

The Barings logo is displayed in white, uppercase letters on a dark blue horizontal band. A thin green and blue line is positioned below the text.

BARINGS

ESG FAQ

Frequently Asked Questions

March 2019

POLICY

- 1. Does the investment manager have a policy addressing its approach to the incorporation of ESG factors within the investment process? If yes, please provide a copy of the policy and indicate the coverage of the policy by asset class, funds, strategy and AUM. If there is no policy, please explain why.**

Yes, please refer to Appendix I for Barings' ESG Investment Policy Statement. This statement covers all firm AUM.

- 2. What is the investment manager's rationale for adopting a policy to incorporate Responsible Investment into the investment decision-making process?**

Barings chose an integration approach to ESG incorporation primarily because fundamental, bottom-up analysis is the heart of our investment philosophy at Barings. It is through fundamental analysis, which includes ESG factors along with a range of other potential risks and opportunities, that we evaluate factors that may affect issuers and industries.

We consider ESG factors among some of the most important variables that can impact an investment's risks and returns over time. As part of our overall commitment to delivering attractive returns, we endeavor to construct portfolios that meet our clients' risk-return requirements and this includes incorporating ESG criteria into our investment process. As we execute on our fiduciary responsibility to our clients, we will continue to consider ESG a critical component of our overall investment process.

- 3. To which normative codes and initiatives is the investment manager a signatory or a voluntary adherent (e.g. the PRI, national stewardship codes, HFSB Hedge Fund Standards, CFA's Asset Manager Code of Professional Conduct, AOI Hedge Fund Principles 2014)?**

Reflecting our commitment to responsible investing, Barings has been a signatory to the United Nations' Principles of Responsible Investment (UN PRI) initiative since January 2014. Through its reporting and assessment process, the UN PRI policy requires accountability and transparency on the part of its signatories. As our experience under the UN PRI grows, we remain dedicated to upholding these standards as part of our mandate to maintain a high standard of reporting.

We have joined several PRI-led initiatives, including the Global Investor Letter on Climate Change, urging the governments of the G7 and G20 countries to remain in the Paris Agreement, as well as the ESG in Credit Ratings initiative, collaborating with other asset owners, managers and credit rating agencies to ensure ESG incorporation in credit ratings is transparent and appropriate.

At the end of 2018, the firm formally signed on to the United Nations' Global Compact in support of the UN's Sustainable Development Goals. We also formally partnered with Pensions for Purpose in the UK, a platform devoted to sharing thought leadership and best practices in the ESG and impact investing spaces.

Additionally, our real estate business reports annually to the Global Real Estate Sustainability Benchmark (GRESB).

Barings is also an important participant in the Catalytic Finance Initiative, a collective commitment of \$8 billion for high-impact environmentally sustainable projects, alongside institutions such as the European Investment Bank and the International Finance Corporation, a member of the World Bank Group. This initiative allocates funds toward a broad range of high impact areas including clean energy infrastructure finance, green bonds, project finance and green asset-backed securities, amongst others. Thus far, Barings has been involved in three deals that have mobilized over \$1 billion in sustainable energy development globally.

Lastly, we participated in the Embankment Project for Inclusive Capitalism (EPIC), an 18-month project led by the nonprofit Coalition for Inclusive Capitalism alongside EY in conjunction with a variety of asset owners, asset managers and asset creators to develop an open-sourced framework of metrics that helps to define long-term value and sustainable growth. The final report can be accessed via the following link: [https://www.ey.com/Publication/vwLUAssets/EY-the-embankment-project-for-inclusive-capitalism-report/\\$FILE/EY-the-embankment-project-for-inclusive-capitalism-report.pdf](https://www.ey.com/Publication/vwLUAssets/EY-the-embankment-project-for-inclusive-capitalism-report/$FILE/EY-the-embankment-project-for-inclusive-capitalism-report.pdf).

GOVERNANCE**1. Please indicate the methods of investment manager internal oversight (e.g. oversight by investment committee, firm management, board of directors, etc.) and reporting of RI incorporation across the investment manager's organization.**

To guide our process, Barings has established a firm-wide ESG Working Group, comprised of representatives from the firm's Global Management Team, our legal and compliance departments, business development, and marketing as well as senior investment professionals from each investment area.

We have a dedicated Director of Sustainability who has been focused on integrating and enhancing our ESG policies and practices across the firm since the beginning of 2017. This individual reports directly to the firm's Chief Legal Officer, a member of the firm's Global Management Team, providing a strong governance framework and ensuring buy-in from the highest levels of the organization.

2. Please describe how the investment manager has organized Responsible Investment responsibilities within its investment team(s) and indicate whether the investment manager employs Responsible Investment professionals.

Senior members of each investment area in the ESG Working Group share decisions reached and information learned in quarterly Working Group meetings with their investment teams and ensure that ESG considerations are included in Investment Committee discussions.

Our analysts and portfolio managers monitor and manage risk through ongoing surveillance, as ESG risks are part of the overall risks that analysts consider. Our portfolio managers and analysts are responsible for incorporating ESG factors in their investment processes, and our Investment Committee and firm-wide Working Group provide additional oversight.

3. Please explain what Responsible Investment training is provided by the investment manager to its employees.

Barings has purchased and trained our investment professionals to use a third-party database that provides company-specific ESG research, ratings, real-time updates and analytical tools that help assess issuers' ESG risks.

Additionally, our Global High Yield Investments team has been trained to use Bloomberg's ESG functionalities. These ratings and metrics are included in our analysts' credit underwriting memos as part of our bottom-up, fundamental analysis and presented alongside our traditional fundamental analysis to the Investment Committee.

Our incoming analyst training encompasses a comprehensive two-week introductory program with educational sessions on how ESG is defined and how it is integrated in our investment process. This training will be conducted annually with all incoming analyst classes.

Furthermore, investment professionals are encouraged to attend ESG conferences, webinars and pursue other educational opportunities such as PRI Academy coursework or SASB's Fundamentals of Sustainability (FSA) credential.

4. Does the investment manager's annual employee performance review or remuneration metrics reflect any component for the inclusion of Responsible Investment? If yes, please describe them. If not, please explain.

Barings offers annual incentive awards designed to advance the interest of the firm by linking the compensation to performance and achievement of key financial goals, as well as divisional and individual goals. Individual allocations are on a discretionary basis based upon relative performance to market and individual performance evaluations.

Barings' long-term incentives 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. To encourage retention of key investment employees, a voluntary separation of service will generally result in a forfeiture of unvested LTI awards. 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.

Furthermore, we design our compensation programs to reward for intangible, as well as tangible contributions to our success, including corporate integrity, service quality, customer loyalty, risk management, corporate reputation and the quality of our team of professionals and the collaboration within that team. ESG is an important part of the investment philosophy and process, thus indirectly linked to the compensation of our investment teams.

MONITORING & REPORTING

- 1. Please describe what metrics (internal and/or external) the investment manager uses to measure its progress in incorporating Responsible Investment into the investment process.**

Barings reports to the UN PRI Transparency Reporting framework on an annual basis. This is our primary external benchmark to measure our progress in incorporating ESG factors into our investment processes. The PRI provides an Assessment Report of our Transparency Report, typically three months after our initial submission. This assessment breaks down each portion of the framework we have reported on, and grades our reporting relative to our peers. Management uses these Assessment Report scores to determine areas where we are successfully outperforming our peers in terms of sustainable investment incorporation, as well as potential areas for improvement.

- 2. How often and in what form (e.g. meetings, written reports) does the investment manager report to its investors on ESG activities and portfolio ESG risks assessments? Please provide reporting examples.**

Barings, fulfilling our obligations as a signatory to the UN PRI, began reporting to the PRI's transparency framework in the first quarter of 2016. This annual report provides detailed information on the firm's ESG processes and initiatives and is publicly available on the PRI's website at the following link. Our dedicated internal ESG resource prepares the report, which the ESG Working Group reviews.

We currently report on portfolio-specific ESG risks to clients on an ad-hoc, per request basis. Additionally, we provide fund investors with a monthly holdings report so clients are able to review all credits the fund holds, and compare this list with their own ESG-related lists. Additionally, we are able to code our front-end compliance system for any ESG requirements provided by clients for separately managed accounts. The compliance system can exclude investments based on country, sector and/or company. We currently manage a number of separate accounts that utilize such restrictions.

APPENDIX I – BARINGS ESG INVESTMENT POLICY STATEMENT

SIGNATORY TO THE UN'S PRINCIPLES FOR RESPONSIBLE INVESTING (UN PRI)

Barings LLC is a signatory to the United Nations' Principles for Responsible Investment (UN PRI) initiative. As a signatory, we have publicly committed to adopt and implement the six Principles where consistent with our fiduciary responsibility. Through its reporting and assessment process, the UN PRI requires accountability and transparency on the part of its signatories, and as a signatory, Barings is required to provide annual reports on our ESG initiatives.

MANDATE TO DELIVER COMPETITIVE RISK-ADJUSTED RETURNS

Above all, Barings' goal is to deliver competitive risk-adjusted returns for our clients. We consider ESG-related issues an important part of this commitment, as these issues can impact an investment's risks and returns over time.

RIGOROUS INVESTMENT ANALYSIS

At Barings, we incorporate ESG factors into our rigorous investment analysis. Through fundamental analysis, we seek to gain a comprehensive understanding of the factors that influence the sustainability of the investments we make. Our research teams and portfolio managers evaluate ESG factors along with a range of other potential risks and opportunities that may impact governments, industries and companies.

As part of our initial and ongoing analysis, our portfolio managers and analysts meet with government officials and corporate management teams, visit operational facilities and analyze industry competitors to better understand potential risks, including ESG-related issues. Once invested, portfolio managers and analysts continue to monitor each issuer to ensure that our thesis remains intact and that an investment's risk and return profile remains attractive relative to other opportunities available in the market.

In addition to rigorous in-house work done by Barings research analysts and portfolio managers to evaluate ESG risks, our team also has access to third-party resources that provide institutional investors issuer-specific ESG data.

ESG IN PRACTICE

To guide our process, we have formed an ESG Working Group that comprises representatives from each of the firm's investment areas as well as from our legal, compliance, sales and risk management teams. The group meets regularly to discuss ESG trends across different asset classes and identify how Barings can best take these issues into consideration in our investment process.

BARINGS' COMMITMENT

We consider ESG factors among some of the most important variables that can impact an investment's risks and returns over time. As part of our overall commitment to delivering attractive returns, we endeavor to construct portfolios that meet our clients' risk-return requirements and this includes incorporating ESG criteria into our investment process.

As we execute on our fiduciary responsibility to our clients, we will continue to consider ESG a critical component of our overall investment process.