#). We also have a Code of Ethics that addresses personal conflicts, such as personal trading and outside business interests and a [Proxy Voting Policy](#) for voting matters.

3. Compliance Systems

We use systems to automate and monitor employees' personal trading and outside business interests. The same application is used to manage employees' confirmation of their understanding of internal policies.

4. Annual Review of Conflicts

The Compliance team conducts an annual review of conflicts to ensure that the record of potential and actual conflicts is comprehensive and reflects current business activities.

5. Processes and Controls

We maintain a conflicts register that is the source for all conflicts-related risks and controls. Each entry on the register is allocated to a senior manager, according to their designation under the U.K. Senior Managers and Certification Regime. We also maintain separate logs for gifts and entertainment, as well as additional employments or outside interests. To ensure our employees are equipped to identify and manage conflicts of interest, we provide conflicts of interest training, which varies by region. Compliance conducts testing and monitoring to ensure that operational, investment compliance and risk activities, including those related to conflicts of interest, align with our compliance policies and procedures over time.

Overall, we are committed to managing conflicts of interest in a transparent and effective manner, in order to protect the interests of our clients and maintain their trust in us as a steward of their assets.

ACTIVITY

MONITORING POTENTIAL CONFLICT

We continue to monitor conflicts of interest in four main areas:

- 1. Voting behavior replicating proxy-advisor recommendations:** the relevant investment teams have discretion to deviate from recommendations where they deem it to be in clients' best interests.
- 2. Personal interests overriding client interests:** a senior member of the Compliance team is a participant of the Proxy Voting Working Group and is responsible for checking, and where necessary, challenging instances of voting intentions by employees who may hold a personal interest in an issuer.
- 3. Holding multiple segments of capital structure:** Barings has adopted policies, procedures and information barriers between investment teams for dealing with conflicts which may arise because our portfolios are holding different segments of the same issuer's capital structure.
- 4. Undue influence in board membership:** we continue to take a conflict prevention policy, where we prefer individuals do not become member of the board of a company that is undergoing a restructure. Barings will instead

act as a board observer, allowing the firm to continue to be aware of board discussions without being able to influence them unduly. Policies and procedures are in place to ensure any material non-public information is either avoided or handled appropriately.

Barings is owned by MassMutual, a non-listed insurance company and none of the firm's subsidiaries that perform regulated activities are publicly listed. This—in our view—reduces the scope of conflicts often associated with listing arrangements.

REVIEW OF CONFLICTS WITH A FOCUS ON ESG

Barings recognizes that ESG developments have the potential to create more conflicts of interests for the firm, which is why in last year's report we committed to a review of conflict of interest-related fines that the FCA levied on two asset managers.

- Our Compliance team completes a 'lessons learned' review when an asset management firm receives what they consider to be a significant fine from the FCA. We reviewed the failures outlined in the FCA's Final Notices and concluded that the fine for Bluecrest Capital Management (U.K.) LLP was not relevant to Barings as Barings does not run a fund exclusively for employees' interests. The failures at GAM Investments—lack of governance, no conflicts policy, not declaring gifts and hospitality from third parties that were involved in transactions—were rudimentary, and therefore, unlikely to occur at Barings. We did not make any changes to our conflicts framework because of the failures that led to the regulator's enforcement actions.
- The conflicts associated with ESG continue to develop as practices evolve, especially in the Private Credit space. This year, we identified three conflicts associated with ESG practices and placed the information regarding descriptions of conflicts and controls on to the register.
 - **Some clients may have the perception that Barings' approach has the potential to reduce their return on capital.** Barings is transparent about its approach to ESG and that identifying material ESG risks and opportunities are a core part of the investment process to help deliver superior risk-adjusted returns. Clients are therefore made aware of Barings approach before they choose to invest in a Barings fund or enter into a segregated account agreement with the firm.
- Sustainability-linked Loans ("SLLs") and ESG-linked loans are increasingly used in private lending to incentivize borrowers' ESG performance through margin ratchets or discounts on loans. However, the origination and provision of such create potential conflicts—discussed below:
 - **Fund investors who have no preference for ESG may receive a reduced overall return because of margin ratchets.** The fund documentation is transparent on the availability of SLLs or ESG-linked loans and investors are aware, on a pre-investment basis, of the potential reduction in overall returns if they chose to invest in a Barings fund. The potential conflict is ameliorated because SLLs and ESG-linked loans generally leads to more origination opportunities and increases the opportunity set of transactions. This, in turn, creates more diversified funds, which all investors would benefit from.
 - **The investment team may set unrealistic ESG performance targets for funds that invest in SLLs or ESG-linked loans; the manager may benefit from additional subscriptions while investors would not gain an ESG benefit.** To address conflicts arising from setting unrealistic ESG performance targets for funds that SLLs or EALs, Barings negotiates Key Performance Indicators (KPIs) for SLLs or ESG-linked loans on a bi-lateral basis with borrowers, considering, what they can achieve in terms of ESG performance. For many loans, the investment manager, private equity sponsor and borrower will appoint a specialist consultancy to agree the KPIs. This approach creates objectivity in setting KPIs and reduces the potential for the conflict to crystallise in the course of business.

REFLECTING ON OUR PROGRESS

We remain committed to managing conflicts of interest associated with our stewardship activities and that our framework for doing so remains effective. During the reporting period, we did not encounter any material instances when investment teams were precluded from applying stewardship practices due to conflicts of interest. We recognize that managing conflicts of interest is an ongoing effort and we continue to review and refine our approach to managing conflicts. During the reporting period, we conducted a detailed review of two FCA fines and completed a review of the emerging conflicts associated with ESG investing which has helped us strengthen our framework for managing conflicts.

Identifying & Responding to Market-Wide & Systemic Risks

CONTEXT

RISK MANAGEMENT

Barings has established a comprehensive framework to identify and respond to market-wide and systemic risks from both an operational and investment management perspective. This framework involves multiple teams across the organization, including the Risk team, Compliance, Legal, Finance, and Human Resources. It is designed to ensure the effective identification and management of risks that may significantly affect the firm’s ability to achieve its strategic goals or maintain operations.

The Risk team, comprising five functions (organizational risk, investment risk, counterparty risk, model risk, and business resiliency) established and is responsible for overseeing the Barings’ Enterprise Risk Management Framework. This framework is designed to effectively identify and manage risks, potential events and trends that may significantly affect the firm’s ability to achieve its strategic goals or maintain operations. This framework assesses key risks under three categories: strategic, business and operational.

To ensure effective risk management, Barings operates under a ‘three lines of defense’ model which involves the business functions, line managers and control and oversight functions working together to mitigate risks. This approach places responsibility on all employees to uphold the control culture of Barings and strengthens our ability to identify and respond to market-wide and systemic risks in a timely and effective manner.



The first line of defense is comprised of the business functions themselves and the line managers across investment and operations who take the lead on identifying potential risks in their area and implementing and maintaining appropriate controls to mitigate these risks. This includes the PSA team which provides embedded investment analytics and portfolio risk management, for example through production and interpretation of standard risk functionality (e.g. VaR, volatility, tracking error), limits and thresholds monitoring and reporting, and stress testing and ad-hoc analysis.

The second line of defense is made up of the control and oversight functions, including Risk Management, Compliance, Legal, Finance and Human Resources which provide support to the first line of defense by monitoring the effective

operation of relevant key processes against regulatory requirements. As part of this, Investment Risk Management monitors the day-to-day risk data that is produced and used by the first line, as well as responding and escalating regulatory limit breaches and heightened risks and coordinating mitigation and resolution actions.

Internal Audit provides independent assurance over the operation of controls and forms the third line of defense. The internal audit program includes reviews of risk management processes and recommendations to improve the control environment, supplemented by external assurance from external auditors.

A framework of committees focused on the firm's core investment, trading, regulatory/compliance and operational activities provides formal governance, with membership comprised of associates from across the firm to provide a multi-functional viewpoint of risk oversight and management. The CEO and the Leadership Team, as the principal executive committee, have responsibility for regularly reviewing Barings' key risks and ensuring that their respective business areas in all legal entities are monitoring and reporting relevant risks. The executive committee is also responsible for monitoring individual behaviors, ensuring that they align with Barings' culture and core values (as mentioned in Principle 2).

This framework demonstrates Barings' commitment to identifying and managing market-wide and systemic risks, and to upholding a strong control culture across the organization.

BARINGS INVESTMENT INSTITUTE (BII)

Barings portfolio managers and investment analysts benefit from the expertise of the BII, which plays a key role in identifying macroeconomic, financial and geopolitical risks. As a stewardship-focused investor, Barings recognizes the importance of identifying and responding to market-wide and systemic risks.

The BII is comprised of a team of economists with experience in the public sector, international financial institutions, rating agencies and think tanks. Their key mission is to identify relevant short and longer-term risks in the economic outlook. BII members attend weekly meetings with Barings' investment teams where they present and discuss their analysis to help portfolio managers identify and manage key risks.

The BII team performs three types of analysis to help achieve this mission:

- First, the BII develops macroeconomic scenarios about the economic outlook and market-wide risks in the next 12–18 months. These scenarios are published every six weeks and presented in a firm-wide call to Barings' investment teams, followed by a Q&A.
- Second, the BII identifies long-term, systemic trends that present investment risks, as well as opportunities. These include ongoing challenges related to climate transition, population aging, public debt, new technologies and changes in globalization patterns. By monitoring these trends, the BII helps Barings stay ahead of potential risks and identify new investment opportunities.
- Third, the BII undertakes economic research to help guide investments. This past year, they focused on the dynamics of inflation and its components, the determinants of corporate credit risk spreads, and the impact of the energy transition on trade, growth and inflation, as well as on geopolitics and investments. This research helps Barings better understand the economic and market factors that impact their investments.

In addition to their work with the investment teams, the BII collaborates with the investment risk management team to design stress testing assumptions relevant to investment portfolios across asset classes. Assumptions are provided by the BII and our quant and risk associates run models to assess the impact of them on portfolios. These stress tests help identify macroeconomic and geopolitical risks, aligning with Barings' commitment to stewardship.

SUSTAINABILITY & ESG TEAM AND SUSTAINABILITY WORKING GROUPS

To ensure stewardship considerations are integrated into the business, the Stewardship Working Group, which is comprised of representatives from Risk, Compliance, BII and Investment teams, discuss issues relating to systemic risks and stewardship strategy. Relevant information is shared between the Stewardship Working Group and the ESG Integration Working Group in terms of how addressing systemic risks are reflected in business unit activities. Projects coordinated by the Sustainability & ESG team feed through these working groups and into the Sustainability Committee to ensure implementation in the wider business.

ACTIVITY

IDENTIFYING RISK

MATERIALITY ASSESSMENT

In 2022, we engaged an ESG professional services firm to conduct an ESG materiality assessment and benchmarking exercise. Key findings from this exercise were presented to the Sustainability Committee and shared with the Stewardship and ESG Integration Working Groups.

Based on the findings, the Stewardship Working Group identified and discussed the following risks relevant to Barings' investment approach and operations:

- Board governance practices, DEI (see Principle 2) and climate risk and disclosure were identified as priority issues due to their importance to both stakeholders and business success.
- Human rights and biodiversity were identified as emerging issues of increasing importance to stakeholders.

As a result of these discussions, we have taken the following actions:

- We have been actively working to capture climate-related data for underlying investments across portfolios, with a particular focus on private markets (see Principles 6 and 8).
- We have increased our involvement in collaborative engagement groups under Climate Action 100+ and EMIA (see Principle 10).
- We have developed engagement guides that provide key questions to ask and evaluate risks that may emerge due to company practices related to human rights, biodiversity and deforestation; to be used where identified as material to assess investment risks through our ESG integration process. These guides consolidate expectations from industry benchmarks and frameworks and cover categories such as governance and policies, due diligence and remediation. They were presented to the Stewardship Working Group and helped inform our collaborative engagements under EMIA and our lead investor role for Climate Action 100+ (see Principle 10).

BII

BII regularly communicates with investment teams, peers, regulators and other industry bodies on macroeconomic scenarios (further details provided in this section) to identify medium-term risks which are presented in a dashboard. In 2022, BII focused on the following systemic and market-wide risks including:

- The impact of COVID-19
- Geopolitical and economic consequences of Russia's invasion of Ukraine
- Climate change and energy transition
- The response of central banks to high inflation resulting from these developments

We shared with investment teams our most likely scenarios about how these risks could impact the global economy, and investment outlook. These scenarios contained implications for central banks' reaction function, hence the level and shape of the risk-free yield curve that investment teams consider to price investments. They helped assess the appetite for risk-taking, including volatility related to uncertainty about how these atypical shocks may unfold.

We cautioned about the risk that inflation would remain higher for longer. Our main scenario, called Stagflation Shock, inferred, from the large pent-up demand from pandemic restrictions on social mobility and sanctions on Russian commodity exports, that high inflation would call for determined central bank action and a significant tightening of financial conditions. Our analyses led us to inform investment teams that market participants underestimated the risk of much higher interest rates which could reduce growth and risk-taking, with implication for stock and bond markets. Uncertainty about how this confluence of events, from resilient demand supported by large excess savings and a shortage of commodities, would drive volatility higher, requiring a careful approach to managing investments.

As governments started to design large fiscal spending plans to accelerate the renewable energy transition and gain energy security, we worked with investment teams to delineate the costs and benefits of their actions. These green transition plans would, in the short-term, enhance inflation pressure by supporting aggregate demand, including for critical materials necessary for renewable energy investments. This would reduce the effectiveness of central banks'



restrictive action aiming to tame demand and arrest inflation. In the longer term, however, the growth opportunity from a faster energy transition may be an opportunity. We organized several 'top down meets bottom up' seminars with investment teams to ensure that their valuable understanding of company behavior fed into our macroeconomic scenario building and vice versa.

ADDRESSING RISKS & ALIGNING INVESTMENTS

Alongside incorporating the research provided by BII, Barings' investment teams undertook their own analyses to identify and respond to the major risks identified. Below are examples that relate to how Barings' investment teams responded to the war in Ukraine and inflation. We addressed climate risk by strengthening our ESG integration approach, collaborating with service providers, and engaging with stakeholders in alignment with Principles 7, 8 and 10.

WAR IN UKRAINE

Perspective from Sovereign Debt Team: As many emerging market sovereigns have been affected by rising food prices as a result of the war in Ukraine, we set out to better understand this systemic risk to balance of payments and fiscal stability within the sovereign asset class. The team's research found that grain production at a global scale will continue to be inelastic in the short term, and thus countries that were reliant on grain imports from Ukraine will experience both price and supply effects that disproportionately affect the most vulnerable communities. The analysis found that over a longer time frame, grain production can be increased using appropriate pro-market policies. This analysis was shared with the BII on a call for other investment teams to learn and contribute to this research. It was applied to many country analyses within the Sovereign team, notably those of Nigeria and Egypt, and influenced team decisions on how to assess these credits' risks to price vulnerability.

Response from Other Investment Teams: Other teams including Public Equities, Emerging Markets Corporate Debt, Global High Yield, Global Private Finance and Structured Credit, worked on identifying overall direct and indirect exposure to the conflict. This included reviewing financial reporting for revenue and earnings contribution from the region and undertaking disclosure engagement requests directly with companies where this data was not previously reported. For Structured Credit it also involved running the list of potentially affected credits against CLO portfolios in both the new issue and secondary market to quantify exposure. Findings from the analysis included the following:

- Less than 10% of earnings were at risk for Structured Credit
- 1% of Global High Yield assets under management had material exposure to the region (>10% sales or earnings) and a further 1% of assets under management had moderate exposure (5–10% of revenue or earnings). The High Yield team sold out of a flooring manufacturer as there were no plans to close their Russian division.

In addition to working on containing the financial impact on the portfolios, our Public Equities and Emerging Markets Corporate Debt team worked with multiple stakeholders to manage the firm's legal and reputational risks.

For example, we engaged with Barings Legal team, as well as U.K. and U.S. regulators and market counterparties, to avoid sanction risks as we reduced our exposure to Russian assets. As part of this, the Emerging Markets Corporate Debt team also identified regional linkages and managed down exposures where we deemed the risks to be material, such as divesting a Belarus supermarket issuer, divesting an agricultural trading company in Moldova, reducing exposure to credits in Kazakhstan—among others. The analysis undertaken and findings from it were reported to our parent company, MassMutual.

Company Engagement Related to Russia | High Yield: Barings has an investment in a global pharmaceuticals company that generates approximately 15% of its revenue in Russia. In response to the conflict in Ukraine, Barings moved the investment to 'Hold', signifying that no further purchases of the companies' loans and high yield bonds could be made across strategies. This was a temporary decision by the Investment Committee whilst the investment team assessed the ESG and financial credit risks of material exposure to the region. This included analysis on the potential impact of sanctions and understanding cash repatriation. Barings engaged with senior management of the company to request information on the regional strategy, financial information and the social impacts of continuing to operate in Russia. Management was forthcoming with further information through bilateral discussions and agreeing to hold an investor group call. Through these interactions, Barings sought to understand the potential impact of sanctions and cash repatriation while also emphasizing the importance of addressing social and environmental considerations. Ultimately, Barings gained comfort that the social benefits of providing key pharmaceutical products to the Russian population outweighed potential risks and served as sound rationale for continuing to operate in Russia. Following the successful social engagement, Barings' Investment Committee reapproved the 'Buy' marker on the debt structure and subsequently added to holdings based on the attractive relative value profile.

The engagement with the company highlights Barings' commitment to engaging in constructive dialogue with companies to address ESG issues and ensure our commitment to stewardship.

RESPONDING TO INFLATION RISK—INVESTMENT TEAM EXAMPLES

In 2022, the global high yield market was impacted by central banks increasing base rates on the back of inflation across the market. Rising rates resulted in market concerns regarding the impact of rising interest costs for issuers, particularly on floating rate leveraged loan debt structures. Barings' Global High Yield team responded by reviewing financial reporting and engaging with management teams to assess the expected short-term impacts on issuers. The team concluded that the majority of corporates and private equity-owned issuers in the market had a level of hedging in place to partially or fully mitigate the short-term impact of rising interest rates. This information was also used to model forecast interest costs in cash flow scenario analysis, which provided additional comfort on a systematic risk in the Global High Yield market.

Similarly, the Diversified Alternative Equity (DAE) team engaged with private equity and real assets sponsors with material holdings or exposure to gauge how vulnerable underlying portfolio companies and co-investments were to rising interest rates and an inflationary environment. In particular, this involved engaging with sponsors to quantify the impact of projected interest rate increases for investments with variable-rate debt on their balance sheets. In addition, DAE asked sponsors to determine if holdings were susceptible to any credit issues as a result of rising rates and whether holdings were anticipated to be in default of their covenants with lenders and if additional equity would be needed to support investments. We also engaged with sponsors to understand how their underlying investments are responding to inflation in their costs of goods and services and whether these businesses are exposed to profit margin compression that could pose credit risk.

By undertaking these exercises, Barings' investment teams were better equipped to respond to inflation risk and make informed investment decisions.



ENGAGING WITH POLICYMAKERS & INDUSTRY GROUPS TO PROMOTE SUSTAINABLE FINANCIAL MARKETS

Barings representatives across our BII, Compliance and Sustainability & ESG teams have been involved in the following activities to share our perspectives on key issues that relate to stewardship and improving the effectiveness of financial markets:

- Participation in the Italian pension fund managers conference, alongside Italian members of parliament. The macroeconomic outlook for Italy was discussed and, in that context, attention was drawn to the likely persistence of elevated energy prices in the next decade, irrespective of the Russian invasion outcome. As one of the E.U. countries most dependent on gas, Italian corporates face risks and there was a need for the government to manage the transition towards a less carbon intensive economy.
- Presentation at the IMF/World Bank Meetings in Washington, DC of the “Climate Transition Megatrend: A World of Compromises”, also published [here](#) and [here](#). A note on this topic was also published [in the press](#) to engage in deeper dialogue.
- Participation in discussions with Impact Boards EM in London, a not-for-profit organization helping companies located in emerging markets (EM) achieve sustainable business transition. The organization aims to build a community of board members and ESG experts to improve governance principles in EM companies as they address environmental challenges.
- Participation at the White House, alongside National Security Council senior officials and U.S. Treasury, International Affairs officials to discuss the implications of the Ukraine war on the G-20 and for broader cooperation on economic and climate agendas. Risks were highlighted that the U.S. may, sooner or later, impose sanctions on countries like India and Brazil that continue to engage with Russia, possibly undermining other cooperation on climate and human rights.
- Provision of a consultation response coordinated by the Investment Association on the proposed U.K. Sustainable Disclosure Requirements.
- Participation in the Investment Association Stewardship Working Group and individual dialogue with the PRI to discuss the importance of the responsible investment industry pushing for the quality of engagement activity rather than focusing purely on quantity.
- Participation in a panel discussion at the PRI in Person conference from the perspective of private credit in the discussion of ESG in fixed income time horizons.

We strive to foster sustainable financial markets and deliver lasting value to our clients through engagement with policymakers and industry groups.

PARTICIPATION IN INDUSTRY INITIATIVES

Initiatives	Commentary
GARP (Global Association of Risk Professionals), PRMIA (Professional's Risk Management International Organization) SIFMA (Securities Industry and Financial Markets Association) APAC Risk Council Investment Company Institute Disaster Recovery Institute International	Within these organizations, Barings associates have been involved in the following forums: Buy Side Risk Management, Operational Business Resiliency, Third Party Risk Management, Cyber Risk, Operational Resilience, Counterparty Risk, Strategic and Business Risk and Business Continuity Planning.
Hong Kong Investment Funds Association (HKIFA)	Barings associates in Hong Kong (BAM Asia) are members of the ESG Working Group of HKIFA
Structured Finance Association (SFA)	Barings is represented as a member of the SFA ESG Working Group Co-Chair Committee on CLO Data Disclosure.
The Investment Association (IA)	Barings representatives across business units engage with the IA on a variety of topics—this includes participation in the Stewardship Working Group and provision of consultation response as mentioned above.
European Leverage Finance Association (ELFA) and Loan Markets Association (LMA)	Barings is represented as a member of the ESG committees of both ELFA and LMA. The groups work to improve disclosure and develop best practice guidance for sub-investment grade corporate borrowers, including the use of sustainability-linked loans.
Emerging Markets Investor Alliance (EMIA)	Barings associates have participated in several events led by EMIA which look to enable investors to support good governance, promote sustainable development, and improve investment performance in the government and companies in which they invest.
Climate Action 100+ The Investor Forum The Principles for Responsible Investment (PRI) FAIRR	Barings associates across our public equities and fixed income teams are actively involved in these collaborative engagement initiatives as either lead or collaborating investors. (See Principle 10 for more information.) We also use our PRI signatory membership to engage with representatives on ESG issues or asset-class practices. The Sustainability & ESG team has been in dialogue with each of these initiatives to discuss our perspectives on engagement and to ensure effective contribution.
Urban Land Institute Greenprint Member (U.S.)	Barings Real Estate (BRE) is a member of ULI Greenprint—a worldwide alliance of leading real estate owners, investors, and strategic partners committed to improving the environmental performance of the global real estate industry. As part of this group, BRE participates in an annual progress reports. BRE colleagues also attend ULI conferences and participate in Product Councils—groups of senior leaders across the industry that get together to focus on key topic areas. Typical commitment on a Product Council is three years.

Other initiatives we are a signatory of include:

- ABA Model Survey
- CEO Action for Diversity and Inclusion
- Diversity Project (U.K.)
- Home for All Pledge
- Institutional Limited Partners Association—Diversity in Action
- Investment 20/20
- Korea Stewardship Code
- Pensions for Purpose
- United Nations Global Compact

REFLECTING ON OUR PROGRESS

Through our risk framework (and investment teams' bottom-up identification of risks), BII and investment team representation in our Sustainability Working Groups, there are several channels for systemic risks to be identified and shared across the business.

Some risks identified off the back of the materiality assessment are naturally captured where relevant throughout our ESG integration approach (as captured in Principle 7). Our inaugural TCFD report, planned for publication in summer 2023, will further strengthen our climate-related risk disclosure.

Our internal risk framework ensures that relevant teams across all levels of our organization are responsible for identifying risks. Through our forthcoming TCFD-disclosure, we plan to further articulate our ongoing improvements related to addressing climate risk.

The Stewardship Working Group, established in 2021, with representation from Risk and BII, has been an effective mechanism for identifying and addressing emerging and continuing risks. This has resulted in topic-specific engagement resources and increased participation in collaborative engagement initiatives (Principle 10). We believe that there is an opportunity to further maximize the effectiveness of this structure by identifying and consolidating our efforts to address systemic risks.

In 2022, we focused on centralizing our industry activity through the Stewardship Working Group to monitor our involvement and contributions to various initiatives such as the SFA, ELFA, LMA, and the Investment Association Working Group. Through these initiatives our investment teams have benefited from knowledge exchanges from peers. We appreciate the ability to better prepare and respond to risks. We believe that our engagements with policymakers can be more effective through collective efforts coordinated by industry bodies and we plan to identify opportunities to contribute further to these groups moving forward.

PRINCIPLE 5

Ensuring the Effectiveness of Our Activities

CONTEXT

As Barings continues to enhance its ESG integration and stewardship activities, we recognize the importance of ensuring their effectiveness. To achieve this, we engaged with a range of stakeholders to review our approach including:

- Barings' Internal Audit team
- The Sustainability Committee
- Sustainability & ESG team
- External ESG strategy and audit consultant

ACTIVITY

EXTERNAL REVIEW OF POLICIES

In 2022, Barings commissioned an external consultant to review the investment team ESG policies. The review aimed to evaluate the effectiveness of our processes against potential review by an external regulator. The consultant evaluated the policies based on several criteria, including:

- The stage of development of processes,
- The level of detail and clarity, and
- Evidence of adherence to our ESG strategy

The review resulted in a rating for each policy and identified areas for improvement, which steered proposed actions, both at investment team and firm level. The Sustainability Committee and Sustainability Working Groups used this information to develop actions for improvement which we implemented in early 2023.

Following the external review, we reviewed and updated our [existing global Sustainability Policy](#) which will be published on our website in 2023.

INTERNAL AUDIT

Internal Audit at Barings is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Internal audit activities help an organization accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Barings' Internal Audit function is independent and it performs reviews across Barings globally. All functions, including centralized sustainability processes and investment and operational team ESG activities, are subject to Internal Audit oversight. Internal Audit has done certain testing regarding ESG matters as part of its 2022 audit plan, and expects to continue this for 2023.

REFLECTION ON PRI REPORTING ASSESSMENT

Barings reports to the PRI annually on the development and implementation of our ESG integration and stewardship activities. The PRI's framework is our primary external benchmark to measure our progress on incorporating ESG information and stewardship into our investment processes and throughout our business. Scores and feedback from the PRI are used to inform and improve our ESG integration and stewardship practices and our Sustainability Policy, which is reviewed and approved annually by our Sustainability Committee.

After 2021 PRI scores were released in September 2022, the Sustainability & ESG team analyzed the results of each module to find indicators where full points were not received. This exercise helped us to identify areas of strength and areas for improvement within individual teams and at the firm-level.

Investment Module Strengths

- Materiality assessments
- ESG integration into analysis and portfolio construction

Investment Module Areas for Improvement

- Ongoing monitoring and risk management

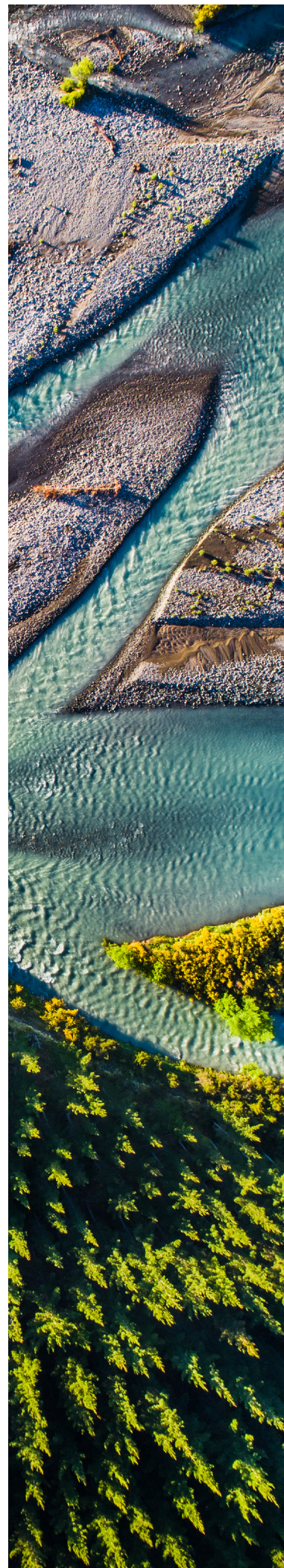
Policy Strengths

- Responsible investing and stewardship policy detail and practices

Policy Areas for Improvement

- Engaging policymakers
- Client reporting

In late 2022, the Sustainability & ESG team held sessions with investment team ESG representatives to review our scoring analysis and to help them understand the PRI's new assessment methodology. As a result, teams identified action items to implement ahead of the next reporting cycle that will improve their ESG and stewardship processes and ultimately their PRI scores.



STEWARDSHIP WORKING GROUP GAP ANALYSIS

Following the gap analysis undertaken in Q4 2021 as mentioned in our previous report, several priorities were taken forward for action by the Stewardship Working Group in 2022. Bi-monthly calls were held throughout the year to identify to monitor progress on these priorities. The key actions taken in 2022 are outlined below:

Priority	2022 Action
Stewardship and engagement knowledge building across investment teams	<ul style="list-style-type: none"> • Provided training on engagement to investment teams and tracked progress
Standardization of engagement data with periodic review	<ul style="list-style-type: none"> • Discussed reportable engagement data with individual team working group representatives • Conducted multi team discussions on engagement activity trends
Strengthening client preferences and understanding prioritized market and systemic risks	<ul style="list-style-type: none"> • Discussed, identified and recorded key client preferences • Presented materiality assessment findings (Principle 4) and incorporated them into priority projects such as engagement tools and resources • Preparation of more systematic understanding of clients through a planned survey approach in 2023.

The Stewardship Working Group continues to prioritize workstreams and monitor progress of projects and contributions from business-units.

REFLECTING ON OUR PROGRESS

Following last year’s report, we have made significant progress in the investment and development of our proprietary system to log and standardize ESG scores and engagements, to support our stewardship approach. This includes material updates to our existing system that have improved the investment team user experience. We have received valuable input from the Sustainability & ESG team in the development of our ESG scoring and engagement systems alongside our wider technological transformation taking place in 2023.

The development of investment team policies and subsequent external review provided a series of recommendations which we considered and, where appropriate, incorporated into our policies. Recommendations related to engagement, escalation and reporting, as well as establishing ongoing formal review, which has been a key focus area for the Sustainability & ESG team with essential input from investment team’s ESG representative, and the Legal and Compliance teams. Going forward, these policies will support our internal audit approach and provide a framework for maintaining and improving our ESG processes.

Similarly, our ongoing participation in the PRI’s Reporting Framework allows us to benchmark and identify improvement actions related to our ESG integration and stewardship approach. Gaps identified from our previous PRI assessment included improving the scope of our client ESG-related reporting. Our focus areas include expanding this reporting across other asset classes going forward as indicated in Principle 6 below.

The Stewardship Working Group will also continue to identify and monitor individual needs of various investment teams for enhancing practices to improve areas identified.



Investment Approach

Our primary consideration is to maximize returns as we manage capital on our clients' behalf. We believe that integrating ESG considerations into our investment process across all our asset classes is consistent with this as it helps provide us a holistic understanding of complex risks, as we manage capital on our clients' behalf. Our approach is based on the following features:

1. ESG information is integrated into investment analysis and is the responsibility of our investment analysts.
2. We consider the dynamic ESG performance of the entities in which we invest alongside their ESG current state and utilize this analysis in our proprietary ESG assessment.
3. We look to communicate our ESG integration approach to clients and partner with them on their preferences.

PRINCIPLE 6

Taking into Account & Reporting on Our Clients' Needs

CONTEXT

We prioritize steady, sustainable growth of assets, our client base and fund offerings across while adhering to our core areas of expertise: fixed income, equity and alternatives. Our clients' assets are managed across a diverse range of asset classes, geographies and client types as indicated below, as we believe in the importance of maintaining a balanced and resilient portfolio that reflects the diversity of our clients' needs and preferences.

\$347+ B
Assets Under Management

1,200+
External Clients

1,800+
Professionals Globally

EXTERNAL AUM BY REGION*



*Includes third party, external AUM only.

All figures are as of December 31, 2022 unless otherwise indicated. Assets shown are denominated in USD. Percentages may not equal 100 due to rounding

Barings leverages its **depth and breadth of expertise across** public and private markets to help meet our clients' evolving investment needs.



RFP Client Type	Total AUM
Charities/Endowments/Foundations	\$2,101
Corporate Pension	\$23,395
Financial Intermediaries	\$19,182
Insurance	\$187,743
Public Funds	\$28,761
Sovereign Entity	\$13,179
Structured/Private Funds	\$19,477
Wealth	\$53,445
Grand Total	\$347,282

CONSIDERING INVESTMENT TIME HORIZONS

Barings invests on behalf of its clients across a range of asset classes and risk-return profiles. Although each client may have different views and expectations around their investment time horizon, Barings generally provides investment opportunities with mid to long-term performance goals. Ideally, we think an investor should invest in a product for at least three years to ensure they receive the benefits of our fundamental investment approach, and this period should be even longer for some strategies.

Barings' fundamental investment approach targets a medium to long-term investment horizon, aiming to provide long-term outperformance and, as such, our ESG integration and stewardship practices endeavor to support this value creation.

We work closely with our clients to ensure their investments align with their performance timeline goals. While some clients may select our short duration strategies, which may have performance goals with a duration of as little as three months, others may be insurance clients with a preference for longer-term investments such as real estate, which can have a timeline of more than 20 years.

10. Excludes the Korean fixed income strategy totaling \$2.7 billion in AUM.

11. Excludes the Korean domestic equities strategy, which has \$7.9 billion in AUM.

12. Projected AUM figures. Includes real estate debt strategy assets that are managed as part of affiliated fixed income portfolios.

13. Represents dedicated capital solutions accounts and does not include assets managed in other cross-platform portfolios.

All figures are as of December 31, 2022 unless otherwise indicated. Assets shown are denominated in USD. The multi-asset strategy is not included on this slide, which has \$2.2 billion in AUM.

MANAGING ASSETS IN LINE WITH CLIENT REQUIREMENTS

We manage assets in line with client requirements by:

- Working to incorporate ESG and stewardship requirements into investment objectives and related legal documents, as well as communicating them through our own stewardship policies and activities. These requirements may include exclusions of specific industries and investments, a tailored engagement approach and adherence to their own policies,
- Monitoring portfolios to ensure alignment with client investment objectives, and
- Collaborating with clients to create funds that are tailored to their objectives and policies.

We also offer segregated mandates, which have client-directed exclusion lists, custom ESG targets, such as a targeted absolute portfolio carbon footprint, and custom engagement requirements based on specific criteria. Where custom exclusion lists are applied to mandates, the Barings' Guideline Monitoring team incorporates them into their oversight and uses a third-party database to screen investments.

For example, our Emerging Markets Corporate Debt team manage an ESG segregated mandate for a European client. The parameters incorporate client-specific exclusions and Barings' internal ESG assessment of issuers. In certain cases, the client has questioned our internal assessment, when it differed from third-party ratings providers such as MSCI. In such instances, we have been able to provide the client with our detailed internal ESG analysis that supports our investment case. In the majority of those cases, the client has supported our approach.

ACTIVITY

STRENGTHENING OUR APPROACH TO HOLISTICALLY UNDERSTAND OUR CLIENTS' PREFERENCES

In 2022, we further strengthened our approach to seeking client views on their ESG and stewardship preferences through several mechanisms. These include:

- Recording ESG-related topics discussed in client meetings in our Client Portfolio Management system, which tags the Sustainability & ESG team. This system enables us to collect a broad range of views and preferences coming from clients.
- Periodic meetings (usually monthly) between the European Sales and the Sustainability & ESG teams to discuss key topics raised in meetings.
- Barings Sustainability & ESG team joining key client meetings to actively discuss stewardship and ESG preferences.
- At least quarterly meetings of the Stewardship Working Group, acting as a forum to discuss key client preferences that may steer our approach to engagement.
- At least quarterly meetings of the Reporting and Distribution Working Group, which discuss key client preferences, particularly identified through our centralized storage and review of client questionnaires, that may steer our approach to ongoing reporting.
- At least quarterly meetings of Sustainability Committee to raise any plans with the Leadership Team.

This multi-team approach and use of working groups has allowed us to ensure that the relevant business teams are hearing the consistent themes coming from clients. This allows us to have a formalized and effective approach to act upon requests in a harmonious way across the business, which also satisfies regulation in various jurisdictions. In particular, we saw a significant focus on the topic of climate change, which is reflected in our engagement activity (as captured by several engagement examples in this report), as well as in our efforts to enhance our integration approach described in Principle 7.



CASE STUDY

Client: Insurance, MassMutual

LOCATION: UNITED STATES

TEAM: PSA

TOPIC: EXPLORING NET ZERO COMMITMENTS

Client request: In spring of 2021, MassMutual announced net zero initiatives for both their operations (by 2030) and their investment portfolio (by 2050). Since then, Barings has continued to work with MassMutual to research already defined net zero frameworks by the Net-Zero Asset Owner Alliance and SBTi, concentrating on alignment with MassMutual's portfolio goals for carbon reduction and feasibility from an investment management perspective.

What we did: In 2022, we continued to assess and analyze third-party net zero frameworks based on outlined methodologies and calculations, data availability and coverage for the variety of asset classes and carbon-intensive sectors in MassMutual's General Investment Account (GIA). We conducted feasibility studies for the implementation of initiatives for Barings' portfolio management for the different net zero initiative plans that were in scope. One of the ongoing challenges has been relevant data coverage. Barings worked with MassMutual and their external consultant to identify potential solutions, including whether data coverage could be increased with MassMutual onboarding a new vendor of carbon data (which they were testing for reporting purposes).

Outcome: Our findings concluded that data coverage could not be supplemented much more beyond Barings' existing data providers. Our considerations regarding methodology and lack of feasibility of portfolio management implementation for the studied frameworks, also led to MassMutual deciding not to commit to either framework at this stage and to use elements of both to support mapping out their net zero goals. Going forward, we will continue to work with MassMutual to guide net zero target setting for their GIA.



CASE STUDY

Client: Pension Fund

LOCATION: THE NETHERLANDS

INVESTMENT TEAM: GLOBAL HIGH YIELD

TOPIC: STRENGTHENING ENGAGEMENT REPORTING

Client request: In Q4 2022, the Sustainability & ESG team liaised with the Sales and High Yield teams to join a client meeting to discuss the client's engagement reporting preferences. The client expressed a desire for fund-level engagement reporting and for information on the status of engagements, including context for where engagements were behind track. Barings explained plans to improve fund-level engagement reporting in a new platform under development and discussed how engagement reporting could be improved in the shorter term.

What we did: Following the meeting, the Sustainability & ESG team reviewed the ability of our current engagement platform to meet the client's needs and updated training resources to emphasize the recording of engagements, including how to best identify and assess the progress of engagements. The client feedback was also provided to in-house software developers as part of the technological transformation to our existing platforms.

Outcome: An initial prototype of the proposed engagement platform has been demonstrated to the Stewardship Working Group and the Sustainability & ESG team is working with the High Yield team (and other investment teams) in reviewing the latest engagement data being input into our existing system.



CASE STUDY

Client: Pension Fund

INVESTMENT TEAM: GLOBAL PRIVATE FINANCE

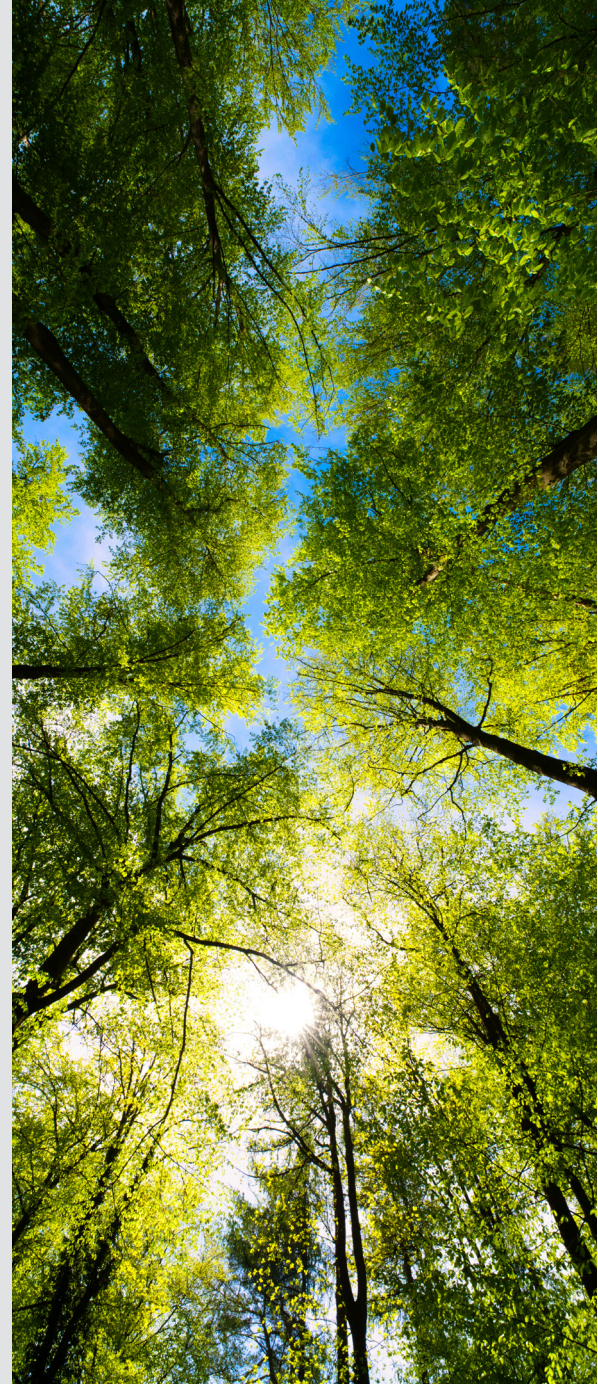
TOPIC: INCREASING CLIMATE DATA

LOCATION: U.K.

Client request: Our Sustainability, Sales and Global Private Finance (GPF) teams joined a call with a U.K. pension fund to understand their ambitions related to climate risk disclosure. We discussed the challenges of carbon data for small to mid-sized borrowers in private markets and opportunities to support the client's ambition for obtaining carbon emissions data across their portfolios by 2030.

What we did: The topic was discussed as part of the Stewardship and Reporting & Distribution Working Groups as other climate-related client queries were identified. These conversations led to the identification of two priorities for the GPF team, establishing options for collecting bottom-up ESG data from borrowers and the feasibility of estimating carbon emissions. Additionally, the PSA team, through their ongoing dialogue with a third-party ESG provider, explored options for acquiring carbon emissions proxy estimations. The Sustainability & ESG team also streamlined efforts with the GPF team on liaising with external consultants' potential services to support data collection with respect to setting KPIs as part of establishing ESG-linked Loans (Principles 8 and 12).

Outcome: Barings has acquired a carbon estimation engine through our third-party provider, which will act as a first step in identifying climate risk within private market portfolios. We remain in dialogue with the client on their preferences related to portfolio-level climate-related reporting going forward. Furthermore, we have developed a questionnaire aligned with industry standards such as the LSTA and LMA. In collaboration with our internal software developers, we are planning on how this can be incorporated into our technological transformation, to begin the process of bottom-up data collection.





CLIENT EXPERIENCE INTERVIEWS

As indicated in Principle 1, Barings undertook an interview-survey of 24 clients selected to be representative of our global client base by region, client type/channel and investment profile, to inform a view on the client experience with Barings to help develop our approach going forward.

Questions included understanding manager selection decision making, perception of our values and trends that will become more important to experience with Barings and investment managers.

Through the survey, the topic of ESG as an increasingly important trend to client experience was captured and this included understanding of governance, ESG integration practices and individual preferences related to reporting. ESG-related findings were discussed between the Sustainability & ESG team, Stewardship Working Group and ESG Reporting and Distribution Working Group to inform plans going forward which include to take a deeper dive on understanding client stewardship preferences in 2023.

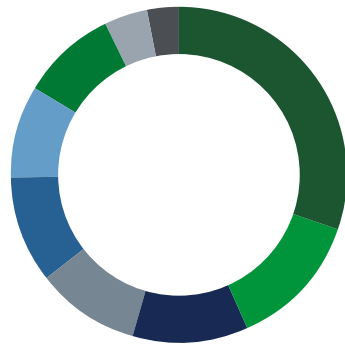
RFP ANALYSIS: CLIENT ESG REQUESTS

In the summer of 2022, the RFP team conducted an analysis of ESG-related requests, which included RFPs, call reports and interviews with various members of Barings business units such as Distribution and Sustainability. The findings were presented to the Reporting and Distribution Working Group highlighting several trends:

- Significant increase of ESG-related RFPs from 2017 to 2021 with a reduction in 2022 (that also aligned with a reduction in broader RFP trends).
- Increasing granularity of questions related to ESG integration process, particularly for fixed income and a notable increased focus on private markets.
- Increasing questions on our approach to identifying and managing climate related risks within portfolios, including approaches to net zero.
- A shift from stewardship questions focusing on exclusions to an emphasis on our engagement approach.

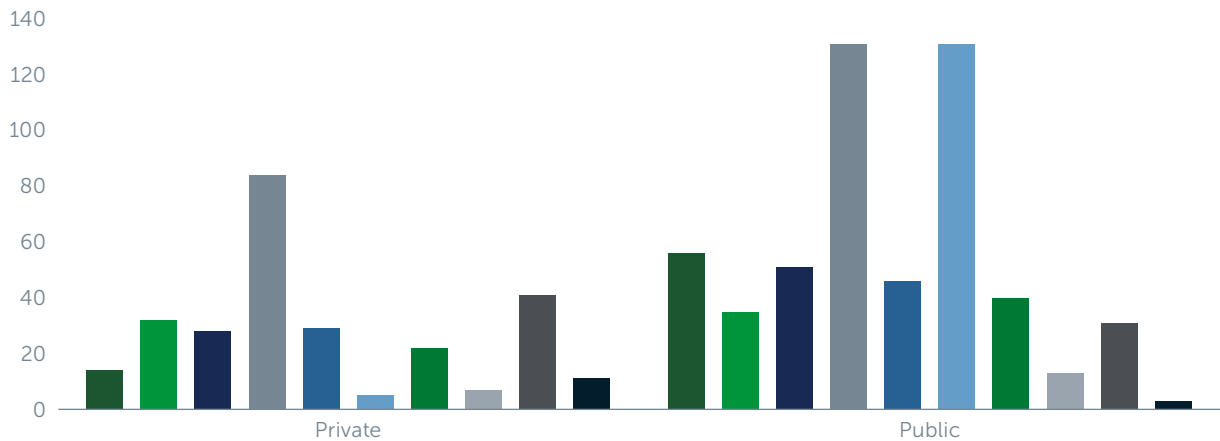
Example analysis: the charts below represent findings from the review of approximately 20 ESG-related RFPs across all Barings' asset classes from 2021 to mid-2022, comprising approximately 750 questions.

ESG RFP KEY TOPICS

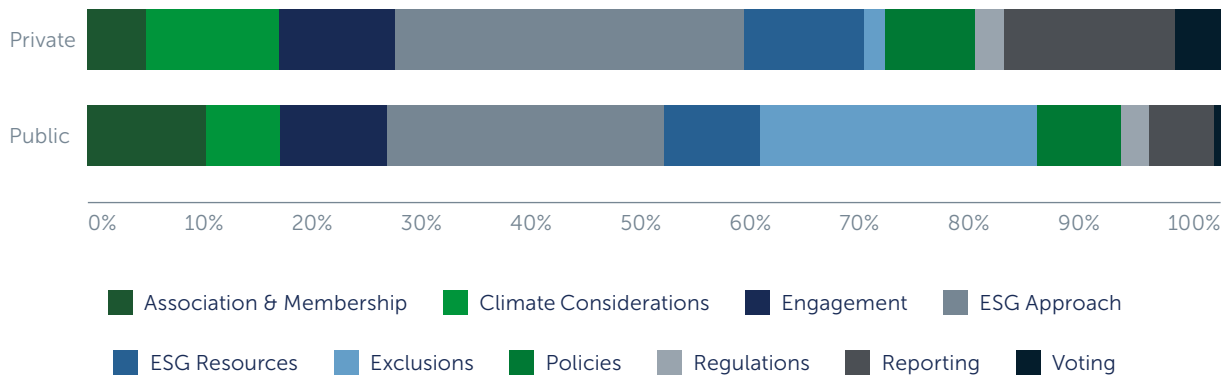


- ESG Approach | 30%
- Engagement & Voting | 13%
- ESG Resources | 11%
- Reporting | 10%
- Association & Memberships | 10%
- Climate Considerations | 9%
- Policies | 9%
- Exclusions | 4%
- Regulations | 3%

FREQUENCY OF QUESTIONS BY ASSET CLASS



SHARE OF QUESTIONS BY ASSET CLASS



The presentation of findings led to discussion between the RFP, Sustainability & ESG, PSA ESG and Distribution teams on their relevance to our ESG integration and stewardship strategy going forward, including client preferences related to decarbonization, interest in financial products pursuing sustainability outcomes and more detailed preferences on our engagement approach.

STRENGTHENING COMMUNICATION WITH OUR CLIENTS

Our investment and distribution teams regularly engage with our clients and these meetings continue to remain an important avenue to communicate our ESG integration and stewardship approach, and resulting outcomes relevant to portfolios. In 2022, we enhanced our client engagement approach by undertaking the following activities:

- Developing our ESG section of our website, including our approach to [stewardship](#),
- Continuing to fulfill ad-hoc ESG reporting requests to clients,
- Following our improvement action identified through our PRI assessment (Principle 5) we increased our standard quarterly ESG reporting which now includes Barings ESG scores for top ten holdings, outlook scoring for the portfolio, portfolio scope 1 and 2 carbon emissions, and firm-level and platform level engagement reporting. These reports are generated for all funds across our Public Equities and Public Fixed Income platforms. As of the end of 2022, 6.61% of Barings AUM had such reporting sent to clients. A further 2.44% of AUM was covered by manual quarterly ESG reporting.

REFLECTING ON OUR PROGRESS

Our conversations with clients, insights from RFPs, and our client experience survey, have been key in reflecting on how the pace of client expectations continues to grow at a rapid pace for ESG integration and stewardship preferences. As highlighted in Principle 2, the closer relationship between the Sustainability & ESG team and our client-facing teams will help us strengthen our strategic approach to partnership with clients on their stewardship preferences.

These reflections include:

- Clients are increasingly focused on climate-related metrics and addressing the data gap for ESG data in private markets,
- Clients are interested in granular data around engagement activity across asset classes, such as portfolio-level compared with firm-level engagement data, and
- Several clients have prioritized ESG issues that guide their conversations with managers.

We have taken these reflections into account as we have discussed the opportunity of a climate-focused high yield strategy in 2023 with target clients.

To further understand our client preferences, we have developed a systematic approach to engaging with our strategic investors and consultants in 2023 across regions on stewardship-related questions. We plan to incorporate and report on these findings going forward.

We have also increased our standard quarterly ESG reporting capabilities across our public platforms, and we anticipate more clients will request this. Moving forward, we will collaborate internally and with clients to help determine our ESG reporting across broader asset classes. A challenge will be to continue to manage the emerging and varying views on ESG and stewardship preferences, particularly in North America. Additionally, increasing ESG-related regulation may impact our communication on our fund-level activities. Nevertheless, we believe that our approach to stewardship, which prioritizes engagement over exclusion and considers financially material ESG risks and opportunities, positions us well to navigate these challenges.

Integrating ESG Considerations into Our Investment Process

CONTEXT

At Barings, we are committed to integrating ESG-related analysis into our investment processes across all our asset classes as part of our goal to maximize investment returns for our clients. Our investment professionals possess industry and sector expertise that enables them to identify the material ESG risks and opportunities relevant to each of the investments they cover as part of their broader investment analysis. Our professionals have access to training on ESG integration and use third-party ESG data and research to support their work on ESG where appropriate. In our experience, this expertise makes them best placed to undertake ESG integration directly on the issuers they cover. We believe that ESG investment analysis, focusing on the material ESG information, enhances our investment process as it helps identify relevant risks and opportunities for our investments.

Many of our clients align with our approach to prioritizing material ESG issues and where clients stipulate additional preferences on ESG issues, we integrate our bottom-up approach with client input, where possible. Where it is not possible, such as a pre-existing co-mingled offering, we discuss alternatives such as a separately managed account with the hope of delivering on client preferences. As highlighted in Principles 4 and 6, the increased risks and opportunities from, and client expectations with regards to, climate change has resulted in climate analysis process enhancements, as described in the Activity section below.

Our investment professionals consider a full range of ESG issues as part of their materiality assessment. Such topics are informed by external frameworks such as SASB, UN Global Compact and other reporting frameworks such as the PRI and TCFD. They include:



ENVIRONMENTAL

EMISSIONS/ENVIRONMENTAL
IMPACT & CLIMATE CHANGE

ENERGY

NATURAL CAPITAL

PRODUCT LIFESTYLE/
SUPPLY CHAIN



SOCIAL

LABOR
(EMPLOYEES & SUPPLY CHAIN)

CONSUMER/SOCIETY

COMMUNITIES



GOVERNANCE

BOARD

STRATEGY & APPROACH

TRANSPARENCY

LEGAL

We typically score our investments on ESG issues from one (excellent) to five (unfavorable) using Barings' proprietary ESG rating system across our investment teams. Where possible, this score captures both the current state of ESG performance as well as the ESG outlook for an investment, which rates the momentum of the entity's ESG efforts as Improving, Stable or Deteriorating.

Our Public Equities team has a proprietary standardized ESG assessment framework to evaluate the ESG dynamics of current and potential portfolio companies. This assessment is dynamic and forward looking and has an impact on the valuation of the investment and the qualitative assessment of the company. The ESG topics above are considered and aligned to the following three categories as part of the assessment framework:

- sustainability of the business model (franchise)
- corporate governance credibility (management)
- hidden risks—including environmental and social (balance sheet)

Further details on this framework can be found in our [Public Equities ESG Integration and Active Ownership Policy](#), meeting the requirements of the EU Shareholder Rights Directive.

Depending on the asset class and region (as indicated through the examples below), inputs to ESG scoring and analysis may be based on information sourced from third-party data providers, or directly from interactions with the investment or other stakeholders. Given ESG data challenges pertaining to accuracy, methodology, comparability and coverage, our own fundamental, qualitative and quantitative (where appropriate) analysis and research holds more importance in the investment process than third-party input. We believe that long-term knowledge of our investments and sectors, as well as access to company management and financial sponsors, provides a superior level of analysis and a more robust methodology than relying on third-party data sources alone.

CONSIDERATIONS ACROSS ASSET CLASSES

As articulated through our investment team case studies in this section, the nature of our ESG integration processes can vary depending on the asset class and/or region of the investment. These considerations include:

- For emerging issuers that are privately or government-owned, third-party ESG data may be limited and they may not be subject to stock exchange listing requirements. In such cases, we pay particular attention to governance and disclosure factors such as board composition, independent directors, auditors, related party transactions and financial disclosures. We determine the materiality of the specific factors based on the nature and location of operations.
- Our Public Equities and Public Fixed Income teams often have access to senior management and/or financial sponsors through scheduled meetings and presentations. Analysts interact directly with issuers to discuss material company developments, including on ESG issues. This is considered an integral part of either the credit risk or cost of equity-analysis process.
- The ESG integration process for private assets is most focused on the pre-investment due diligence stage to identify where red flags may result in investment decline, vs. ESG risks and opportunities that can be managed either through formal agreements or ongoing monitoring.
- For Real Estate Equity, ESG analysis starts at initial pre-screening. Risks and opportunities are identified; mitigation strategies discussed, if need be. Once acquired, monitoring/managing risks and opportunities related to ESG continues with an emphasis on physical and transitional risk.
- For Structured Credit (CLO debt and equity tranches), ESG analysis focuses on the underlying CLO manager's approach, as well as an examination of the underlying collateral providing the cash flows to the CLO tranches. For Securitized Credit, ESG risk factors applicable to the originator/servicer, collateral/loan pool and structure/third parties are assessed.

ACTIVITY

The following examples articulate our ESG integration approach across investment teams in 2022.

EMERGING MARKETS CORPORATE DEBT— RAILWAY COMPANY | SOUTH AFRICA

We reviewed an investment opportunity in a state-owned railway company in South Africa and declined it on ESG grounds. The company plays a strategic role in the economy of the country, however we identified material ESG risks, based on our due diligence including, review of company's financial reports and a meeting with the senior management team. The company has a high reliance on polluting diesel locomotives and generates a significant portion of its revenues from transporting thermal coal. We were not able to get a satisfactory transition plan for the foreseeable future from the management and there were no specific environmental targets in place at this point. We also found evidence of governance failures in the part. While some of these internal control failures were addressed, the company still got a qualified audit opinion on its financial statements. The investment committee did not see a path for meaningful engagement with the company on relevant ESG matters in the immediate future given the amount of operational and financial pressure the business is under and declined the opportunity.

SOVEREIGN DEBT | THE BAHAMAS

In assessing potential investments in island states, the Emerging Markets Sovereign ESG analyst undertook an assessment of climate event risk and resilience to determine the countries most prepared for extreme weather events. The analysis, based on fundamental research, found that the Bahamas had demonstrated policy learning from Hurricane Dorian in 2019 and had a strong governance track record. Data sources on governance and climate risk included reports from the Inter-American Development Bank, the World Risk Index, World Governance Indicators, and the Fragile States Index. Peer analysis was conducted with other island states including Bermuda, Barbados and Jamaica, and historical comparisons of disasters came from the EM-DAT database. The main finding was that the Bahamas has the willingness and capacity to recover quickly from disasters and all main stakeholders in the country are engaged to build resilience after Hurricane Dorian, from the consolidation of disaster response agencies to insurance coverage improvement. This research, alongside fiscal and external analysis, supported the team extending ownership of Bahamas sovereign debt and overweighting Bahamas bonds in multiple portfolios.

INVESTMENT GRADE—EMERA, INC. SECTOR: UTILITIES | CANADA

In the fall of 2022, we recommended Emera, a Canadian utility, as an Underweight due to chronically high leverage, weakening credit metrics (below rating downgrade thresholds), weak BBB ratings and rich relative bond valuations. Subsequently, the company received a negative Nova Scotia regulatory ruling that would likely further pressure this subsidiary's future cash flows, causing Moody's, S&P and Fitch to downgrade the holding company's outlook to negative.

In November 2022, we met with the CEO and CFO to discuss several credit and ESG topics including the recent negative regulatory ruling, customer bill inflation, elevated storm costs, high deferred fuel balances, financial policy and environmental goals.

Despite management's efforts to address our concerns regarding a potential holding company downgrade to high yield, we concluded that management's proposed actions may not be enough to avoid this downgrade and that the regulatory construct in Nova Scotia had significantly deteriorated. This caused us to change our investment recommendation to Sell (from Underweight). In December 2022, we sold down Barings' Emera exposure due to our lower management and regulatory governance assessment and a heightened risk of a high yield downgrade.

REAL ESTATE EQUITY—RAINHAM

Rainham is a 20 acre, Grade A sustainable logistics space currently under development. The investment team identified opportunities to increase ESG targets: from BREEAM Very Good to Excellent, EPC A to EPC A+ with increased onsite renewables from 20% to 100%. These improved targets have received approval from the Investment Committee and defined asset investment strategy.

In close collaboration with the project design team, Barings have been able to develop specification to the UK Green Building Council Net Zero Carbon Buildings Framework both embodied and operational. A variety of elements have contributed to achieving this standard including the recycled materials used in the construction and the green energy strategy which is aided by the 100% PV roof coverage. To ensure performance of operational energy targets, green leases will be in place when in occupation.

A local needs study was carried out, as well as engagement with a social value consultant to ensure the scheme meets the needs of the local residents. The team are also looking to improve biodiversity of riverside habitat by planting a new mix of native scrub species within landscaped areas. We aim for this to be one of London's most energy efficient logistics schemes, which far outreaches the already ambitious targets set by the regulators for the city.

EQUITIES—DOW INC | SECTOR: CHEMICALS

As one of the largest integrated chemicals companies in the world, DOW Inc is subject to emissions trading mechanisms in some of the jurisdictions it operates in. As a result, the company is incurring and will incur cash costs related to its emissions over the next five years. In order to better determine what the addition to the Cost of Equity (CoE) coming from Carbon Dioxide Equivalent (CO₂e) costs should be, our Public Equities team analyzed a number of topics related to the company's decarbonization commitments. In particular, they identified that the company is committed to be carbon-neutral by 2050 and has also set an intermediate 2030 target to reduce Scope 1 and 2 carbon emissions by 5mt compared to a 2020 baseline and indeed the company discussed multiple pathways to reducing Scope 1–3 emissions.

To give the Public Equities team greater trust that DOW Inc's commitments will be met, the team also checked to see if management incentives are aligned with carbon reduction targets. 20% of annual performance awards is linked to ESG metrics. This includes a Sustainability component as measured using the World-Leading Operations (WLO) Index, which includes environmental stewardship. There is no specific mention of carbon reduction target inclusion however, and the Public Equities team will look to engage with the company to encourage management to more specifically link incentives to CO₂e reduction targets.

External certification of the company's targets by science-based organizations can provide greater confidence to investors that the targets are meaningful and will not need to be accelerated. The company refers to its science-based strategy. However, whilst the company is a signatory to the CDP project, as well as the TCFD, the Public Equities team could not find evidence that the targets have been certified by an outside organization and the team will be looking to engage with the company on this topic.

Finally, over-reliance on the use of carbon offsets to achieve net-zero, may not be sustainable from both a financial and environmental point of view as the quality and availability of offsets over the long term is uncertain. The Public Equities team's understanding is that the company makes use of offsets where there is, currently, no viable solution to a physical reduction in emissions. However, these are said to not be extensive and will be reduced in time.

Following this analysis, we increased the CoE for Dow by 0.67 percentage points to account for future cash costs related to CO₂e emissions, therefore reducing the Barings valuation of the company and upside potential.

As and when the company makes further progress against some of the areas the Public Equities team has identified the need to improve on, the addition to the CoE is likely to be reduced, resulting in a higher valuation for the company.

INFRASTRUCTURE—BATTERY STORAGE FACILITY | U.S.

The borrower owns a 100-megawatt battery energy storage system in Oxnard, California (the "Project"). The Project was built under a fixed price, turnkey engineering, procurement and construction contract with a well-known electric vehicle and clean energy company.

The Project has also secured a long-term service agreement for a 20-year term, which includes robust performance guarantees with the construction contractor. Revenues are generated from i) ancillary services provided to the California Independent System Operator ("CAISO"; A1/A+) market (60% of revenue) ii) fixed capacity payments under a 20-year contract with an investment-grade California utility (25%) and iii) intra-day energy price arbitrage opportunities (15%).

From the due diligence and underwriting process, including engagement with the energy manager and sponsor, investment into the facility was made based on the following:

- Battery storage systems like the Project are essential for CAISO to meet its renewable energy targets. As renewable sources of energy increase in California, CAISO is increasingly faced with intra-day supply demand imbalances that are mitigated with battery storage systems that provide grid stability.
- Revenue is supported by long-term contracted cash flows from the sale of the Project capacity to a high quality offtaker.
- The Project is managed by an experienced energy manager and sponsor. The manager's knowledge and sophistication in the CAISO market is critical for driving Project ancillary service and energy market cash flows. This Project has significant optionality in that it can provide multiple products/services to take advantage of different revenue sources.

SECURITIZED CREDIT—COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION (CDFI) | U.S.

We conducted onsite due diligence on a CDFI that focuses on supporting underserved communities across the USA. CDFIs play an important role in providing access to credit for borrowers who may otherwise be overlooked by traditional lenders. During our due diligence we found that the CDFI's charter requires them to direct their production to lower income communities. They also offer community mortgages, which have a different foreclosure timeline and require outreach by a counselor. Additionally, reporting on this is required to both the board and community advisory board. These measures show their commitment to responsible lending and promoting positive social outcomes.

Despite the higher risk associated with lending to lower income communities, the CDFI's underwriting is sound, and they are yet to experience loss from any defaults. This not only demonstrates the effectiveness of their lending practices, but also highlights the importance of ensuring that lending is beneficial to both borrowers and lenders.

Aligned with our philosophy on stewardship, we believe that supporting institutions like the CDFI is crucial to promoting sustainable and inclusive economic growth. Our onsite diligence helped verify the positive social impact of the CDFI's lending practices.

CONTINUING TO ENHANCE OUR ESG INTEGRATION APPROACH

While our fundamental ESG integration processes across investment teams did not change in 2022, we undertook a range of activities to strengthen our overall approach.

DRAFTING INVESTMENT-LEVEL POLICIES

Ahead of the external policy review undertaken in Q4 2022 (see Principle 5), the Sustainability & ESG team coordinated the development of investment-team level policy drafts detailing processes related to ESG integration and stewardship. This project targeted enhanced procedures for, and transparency on, ESG investment integration activities. The policies will be finalized in 2023.

ENHANCING ANALYSIS OF CLIMATE-RELATED RISKS

In 2022, the Public Equities team finalized the enhancement of their analysis of ESG to allow for a maximum two percentage points adjustment to the Cost of Equity (CoE) to account for the impact internalized carbon costs can have on company earnings depending on the sector and jurisdiction. As these are actual cash costs, this adjustment is in addition to the maximum two percentage points, which the Public Equities investment professionals can add to the CoE if the company is facing unfavorable ESG dynamics. The CoE is the minimum rate of return required by equity investors for committed capital and the Barings Public Equities teams use this to value a company.

We increased our third-party ESG data coverage, enabling access to more climate data and modeling, which has been used for analysis across public portfolios. This data includes weighted average scope one and two emissions for portfolios against a benchmark, estimations of how investment value may be affected by climate risks under different scenarios,



and alignment of the portfolio and benchmark to global climate targets. This analysis has fed into our plans for the development of a high yield climate-focused strategy, for example, its potential carbon trajectory alignment with the Paris Agreement, as well as supporting our climate-related risk disclosure going forward.

SUPPORTING CONSISTENCY OF ESG SCORING IN PUBLIC FIXED INCOME

Baseline ESG scores were put in place for Barings' Public Fixed Income investment teams as part of the continued development of Barings' global high yield integrated ESG processes. Baseline ESG scores provided investment teams with one to five environmental and social current state ratings for each GICS sub-industry, as well as guidance on what constitutes one to five governance scores across asset classes. These baseline scores can be altered by investment analysts based on their knowledge of and engagement with issuers. Baseline ratings provide a starting point to improve consistency of ESG ratings across Public Fixed Income investment teams.

CONTRIBUTED TO TECHNOLOGICAL TRANSFORMATION

Representatives from each investment team fed back into the development of Barings' technological transformation project identified in Principle 1. This is to help ensure our digital infrastructure can effectively facilitate the centralization of our investment (including ESG integration) efforts. Ongoing testing and roll-out of this infrastructure will take place in 2023.

REFLECTING ON OUR PROGRESS

While we recognize the strength in our bottom-up approach to the prioritization of ESG issues, we also acknowledge the increased prioritization of ESG issues by some of our clients. We plan to further understand client preferences on prioritized issues through more systematic engagement with them and will reflect on our approach through our Sustainability Working Groups.

We have continued the development of our ESG data analysis on topics such as controversial sector exposure, decarbonization plans and carbon emissions trajectory of public issuers. Where data coverage remains low for certain assets, particularly in emerging and private markets, we will continue to liaise with our service providers as their modeling and datasets are refined. We will also consider where we have opportunities to support ESG data collection in private markets.

The formalization of investment team-level ESG policies and efforts to transform and consolidate our internal systems will help centralize investment, ESG integration and engagement-related activity. This aligns with Barings' commitment to stewardship and will strengthen the effectiveness of our analysts to undertake stewardship-related activities and report on this accordingly.



PRINCIPLE 8

Monitoring Our Managers & Service Providers

CONTEXT

All third-party vendors are governed by our Global Vendor Management policy. This policy covers risk management and monitoring of vendors from onboarding, through service delivery and offboarding. As part of the monitoring process, Global Vendor Management leverages a vendor monitoring solution that assists with the proactive oversight of our critical vendors. Performance reviews are expected to take place at a minimum of annually and any performance-related issues that arise are to be escalated to the Global Vendor Management team to assess the risk and to determine if further corrective action is required.

We have set an additional objective for the Global Vendor Management team to focus on supplier diversity and sustainability, recognizing that our diverse suppliers represent less than 10% of our total supplier base. To increase this number, we are leveraging our partnership with MassMutual and making a concerted effort to include diverse suppliers in the bidding process for new engagements.

LIAISING WITH ESG DATA PROVIDERS

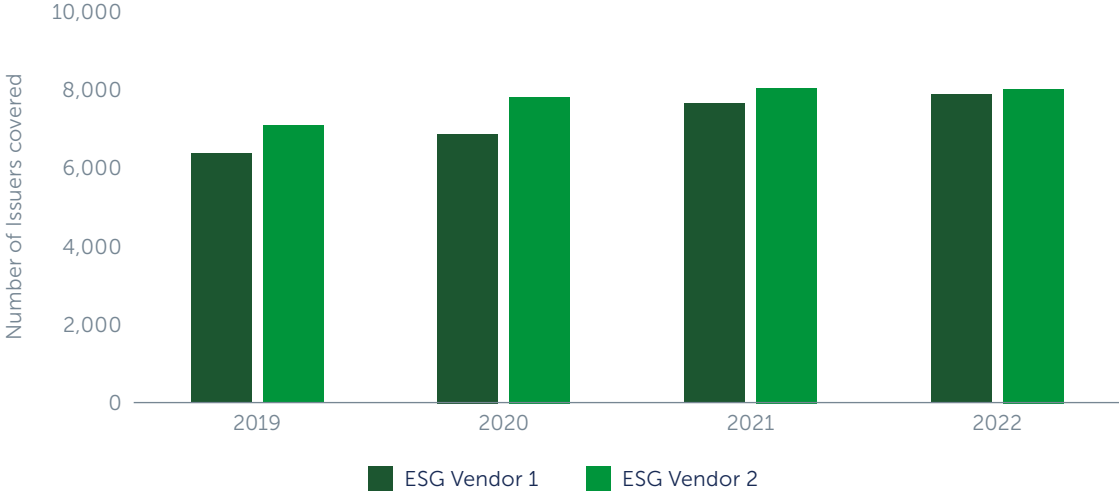
Barings uses two primary ESG vendors. As an active manager, Barings uses third-party ESG data as an input when forming our own independent assessment of companies' ESG profiles. We also use vendor ESG data sets in proprietary ESG analytical and reporting tools to further support ESG investment integration and meet growing client and regulatory demand for ESG reporting.

ESG data sets are less mature when compared with traditional financial or pricing data; vendors rely on estimation methodologies for non-covered companies and use data collection techniques such as web scraping to obtain data. As such, vendor data can be more susceptible to errors than traditional data sets. Additionally, outside of listed instruments, ESG data coverage tends to be limited.

Barings conducts regular reviews with vendors to discuss their ongoing development of ESG metrics such as TCFD-aligned reporting, climate modeling, private asset coverage, as well as new tools available through their platforms. Based on the climate model purchased in 2022 (see Principle 7), we have started to liaise with the service provider as they refine the model in 2023. Barings has also partnered with vendors to test some of their new applications that look to increase data coverage across asset classes and have provided feedback on areas for potential improvement to methodology and user experience.

Barings monitors vendor coverage across our investable universe and are actively engaged to understand vendors' plans related to new ESG data sets and newly covered asset classes. In 2022, vendor coverage across our investable universe remained stable.

VENDOR COVERAGE – BARINGS INVESTABLE UNIVERSE*



**Combined universe of all issuers in Barings' equity and FI public corporate portfolios and benchmarks*

PROXY PROVIDER

Semi-annual service reviews are conducted using questions provided by procurement vendor management which includes control procedures, changes in leadership, data storage, any upcoming changes or solutions that may be relevant. With regards to monitoring the accuracy of our proxy service, our teams run several daily checks to ensure all proxy votes are received, submitted and accepted. Along with our checks, our provider also has comprehensive controls that include a dedicated internal team, Control and Audit, and partners with departments to help ensure that appropriate levels of control are in place and assess risk within the business units.

Through our conversations in 2022, no issues were identified with the proxy voting services provided and we sought to understand our provider's increased range of voting policies which result in different voting recommendations.

ENGAGING WITH EXTERNAL MANAGERS

In the case of indirect investments, such as Structured Credit, our stewardship efforts focus on engagement with CLO managers. Through regular dialogue, we encourage managers to incorporate ESG analysis as part of their underwriting process and subsequently provide associated ESG reporting. This is driven by the request for all CLO managers to complete the LSTA ESG Diligence Questionnaire and provide a copy of the company's ESG policy.

Through our private investments, our GPF team and Diverse Alternative Equity (DAE) team engage with private equity sponsors to understand their own approach to ESG through policies and procedures. Our DAE team assesses financial sponsors on the consideration of ESG issues, engagement with portfolio companies and fund governance. Our GPF team works closely with sponsors to set portfolio-company level KPIs to steer ESG improvements as part of establishing ESG-linked loan agreements (see Principle 12).

ACTIVITY

Barings liaised extensively with one of our data providers in 2022:

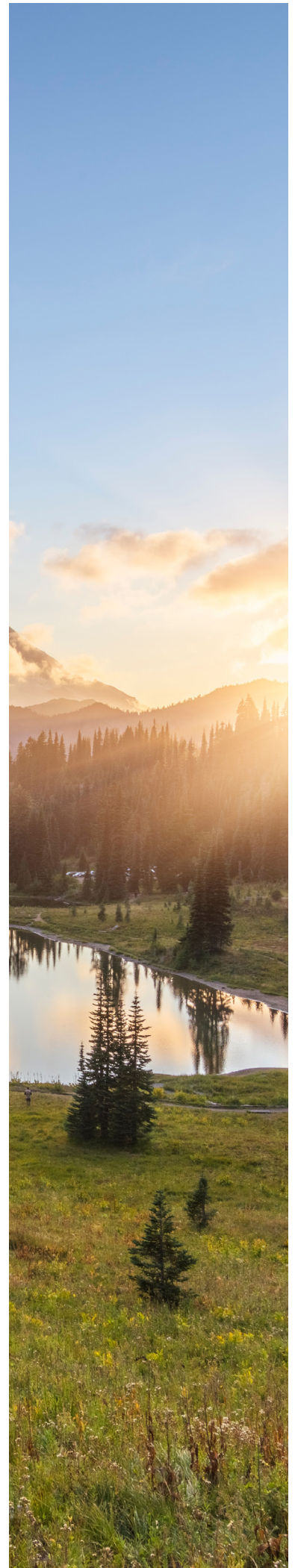
- As captured in Principle 6, Barings has liaised with one of our data providers to acquire access to their carbon emissions estimation engine, using Barings-provided company data such as economic sector, revenue and EVIC to gain company emissions estimates. Once implemented, this will enable Barings to improve coverage of estimated emissions, especially in private asset classes, to help satisfy our client requests.
- As captured in Principle 7, Barings also purchased the provider's climate model to increase analysis of public fixed income portfolios to help inform the development of a climate-focused fund. This also enabled the Public Equities team to incorporate physical and transaction climate risks into their analysis following climate guidance issued by the Hong Kong and Singapore regulators.
- A 'Climate Day' training workshop was provided to Barings' Sustainability, PSA and Public Equities and Public Fixed Income teams covering climate-related frameworks, regulations, metrics, modeling and decarbonization strategies.

Barings liaised with our proxy provider on the following:

- In-house training for the Barings Corporate Actions team following enhancements to reporting on the voting platform.
- Discussion on the providers' additional services that could inform voting recommendations.

Barings also liaised with FAIRR as part of a series of client interviews to provide feedback on their website. This included giving input on the effectiveness of the existing version of the website and our needs. We focused on the need for investors to understand the themes covered by FAIRR and the associated collaborative and policymaker engagement opportunities. FAIRR has subsequently updated their website based on feedback sought from their members.

As part of the client case study from Principle 6, the GPF and Sustainability & ESG teams shortlisted six external ESG consultants based on our experience and feedback from peers in the market. This is part of the GPF team's initiative to increase uptake of sustainability-linked loans and ESG-linked loans. We asked each consultant to present their services and capabilities to us so we could understand each provider's strengths, particular geographic focus and services they could offer us and potential borrowers. Based on these presentations and follow ups, we shortlisted three consultants to recommend to potential borrowers. The GPF team also sought external legal counsel to understand emerging developments and best practice related to the formation of loan agreements aligned with industry bodies such as LMA and LSTA.





CASE STUDY

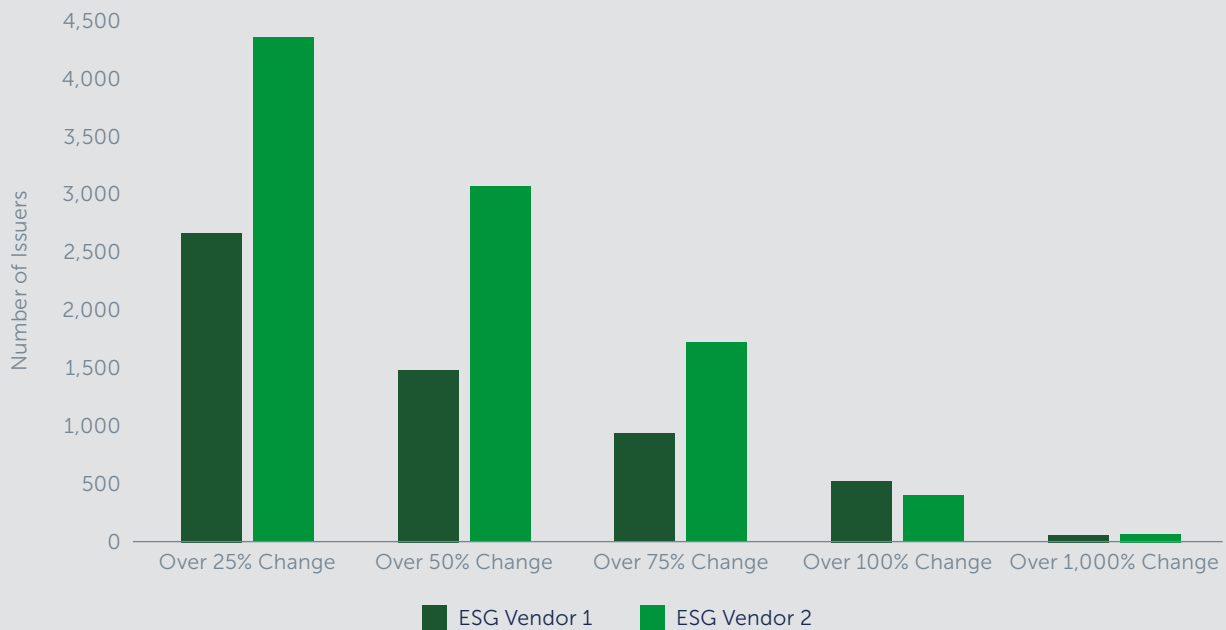
Improving Data Quality

Carbon emissions data for our portfolios and investments is a key concern for Barings, our clients and regulators. Vendors use a variety of methods to source company reported carbon emissions data as well as using estimates where reported data is unavailable. Barings monitor vendor carbon emissions data and query with vendors where we believe data may be inaccurate. In one instance our data quality process identified a large jump in the carbon emissions reported by one of our vendors for a large industrial conglomerate which was held across multiple funds. Upon investigation, we identified the vendor's emissions number did not agree with the emissions reported in the company's 2021 sustainability report. We shared our findings with our vendor and the vendor agreed to correct their reported metric. In this instance the vendor had failed to capture the official reported number for 2021 and had reverted to their own estimated number which differed from that reported by the company.



EXTREME CHANGES IN CARBON EMISSIONS

DECEMBER 2021–DECEMBER 2022*



**Based on combined universe of all issuers in Barings' equity and FI public corporate portfolios and benchmarks*



CASE STUDY

Sovereign Debt Team Informing Industry Standards with JP Morgan ESG Index Team

In June 2022, the Emerging Markets Sovereign ESG analysts provided feedback on the JP Morgan sovereign ESG index (JESG) methodology. Considering that the index has a large influence over sovereign issuers and capital allocation in the market, the Sovereign team made multiple suggestions, including:

- Include social bonds and sustainability bonds in the JESG index equally as overweighted as green bonds (+20%).
- Focus on climate change adaptation and mitigation policies, rather than focus on physical climate risk as a key indicator for EM countries in the JESG index. Physical risk prioritization hurts countries that may have strong ESG performance despite risks.
- Be sure to measure carbon intensity by consumption and per capita basis, not by production or per GDP, as this is a more accurate view of a country's contribution to the global decarbonization trend.
- Reconsider ESG research provider—RepRisk—criteria as grounds for sovereign exclusion from the JESG index.

The source of the engagement began with a last-minute index exclusion of a country (Angola) that the Sovereign team found to have insufficient grounds for exclusion. The team's country analyst for Angola as well as the team's ESG analysts read the RepRisk reports that led to the country's exclusion and found the evidence to be poor in quality. A second engagement iteration was then undertaken with the JP Morgan index team to discuss RepRisk as a provider. Feedback to the index team entailed a discussion of how Angola was harshly punished for risks outside of the government's control (e.g. oil spills from neighboring countries, trials of business executives in third party courts). The Barings team underlined that ESG exclusion for sovereigns should be based on what is within a government's control, not what occurs outside of the government's purview. The Barings analysts communicated that the JESG index methodology should look for data providers that do not rely on headline-scanning software with no quality assurance and should be sure to avoid exclusion based on backwards-facing data (in this case, data on corruption cases from 10 years prior). As a result, the JP Morgan Index team has begun looking for new data providers for the index exclusion criteria and the Barings team will continue to engage and provide feedback as this process is accelerated in the year to come.



CASE STUDY

Engagement with CLO Manager

Barings engaged with an experienced CLO manager with an issuance track record dating back to 1998. The analyst conducted a thorough due diligence of the manager and given a strong performance track record, recommended approval to invest in AAA, AA and single-A rated tranches. Ultimately, the manager was not approved by the Investment Committee given the analyst's assigned ESG rating of five and their lack of demonstrated commitment to the incorporation of ESG and stewardship considerations into their underwriting process. They do not have a formal ESG policy, dedicated resources and are not a signatory to any ESG codes or initiatives and suggested that they did not have any plans to establish a formal policy at the time of the underwriting (September 2022). We communicated to senior members of the team at the CLO manager that their lack of commitment to ESG integration and documentation of a formalized policy/approach was the reason that they were not approved for investment. The last interaction suggested that they may consider putting a policy in place, but they have not taken any action to date. The Barings team will pursue dialogue later in the year to check-in on progress.



REFLECTING ON OUR PROGRESS

We believe engagement and collaboration with service providers is key to strengthening our ESG integration and stewardship approach. From a private markets perspective, limited vendor coverage remains a challenge outside of public markets and dialogue with our ESG data provider has allowed us to take a step forward in addressing this challenge. We recognize an estimate-based approach to identifying and managing carbon emissions is a first step and we plan to continue liaising with our data providers on strengthening methodologies. Alongside this, we recognize the opportunity to liaise with private equity sponsors to push for portfolio-company-level measuring of emissions. Following our investigation of potential solutions to allow us to send surveys to investee companies, in 2023 we plan to onboard a survey data platform to allow us to more efficiently gather ESG data from private issuers.

We will remain in dialogue with our proxy provider as we review our voting activities in line with their range of policies.

From a CLO perspective, we recognize there are some challenges in driving forward ESG-related disclosure, but we continue to focus on having active dialogue with the managers with whom we invest. We also make sure that they understand our priorities for improvements made, where feasible, to integrating both ESG and stewardship considerations into their investment philosophy and approach.

Engagement

Engagement is key to our stewardship approach. We typically prefer to engage over exclude as we partner with entities in which we invest to address the material ESG risks and opportunities identified through our ESG integration approach undertaken by our investment teams. We do this in pursuit of maximizing return on our investments in the interest of our clients. We recognize that encouraging better sustainability practices in order to minimize risks can lead to better outcomes for people and the planet.

We recognize the PRI's latest definition of engagement¹⁴ which reflects interactions with investment entities as well as service providers or non-issuer stakeholders to improve disclosure, improve practice on an ESG factor or make progress on sustainability outcomes.

PRINCIPLE 9

Engaging with Issuers

CONTEXT

Barings' investment professionals are responsible for undertaking engagement with corporate and sovereign issuers. Depending on the investment team, our investment professionals also liaise with investment managers, consultants, sponsors, tenants and servicers as part of the engagement process.

Where we engage with industry bodies and regulators as indicated in Principle 4, this is typically undertaken by representatives from our Sustainability or Compliance teams, or the BII.

Our engagement approach with public corporate and sovereign issuers typically involves the following:

- Engagements are initiated at the discretion of investment analysts based on the selection of material ESG topics, typically identified through the ESG integration process and ongoing monitoring.
- Certain individuals we engage with often sit at C-suite level for corporates and senior governmental representatives for sovereign entities.
- Objectives, milestones, likelihood of success, and timelines are established at the offset of engagement and progress against these are recorded in our proprietary system.
- Insights gained through engagements feed back into our fundamental ESG analysis.
- As a signatory to the UN Global Compact, we are guided by its principles and incorporate these into our engagement activities related to fundamental responsibilities in the areas of human rights, labor, environment and anti-corruption.
- As part of our firm-level approach, our investment teams have access to join collaborative engagement groups, including those highlighted in Principle 10, where deemed relevant to consolidate efforts and streamline engagement goals.
- Any concerns identified through ongoing monitoring and engagement interactions may lead to escalation (Principles 10 and 11).

14. Interactions and dialogue conducted between an investor, or their service provider and a current or potential investee (e.g. company), or a non-issuer stakeholder (e.g. an external investment manager or policy maker) to improve practice on an ESG factor, make progress on sustainability outcomes, or improve public disclosure. In private markets, engagement also refers to investors' direct control over and dialogue with management teams and/or Board of portfolio companies and/or real assets.

Considerations for our engagement approach with issuers from our other investment teams include the following:

- Dialogue with private companies (e.g., from our GPF and DAE teams) typically involves regular discussion with both the portfolio company and the private equity sponsor on identifying and steering improvements to ESG performance.
- Where equity positions are held in companies or real estate assets outside of the Public Equities team, our stewardship activity can take the form of direct changes to operations or management rather than engaging as a separate entity.
- Through debt, including private companies and real estate, we leverage the agreement on ESG requirements being incorporated into loan documentation as an opportunity to steer engagement (see Principle 12).
- The nature of dialogue can be more focused at the due diligence phase and may involve interacting with other stakeholders such as issuers and servicers of securitized credit, as well as sponsors and consultants for private companies, real estate and infrastructure.

As indicated in Principle 7, the prioritization of ESG issues is identified bottom-up through our investment analyst's ESG integration process. This typically acts as the source of prioritization of engagement topics. The initiation of engagements is typically prioritized by the materiality of the issue on financial performance or creditworthiness of an investment. It may also be influenced by the likelihood of success and the relative size of the investment among other matters. The nature of engagement objectives often seeks for improved disclosure to further strengthen our ESG analysis, although analysts may also seek change behavior where this is seen to materially address risk. Depending on the sector and location of an issuer, engagement objectives may be more focused on governance-related topics, for example in our Emerging Markets Corporate Debt team, or environmental issues for potentially polluting sectors.

ACTIVITY

To further explain our engagement approach across investment teams and geographies in 2022, a variety of case studies have been provided below, as well as in Principles 10 and 11.

HIGH YIELD – BANIJAY | SECTOR: GLOBAL TELEVISION PRODUCTION & DISTRIBUTION

Why we engaged: The investment group announced the acquisition of a small sports betting company and is expected to incorporate this business into the issuer group on refinancing. The event news resulted in a downgrade of Barings' social rating to four/Poor given social risks of gaming exposure and Barings' governance outlook rating was moved to Declining given the more complicated ownership structure. Holdings in the issuer were reduced across strategies given the relative value view incorporating updated sustainability risks.

How we engaged: Barings undertook a disclosure engagement with the group CFO and subsequently participated in a call with the group's ESG consultancy firm to outline disclosure topics that would assist in monitoring key social risk areas. This included requesting disclosure of responsible gaming KPIs, well-being procedures for contestants in reality TV programs, and employee churn and satisfaction metrics in the employee centric organization.

Outcome: Senior management and the consultants were receptive to Barings' views and dialogue is expected to continue as the investment group navigates its ESG policies going forwards. The group is expected to release its first Sustainability Report in 1Q23 after which Barings will interact on areas of relevance.

INVESTMENT GRADE – CITY OF LOS ANGELES WASTEWATER SYSTEM ENGAGEMENT

Why we engaged: City of Los Angeles Wastewater System provides wastewater conveyance, treatment and disposal services to 29 sanitation districts, cities, governmental entities and private businesses which adjoin the city covering over four million residents. We reached out to the issuer after learning that there was a lawsuit following its July 2022 sewage spill. An LA Times article made note that residents accused the issuer of exposing them to toxic gas and other risks when an overflow caused the issuer to dispel 17 million gallons of raw sewage into the ocean due to capacity treatment constraint. Management teams often boast of having excess sewage treatment capacity and therefore we were surprised to hear about this occurrence. We voiced our concern to the issuer and wanted to know what was being done to prevent a reoccurrence.

How we engaged: In February 2022, we reached out to the city's debt manager to voice our concern for more disclosure on sewage treatment capacity, actions taken to avoid a reoccurrence and for all disclosure to be shared with the investment community through the issuer's annual report. We did not find it to be acceptable that the city's potential plans for handling the situation were made public across several websites and not in a digestible format for investors to track. Municipal analysts tend to cover 200–300 credits and therefore scouring the internet for developments is not reasonable. Progress should be easily trackable via municipal investor depository websites like the Electronic Municipal Market Access (EMMA) where updates to monitored CUSIPS receive email alerts on key filings.

Outcome: The debt manager for the city thanked us for our email and said they would take them into consideration. However, when the 2022 annual report was released in February 2023, we did not see a fraction of the information we requested. We emailed the city debt manager again noting our disappointment and we are abstaining from purchasing additional debt from the issuer. S&P agrees with our view that the spill shows a lack of proper governance and did downgrade the issuer in February 2022. We feel that the incident could pressure the ratings in the future. We view this outreach as ongoing as bond issuers tend to take feedback more seriously during a future new issue road show and we plan to be persistent on enhanced disclosure. If the issuer does improve its disclosure practices it may cause smaller utilities to follow suit.

SOVEREIGN DEBT—ANCHOR INVESTMENT & ENGAGEMENT ON URUGUAY'S FIRST SUSTAINABILITY-LINKED BOND ISSUANCE

Why we engaged: During a roadshow with Uruguay advisors in November 2022, the Emerging Markets Sovereign team advised officials on proper timing and communication around their new Sustainability-Linked Bond (SLB) issuance. Building on the team's analysis of Uruguay as a leader in ESG performance, and using the team's proprietary ESG Bond Scorecard, the Barings portfolio manager encouraged officials to think strategically about how the bond would be priced considering its step-down, step-up model that supports forest protection. The scorecard considers such factors as adherence to Nationally Determined Contributions, target motivations, transparency and evaluation, and track record.

How we engaged: The Barings team advised that the KPIs and their perimeters would likely be achieved by the government, thus benefiting the Uruguay issuers in eventual achievement of the step-down and thus making their cost of debt lower. The team further advised on proper market pricing premium, and underlined that Uruguay wants to be a market leader in sovereign ESG products even if they are willing to pay a premium on this.

Outcome: The Emerging Markets Sovereign team then became anchor investors owning a significant portion of the initial issuance and will continue to engage with Uruguay on their achievement of their environmental protection targets. As SLB issuances increase in the sovereign space, the team continues to watch them closely and contribute to these positive developments in the ESG-related issuance space.

IMPROVING DISCLOSURE IN TIMESHARE ABS

Why we engaged: Barings is a regular investor and supporter of Timeshare ABS and has positively used its access to management to highlight the benefits of increased transparency. While ESG within the Timeshare securitizations may seem underdeveloped on the surface, many of the themes are considered normal business practices, ranging from energy consumption and cybersecurity, to representation of women in management and waste management.

How we engaged: Barings met with the Capital Markets team of a leading timeshare operator in Q3 2022 during one of the two major US ABS conferences. Furthermore, this operator is a programmatic sponsor of ABS and Barings interacted with them during the deal roadshows. We discussed ESG related topics including reporting in addition to collateral performance and corporate developments.

Outcome: Partly driven by feedback given by Barings, this leading timeshare operator published its first annual ESG report in 2022 with the aim of increasing transparency to all stakeholders including ABS investors. This annual report presents various ESG metrics that enable investors to track improvements rather than just relying on the communication from the management team. This type of annual report is a first of its kind in the industry, and our hope is that other timeshare operators are noticing the benefits of this transparency in attracting and holding a stable and engaged investor base.



REAL ESTATE EQUITY—ENGAGEMENT WITH SHOPPING CENTRE—CHANGE BEHAVIOR | SPAIN

Why we engaged: Multi-tenanted retail, such as Berceo shopping centre in Spain, is generally one of the most challenging asset types in which to implement ESG initiatives. However, Barings' approach of building on our local teams' expertise to drive engagement has been very effective. ESG credentials at the asset have significantly improved thanks to the work of the local asset management team engaging with tenants and customers. The asset achieved a high BREEAM 'Excellent' rating, scoring 77% for asset performance and 82% for management. Improvement in asset certification level has been linked to enhanced valuation.

How we engaged: The team at Berceo are leveraging the UN Sustainable Development Goals (SDGs) as a framework for tenant engagement and collaboration with local circular economy NGOs and social impact charities, with particular focus on SDGs 1–4, and 10–12.

To enhance social value at Berceo, the team has partnered with a local charity which runs the annual Toys with Heart initiative where donations collected at the shopping centre are distributed to children in need in the local area.

Outcome: Another example of adding social value is a rent-free unit run by a social enterprise that collects and distributes local donations for Ukrainian refugees. This has received a lot of support from the local community and our tenants.

This work at Berceo is ongoing, with next steps to include the installation of renewables and pursuit of BREEAM 'Outstanding' to further enhance asset value.

FIRM LEVEL ENGAGEMENT ACTIVITY

Below we have provided a series of statistics on the engagement activity that was recorded in our proprietary platforms across our Public Equities and Public Fixed Income platforms for 2022.¹² The ESG topics of these engagements can be found on our [website](#).

ENGAGEMENTS INITIATED

In 2022 there were 541 engagements initiated with 348 entities. This compares to approximately 900 engagements initiated with 486 entities in 2021 and approximately 300 engagements with 189 entities in 2020. Given ongoing engagements initiated prior to 2022, our engagement activity has involved monitoring and following-up on these as demonstrated below.

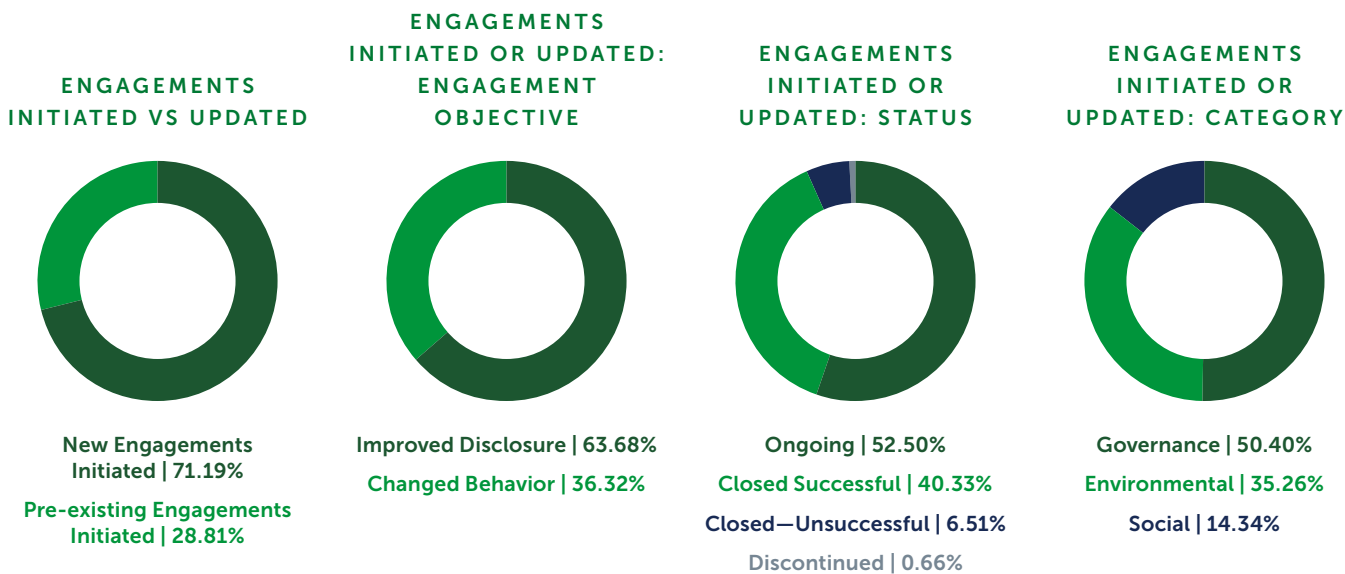
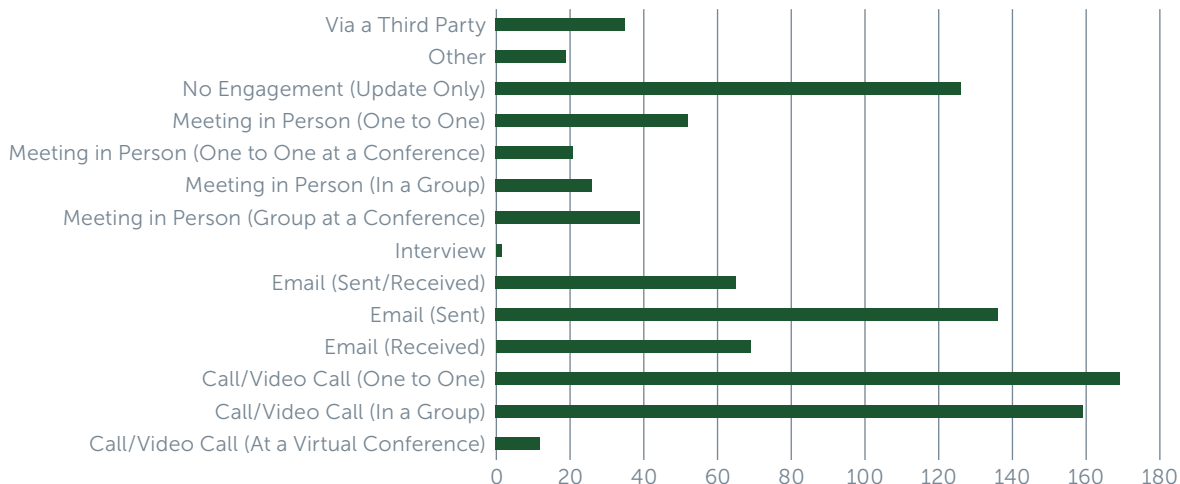
ENGAGEMENTS UPDATED

In 2022, we strengthened our reporting capability to capture activity which includes pre-existing engagements updated in the 12-month period, rather than engagements initiated alone. Based on this, we recorded the following activity:

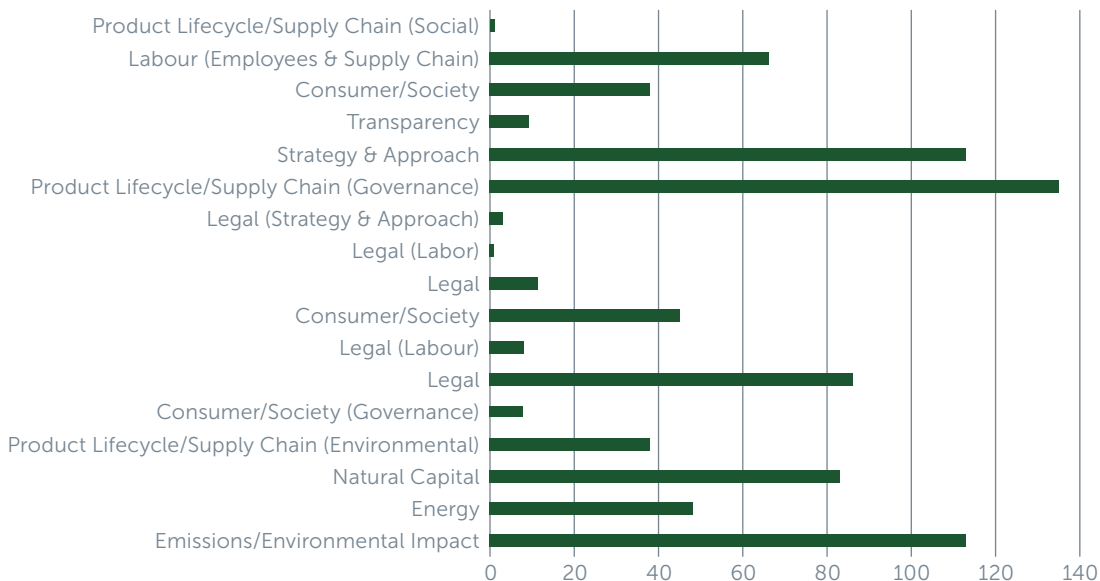
- 921 engagement interactions or updates
- 760 engagements (initiated or updated)
- 477 issuers engaged

12. Our engagement platform is available for analysts to record their previous engagements with investee companies. Therefore, the number of engagements reported may be updated if analysts log or alter additional engagements on the platform after the report is published.

ENGAGEMENT INTERACTIONS OR UPDATES



ENGAGEMENTS INITIATED OR UPDATED: TOPIC BREAKDOWN





REFLECTING ON OUR PROGRESS

We recognize that while the total number of engagements initiated has decreased compared to 2021, we believe that engagement activity is better reflected through interactions which seek to monitor and encourage progress against engagement objectives set. We recognize this improvement also aligns with client engagement related reporting requests and will help us better monitor our firm-level engagement activity going forward. Through ongoing training of investment teams, we have emphasized that good stewardship activity results from the quality of engagements rather than a focus on quantity.

In 2022, the Stewardship Working Group was used as a forum to discuss various investment team experiences undertaking engagements with issuers. Perspectives included the following:

- Investment grade issuers can defer engagement attempts by referring to information in Sustainability reporting.
- Engagement with sovereign issuers can be difficult in identifying engagement outcomes attributable to investor efforts and often involve dialogue with multiple other stakeholders.
- Engagement efforts this year were generally more focused on following up existing engagements to check on issuer progress and updating status of progress accordingly rather than initiating new engagements alone.

The Sustainability & ESG team shared this feedback with industry initiatives such as the PRI and the Investment Association to flag opportunities for strengthened collaboration. Going forward, the Stewardship Working Group will be used to discuss examples of effective and/or challenging engagement and to identify potential collaborative groups to help either overcome engagement challenges or share effective practice.

To help drive engagement practice at Barings, the Sustainability & ESG team will continue to work more closely with investment teams to focus on engagement follow-up and the assessment of those interactions in the pursuit of the original engagement objective set. The developments in progress for our revised engagement tracking platform will help ease the reporting burden for analysts while maximizing data quality for engagement reporting. The outcomes of this will be two-fold: firstly, it will support increased client reporting expectations identified in Principle 6, such as interest in fund-level reporting vs investment platform and firm level reporting. It will also help in the prioritization of engagement efforts where interactions demonstrate a lack of progress towards engagement objectives.

Ongoing stewardship training plans for teams such as Global Private Finance should result in us being able to report on engagement activity alongside our Public Equities and Fixed Income platforms.

Driving improved disclosure remains the focus of engagement objectives and we plan to understand our clients' perspectives on engagements that also drive changed behavior or pursue sustainability outcomes.

Participating In Collaborative Engagement

CONTEXT

We continue to recognize that participating in collaborative engagements can be an effective stewardship tool to consolidate engagement efforts and streamline investor requests of issuers. However, we recognize the importance for this activity to be appropriate and those involved should ensure their contributions are active and meaningful. In 2022, we were part of the following collaborative engagement initiatives:

Initiative Name	Role(s)	Company Sectors
Climate Action 100+	Leading and Collaborating Investor	Diversified mining (lead and collaborator) Oil and gas Chemicals Paper
The Investor Forum	Collaborating Investor	Retail
FAIRR	Lead Investor	Aquaculture
Emerging Markets Investors Alliance (EMEA)	Lead and Collaborating Investor	Financial (lead) Agriculture & consumer Mining

ACTIVITY

CLIMATE ACTION 100+

In 2022, we engaged with the PRI to recalibrate our involvement in company engagements to ensure our activities are best aligned. This resulted in our Emerging Markets Corporate Debt team joining as collaborating investors for three oil and gas companies, one paper company and one diversified mining company. Barings Public Equity team has remained active as a lead investor for a diversified mining company, and a collaborating investor for one chemicals company and one oil and gas company.

NOTABLE UPDATES AND OUTCOMES FROM ENGAGEMENT:

Vedanta: Barings' Emerging Market Corporate Debt team engaged with the company in July to request disclosure relating to the recent acquisition of a coal powered plant and plans to improve their energy mix. The investor group met with the company in November to highlight the trend of companies with significant coal exposure losing access to capital, the importance of a just transition, as well as robust decarbonization targets. Since the last meeting, Vedanta has published its second TCFD report, providing further detail on decarbonization plans, as well as scope 3 emissions mapping. While the company has improved disclosure on the justification of its acquisition (using captive power to replace purchasing power) and plans to increase usage of renewable power, Barings will look for ongoing disclosure related to decarbonization plans. Driven by our involvement as a collaborating investor for a mining company, we signed the World Benchmark Alliance Investor Statement for a Just Transition.

Petrobras: Following our Public Equities' case study in last year's report where previous engagement activity focused on decarbonization target setting, in 2022 the engagement group had a focus on methane management and facilitated a call with the Environmental Defense Fund to provide viewpoints on their methane strategy with reference to industry benchmarks and standards. In early 2023, the company signed an agreement to join the Oil & Gas Methane Partnership 2.0,

which involves a commitment to direct measurement-based reporting of methane emissions. The engagement group will look at the methane reduction targets that are set as part of this.

Vale: The Sustainability & ESG team provided an assessment of Vale against the human rights engagement tool presented to the Stewardship Working Group (Principle 4). As part of this assessment, the team identified the opportunity for increased disclosure around governance and oversight of human rights, including within the supply chain. The Public Equities and Sustainability & ESG teams discussed how this could be incorporated into future engagement plans with Vale on climate change. As part of our lead investor role under Climate Action 100+, we met with the company's Sustainability and Investor Relations departments to discuss investor expectations in relation to stewardship, including the prioritization and interrelation of topics such as climate change and human rights, and how investors can work with companies to help them improve associated disclosure and practices. Later in the year we reached out to the company with plans to discuss the following:

- Understanding ongoing approach for decarbonization targets, associated capital expenditure and link to remuneration.
- Planned projects related to enabling a just transition.
- Vale's plans relating to human rights and its involvement in collaborative engagement efforts such as the PRI's Advance initiative.

INVESTOR FORUM

In 2022 our High Yield team continued involvement as a collaborating investor with The Hut Group, an e-commerce retailer in the U.K., as included in our previous Stewardship Report. The engagement objectives included improved shareholder voting structure and making independent board appointments. Following improvements made to shareholder voting structure in 2021, and the appointment of an independent non-executive chair with a mandate to improve governance and transparency, as well as board independence and diversity, the engagement was closed successfully.

EMERGING MARKETS INVESTORS ALLIANCE

The Emerging Markets Corporate Debt team has been an active member of the Emerging Markets Investors Alliance (EMIA) through the following engagements:

- Participation in the working group on issues in tailings management in the mining industry. The group is engaging with PT Freeport to challenge their riverine disposal practices in Indonesia.
- Involvement in collaborative investor groups on various topics within Food & Consumer sectors. EMIA typically sets up meetings monthly or bi-monthly to discuss the various topics, including updates on any existing engagements with companies. We also hold calls regularly, inviting external parties to speak on topical thematic issues (such as deforestation in various countries, the role of agriculture and food supply chains in the carbon transition, etc.). In December 2022, we discussed the topics and companies that we are interested in engaging with in 2023.
- We have been engaging with one of the largest global protein companies based in Brazil on issues related to animal welfare. We initially discussed details of the topic of engagement with other investors that are part of EMIA. A questionnaire was constructed (posing questions to the company about how it treats and houses pigs) by EMIA and sent to all investors within the group to contribute/approve). Once we agreed with the content of the letter, it was sent via email format to the company. After a few weeks, there was no response, Barings contacted the company on behalf of the EMIA working group. We visited Brazil on a due diligence trip the following week and met with the company. In that meeting, in addition to engaging the company on various topics around its targets on deforestation/tracing suppliers of cattle, we reminded the head of the Sustainability & ESG team to respond to the EMIA questionnaire.

These engagements remain ongoing, with no key outcomes at this stage.



CASE STUDY

FAIRR

COMPANY: BAKKAFROST
SECTOR: AQUACULTURE

Why we engaged: As part of FAIRR, a collaborative network engaging the protein industry on ESG risk and performance, our Public Equities team led a collaborative engagement group with the CEO and senior executives of Bakkafrost, a salmon farming business. The engagement was targeted to assess the sustainability of its fish feed used in its salmon farming operation, given the material risks on resource use, pollution and ecological impacts that can be associated with high-protein feed for salmon.

How we engaged: Through the use of FAIRR's Protein Producer Index, the engagement was designed to provide greater disclosure of the sustainability of Bakkafrost's fish feed and how the company is evaluating the inclusion of novel ingredients for fish feed, such as algae-based ingredients, which can be more sustainable than marine-based ingredients.

Outcome: Following our engagement, Bakkafrost shared their internal analysis, which showed that the marine ingredients for their salmon farming business on the Faroe Islands was the most sustainable source for their fish feed, given its geographic position.

Furthermore, Bakkafrost confirmed that they are researching novel ingredients to use within their fish feed. As a result, we have requested that the company disclose the amount of money it is spending to evaluate these novel ingredients. In addition, we have requested more disclosure on the fish feed efficiency calculation so we can better understand the sustainability of their fish feed (specifically, forage fish dependency ratio—FFDR), including assumptions, workings and source data. We recognize that the company has taken positive steps and will continue to monitor for the anticipated improvements in disclosure, including the potential impact that climate change may have on food sourcing. Barings presented how we integrate ESG into the analysis of protein producers and the importance of engagements at FAIRR's Event on its Protein Producer Index in January 2023. We discussed Bakkafrost in the presentation with some of the key findings as an example of a high-quality engagement.



CASE STUDY

EMIA

COMPANY: MULTIPLE

SECTOR: BANKING

Why we engaged: Barings continues to engage with banking sector issuers in emerging markets in order to improve their disclosure around corporate governance, financial inclusion, social responsibility and climate risk management. Barings has developed a framework (in the form of a questionnaire) which it has rolled out to the issuers and used this as a basis for deeper issuer engagement and encouraging improved behavior. Alongside this, Barings is part of the EMIA Financial Sector Working Group, an industry initiative for asset managers to collaborate and engage with issuers in emerging markets. Barings is driving greater engagement with emerging markets banks focusing especially on climate change and financial inclusion. Barings has taken the lead in developing an industry tool (EMIA Banking Sector questionnaire) focusing specifically on climate risk which is being used by EMIA members as a basis of sector engagement.

How we have engaged: We have engaged with senior management of emerging markets banks, including in Slovenia and South Africa, based on their response to the climate risk questionnaire. This has included conversations related to reporting their financed emissions disclosure and setting up credible SBTi vetted targets for reduction in the carbon footprint disclosed.

Outcome: As a recent engagement initiative, responses from banks in completing the questionnaire and participating in follow-up dialogue is a positive initial outcome. Going forward, Barings will work with the EMIA group to increase scope of banks engaged, to encourage improved data collection on carbon footprint, as well as evidence of building climate risk analysis into its new loan underwriting in order to pursue engagement objectives. Barings will also continue to engage with banks on an individual basis (outside of the EMIA platform).

REFLECTING ON OUR PROGRESS

In line with our approach to engagement (Principle 1), we have increased involvement in collaborative initiatives in sectors where we can contribute to streamlined discussions with companies on making progress against challenges for decarbonization.

We have found it effective to engage with companies as part of group discussion, while also maintaining individual dialogue to support both collaborative engagement efforts. It has also been helpful to maintain the strength of our own efforts to work with companies in their understanding of industry expectations and benchmarks they are assessed against. We believe this increased knowledge from issuers helps to ensure that group discussions are as productive as possible in progressing engagements rather than explaining industry benchmark scoring alone.



PRINCIPLE 11

Escalating Our Stewardship Activities Where Necessary

CONTEXT

In the pursuit of engagement objectives being achieved, we believe that ongoing informative and open dialogue with issuers should first be prioritized. We recognize the value in partnering with the entities in which we invest to work towards common goals. However, we also recognize that, depending on the asset class and the nature of our investments, stewardship tools are available for us to escalate engagements where objectives are not being met.

Across our Public Equities and Public Fixed Income platforms, escalation can occur when the analyst who launched an engagement deems the issuer to be making insufficient progress towards the initial objective. Within our proprietary ESG scoring and engagement tool, this can be based on the analyst's assessment of the likelihood of success in relation to the target end date of the engagement and the nature of the last interaction recorded. Engagement initiation and subsequent escalation can also occur from ongoing monitoring of, and dialogue with, issuers for any unexpected events and/or controversies. Given our bottom-up approach to the selection of engagements and their topics, the consideration of where to escalate is typically prioritized by the analyst's perception of material risk to the investment and the timescale in which action should take place to address this risk. The process of escalation further depends on local market practice and regulatory options.

Part of the escalation process will usually involve articulating our ESG concerns primarily through private meetings with management teams, as we believe that change is usually facilitated by positive working relationships and respectful exchanges of opinion and information. Escalation is typically led by the analyst with oversight from the relevant investment team head and may involve the Investment Committee, for applicable teams, dependent on the options being considered.

Possible forms of escalation include:

- Issue flagged to the Sustainability & ESG team (who may join engagement efforts or consider broader escalation options available),
- Review of thesis with portfolio management and potential adjustment to portfolio weighting,
- Vote on material issues against management or the board (see example of Tokyo Electron Ltd in Principle 12),
- Pursuit of collaborative engagement,
- Removal of the issuer from the approved buy list, and
- Reduction of financial position or divestment.

A number of our investment teams, including Public Equities, will divest from and not invest in companies that have a quality score of five, the worst level on our one to five scale.

CONSIDERATIONS ACROSS ASSET CLASSES:

As part of the development of investment-level ESG policies in 2022, individual approaches to escalation have been captured where appropriate, based on the following considerations:

- As debt investors, we can be limited by our lack of ownership to raise ESG issues through proxy voting; however, we typically gain access to issuers' boards to communicate our concerns where engagement is not on track.
- We also look to collaborate across fixed income and equity teams to identify where investment activity can be leveraged, including pursuing collaborative engagement opportunities where appropriate.
- For our illiquid investments, the due diligence stage plays a crucial role to identify and escalate any ESG-related concerns before proceeding.
- In private finance, our director positioning or relationship with private equity sponsors can be leveraged to pursue the progression of engagement objectives.
- Escalation with sovereign entities can be hindered by an investor's position as a stakeholder versus a country's population; however, we believe that ongoing engagement is key to communicating and pursuing engagement objectives.

ACTIVITY

Examples of our escalation-related activities are provided below as well as on the subsequent page.

PERSPECTIVE FROM THE EMERGING MARKETS CORPORATE DEBT TEAM

We have tried to engage with Indonesian mining company (PT Freeport) on its controversial riverine tailing practices. However, we failed to get enough attention from the management. As a result, we have escalated this issue to EMIA and we are now, with EMIA and a group of investors, working on bringing the company to a dialogue with investors and campaigning for better disclosure for tailing management on their site in Indonesia (Principle 10).

We are invested in a Chilean utility company (Alfa Desarrollo). The communication and access to management was suboptimal. The company breached its reporting covenant (delayed publication of financial statements), which resulted in a technical default situation for a brief period. Through this situation, the management remained unresponsive to our inquiries. We escalated to the issuing banks and eventually to the controlling shareholders (Celeo) to get to the bottom of the problem. This allowed us to have a joint meeting with management and shareholders, in which we discussed the asset, financial performance and investor communication strategy of the company. Since our engagement, the company appointed a dedicated Investor Relations officer.

REFLECTING ON OUR PROGRESS

While escalation activity has remained similar to that undertaken previously, the formalization of investment-level ESG policies will help to ensure the process is standardized as appropriate across investment teams. Moreover, the Sustainability & ESG team will continue to support analysts with engagement-related queries and participate in engagements and identify tools for escalation as appropriate. This will be facilitated by ongoing knowledge sharing with investment teams and efforts of the Stewardship Working Group.

As part of our planned outreach to clients on their stewardship preferences in 2023, we will look to identify any findings related to escalation and associated reporting.



CASE STUDIES

Escalating Engagements in the French Healthcare Sector

INVESTMENT TEAM: PUBLIC EQUITIES

Why We Escalated: Following investment in Orpea, a company offering clinical care services, the analyst identified alarming and high-profile allegations of malpractice and corruption that had been made against the company. A request was made to management for a call to understand the company's response to the allegations, their potential defense against the allegations and their strategy to respond.

How We Escalated: The company did not respond to the request for a conference call and the engagement was raised to the portfolio manager and the broader Equities team. Discussion took place which considered that given the severity of the allegations, the political ramifications, the potential regulatory repercussions, the extent to which the brand has been damaged, and the damage to relationships with patients, families and staff, the business was in significant distress. The fundamental attractions of the business, its quality and its ESG profile of the company had deteriorated to an extent we had no choice but to exit the position on behalf of our clients.

Outcome: The company was divested from and will not be considered for reinvestment until there is evidence of sufficient improvements to governance and operations.

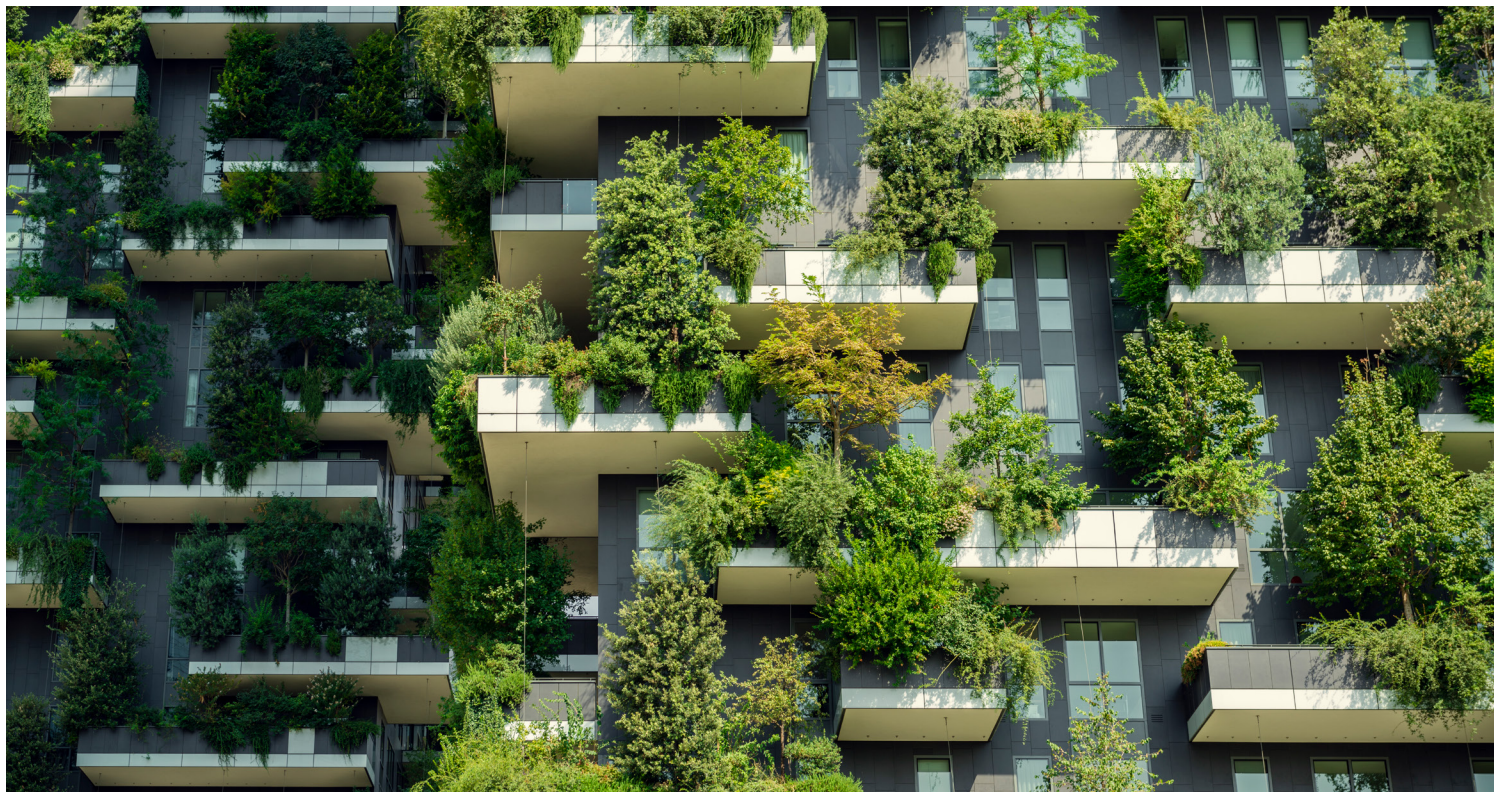
INVESTMENT TEAM: HIGH YIELD

Why we escalated: Barings held an investment in a European nursing home operator. In France, the group and large peers in the nursing home sector have experienced issues in relation to negative media coverage regarding quality of patient care. As a result, the High Yield team was focused on the company's employees' level of training on patient care and handling as a key social sustainability risk topic. Barings had an initial engagement with senior management to request disclosure on how the company tracks training data. Management provided information that the company tracks hours of training that an employee spends on patient care in France but not in its other regions. Barings undertook further engagement to request that the company track training hours KPIs across the group and reports this data to lenders on a regular basis.

How we escalated: While momentum initially appeared to be positive through regular conversations with the Group Finance team, the analyst became concerned about the financial performance of the company. This was coupled with concerns that progress on tracking engagement hours was slow, alongside ongoing reputational issues for the sector. The analyst and portfolio management discussed these concerns and it was raised with the Investment Committee.

Outcome: The company was divested from and will not be considered for reinvestment until there is evidence of sufficient improvements to its financial performance and ESG credentials.





Exercising Rights & Responsibilities

We understand that proxy voting is an integral part of our investment management responsibilities and believe, as a general principle, that proxies should be acted upon (voted or abstained) solely in the best interests of clients (i.e., in a manner believed by Barings to best pursue clients' investment objectives).

When exercising our rights and responsibilities in fixed income, we also recognize the opportunity to integrate ESG considerations. In particular, we recognize this opportunity with issuers of private credit.

PRINCIPLE 12

Exercising Our Rights & Responsibilities

CONTEXT

We recognize that exercising our voting rights related to material ESG concerns in our equities portfolios and leveraging loan agreements where appropriate for fixed income, can be an effective stewardship tool.

PROXY VOTING

Our approach to proxy voting is defined in the [Barings' Global Proxy Voting Policy](#). An annual check is carried out on all equity positions to be captured within our proxy voting activity. This policy applies to all our applicable funds and, as such, we have no fund-specific voting policies. However, there are instances where we can apply client policies to segregated mandates instead of our own policy.

We generally vote all client proxies for which we have proxy voting discretion in accordance with the recommendations or guidelines (in absence of a recommendation) of our third-party proxy voting research provider, integrating ESG research. In circumstances where the research provider has not provided a recommendation nor has contemplated an issue within its guidelines, the proxy will be analyzed on a case-by-case basis.

To monitor shares and voting rights, Barings employs a third party who is responsible for receiving ballots from our custodians and notifying us of any meetings. Barings also reconciles these ballots with our holding positions, which are also sent to our provider. In addition, we conduct service reviews with our proxy service provider (see Principle 8).

Barings recognizes that there may be times when it is in the best interests of clients to vote proxies (i) against the research provider's recommendations or (ii) in instances where the research provider has not given a recommendation to vote against the guidelines. Barings can vote, in whole or in part, against the research provider's recommendations or guidelines as it deems appropriate.

While clients are not currently able to directly vote in pooled accounts, clients can elect to do their own voting and/or override Barings' views on specific votes for segregated accounts.

Procedures are designed to ensure that votes against the research provider's recommendations or guidelines are made in the best interests of clients and are not the result of any material conflict of interest. There may also be situations in which Barings will not vote proxies, including, but not limited to, instances where we have outstanding sell orders, where we no longer hold shares at the time of the meeting, or where the cost of voting foreign shares outweighs the potential benefits to the client. It should be noted that none of Barings' investment companies undertake stock lending.

CONSIDERATIONS IN FIXED INCOME

Across our Public Fixed Income platform, the adoption of ESG-linked margin ratchets into primary loan agreements is considered across our High Yield and Sovereign Debt team, for example the Uruguay case study provided in Principle 9.

Our Emerging Markets Corporate Debt team also holds a number of Sustainability-Linked Bonds which have coupon increases if certain targets are not met. For example San Miguel Industrias, a Peruvian packaging manufacturer has the following conditions for coupon step up (25bps) in August 2024 for SMIPET 3.5% 2028 Sustainability Linked Bond

- Two KPIs, coupon step up unless both targets are met
- KPI One: achieve 20% of recycled PET content in pre-forms and thermoforming by 2023 (vs base line of 10.8% content in 2019)—recycled PET carbon footprint is 1/10 of virgin resin, this concerns with carbon emissions
- KPI Two: increase the total tons of post-consumer waste to at least 34,000t/y by 2023 (vs base line of 24,000t in 2018) —this relates to improvement in plastic packaging recycling

Within our Global Private Finance team, ESG-linked margin ratchets are offered to all new borrowers, and many agree to include provisions in their loan agreements to encourage the discussion on how these ratchets can be selected and agreed post deal close.

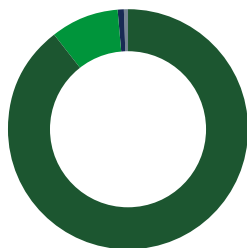
ACTIVITY

PROXY VOTING

In 2022, Barings voted in 1,743 meetings, including casting votes on 97.78% of eligible proposals. We attempt to vote on all proposals; however, we do not cast votes where there are instances of share blocking.

Below is a summary of our proxy voting records in 2022, with all voting records available on our [website](#), which is updated monthly.

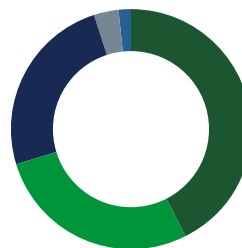
VOTES CAST



For | 89.61%
 Against | 9.24%
 Abstain | 0.77%
 Other* | 0.39%

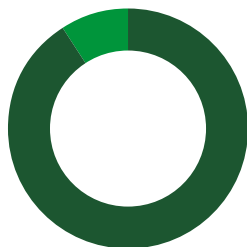
**includes withheld, backed out and directors slate votes*

VOTES BY GEOGRAPHIC REGION



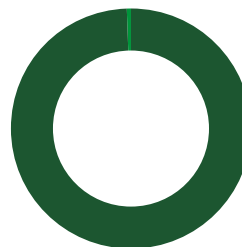
Europe | 42.92%
 North America | 28.00%
 Asia Pacific | 24.92%
 Middle East & Africa | 3.33%
 Central & South America | 1.62%

FOR/AGAINST MANAGEMENT RECOMMENDATION



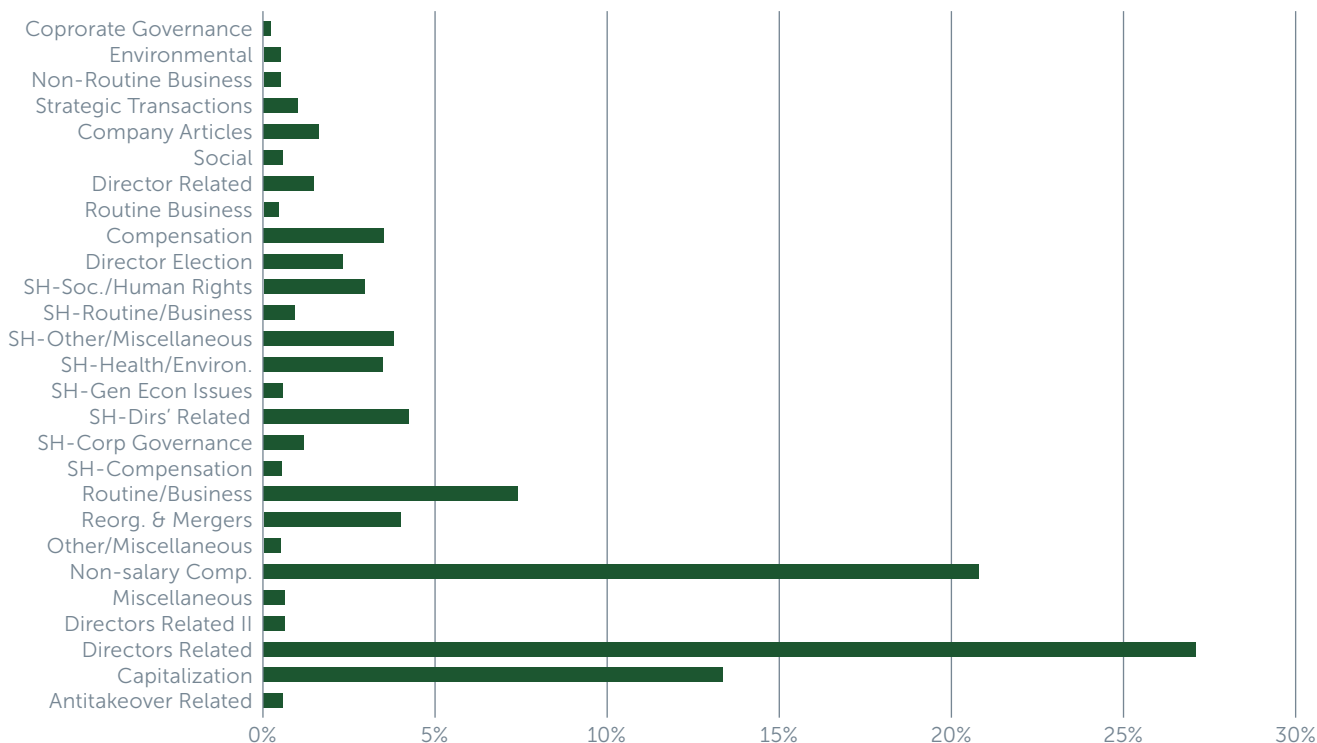
For | 90.92%
 Against | 9.08%

FOR/AGAINST PROVIDER RECOMMENDATION



For | 99.66%
 Against | 0.34%

VOTES AGAINST MANAGEMENT BY CATEGORY



Examples of our voting decisions over the past 12 months are provided below.

Meeting Date	Company Name	Proposal	Mgmt Provider	Vote	Outcome	Barings Rationale	
24 May 2022	Royal Dutch Shell Plc	20. Approve the Shell Energy Transition Progress Update	For	For	For	Accepted (79.9% For)	The latest update considered satisfactory as it includes operational targets for 2030 and plans cover scope 1,2 and 3 emissions. The update is in line with the Energy Transition Strategy, as submitted for approval in 2021. There has been some progress against the company's aims during the year and it has achieved the intensity reduction aims it signaled for FY2021. Going forward, further information expected on scope 3 absolute emissions reduction.
07 Jan 2022	Trigano SA	7. Approve Remuneration Policy of Chairman of the Management Board	For	Against	Against	Accepted (85.92% For)	The company failed to disclose the basic salaries for the upcoming fiscal year, as well as any cap and target for the bonus. The members of the management board can be awarded additional remuneration features in the form of 'Governance fees', without any rationale provided by the company. The company failed to disclose any cap for the exceptional remuneration. The remuneration policy does not include any long-term components.
12 May 2022	BP Plc	24. Approve Shareholder Resolution on Climate Change Targets	Against	Against	Against	Rejected (85.14% Against)	Although the Company will be expected to deliver on its stated climate ambitions in the future, its current climate reporting, which includes short, medium and long-term objectives and targets, is considered to be a sufficient and appropriate response to the matters raised in the resolution at this time. This resolution is considered to be redundant, could create legal uncertainty and would distract from execution of the strategy which the company has developed with input from key stakeholder groups such as Climate Action 100+.
12 May 2022	Onex Corporation	5. Report on Indigenous Community with Certified External Indigenous-Led Standards of Practice	Against	For	For	Rejected (83.4% Against)	The company lags peers regarding its policies and disclosure on indigenous relationships. The company stated in the circular it is in the 'foundational' phase in diversity and inclusion. The resolution itself is not too burdensome in scope and timeframe. It does not demand a specific deadline for the company to report back to shareholders nor does it mandate specific policies for the company to adopt.
19 May 2022	Chubb Limited	13. Adopt and Disclose Policies to Ensure Underwriting Does Not Support New Fossil Fuel Supplies	Against	Against	Against	Rejected (Against 80.61%)	Ceasing underwriting new fossil fuel development does not appear to be a standard industry practice in the U.S. at this time.
19 May 2022	Chubb Limited	14. Report on Efforts to Reduce GHG Emissions Associated with Underwriting, Insuring, and Investing	Against	For	For	Accepted (For 72.17%)	Increased disclosure would help shareholders better evaluate the company's management of climate risks from its underwriting, investment, and insurance activities.
31 Aug 2022	Alimentation Couche-Tard Inc.	7. SP 3: Report on Representation of Women in Management Positions	Against	Against	Against	Rejected (Against 89.42%)	The company appears to provide robust disclosure on its diversity on the board and among its employees, including senior management. The company has adopted a Diversity Policy that outlines its approach to achieving and maintaining greater diversity on the senior management team. As such, the request for the company to take steps to publish a report on the women representation in its management appears overly prescriptive and this proposal does not warrant support.
21 Jun 2022	Tokyo Electron Ltd	2.3 Elect Director Nunokawa, Yoshikazu	For	For	Against	Accepted (For 99.37%)	Our proxy provider planned to vote in support of all nominated directors. We voted against the appointment of Mr Nunokawa as Chairman on the grounds that the nomination committee has a very low ratio of independent members, well below our red line of over 50%. As we view the Chairman as in charge of governance issues in the absence of any designated responsibility, we feel that was the best way to voice our feelings, following initial engagement on this topic with the company in 2021. We have communicated with the company on this issue in meetings.

ESG LOAN AGREEMENTS IN PRIVATE FINANCE

A summary of deals with ESG ratchets offered in 2022 is provided below.

Recent Deals (2022 onwards)	2022
New Deal	38
ESG Ratchets Offered in Period	34
% Offered	89%
ESG Ratchets Agreed in Period	31
% Agreed	82%
ESG Ratchets Implemented in Period	3
% Set	8%
Legacy Deals (pre-2022)	
ESG Ratchets Agreed in Period	12
ESG Ratchets Implemented in Period	9
	75%
Aggregated as of Q4-22	
ESG Ratchets Agreed	43
ESG Ratchets Implemented	12
	28%



CASE STUDY

Engaging on KPI Selection

TEAM: GPF
 SECTOR: IT SERVICES
 COUNTRY: BELGIUM

Initial loan agreement: In July 2022, Barings signed a new financing agreement with the borrower, which was a ‘sleeping’ sustainability-linked loan. The borrower and the private equity sponsor had six months from the closing date to engage a third-party ESG consultant and establish a baseline position for the company off which to set sustainability performance targets which would activate financial incentives under the loan agreement (downward margin ratchet) if achieved.

How we engaged: Barings had an initial call with the private equity sponsor and management in November 2022 to discuss next steps and agree on appointment of their ESG consultant. In December 2022, the consultant shared their initial report which highlighted six relevant ESG themes for the borrower and proposed five KPIs on which to base the sustainability performance targets. Barings rejected one of the KPIs on the basis that the corresponding target was not sufficiently ambitious. The borrower agreed to having only four KPIs and lawyers drafted the sustainability supplement to amend the financing documents.

Finalizing targets: In January 2023 Barings reviewed the draft sustainability supplement and pushed back on how one of the sustainability performance targets was defined. Barings requested changes to the documentation which ensured it would be measured on a like-for-like basis and introduced a materiality threshold to ensure measurement would be an accurate representation of the business as a whole. The borrower agreed, the sustainability supplement was signed and the loan is now an active sustainability-linked loan.

REFLECTING ON OUR PROGRESS

We have maintained our processes related to our proxy voting activity and we have also been in dialogue with our proxy service provider to consider their other voting policies and this will remain a topic of the Stewardship Working Group in 2023.

We have strengthened our focus on the application of ESG-ratchets within private credit loan agreements but recognize the challenge of converting deals with the agreements in place into agreed sustainability performance targets. The Sustainability & ESG team will continue to work with the GPF team, through investment team training as well as through the Stewardship Working Group, on leveraging engagement with borrowers to help establish these targets.

Strengthening Our Stewardship

In 2023 we recognize our clients' views are developing in different ways across regions and we believe that effective stewardship is founded upon understanding these preferences as we seek to maximize returns on their investments.

Through our governance and resources captured in Principle 2, we plan to focus on the following activities:

- Continuing to foster a culture and internal knowledge base of good stewardship practices with an ongoing focus on quality over quantity of engagement.
- Ongoing development and implementation of our technology transformation, to strengthen our engagement recording, our resulting reporting and overall client experience, including relating to ESG.
- More deeply understanding our client preferences on stewardship through a series of targeted outreach with which any key findings related to engagements, issue prioritization, pursuing net-zero or other sustainability outcomes and reporting can be considered as part of our strategy going forward.



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