



**BARINGS**

# Sustainability Report

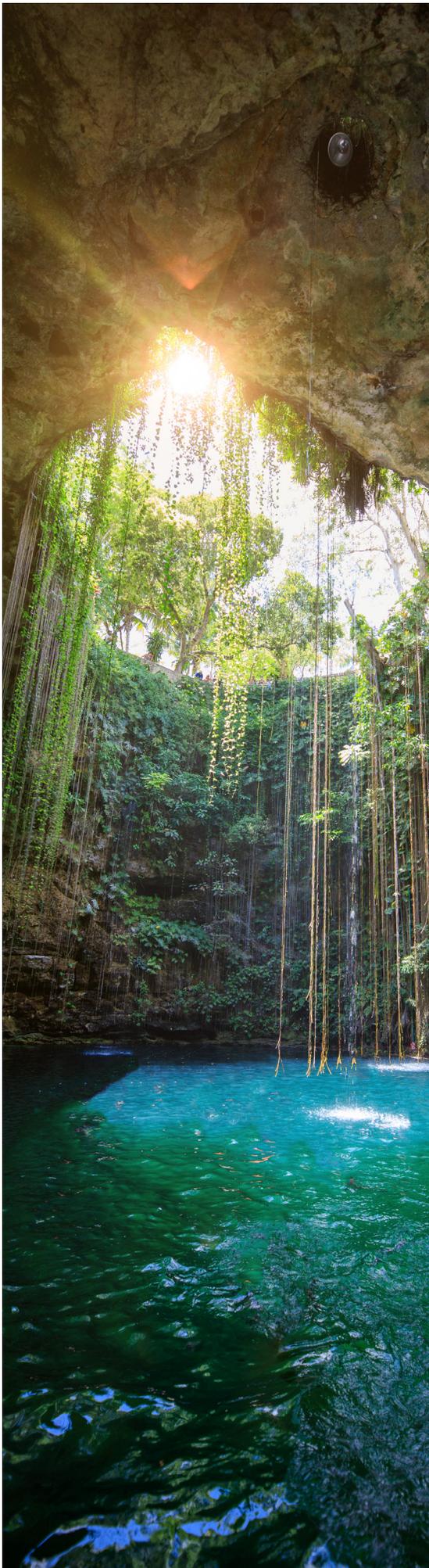
**2021 – 2022**

## **ABOUT THIS REPORT**

*This is Barings' 2022 Sustainability Report summarizing the Firm's sustainability strategy, corporate social responsibility initiatives, stewardship, and environmental, social, and governance (ESG) investment integration. This report is designed to be updated annually and will highlight key topics that are important to our business and stakeholders. All data in this report is as of March 31, 2022, unless otherwise noted.*

*For additional information, please visit [Barings.com](https://www.barings.com)*

*As of May 2023*



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# A Message from our CEO

At Barings, we have a strong, longstanding commitment to furthering the sustainability of our investments and our business.

Our resolve to help clients understand the bigger picture behind their investment decisions has taken on new prominence over the past two years, as global events highlighted the need to address several broad issues around equity and climate change within the asset management industry.

Global change requires strong leadership and governance, and Barings is proud to have made firm commitments at all levels of our business to achieve positive environmental, social and governance (ESG) outcomes for our clients and communities.

Our commitment to our people is reflected in our investments in attracting and retaining a diverse workforce. Our commitment to our communities is evidenced through our Barings Social Impact philanthropic partnerships. Our commitment to reducing our environmental impact can be seen in the important changes we're making at the corporate and asset level.

As we progress to the next step in our sustainability journey, I'm excited to see where our team-wide commitment will take us, as we look to ensure all our stakeholders play their part in securing a more sustainable future.



A handwritten signature in blue ink, appearing to be 'M. Freno'.

**MIKE FRENO**

*Chairman & CEO*

# Message from the Director of Sustainability

I'm delighted to present our first annual firm-wide sustainability report, covering Barings' activities across all aspects of Corporate Responsibility, ESG Investment Integration, and Stewardship.

As we reflect on the progress we have made, climate change urgency remains top of mind – pressing the need for us to continually evolve our practices and ensure long-term collaboration to achieve a more sustainable future for our clients, colleagues and communities.

Over the past year, we have grown our team of dedicated sustainability professionals, announced a global commitment to operational net zero, and set reduction targets for our operational greenhouse gas (GHG) footprint. We have conducted a materiality assessment with key stakeholders, and have identified key projects to continue to enhance our efforts across each identified material topic area.

We are proud to be a partner to our clients as they navigate their own sustainability journeys, and our commitment to engagement is paramount as we focus on doing what is right for our people and planet. We hope you enjoy the report.



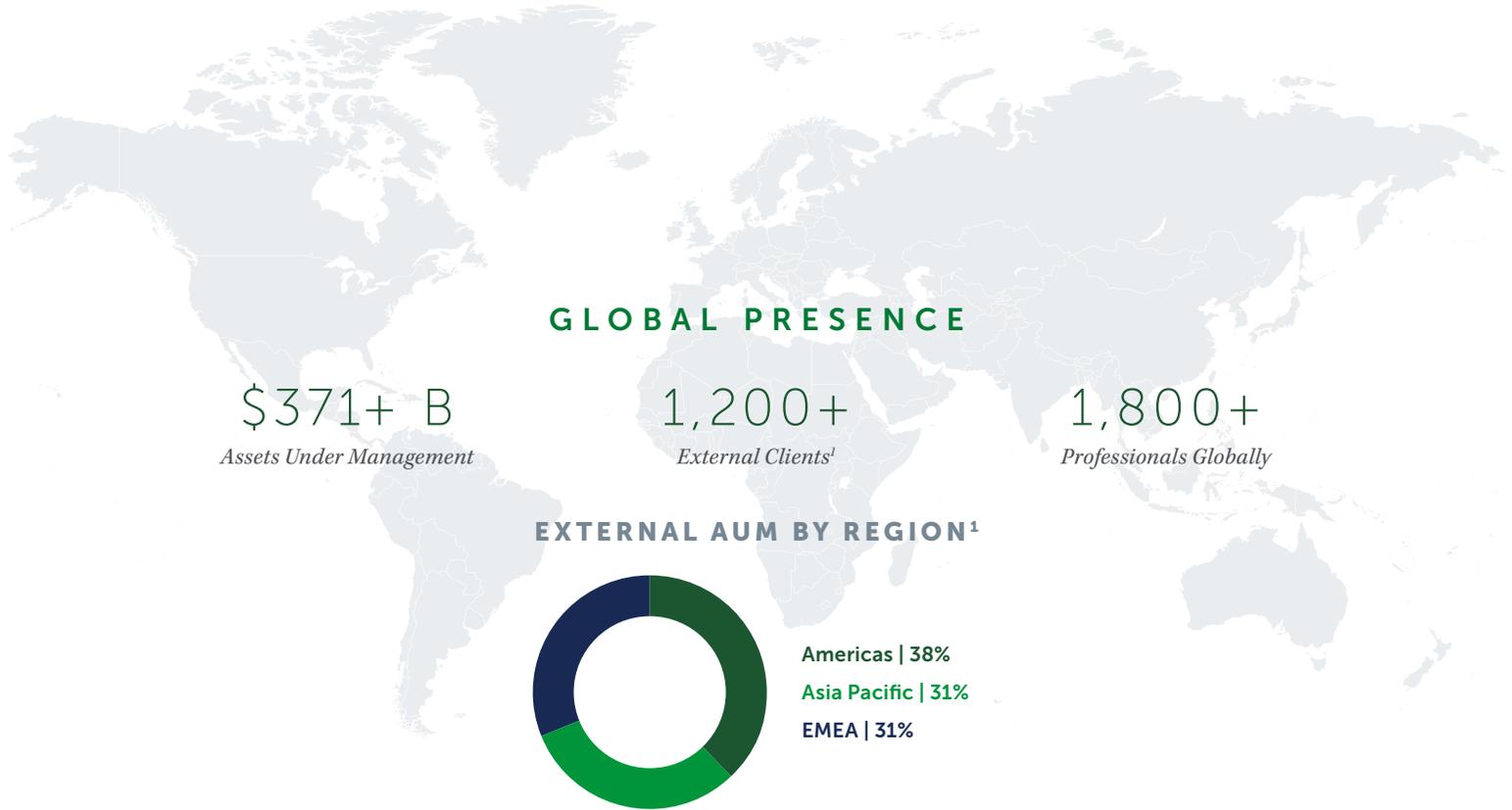
A handwritten signature in blue ink, appearing to be 'S. Munday'.

**SARAH MUNDAY**

*Director of Sustainability*

# Firm Overview

Barings is a U.S. \$371+ billion global investment manager, sourcing differentiated opportunities and building long-term portfolios across public and private fixed income, real estate and specialist equity markets. With investment professionals based in North America, Europe and Asia Pacific, the Firm—a subsidiary of MassMutual—aims to serve its clients, communities and employees, and is committed to sustainable practices and responsible investment.



Barings has 1,800+ staff across 18 countries, including 730+ investment professionals with diverse local knowledge and broad investment experience. Barings' global footprint gives us a broader perspective, access to a diverse set of opportunities, and the ability to truly partner with our clients and be a global investor. We believe that the strength of our investment teams, our innovative, in-depth and structured fundamental research, and our tried-and-tested investment process give us an advantage when identifying investment opportunities.

1. Includes third party, external AUM only. Figures are as of March 31, 2022. Assets shown are denominated in USD. Percentages may not equal 100 due to rounding.

# Our Values

Sustainability is a central tenet of our firm, and permeates our culture via our core values:



**VALUE OUR  
PEOPLE**



**FOSTER  
COLLABORATION**



**TAKE  
ACCOUNTABILITY**



**DELIVER  
EXCELLENCE**

Environmental, social and economic sustainability—guided by good governance—is an essential contributor to the long-term growth and success of both our clients' invested capital and the firm itself.

## Our Goals

### IN OUR BUSINESS

- Seek opportunities that deliver long-term value to our clients
- Act as successful stewards of our clients' capital
- Continue to enhance our integration of ESG considerations into our investment processes and operations in-line with evolving best practice
- Advocate in support of good environmental, social and governance practices
- Encourage and nurture diversity in our culture and employees

### IN OUR COMMUNITIES

- Partner with local organizations to build stronger, more vibrant and resilient communities in which we live, work and invest
- Encourage all employees to give back through volunteer time off benefits, volunteer activities and by Barings' matching of charitable contributions

### IN OUR WORLD

- Do our part to protect our global environment in pursuit of a sustainable future
- Reduce the environmental footprint of our offices globally
- Contribute to the regeneration of our natural world
- Further the missions of the United Nations Global Compact, the United Nations Sustainable Development Goals, Climate Action 100+ and the Task Force on Climate-related Financial Disclosures (TCFD)

# Sustainability Overview

## ACTING RESPONSIBLY TODAY TO HELP DELIVER A SUSTAINABLE TOMORROW

At Barings, our team-based culture strives to deliver long-term financial security and build a sustainable future in service to our clients, colleagues, and communities. We strive to act responsibly today to help deliver a sustainable tomorrow. Building a sustainable world for future generations requires constant evolution and long-term collaboration to drive lasting positive impacts for people and planet.

### WE INTEGRATE

Sustainability into our investment process and business operations

### WE ADVOCATE

For sustainability for our clients, our communities and our world

### WE COMMUNICATE

Transparently on our sustainability progress with our stakeholders

## INVESTING IN LASTING CHANGE, TOGETHER

We are deliberate in our direction, partnerships and decision making to achieve long-term, lasting change.

### ESG INTEGRATION

We **integrate environmental, social and governance** information into our analysis and decision-making across our investment teams and business lines.

### CORPORATE RESPONSIBILITY

ESG is ingrained in our **business activities** through our corporate responsibility program. This includes our Barings Social Impact philanthropic program, as well as our focus on diversity, equity and inclusion across our business.

### STEWARDSHIP

We are **active stewards** of the entities in which we invest; this goes hand-in-hand with our active investment approach. We believe the best way to advance change is by rewarding progress.



# Sustainability Governance

## GOVERNANCE OVERSIGHT

The Barings Board, Senior Leadership Team (SLT) and regional leadership teams are regularly updated on our activities related to stewardship, sustainability and ESG concerns. Barings' Director of Sustainability, Sarah Munday, reports directly to the Chief Administrative Officer and Chief Legal Officer.

## SUSTAINABILITY COMMITTEE

Barings' Sustainability Committee was formally established in April 2021. The Committee is responsible for providing oversight of the Global Sustainability Policy, Barings' ESG integration and stewardship-related strategies and programs, and ensuring that Barings complies with its obligations as a signatory to sustainability-related memberships and commitments. Committee members include:



**CHASITY BOYCE**

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



**GHADIR COOPER**

*Managing Director,  
Global Head of Equities*



**PAUL DIOURI**

*Managing Director, Chief Risk Officer*



**ALEX HARLEY**

*Managing Director, U.K. Sales*



**MARTIN HORNE**

*Managing Director,  
Head of Public Fixed Income*



**MELISSA LAGRANT**

*Managing Director,  
Deputy Chief Compliance Officer*



**DAVID MIHALICK**

*Managing Director,  
Head of Private Assets*



**SARAH MUNDAY**

*Director, Sustainability (Chair)*



**JOHN OCKERBLOOM**

*Managing Director, Real Estate Equity*



**CHARLOTTE PHILLIPS**

*Managing Director,  
Head of Client Experience*



**JAKE WILLIAMS**

*Director, Product Strategy*

## SUSTAINABILITY WORKING GROUPS

Our six sustainability-focused working groups consist of representatives from across the business and focus on delivering long-term sustainability projects steered by the Sustainability Committee. These working groups foster cross-business collaboration to improve communication and consistency, enabling stakeholders from across the business to support our sustainability goals

## SUSTAINABILITY COMMITTEE



### CORPORATE RESPONSIBILITY

#### Responsibilities

- Corporate environmental and social efforts
- Corporate responsibility recording, monitoring, targets and reporting
- Barings Social Impact (BSI) and Employee Resources Group (ERG) alignment
- Socializing plans and soliciting feedback/ideas



### REPORTING & DISTRIBUTION

#### Responsibilities

- Client reporting
- Regulatory reporting
- Industry reporting
- Client/prospect insight, requests, RFPs
- Marketing and Communications



### TECHNOLOGY

#### Responsibilities

- ESG data architecture
- Third-party data intake
- Visualization tools for ESG integration and stewardship
- Platform integration and refinements



### ESG INVESTMENT INTEGRATION

#### Responsibilities

- ESG integration approach across asset classes
- Investment tools and analysis
- Sharing practices between investment teams
- ESG data availability, monitoring and reporting
- Product development



### REGULATORY & COMPLIANCE

#### Responsibilities

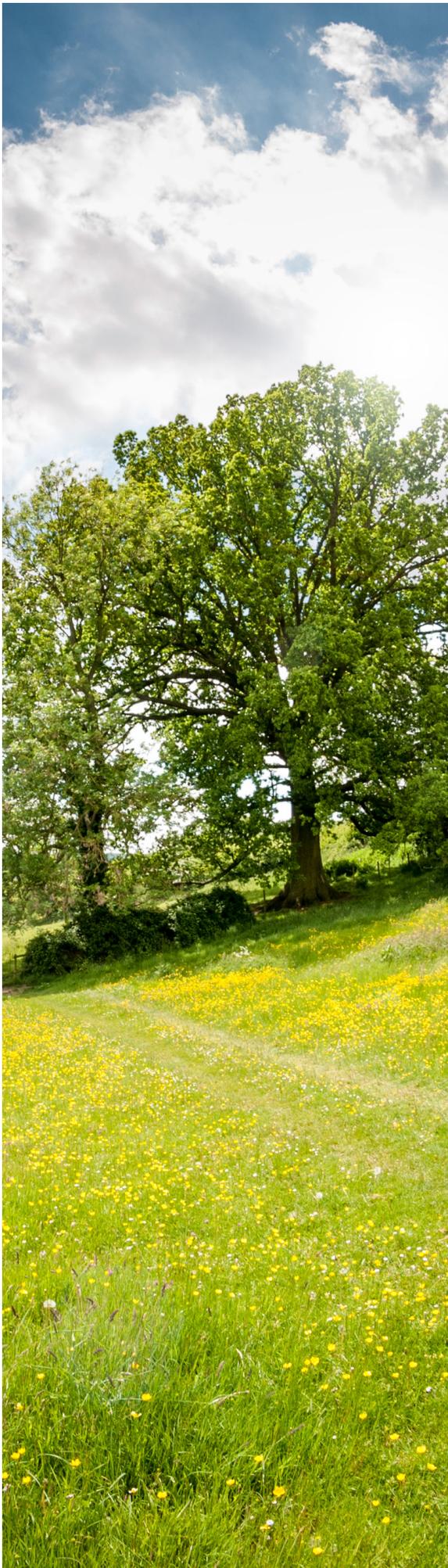
- Horizon scanning
- Regulatory analysis
- Regulatory timelines
- Proposal of necessary actions



### STEWARDSHIP

#### Responsibilities

- Stewardship framework development and internal knowledge building
- Engagement practices and industry collaboration
- Stewardship-related reporting



## SUSTAINABILITY TEAM & DEDICATED RESOURCES

Barings' Sustainability team is responsible for developing the firm's sustainability strategy, policies and processes through:

- The integration of ESG into the investment process to fully understand the value drivers of our investments;
- Stewardship for our clients targeted at enhancing returns. We are active managers of our clients' capital, which goes together with our active stewardship approach; and
- Embedding sustainability within our operations as well as our investment activities to ensure that we are leading by example.

Barings' Sustainability team is supported in the delivery of the sustainability strategy by five dedicated professionals in the Portfolio Solutions & Analytics (PSA) team, who support investment teams with their ESG integration as well as providing ESG research, analysis and reporting. There are currently 11 professionals dedicated to sustainability across the Sustainability and PSA Teams, with further ESG resourcing captured in investment teams.

## Clients

Barings aspires to be a strategic advisor and long-term partner for our clients. We look at innovative methods of communicating with our clients and consultants and have a content-rich global website that contains a full array of frequent and timely market outlooks and investment commentaries.

We understand that many of our clients share an interest in exploring the implementation of practices and procedures that are consistent with both current ESG thinking and our fiduciary duties. Barings engages clients regularly with our approach to, and performance on, ESG issues.

# Materiality Assessment

In 2021, Barings commissioned a professional services firm to begin conducting a comprehensive ESG materiality assessment and industry benchmarking exercise relevant to Barings’ investment management activities and business operations. The objective was to develop objective insights into Barings’ most material ESG issues as defined by key stakeholders, industry peers, and ESG standards, and to gain an understanding of how industry peers are planning ESG initiatives to inform the prioritization of issues within Barings. Part of this assessment related to the identification of material issues as they present systemic risks to the industry and society at large, and anchor Barings’ strategic focus around risks and opportunities that are significant to both our corporate entity and the investments we manage on behalf of our clients.

The matrix below identifies top ESG topics and rates their significance to Barings’ business success and its stakeholders by level of importance.

## MATERIALITY MATRIX

An **unweighted** analysis of stakeholder responses yielded the following ESG priorities for Barings



### ENVIRONMENTAL

1. Materials: Lifecycle & Sourcing
2. Habitat/Biodiversity
3. Sustainable Buildings
4. Waste, Water & Pollution
5. Energy Management
6. GHG Emissions
7. Climate Risk

### SOCIAL

8. Economic Development
9. Human Rights
10. Labor Practices
11. Community Engagement & Philanthropy
12. Remuneration
13. Employee Engagement & Wellbeing
14. Diversity, Equity & Inclusion (DE&I)

### GOVERNANCE

15. Supplier/Contractor Management
16. Innovation/Technology
17. Systemic Risk Management
18. Data Privacy & Cybersecurity
19. Transparency & Selling Practices
20. Management of Legal & Regulatory Environment
21. Board Governance Practices
22. ESG Strategy & Integration



# Corporate Responsibility

The consideration of ESG topics permeates our business activities through our corporate responsibility program. We strive for sustainable practices from our colleagues, in our communities, and in our world. We seek to strengthen the communities in which we live, work and invest, and to do this we encourage all employees to give back through supported volunteering and charitable giving programs. We believe that diverse backgrounds create a diversity of perspectives, experience and skills that is essential to meeting the evolving needs of our clients. We are also committed to reducing the environmental footprints of our offices, as we want to do our part in protecting our world in pursuit of a sustainable future.

# Our Environmental Approach

Barings is committed to the pursuit of a sustainable future through integrating environmental awareness into our business activities, by acting as advocates inside and outside the business and by communicating transparently on our progress. We wish to continuously improve our environmental performance and to integrate recognized environmental management best practice into our business operations.

## INTEGRATE

The management of the environmental impacts of our global business operations in our operational decisions.

## ADVOCATE

For sustainable practices in our business, communities and world.

## COMMUNICATE

To our colleagues, clients and communities about our efforts to record and reduce our operational impacts—and regenerate the environment—in support of a more sustainable future.

## OUR ENVIRONMENTAL GOALS

### RECORD

- Record our consumption of resources and associated waste
- Record our emissions

### REDUCE

- Reduce, and improve efficiency of, our consumption of resources
- Reduce our carbon footprint in order to lower our impact on climate change
- Managing our business operations to prevent pollution
- Reduce the waste we send to landfill, and increase re-usage and recycling
- Factor environment issues into business decisions

### REGENERATE

- Support environmental projects in our communities
- Encourage practices that renew, rather than deplete our environment
- Encourage and support sustainable behavior in our suppliers



## TO MEET OUR COMMITMENTS, WE WILL

- Allocate resources to environmental project and activities
- Communicate on the importance of environmental issues with our colleagues
- Ensure appropriate governance of environmental policies and performance
- Monitor key objectives and targets for managing our environmental performance at least annually
- Communicate with stakeholders on our environmental policy and performance on a regular basis
- Work together with our stakeholders and communities to promote improved environmental performance
- Review our environmental policy regularly

# Barings Statement on Climate Change

We understand that the rise in temperatures analyzed and forecast by many different scientists and agencies would have widespread consequences. The consequences of climate risks may already be impacting our clients, our communities, and our world, and these impacts are likely to escalate further.

## WE COMMIT TO

- Make efforts to reduce our negative operational impacts on our communities and world.
- Apply circular economy principles in our operations wherever possible.
- Analyze and, where possible, mitigate the potential risks arising from climate change to protect value for clients.
- Advocate for more responsible and sustainable behavior with regards to climate change through our stewardship activities.

One of Barings goals is to help protect its clients from any emerging risks. In assessing the risks to our business, as well as the opportunities from working to help mitigate this temperature rise, we make efforts to analyze parameters of potential impact. This is designed to help us to protect our clients and communities from negative impacts through taking actions to avoid the physical, regulatory and transition risks of climate change, and help us capitalize on the investment potential of a future net zero carbon world. As signatories to the UN's Principles for Responsible Investment (PRI), we support the PRI's ambition to keep the global temperature increase below 1.5 degrees Celsius by the end of this century in order to prevent widespread adverse consequences.

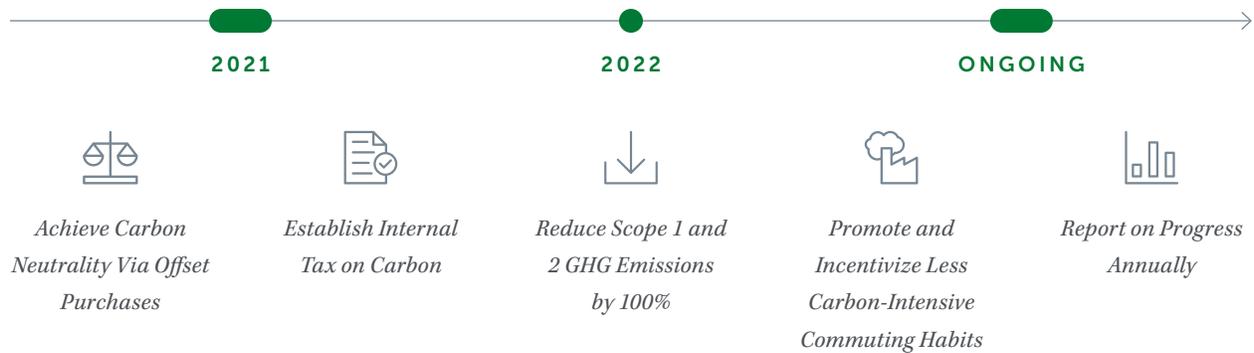
Barings also believes in contributing to a sustainable future through its own operations and outputs. We seek to employ circular economy principles in our offices globally, where feasible, in our efforts to reduce the emissions and waste that contribute to climate change, and we have many measures in place to try to mitigate our impact on the environment. In our investment activities, we integrate the analysis of ESG topics, including climate change, into our investment process across asset classes in order to better understand the risks and opportunities associated with a changing world. We advocate for more responsible and sustainable behavior with regards to climate change through our stewardship activities.

We have signed statements to G7 and G20 governments in support of the Paris Climate Agreement, urging these governments to continue to uphold the Agreement’s principles aimed at combating climate change. The Paris Agreement’s aim is to strengthen the global response to climate change in order to keep the global temperature rise, by the end of this century, well below 2 degrees Celsius above pre-industrial levels, and to aim for 1.5 degrees Celsius.

We are also signatories to the United Nations Global Compact (UNGC) and support their principles on the environment as well as the Sustainable Development Goals.

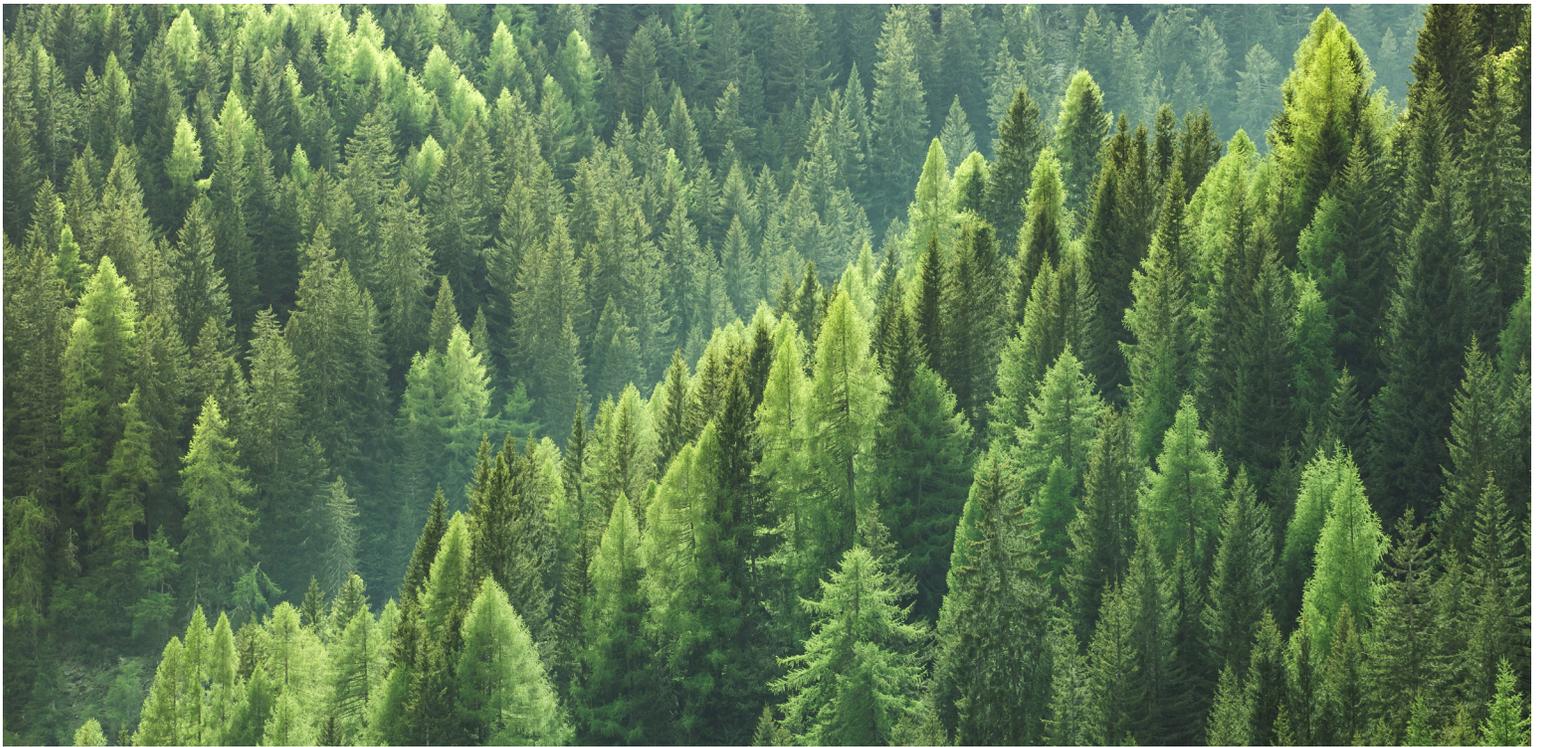
In addition, we are proud participants in Climate Action 100+, an investor initiative to ensure the world’s largest corporate greenhouse gas emitters take necessary action on climate change. The companies that participants engage with include 100 ‘systemically important emitters’, accounting for two-thirds of annual global industrial emissions, alongside more than 60 others with significant opportunity to drive the clean energy transition.

## Roadmap to Net Zero



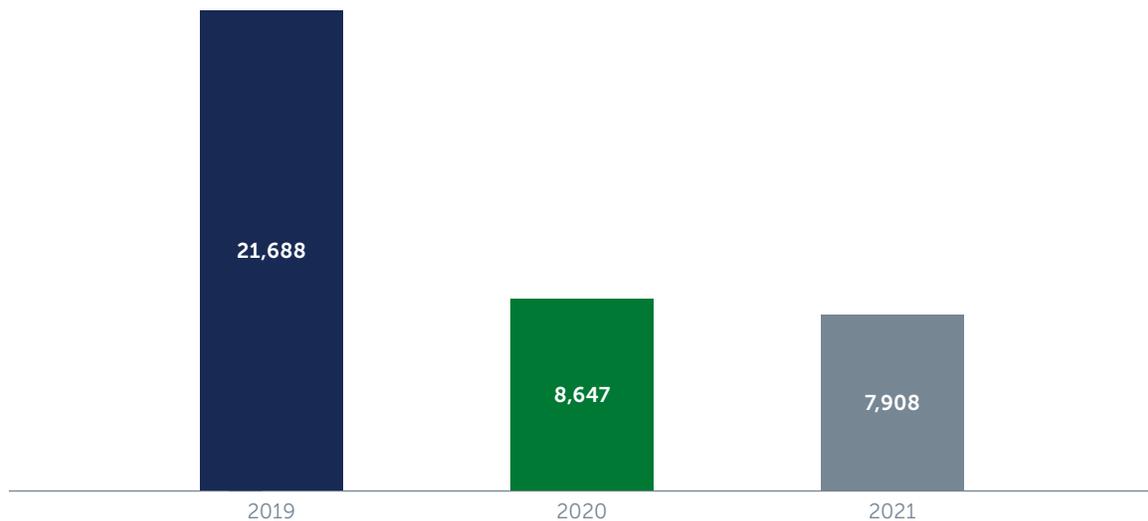
Barings set short-term and long-term greenhouse-gas (GHG) emission reduction targets in July 2021. We used carbon offsets to achieve global operational neutrality in 2021, and we are setting out the path to achieving net zero in our global operations by 2030. We know that offsetting our emissions is only a short-term solution, and to achieve our long-term goal of net zero operations we must encourage emissions reduction and behavior changes.

Progress toward our GHG reduction targets will be tracked and communicated through annual public reporting, aligned with global reporting standards in coordination with parent company MassMutual, which published its net zero targets earlier this year, aligned with Article 4.9 of the Paris Agreement. Barings is working actively to support MassMutual’s climate commitments of being operational net zero by 2030 and General Investment Account (GIA) net zero by 2050. These commitments expand upon Barings’ existing sustainability activities.



Barings collaborated with a third-party carbon services company to collect our operational carbon footprint. In 2021, Barings' business operations generated a total of 7,908 tCO<sub>2</sub>, a decrease of 8.5% compared to 2020.

### BARINGS' OPERATIONAL GHG EMISSIONS IN TONS CO<sub>2</sub> \*



*\*Data accurate at time of reporting*

Each year, we will offset the equivalent of these emissions by acquiring offsets equivalent to our operational GHG emissions. The allocations from travel will be used to fund projects that mitigate carbon emissions. To achieve our short-term goal of operational GHG neutrality, we purchased 21,688 tons of carbon offsets for our 2019 GHG emissions.



## CASE STUDY

# The Kariba Project

Barings chose The Kariba Project for our carbon offsets, which provides the following:

- Protects almost 785,000 hectares of forests and wildlife on the southern shores of Lake Kariba, near the Zimbabwe-Zambia border.
- One of the largest registered REDD+ (Reducing Emissions from Deforestation and forest Degradation) projects by the area, connecting four national parks and eight safari reserves, forming a giant biodiversity corridor protecting expansive forest, and vulnerable and endangered species—including the African elephant, lion, hippo and southern ground hornbill.
- \$249,000+ income generated by the local community from beekeeping, moringa tree and community garden sales
- 18 nutritional gardens are increasing food security
- 14 health clinics supported with safe drinking water
- 18,000+ people attending 430 workshops on project-related activities, such as nutritional gardening and beekeeping to date
- 37,000 people have access to safe drinking water, thanks to 147 boreholes being repaired
- 22 permanent jobs created thanks to the project
- \$57,000+ spent on supporting health clinics and schools
- 3.62 million tons of CO<sup>2</sup>e mitigated on average each year since the project started in 2011
- 784,987 hectares of forest protected
- International partnerships between local communities, national and international organizations and carbon experts to deliver sustainable, long-term benefits



# Sustainable Work Environment

Barings is committed to providing a healthy work environment for our employees. We have taken actions to improve sustainable practices in our corporate offices and to create an environment that supports the health and well-being of our employees.

Minimizing the environmental impact of our corporate offices is part of being a good steward to both the environment and our local communities.

From Boston to Berlin, implementing robust conservation measures and behaviors will continue to be a priority for Barings.

# Sustainability Spotlight



## CHARLOTTE OFFICE

In September 2021, Barings' global headquarters in Charlotte, NC, 300 S. Tryon, was recertified at the Gold level under the rigorous Leadership in Energy and Environmental Design LEED v4.1 assessment framework. 300 S Tryon was also awarded Fitwel Built Certification and given a two-star rating in November 2021. Sustainability highlights include:

- Healthy food options in the café
- High grade air-filtration
- Comprehensive composting and recycling
- Nursing rooms for new mothers
- Standing desks for employees
- Green cleaning methods
- Presence of plants and natural light
- Gym access for employees

## LONDON OFFICE

Over the past several years, several sustainability initiatives have been implemented at Barings' London office, 20 Old Bailey. Below are some ways we have enhanced our operations:

**Using renewable energy:** After a significant push from Barings, the 20 Old Bailey building switched to a renewable electricity source in October 2019 and switched to green gas in March 2021. Additionally, solar panels are installed on the roof.

**Being mindful of deliveries:** Barings is committed to reducing carbon emissions from deliveries across business services. The team put procedures in place to measure and reduce carbon dioxide emissions produced per kilogram for each delivery.

**Environmentally friendly cleaning:** Our cleaning company is ISO 14001 certified and is dedicated to reducing its environmental impact each year. Among the ways it plans to do so are chemical-free cleaning and using recycled and/or recyclable plastic bags. It also uses recycled paper and cleans with products that are environmentally friendly.

**Improving waste management:** At 20 Old Bailey, mixed recyclables are sent to proper recycling streams. Paper is shredded and recycled. Mixed waste is sent to incineration, and the heat then produces power. Rainwater flushes toilets on the lower floors.

**Eco-friendly tableware:** To reduce consumption of single-use plastics, we use glasses, china mugs and metal cutlery as often as possible for our catering and hospitality services. For packaging where necessary, we use compostable containers manufactured from plant-based products. In our refreshment hubs, glass milk bottles have replaced plastic milk bottles. These are collected after use and reused by the supplier, who transports the milk in electric vehicles.

**Eating sustainable foods:** Our caterer is committed to sourcing ethically and using local produce wherever possible. Our fruit and vegetable supplier is BRC Certified, a symbol of food safety and quality and meets global standards for storage and distribution.

**Appreciating biodiversity:** We installed four beehives in a protected area on the roof to support biodiversity. Each hive initially held 20,000 bees and can hold up to 160,000 bees. We collect honey and honeycomb from the hives. This will be used for our catering and to make wax paper, replacing cling film.

**Supporting small sustainable businesses:** We support small sustainable businesses to further our combined efforts in the local community, and within our business operations at Barings. For example, our washrooms are stocked with cruelty-free products from a local small business. The company's products use bottles that are locally sourced and wrappers that are compostable. The company's workforce includes blind, disabled and otherwise disadvantaged people.

We see sustainable business as a responsibility to educate and guide employees in impact reduction, not just in the office, but at home too.

Barings' London office was awarded the IWFM Positive Climate Action award in 2020 for their evidence-based application, showcasing 11 environmentally impactful initiatives that had been implemented since moving into the 20 Old Bailey office space in 2018. The office received a BREEAM Excellent rating for both the pre-design and fit-out stages of the construction process and was awarded ISO 14001 certification in July 2021.



# Employees

Living and working in the same cities as our global client base, our team of over 1,800 professionals thrives on a diversity of perspectives and backgrounds. Working at Barings means being part of a team. Every day is fast-paced and intellectually stimulating: from investment analysts to client portfolio managers, to data scientists and beyond, we work together to serve our clients and our local communities.

Barings places a high value on cultivating an engaging, dynamic place for all our colleagues. We encourage and seek feedback to gain insight and recommendations from employees. We pay great attention to the thoughts and opinions of our employees, and we take their feedback into consideration to work towards a better workplace.

## PROFESSIONAL DEVELOPMENT

Barings employees participate in an ongoing performance review and development process—an important part of maintaining a pay-for-performance culture. The performance review process encourages direct and candid conversations between employees and their managers. It gives employees the tools to manage and document their individual performance and development plans.

In addition, this process helps employees and managers evaluate how well employees have achieved their individual performance and development objectives. Performance review results are a key indicator of an employee's contribution to the firm and factor into the determination of an employee's annual total compensation. This documentation allows both the employee and manager to track the employee's results in closing the gaps identified in the development plan and can be used as a reference tool in completing the employee's annual performance review. All Barings employees complete an annual performance review.

## TRAINING & EDUCATION

The training opportunities designed for our staff ensure the development of core competencies align with the needs of our business and our clients. We support the development of our staff with appropriate tailored training to help them gain the knowledge, skills and abilities required to excel in their roles.

Barings facilitates mandatory training for new hires spanning multiple HR- and Compliance-related topics. As part of ongoing development, employees are encouraged to take courses and programs in applicable subject matters. These include graduate programs, the Chartered Financial Analyst program, the Chartered Financial Analyst ESG certification, the Security Analysts Society programs and other professional investment management programs.

Additionally, we encourage, and often mandate, our employees to undergo appropriate focused training, including professional conferences and seminars with well-known training and development vendors. All Barings employees have full access to LinkedIn Learning. They are also encouraged to expand their knowledge through "on the job" education and training, with ongoing development taking place through day-to-day contact and mentoring.

Furthermore, investment professionals are encouraged to attend conferences and talks related to sustainability and pursue other educational opportunities, such as PRI Academy coursework or SASB's Fundamentals of Sustainability (FSA) credential. The Sustainability team intends to enhance the ESG training offered to investment professionals over the course of the next year.

## BENEFITS

Barings offers a comprehensive health and wellness program that encourages employees to become active participants in managing their health and health care, while also offering choice and flexibility. Components include:

- Comprehensive medical coverage
- Wellness program
- Health Savings Account (HSA)
- Health Care Flexible Spending Account (FSA)
- Dental
- Vision
- Employee Assistance Plan (EAP)

For those enrolled in the firm's medical coverage, employees and their covered spouses and domestic partners are given opportunities to engage in healthy behaviors and preventative screenings. Financial incentives in the form of "wellness incentive dollars" are part of this program. Eligible employees who satisfactorily complete applicable programs receive company contributions of wellness incentive dollars.

In conjunction with the Green Commute Initiative, Barings offers to its UK employees a tax advantaged Cycle to Work program. The program serves dual purpose of improving both the individual's health and wellbeing, as well as reducing the environmental impact of pollution and congestion from cars.

Barings is also committed to providing a safe and healthy work environment by:

- Providing a safe and healthy workplace free of preventable hazards.
- Maintaining reasonable safety rules and practices and effectively communicating these to employees.
- Providing appropriate employee training and information.
- Promoting and protecting employee safety and health.
- Complying with all health, safety and environmental laws and regulations that impact its operations.
- Responding quickly and effectively to environmental incidents.

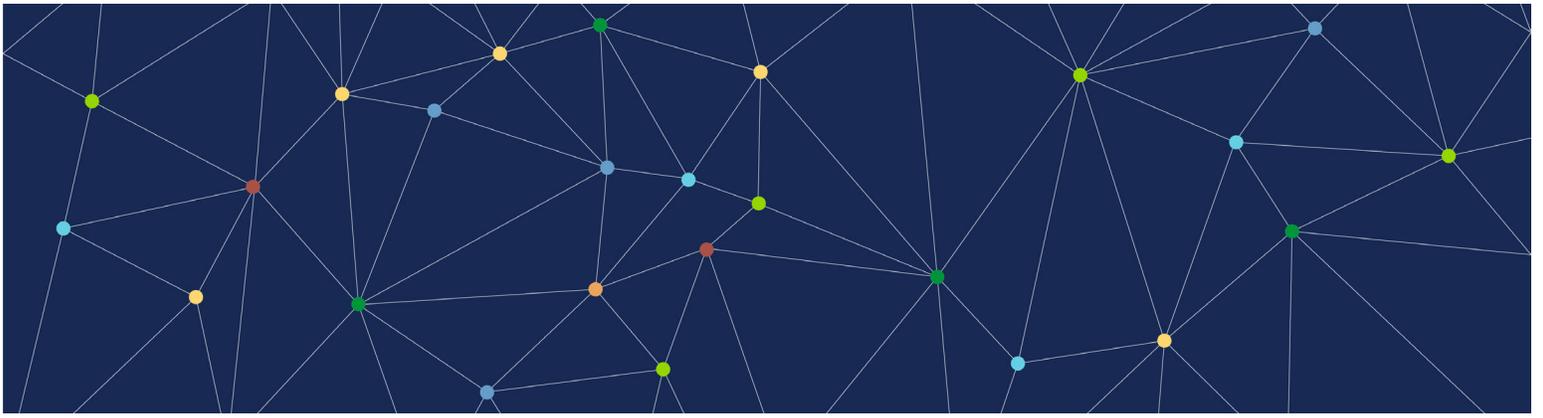


### CASE STUDY

## Employee Incentive E-Vehicle Program

### LONDON

In 2021, Barings launched a beneficial e-vehicle leasing arrangement to all U.K. benefit-eligible employees. The e-vehicle arrangement incentivizes employees to lease new ultra-low emission vehicles (ULEVs) savings via corporate discounts and tax savings through gross salary reduction. The arrangement gives employees access to all electric and hybrid vehicles in the market.



# Diversity, Equity & Inclusion

At Barings, we believe diverse backgrounds create a diversity of perspectives, experience and skills that are essential to meeting the evolving needs of our clients. We are committed to attracting and retaining a talented workforce whose diversity reflects the clients and communities that contribute to our success.

Barings is dedicated to creating a business environment that identifies, retains and promotes diverse talent within a supportive culture where all employees can work together to produce the best outcomes. Our diversity, equity and inclusion (DEI) mission is to foster an environment where everyone can authentically succeed. By embracing diversity and working together, in line with our values, we know we can make a difference and cultivate a firm-wide culture where everyone can thrive and achieve their goals.

## OUR COMMITMENT TO DIVERSITY, EQUITY & INCLUSION

### MISSION

To foster an **equitable and inclusive** environment where everyone can succeed

#### PHILOSOPHY

The varying backgrounds, life experiences and perspectives of our people influence our approach to investing and creating our culture.

#### OUR APPROACH

Outcome and impact centered global strategy tailored to regional needs. Leaders first. Managers model. Everyone's responsible.

#### COMMUNITY IMPACT

Cross collaboration with Barings Social Impact and other teams to effectuate broader impact for diverse communities.

#### PEOPLE FOCUS

Six Employee Resource Groups (ERG) support overall strategy and help build community, utilizing culture surveys and focus groups to collect qualitative data and regularly assess impact.

#### PARTNERSHIPS

Evaluate talent opportunities and gaps, and actively partner with organizations to broaden access to entry, mid and senior level diverse talent.

#### CULTURE

Maintain a culture of respect and integrity that prioritizes genuine interactions and courageous conversations to encourage authenticity, belonging and psychological safety.



# Employee Resource Groups (ERGs)

ERGs are firm-sponsored, employee-driven groups that foster employee engagement, strengthen business practices, serve as recruiting resources, provide professional development and create learning opportunities for their members and across the firm. ERGs help make space for varying perspectives and ideas, amplify the voices of, and increase visibility for, their members, and work as strategic partners in promoting a culture of diversity and inclusion at Barings.

Barings' ERGs are open to all current employees. We encourage employees to join ERGs regardless of their individual affinity.

**Barings Black Alliance (U.S.):** The Barings Black Alliance supports the advocacy, mentorship and development, and professional growth, for Black professionals at Barings. We inspire our colleagues to come together as ambassadors: developing a diverse and inclusive culture as one team while making Barings the employer of choice for Black talent in the asset management industry.

**Barings Black Talent Network (U.K.):** The Barings Black Talent Network (BBTN) is an employee-led group created to build cultural awareness at Barings. The Network is designed to foster an environment for meaningful opportunities for Black talent to develop and advance their careers as future leaders. We progress our mission through networking, educational opportunities, mentorship and programming that promotes cultural awareness and communication.

**Barings Women's Network (Global):** The Barings Women's Network is committed to building and maintaining a diverse, supportive, and team-driven environment where women can strengthen their professional development, networks and contributions to our firm and clients.

**Out & Allies (Global):** Out & Allies is a network for LGBTQ+ individuals and their supporters. Open to all employees globally, our aim is to promote LGBTQ+ awareness and encourage an inclusive work environment in order to attract, develop and retain talent.

**Veterans' Network (U.S.):** The values, principles and work ethic of the U.S. military aligns with Barings' core principles. The Veterans' network was created to build an inclusive work environment that fosters the personal and professional development of this group of people that provide value to the firm in a truly differentiated way.

# Barings Global Statement of Diversity

At Barings, we strive to foster an equitable and inclusive workplace where everyone can succeed. We recognize that success looks different for every individual, and that each team member enters our doors with varying backgrounds, life experiences and perspectives that influence our approach to investing and culture. This makes us a strong global asset manager. The rich diversity of our workforce, coupled with our commitment to core values, allows us to intentionally innovate our products, processes and workplace in an inclusive way. Our goal is to create and sustain a culture that values diverse voices and includes everyone, at every level, in various opportunities. In doing so, we bolster our ability to continue to provide our clients with the highest quality service and deliver outstanding performance with the utmost integrity.

**How We Work:** Barings takes a leaders-first approach to advancing DEI. Our CEO and senior leadership maintain DEI goals and regularly manage our progress and performance against organizational, team and individual goals. Our mid-level managers model behaviors that advance our DEI goals, provide a regular cadence for both feedback and critique and embed inclusive practices as they lead in their respective lines of business. This accountability cascades down to every team member. Barings embraces and values the individual differences of our people, including but not limited to ability, age, disability status, ethnicity, gender identity or expression, language, marital or civil partnership status, nationality, national origin or background, political affiliation, race, religion or belief, sex, sexual orientation, socioeconomic status, veteran status and other characteristics that our team members bring to the firm. Our goal is to create a sense of belonging and engagement across the enterprise, irrespective of how individuals identify.

We give DEI a seat at the table. Our Chief DEI Officer is a member of the senior leadership team, and the DEI team is embedded in our people practices. The team collaborates across the firm to ensure a DEI lens is applied to all our functions—human capital management, marketing, communications, technology, legal, facilities, suppliers and social impact. We utilize DEI training to help build a foundation of trust, inclusive language and practices and to enable us to have conversations and implement processes that drive organizational change. Our DEI strategy is global, taking a tailored approach that recognizes the varying needs of the different regions in which our offices sit. We will routinely measure the effectiveness of our DEI strategies and initiatives through the collection of quantitative and qualitative data.

**How We Act:** Barings employs a number of strategies to help build our inclusive culture. Our approach to driving diversity and inclusion starts with our people—how we recruit, develop, promote and retain them. We've embedded diversity best practices and strategies into our talent acquisition and talent management processes, including our commitment to diversifying the senior leadership team and managers at all levels across the firm. Our six employee resource groups help build community and connectivity across the firm, influence programming and act as a sounding board to help identify both gaps and opportunities to enhance our approach to DEI. We maintain a culture of respect that flows to all our clients, team members, consultants, contractors and vendors. Our team members are expected to intervene, challenge non-inclusive behavior and promote allyship where circumstances arise.

We are on a journey. Barings is not creating a diversity program but advancing how our firm operates to ensure lasting change, where we value our team members, consciously include each other and provide preeminent service to our clients and our communities.

| Race/Ethnicity Statistics—U.S. Only       |       |
|---|-------|
| <b>Executive Management</b>               |       |
| African American                          | 15.4% |
| White                                     | 84.6% |
| <b>Full Firm</b>                          |       |
| American Indian or Alaska Native          | 0.1%  |
| Asian                                     | 7.8%  |
| Black or African American                 | 7.6%  |
| Hispanic or Latino                        | 3.0%  |
| Native Hawaiian or Other Pacific Islander | 0.1%  |
| Prefer not to disclose                    | 4.3%  |
| Two or More Races                         | 2.1%  |
| White                                     | 75.0% |

| Global Gender Statistics    |     |
|-----------------------------|-----|
| <b>Executive Management</b> |     |
| Female                      | 37% |
| Male                        | 63% |
| <b>Full Firm</b>            |     |
| Female                      | 39% |
| Male                        | 61% |

*As of December 31, 2021. Statistics represent aggregate results for the 82% of Barings' population that provided demographic data.*

## ATTRACT

- Barings' global internship program and analyst class are key sources for identifying, attracting and developing diverse future talent for the firm. The internship program was established in 2018 in the U.S., expanding to the U.K. in 2019. Barings has a team dedicated to recruiting for internships, including partnering with organizations focused on developing diverse talent, such as Seizing Every Opportunity (SEO) and Girls Who Invest in the U.S., and the Amos Bursary, 10,000 Black Interns, and GAIN (Girls Are Investors) in the U.K., and more. Since the inception of our campus program, each class has been represented by at least 50% women and/or people of color.
- We host 'See the Possibilities' events in our London office for diverse students from 19 universities, with presentations from prestigious industry speakers, to engage them on careers in asset management. In the virtual environment, these programs were expanded to university-aged students across the globe. We also partner with the Toigo Foundation's Women and Diversity initiative. This group helps to prepare underrepresented professionals pursuing MBAs for leadership, and in turn helps firms create an environment where those individuals can thrive.
- Barings has had a partnership with the Young Black Leadership Alliance (YBLA) since 2019.
- We partner with the Investment Management Association and Investment 20/20 to offer one-year apprenticeships to young, diverse talent from underrepresented backgrounds. Over the years, trainees have been offered full-time roles in HR, Finance, Operations, and Corporate Services.
- Barings is a signatory of, and participates in, CEO Action for Diversity and Inclusion, the largest CEO-driven business commitment to advance diversity and inclusion in the workplace.

## ENGAGE

- Barings utilizes its six employee resource groups to help create community and engage with employees across the globe.
- Barings' annual engagement survey gives employees an opportunity to provide feedback on the employee experience.

## DEVELOP

- In 2021, Barings launched global DEI training with a focus on inclusive culture, hiring and leadership that was completed by 100% of eligible employees.
- We annually renew our commitment to our global statement of respect.
- In 2021, we implemented our Global Statement of Diversity, which reinforces the point that sustaining an inclusive culture is everyone's responsibility at Barings.

## RETAIN

- Our employee benefits are designed to be competitive and support the diverse needs of our employees. Examples of this include improved parental, emergency backup care, mental health benefits and flexible working, which have been enthusiastically taken up by employees in all regions.
- Junior professionals in our two-year analyst class receive training in several of our investment teams. At the end of the two-year period, based on the firm's need, some high performing analysts may be offered a full-time opportunity from the respective group, or another group with a need for junior talent.
- Our intentional professional-development, talent-review and succession-planning processes ensure that Barings identifies strengths and development opportunities. Our respectful and values-driven culture help foster an equitable and inclusive workplace where everyone can succeed.



### CASE STUDY

## Barings' Day of Understanding

In April 2021, Barings held our inaugural CEO Action for Diversity and Inclusion Day of Understanding. We discussed how understanding our privilege can help us connect with others, and how we can use the privilege we have to advocate for others. Barings' employees completed a virtual privilege walk and listened to a panel discussion with our own CEO Mike Freno. Mike was joined by colleagues across the business for an eye-opening discussion about our varied experiences of privilege. We held the event after becoming a signatory to the CEO Action for Diversity, the largest CEO-driven business commitment to advancing diversity and inclusion in the workplace.

*"We should hold each other accountable to use our gifts and privilege to make it better for others."*

**MIKE FRENO, CHAIRMAN & CEO**



# Barings Social Impact

Barings is dedicated to making a difference in the communities where its employees live and work through support of civic, philanthropic and non-profit initiatives. Barings supports numerous charitable organizations worldwide, through monetary donations, employee matching and volunteerism.

## MISSION & AREAS OF FOCUS

Barings is thinking beyond financial giving, and taking a strategic approach focused on the needs of individuals and families. We are focused on meaningful action and committed to advancing economic and social mobility within our underserved communities by concentrating on three key areas:



### AFFORDABLE HOUSING & HOMELESSNESS

Building stronger, more vibrant communities by partnering with organizations that address affordable housing and homelessness.



### WORKFORCE DEVELOPMENT

Partnering with organizations to provide professional development, life skills, and educational opportunities.



### ACCESS TO EDUCATION & FINANCIAL OPPORTUNITY

Fosters early childhood economic opportunities by collaborating with partners specializing in supplemental instruction, digital equality and financial literacy.

2021 continued to be a unique year for our world and local communities as many still felt the ramifications from the COVID-19 pandemic. We continued traditional grant payments in addition to COVID-19 relief efforts in our local communities, issuing 50 grants to 44 charitable partners across the globe. Meanwhile, our employees engaged in more than 50 community engagement events, both virtual and in person.

As we make our way through 2022, we continue to narrow focus on our strategic investments and employee led giving initiatives to drive intentional, deep impact in our local communities.



## Impactful Projects

### E2D—CHARLOTTE, NC

Nearly 70,000 households in Charlotte-Mecklenburg lack a working computer, a number that is on the rise and hampers efforts for greater social mobility.

In October 2021, Barings Social Impact collaborated with our strategic partner, E2d, to distribute more than 180 laptops to residents of Mezzanine at Freedom near our global Headquarters in Charlotte, NC. This mixed-income affordable housing complex in Charlotte was developed by Dream Key Partners and financed by our Affordable Housing Investments team.

The City of Charlotte's Access Charlotte program provided free connectivity to all Mezzanine residents, and Digital Charlotte provided hands-on digital-literacy training and materials for residents. In addition, the Barings Technology team donated most of the laptops, which were refurbished and distributed by E2d. Watch the recap video [here](#).

*“E2D is laser-focused on the intersection of affordable housing, jobs and education. Every home must have access to digital tools necessary to be successful in today’s society. The work at Mezzanine at Freedom that Barings supported is the perfect resolution. Families with Affordable Housing have checked off ‘Home Security’ for their ascent to prosperity. Better jobs and education are the next steps. Computers provided by Barings are escalating those timelines and advancing prosperity for families in Affordable Housing communities quickly and efficiently.”*

**PAT MILLEN, E2D, FOUNDER/PRESIDENT, ELIMINATE THE DIGITAL DIVIDE**



## Impactful Projects Continued

**BARINGS BOOK BUS & TECH LAB—CHARLOTTE, NC**  
*in partnership with the Charlotte Hornets*

**The Barings Book Bus:** In partnership with the Charlotte Hornets, the Barings Book Bus initially launched in 2016 with the goal of demonstrating the importance of reading to children and increasing opportunities for literacy in underserved communities by distributing books throughout the school year and the summer. The Book Bus travels to elementary schools and youth centers in the Charlotte area, where Hugo, the Charlotte Hornets NBA team mascot, performs an interactive and entertaining program that inspires students to read. After the program, one class from each location boards the Book Bus to pick out a book to take home. The Barings Books Bus has distributed over 44,000 books since 2016.

**Tech Lab Initiative:** Since 2019, Barings has collaborated with the Charlotte Hornets to up-fit two tech labs in the Charlotte area, one at Winding Springs Elementary and one at Johnson C Smith University. The Tech Lab initiative works to promote digital inclusion and equality across the city, understanding that now, more than ever, technology is a key enabler in education, and being connected through technology can make a pivotal difference in a student's academic experience.





## Impactful Projects Continued

### THOMAS FRANKS FOUNDATION—LONDON, U.K.

At the start of the pandemic, the Barings team members in London collaborated with the Thomas Franks Foundation to launch the Feeding Communities initiative, an idea initiated by Thomas Franks Founder Frank Bothwell, along with Barings U.K. Corporate Services' team members Mark Williams and Sara Stewart.

With many of the catering company's kitchens idle with their clients closed due to lockdown, they decided that the most direct way of giving back to society in a critical time was to provide healthy and nutritious meals to hospitals, homeless shelters and charities. Over the past two years, this effort produced over 118,639 meals that have been distributed to the homeless and underserved community members in the London area. In conjunction with our employees' fundraising initiatives, Barings has raised over £300,887 to continue supporting this effort in the London community, ensuring our neighbors' basic needs are met.



### ROOF ABOVE—CHARLOTTE, NC

Homelessness and food insecurity hit our communities hard over the past two years, leaving many of the most vulnerable facing unforeseen challenges in meeting essential needs. Roof Above aims to erase homelessness in Charlotte by providing wrap around support services along with shelter options to our neighbors experiencing homelessness. Barings' support, focused on supporting men's and women's/children's functions, allowed Roof Above to continue operating the nightly shelter operations for the duration of the winter season, keeping the men-only night shelter and its 118 beds open through March 2022. Room in the Inn operated over 50 pop-up shelters across the city with priority given to women and children.

*“As we approached winter, we knew to expect increases in homelessness given the end of the eviction moratorium and rising prices in our housing market. It then became clear that the pandemic had more challenges in store for us, as the Omicron variant rose rapidly in our community. Barings stepped up again to support our neighbors experiencing homelessness. By providing funding for two Roof Above shelters—Giles Center, our overnight shelter for men and our community-based Room in the Inn shelter that prioritizes women and families—Roof Above was able to expand emergency shelter capacity this winter to provide the basic dignity of a good night's rest.”*

LIZ CLASEN-KELLY, CEO ROOF ABOVE





## Impactful Projects Continued

### WAYSIDE CHAPEL—SYDNEY, AUSTRALIA

Wayside Chapel is a community services center that works to provide those in the Sydney community who are experiencing homelessness and social isolation with a safe space and vital essentials such as showers, meals and emergency clothing. Barings' donation was used to provide 10,000+ meals to the at-risk and underserved community members in Sydney.

### ALETO FOUNDATION—LONDON, U.K.

Aleto is focused on developing and connecting potential young, future leaders that are university-aged Black men and women. Aleto students participated in our second annual Data Science program in March of 2022. This year's program was inclusive of a two-day kickoff event, which features internal and guest speakers with facilitated discussions on topics of ESG, greenwashing, and fossil fuel investment; the pandemic's impact on the finance industry; political and market risk; accounting; debt; asset classes; personal growth; goal setting and leadership.

*"I have found these past two days very intriguing. I am also quite a reserved person, and this program has helped me come out of my shell a lot more. Thank you everyone."*

### ALTEO DATA SCIENCE PROGRAM PARTICIPANT

At the end of the two days, students were tasked with a group project focused on Data Science. The teams then returned to Barings later in the year to present to a panel of Barings judges. Additionally, our HR team and Barings Black Talent Network have collaborated to offer a variety of workshops to Aleto students who participated in the program centered around resume building, mental health and other soft skills topics.

# Employee Emphasis

Barings Social Impact puts the power to effect change in the hands of our employees—and helps them make a lasting impact through mentoring, service and financial giving.



## ENCOURAGE

We encourage employees to put forth their passions by applying for employee-led microgrants in our local communities.



## ENGAGE

Our governing body is comprised of Barings employees from across the globe who drive our strategic investments and identify employee-led initiatives to receive corporate grants.



## SUPPORT

We support employees through matching and volunteer time off programs to amplify their personal dedication to nonprofit organizations.

## SPOTLIGHT ON EMPLOYEE LED INITIATIVES

**SolarBear (Tokyo):** SolarBear aims to contribute to the solution of global environmental problems by widely promoting the use of the polar bear characters “Sola” and “Bea” to the public to raise awareness of renewable energy and environmental education for children. Barings’ support goes towards educational workshops that emphasize the importance of reducing CO2 emissions. In July 2021, Barings employees sponsored an online workshop titled “Let’s Ask a Polar Bear Photographer!” featuring Akiya Tanba, a nature photographer and leading polar bear photographer. Discussion topics focused around the topics of global warming, what kind of impact it will have on Japan, and potential solutions.

**All Stars Project (New York & Chicago):** The All Stars Project collaborates with underserved neighborhoods in Chicago, working to expose children ages 5-21 to opportunities outside of their community. Barings’ support goes towards the All Stars Projects afterschool programming in Chicago, which includes development coaching, development after-school program for youth, and the All Stars talent show network. In 2021, Barings employees from the New York and Chicago offices volunteered as mentors in the DSY program. Additionally, the Barings Black Alliance partnered with the All Stars Project to host DSY workshop with our national employee base.

**Cradles 2 Crayons (Boston & Chicago):** Cradles 2 Crayons three-step model works to provide kids in need with the essentials they need, free of charge. Barings employees in the Chicago and Boston offices have helped do just that—through fundraising efforts, office collection drives and volunteering initiatives, both offices have supported their local chapters of Cradles 2 Crayons. Barings’ support in Chicago provided 15 classrooms with learning essentials and over 5,000 new winter hats and gloves last winter, fulfilling the Chicagoland’s winter need for the season. In Boston, Barings support made the following impact:

- Ready for Learning (\$10,000): Ensured that more than 300 low-income and homeless children across MA had all of the essentials they needed to start the school year confident and ready to learn.
- Coats for Kids (\$15,000): Provided 1,500 brand new winter jackets for kids across MA.

**Focus Ireland (Dublin):** Focus Ireland works with people across Ireland who are homeless or are at risk of losing their home. Our Dublin colleagues engage in a variety of volunteer and fundraising activities in support of the community that Focus Ireland serves.

## EMPLOYEE RESOURCE GROUPS: COMMUNITY PARTNERSHIPS

Each ERG receives an annual grant from Barings Social Impact to invest in a community partner in order to provide strategic, volunteer and financial support.

**BBA (U.S.)** partners with YBLA to sponsor one student in YBLA's 20-month Ambassador Program. YBLA's mission is to help young black students become leaders, role models and change agents who positively impact their communities. They achieve this through leadership development, college and career readiness, and community service. The YBLA program works with students in high school and college, and young professionals. BBA's financial commitment is part of an overall firm Social Impact grant to YBLA, which sponsors an additional six students to participate in the program. Elsewhere, BBA members provide informal mentorship for the Barings sponsored Ambassador students during the course of the program. The YBLA solution promotes economic mobility and aligns with the Leading on Opportunity Task Force recommendations by providing college and career readiness training, expanding social capital, and providing life and career navigators for students.

**Barings Black Talent Network (U.K.)** partners with ALETO, Amos Bursary, East London Business Alliance and 10,000 Black Interns on a variety of student programs and workshops. The network's goal is to teach students interview skills, communications, resumes/CV, etiquette, etc. They are also working with the Harris Federation, an education charity in London with the majority of academies in highly underserved areas, to expose students to these topics and the investment management industry through panels and workshops.

**Barings Women's Network (U.K.)** partners with The Girls' Network—supporting young women and girls living in underserved communities across England through mentorship. BWN has seven women who are currently serving as mentors.

**Barings Women's Network (U.S.)** partners with Freedom Communities with a focus on their Mom's Moving Forward Program. Mom's Moving Forward is a 12-month program for single mothers and their children designed to connect families with the resources they need to thrive. Freedom Communities is a larger partner for the firm's Social Impact efforts, hitting on pillars of workforce development and affordable housing. At the end of 2021, BWN hosted a holiday event for the moms and their families, purchasing gifts from the families' wish lists, and wrapping supplies and stockings for the moms. More recently, BWN members have adopted one day a month to serve dinner and engage with the moms and children.

**Out & Allies (O&A) (Global)** partners with Diversity Role Models (DRM), a charity based in London, focused on making it safe for LGBTQ+ students to come out. DRM achieves this through a series of student workshops delivered at primary and secondary schools as well as providing support for teachers and other education stakeholders. O&A uses volunteers to deliver some of these workshops in schools alongside DRM. O&A is also building a relationship with Time Out Youth in the U.S., who participated in an O&A panel discussion in 2021.

**Veterans Network (U.S.)** works in partnership with The Independence Fund, an organization dedicated to improving the lives of both our Veterans and their families through mobility, caregiver, adaptive sports, advocacy and family programs. Members of the Veteran's Network host an annual packing event to pack and send care packages to active duty members.



# Barings Policies & Procedures

Barings is committed to acting ethically, with integrity, and in compliance with applicable laws and regulations in all countries/jurisdictions that we operate in, both through our own operations and in the way we manage our clients' investments.

## ETHICS & CODE OF CONDUCT

We believe operating in accordance with ethical standards is critical to the success of Barings' vision. At every level of the organization, ethical conduct is recognized, valued and exemplified. Employees of Barings not only recognize their responsibility to comply personally with our Global Ethics and Conduct Guide, but also their responsibility to serve as role models in observance of its spirit. The Guide establishes the following framework of ethical behavior to guide employee actions and judgments:

- Operate in accordance with applicable laws and regulations governing our business
- Operate to safeguard the ability to fulfill our obligations
- Conduct business activities and relationships with unquestioned integrity
- Ensure Barings' transactions, communications and information are accurate, confidential and secure
- Foster an environment in which fair employment practices extend to every member of Barings' diverse community
- Treat employees consistently, with integrity and fairness in all dealings
- Maintain a safe and healthy work environment

## ANTI-BRIBERY & ANTI-CORRUPTION POLICY

Barings has established a Global Anti-Bribery and Anti-Corruption Policy which generally prohibits any Barings entity, associate or third party from corruptly offering, promising, paying or authorizing the payment of, directly or indirectly, money or anything of value—including but not limited to cash, travel, gifts, entertainment, employment and directed charitable donations—in order to influence a person so that a Barings Entity may obtain or retain business or gain any other improper business advantage. This includes attempts to:

- Influence any act or decision by any person.
- Induce any person to take action, or refrain from taking action, in violation of his or her lawful duty.
- Induce any person to use his or her influence to affect or influence any act or decision.

## POLITICAL & CHARITABLE CONTRIBUTIONS

All political and charitable contributions must comply with the applicable laws of each jurisdiction in which a Barings Entity conducts business and must not be made to improperly influence a person so that a Barings Entity may obtain or retain business or gain any other improper business advantage. Employees must pre-clear their personal political contributions and those of their covered family members in accordance with the relevant Barings Entity's policy regarding political activities and/or charitable contributions.

## GIFTS, ENTERTAINMENT & HOSPITALITY

Employees must never accept or offer gifts, entertainment or hospitality which could compromise his/her business judgement, could conflict with his/her duty to Barings and/or Barings clients, or which could appear to others as

compromising to his/her business judgement. Additionally, employees must report all gifts, entertainment and hospitality given or received valued at more than \$25 or the local currency equivalent.

## GLOBAL CONFLICTS OF INTEREST

Each Barings entity has adopted a corporate governance structure (i.e., committees, a board of directors, or similar body) which assists in the oversight of its investment management and business activities. Under this corporate governance structure, each Barings entity may identify potential conflicts of interest, and is responsible for the ongoing management and/or resolution of any conflicts of interest for those activities.

Barings' Compliance Department conducts various types of testing and monitoring to ensure that the outcome of operational, investment compliance and risk activities, including those related to conflicts of interest, over time are consistent with expectations and Barings' Investment Adviser Compliance Manual. These tests focus on risks or conflicts of interest specific to Barings and its fiduciary obligations to its clients.

Barings' Compliance Department makes sure that any potential conflicts of interest that have been identified are appropriately disclosed to clients in accordance with applicable policies, procedures and regulatory requirements.

## DATA PRIVACY & CYBER SECURITY

Barings' Cyber and Information Security program's framework is architected from a hybrid of standards, ISO 27001 and NIST Cybersecurity Frameworks, to ensure the confidentiality, integrity, availability, and privacy of the company and clients' information. The program measures the effectiveness of the security controls implemented to prevent, detect, and deter cyber-attacks.

Barings has a formal cyber and information security policy that outlines how the organization will protect information and information systems. The policy has sub-policies that align with baseline industry best practices (ISO 27002 and NIST-800 53) and regulatory requirements the firm must comply with. A series of control standards are implemented and maintained to meet the policy.

Employees and contractors who are granted access to the Barings network are mandated to participate in annual cyber awareness training. The goal of this training is to promote topics such as best practices for protecting data, strong passwords, cyber policies, social engineering/phishing and safe internet surfing.

## PROCUREMENT & VENDOR MANAGEMENT

Barings has a global framework in place to manage the risks when dealing with third party vendors and connected parties. Barings' Procurement and Vendor Management Team and Legal must review all new vendor relationships and agreements, including engaging for additional work or services with an existing vendor, as well as contract renewals.

Due diligence is performed on third-party vendors and connected parties, which includes onboarding checks, periodic risk assessments and ongoing monitoring of the third-party relationship.



# Stewardship

Aligned with our investment strategy, we engage and vote, where possible, to guide our investments towards sustainable practices. We also seek to leverage our position with issuers to help minimize the ESG risks they face and encourage the improvement of practices to maximize ESG opportunities. We recognize that this may involve collaborating with peers, policymakers and industry bodies.

Our enhanced awareness of these ESG risks and opportunities helps us to advocate for environmental, social and economic improvements in our business, investments and communities. In doing so, we hope to realize value, both financial and otherwise, for our clients.

# Stewardship Working Group

Barings' Stewardship Working Group, chaired by the Associate Director of Stewardship, oversees the coordination and strengthening of Barings' stewardship practices across investment teams and associated external reporting. The Working Group was established in late 2021 and is comprised of employees representing various business units such as Sustainability, Portfolio Solutions & Analytics (PSA), Public Equities, Corporate Debt, Sovereign Debt, Private Finance, Structured Credit, Securitized Products, Real Estate, Compliance, Procurement, Corporate Services, Corporate Actions, and DEI. The group oversees the following activities and reports monthly to the Sustainability Committee:

- Development and coordination of stewardship-related reporting using the PRI's Reporting Framework and the FRC's UK Stewardship Code
- Development and facilitation of training and awareness raising for relevant Barings' investment teams
- Development and management of broader stewardship communications with external stakeholders
- Review of existing stewardship-related policies and procedures, as well as implementing ongoing improvements
- Coordination of engagement and participation with external initiatives and organizations, including collaborative forums

## Engagement

We are the stewards of our clients' capital across the asset classes that we manage. For us, this means using our influence as a large asset manager to effect positive change, gain detailed insights into our investments, and safeguard and generate long-term value for our clients.

Our approach to and priorities for engagements may differ from investment to investment, depending upon the asset class, geography and unique circumstances. This is why we give our various investment teams the flexibility to choose when and where to engage with companies and assets.

For example, our public equities and fixed income teams may be most effective engaging directly with company management. Conversely, our private finance teams may have more influence and success when speaking to a private equity sponsor rather than the underlying borrower.

In general, our engagement topics with individual entities tend to focus on longer-term issues that may meaningfully affect our investments and are in-line with our sustainability mission. We will, however, also engage reactively and on shorter-term threats to value on a case-by-case basis.

We apply the PRI's definition of engagement:

*“Interactions between an investor (or an engagement service provider) and current or potential investees (e.g. companies), conducted with the purpose of improving practice on an ESG issue, changing a sustainability outcome, or improving public disclosure. Engagements can also be carried out with non-issuer stakeholders, such as policymakers or standard setters.”*

We seek positive change against prioritized ESG issues for the following reasons:

- To benefit the financial performance of our investments, and ultimately our clients
- To encourage the better sustainability practices that can lead to better outcomes for people and the planet

While we believe that engagement is usually a better way to act in the interests of our clients than exclusion, there are certain investments in which we will not participate. We will not directly invest in companies that violate International Conventions on cluster munitions, anti-personnel mines, and chemical and biological weapons. We will also not knowingly hold securities that are materially involved in the production, stockpiling and use of these weapons at the time of investment.



*During 2021, we initiated more than*

900

**ENGAGEMENTS**

*with the majority of these remaining  
active into 2022*

## Collaborative Engagements

Alongside engaging individually with investee companies and other entities, we believe collaborative engagements can be an effective stewardship tool to help drive prioritized ESG objectives and outcomes, driven by an attempt to consolidate efforts and streamline engagement goals. We aim to ensure that our contributions are active and meaningful.

Our involvement in collaborative engagement initiatives is summarized below:

| Initiative Name     | Role(s)                               |
|---------------------|---------------------------------------|
| Climate Action 100+ | Leading and collaborating investor    |
| The Investor Forum  | Collaborating investor                |
| FAIRR               | <i>Plans for a lead investor role</i> |

We actively participate in Climate Action 100+ as we believe it has led to the most investor action on addressing climate risk. The initiative has led to engagement with more than 160 of the world's largest emitters, accounting for more than 80% of corporate industrial greenhouse-gas emissions.

We are also a member of the Investor Forum, which aims to contribute to the long-term success of U.K.-listed companies by enabling effective engagement on material ESG issues. Through this initiative, we have participated in a collaborative engagement with a global e-commerce business.

We have recently joined FAIRR, an initiative helping to drive change in the animal-agriculture sector through leading ESG research and coordinating collaborative engagements. The aim of the initiative is to help shape the future of both the finance and global food systems. FAIRR produces and analyses data from the world's largest protein producers and manufacturers to help minimize risks and maximize profits. Research and collaborative engagement topics include climate change, deforestation and water scarcity.

# Escalation

During engagement meetings with investee companies, investment professionals consider progress against engagement objectives.

In addition to regular meetings with companies (and key stakeholders) to discuss strategy and ESG dynamics, our investment professionals closely monitor progress on the specific ESG issues we have engaged with a company on. The frequency of monitoring and targeted end date of the engagement is defined and included in the engagement plan.

As engagements develop over time, the investment professional will continue to meet with company management to monitor progress and to raise any concerns. Any significant ESG issues identified are discussed as part of our investment meetings and further action is considered.

## CONSIDERATIONS FOR PUBLIC EQUITIES

Our Public Equities team has developed an escalation policy.

Escalation begins with the review of the investment thesis by the covering investment professional. Utilizing our dynamic ESG approach, we actively monitor trends in ESG performance. If ESG credentials are not improving or are deteriorating then this is likely to have an impact on our evaluation, and ultimately, valuation, of the company.

Possible forms of escalation include:

- Review thesis with portfolio management and potentially adjust portfolio weighting
- Vote on material issues against management or the board
- Pursue Collaborative Engagement
- Divest

The review of the investment thesis following unsuccessful engagement, could increase the Cost of Equity and/or lead to deterioration of the quality score to such levels that the investment is no longer attractive on risk-adjusted basis relative to other opportunities in the investable universe and a divestment from the company may occur.

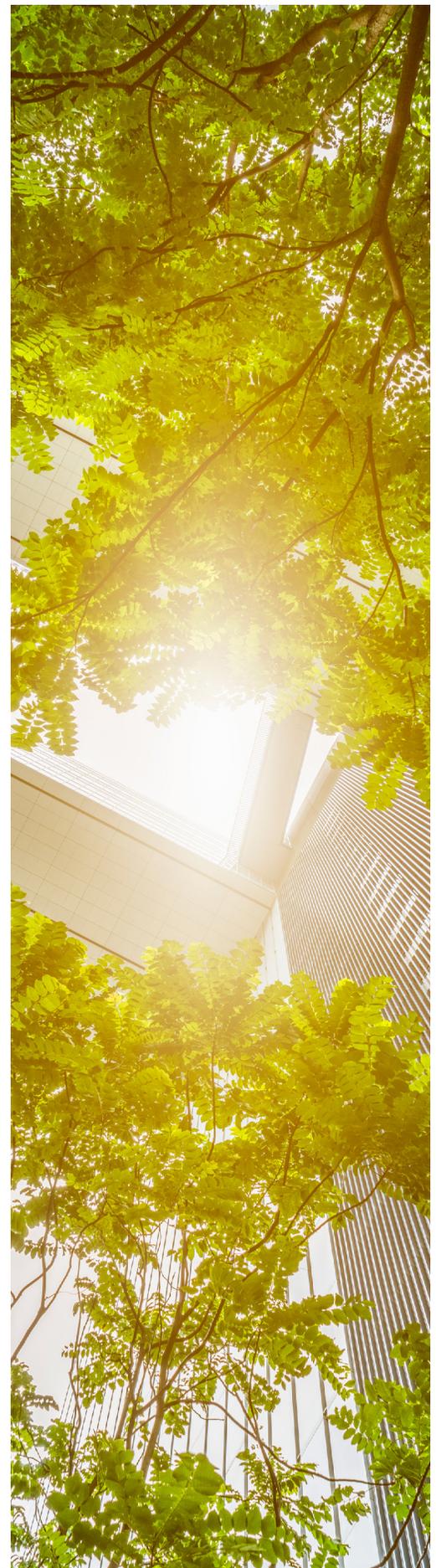
Our escalation process is driven by articulating our ESG concerns through private meetings with management teams, as we believe that change is usually facilitated by positive working relationships and respectful exchanges of opinion and information. The lead investment professional for the company manages the escalation process, which is overseen by their team head. The process of escalation also depends on local market practice and regulatory options.

There may be instances when one of our investment professionals determines that it is in a client's interest to engage on a particular issue of concern in collaboration with other investors/asset managers. We may also vote against management on ESG issues as part of our active-ownership responsibilities.

## CONSIDERATIONS ACROSS ASSET CLASSES

While the process for escalation varies across investment teams, we consider our options to act meaningfully based on the following considerations:

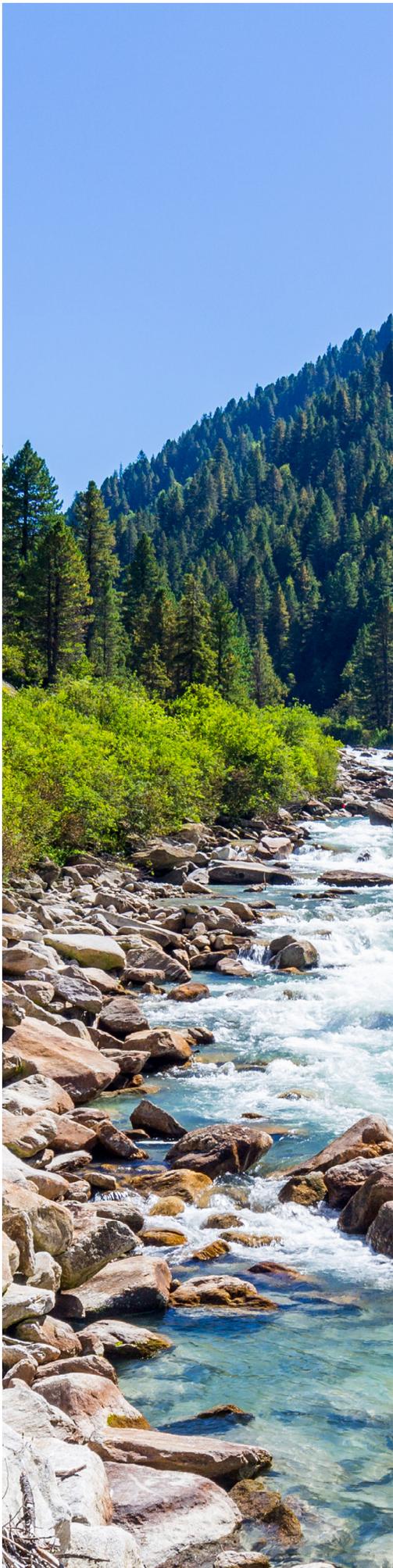
- As debt investors, we can be limited by our lack of ownership to raise ESG issues through proxy voting; however, we typically gain access to issuers' boards to communicate our concerns where engagement is not on track.
- We also look to collaborate across fixed income and equity teams to identify where investment activity can be leveraged, including pursuing collaborative engagement opportunities where appropriate.
- 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.





# ESG Investment Integration

We believe the analysis of ESG topics should be integrated into the investment process across all asset classes. We consider ESG factors in our fundamental, bottom-up analysis because we believe that understanding relevant ESG risks, and unlocking ESG opportunities, is key to delivering risk-adjusted returns for our clients. ESG analysis also enables us to engage with investees and encourage better ESG standards that may contribute to environmental and societal outcomes. Our data-driven, in-depth and structured fundamental research, and our proven investment process, give us an advantage in identifying these potential risks and opportunities.



# Investment Approach

ESG factors are integrated throughout our investment process. Given the continuous evolution of ESG in the market, we strengthen our ESG integration processes by being true investment partners to our clients. We want to know their ambitions for ESG integration and stewardship, and we will work closely with relevant stakeholders to deliver for our clients.

**Integration:** ESG analysis is a core part of our fundamental research and the responsibility of our investment professionals.

**A dynamic, forward-looking approach:** the trajectory of the ESG profile of an investment can be as or more important than its current state.

**Active engagement over exclusion:** we believe in driving outcomes through direct engagement with our investments, rather than relying on exclusion lists.

## WE BELIEVE IN LONG-TERM INVESTING

We built our track record on strong, bottom-up investing, driven by fundamentals, and an approach to risk that considers the long-term view and an increasing set of sustainability factors. Because of this, throughout every aspect of what we do, we recognize that ESG risks are, by their very nature, long-term. Our ESG integration process captures the material risks that may affect a company's performance both within our investment timelines and beyond if the investment case is deemed to be impacted from a forward-looking perspective.



## ESG Rating Methodology

We score an investment on ESG issues from 1 (excellent) to 5 (unfavorable) using Barings' proprietary ESG rating system across most of our investment teams. Typically, this score captures both the current ESG performance relative to peers as well as an Outlook score, which rates the momentum of the entity's ESG efforts as Improving, Stable or Deteriorating. (Please note, our Public Equities team's process varies, which we discuss in the corresponding section below). This allows portfolio managers to see the best and worst contributors in the portfolio and make relative-value active-management decisions that include ESG factors (i.e., reduce exposure to investments with poor ESG scores).

Depending on the asset class, ESG scoring and analysis may be based on information sourced by third-party data providers, peer research or directly from interactions with the company or other stakeholders. We believe that long-term knowledge of portfolio companies and sectors, as well as access to management and financial sponsors, provides a superior level of analysis and a more robust methodology than relying on third-party data sources alone.

## Investment Teams

Our investment professionals use their deep 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, we may meet with government officials and corporate management teams, visit operational facilities and analyze industry competitors. Once invested, our investment professionals continue to monitor each investment to ensure that our thesis, including with reference to ESG matters, remains intact and that (in liquid assets) an investment's risk and return profile remains relatively attractive.



# Strategies

# Public Fixed Income

## ESG INTEGRATION

### INVESTMENT GRADE & HIGH YIELD, EMERGING MARKETS CORPORATE DEBT, KOREAN FIXED INCOME

Barings' credit analysts and portfolio managers incorporate ESG concerns primarily through fundamental analysis, alongside a range of other potential risks and opportunities that may impact industries and companies. We consider the sustainability of a business in relation to its ESG interactions, as well as how this can be directly or indirectly attributed to its ability to generate ongoing free cash flow to service its debt obligations. We equally consider the borrower's long-term corporate behavior and how it affords transparency and responds to industry reform or regulatory change.

As part of the investment process, an ESG review is included in the investment paper. As part of this, analysts must provide an initial assessment of relevant ESG topics, which may include a third-party rating if available. The next step is to conduct proprietary research, drawing on available market data providers, company CSR policies, audited accounts, due diligence provided as part of the transaction and discussions with company-management teams.

The investment committee structure also incorporates ESG considerations. Investment reports presented by analysts include a summary of key ESG risks and recommendations, which incorporate both Barings' proprietary credit rating and third parties' analysis. Our investment committees then debate material ESG issues and determine whether an investment is suitable for purchase. For example, a record of fraud in the current management team or exposure to structurally challenged sectors would be flagged for discussion.

Given our size and scale in the market, our teams have good access to senior management and financial sponsors due to ongoing monitoring of businesses, and regular management meetings and presentations. Analysts are required to interact directly with issuers to discuss any material company developments, including ESG issues. This is considered an integral part of the credit risk-analysis process. While investment grade issuers generally have adequate disclosure, third-party ESG data coverage of high yield and emerging market issuers is weaker, so fundamental analysis of ESG issues is of increased importance.

A sizable proportion of emerging issuers are privately or government owned (i.e., are not subject to stock exchange listing requirements). For such companies, we pay particular attention to governance and disclosure factors; for example, board composition, independent directors, auditors, related party transactions and financial disclosure. The materiality of the specific factors depends on the nature of the company's business and the jurisdiction it operates in.

We calculate a proprietary Barings Credit Grade that allows us to give all companies held in any portfolios an internal quantitative rating. This rating methodology was updated in 2019 to break out ESG factors from other investment risk metrics, such as market growth dynamics and cash flow, for specific analysis and quantification.

In addition to ESG scores, Barings has also developed proprietary methodologies to estimate carbon emissions for companies where disclosure is limited or there is no available information from our third-party data providers. Ultimately, this analysis allows our investment teams, including portfolio managers, to evaluate the carbon emissions of a particular investment and incorporate that information into our proprietary ESG scores and investment decision-making process.

## STRUCTURED CREDIT

Applying practical ESG procedures to Structured Credit (CLO debt and equity tranches) investments poses unique challenges given the layered complexities of the asset class. At Barings, our Structured Credit team's investment philosophy covers the following points:

- We begin with a focus on understanding and analyzing CLO managers' performance and style.
- Our analysis also encompasses a thorough examination of the underlying collateral, which provides the cash flows to CLO tranches.
- To properly analyze ESG aspects of CLOs, we consider both the CLO manager and their policies and practices, as well as the underlying collateral backing each CLO in which we invest.

Once invested, portfolio managers and analysts continue to monitor each collateral manager and the deals that we own to ensure that our thesis remains intact. We also need to ensure an investment's risk and return profile remains attractive relative to other opportunities available in the market. Our analysts and portfolio managers monitor and manage risk through ongoing surveillance of individual deals, including ESG considerations and active dialogue with managers.

While we recognize some CLO managers' ESG policies are more robust than others, managers must meet a set of standards and demonstrate their willingness to continue to make improvements. The Outlook score provides an indication of whether the CLO manager is moving in a favorable direction. As a CLO investor, we have limited-to-no control over the underlying collateral in which the CLO manager invests unless otherwise restricted in the governing documents.

As part of our initial and ongoing analysis, our portfolio managers and analysts have regular dialogue with CLO management teams to better understand potential risks and opportunities, including those related to ESG factors. A standard questionnaire is sent to all approved managers that addresses policy, governance, investment process and monitoring. The responses are recorded and tracked over time. Both qualitative and quantitative factors are considered when scoring each manager in accordance with the established Barings' proprietary ESG scoring system.

## SECURITIZED CREDIT

Barings Securitized Credit investment philosophy focuses on a complete understanding of an issuer's business model and capital structure through analysis of the legal structure and underlying collateral.

In evaluating investment opportunities, our Securitized Products Group's research analysts are tasked with conducting thorough due diligence across issue fundamentals, collateral and borrower, leverage, subordination, and cash flow of every security considered for purchase. For any new investment, an ESG review is included in the Investment Committee memorandum. Each tranche of an issue is evaluated individually to find the best risk-adjusted opportunities for our clients.

Securitized Credit ESG scoring is based on a blended evaluation of ESG risk factors across three pillars. Unlike other asset classes that have a more singular approach to ESG scoring, our Securitized Products' framework assesses ESG risk factors across three dimensions/pillars:

1. Originator/Service Provider
2. Collateral/Loan Pool
3. Structure/Third Parties

We use this framework to more accurately capture the nuances of securitized transactions, which can have different E, S, and G scores for each sub-component. Based on the nature of the industry, and inherent risk exposures and applicability, analysts have some latitude to adjust pillar weights in the overall score within a certain range. Barings' analysts continuously monitor credits and update their analysis regularly as new information becomes available.

Portfolio managers can see the best and worst contributors from an ESG perspective and make investment determinations based on several factors, including:

- Fundamental credit quality
- ESG risks and considerations
- Structural characteristics
- Credit ratings
- Spread duration
- Relative value
- Liquidity

## SOVEREIGN DEBT

Our Sovereign ESG methodology incorporates a mix of quantitative and qualitative analysis of ESG factors.

### Quantitative Assessment:

We use and analyze a proprietary and diverse selection of indicators of a country's institutional, social and environmental resilience and performance, and record those that indicate future trends. We do this by:

- Gathering various selected indicators pertaining to different ESG dimensions from reliable international sources.
- Carefully shortlisting the most relevant indicators, as demonstrated in the graphic below.
- Assessing how the country performs relative to peers.

### Qualitative Assessment:

We assess the policy framework (i.e. country management, and predictability of policies for sustainable financial performance) by:

- Visiting countries to take stock of important aspects of political, social and environmental evolution, and macroeconomic factors. These are often material in driving a country's creditworthiness.
- Regularly updating countries based on latest data release and news, including ESG factors.
- Regularly holding country discussions and debating the latest governance, institutional and social developments. The diversity of the team's background, and our collective personal and historical knowledge of political systems across the world provide us with a unique perspective.

| Dimension           | G: Grow the Pie   | S: Divide the Pie  | E: Preserve the Ingredients  |
|---------------------|---|--|--|
| Objective           | Sustainable Growth  | Comprehensive Poverty Reduction  | Preserve the natural resources in the country and participate in protecting the global environment   |
| Measurable Outcomes | <b>Two Legs:</b><br>Growth Accelerations<br>Stability   | <b>Two Legs:</b><br>Multidimensional Poverty<br>Capabilities   | <b>Three Legs:</b><br>Decrease sensitivity to international shocks<br>Participate in international efforts<br>Domestic effort at preserving the environment  |
| Indicators          | <b>Growth:</b> Experimental policies, conducive political settlements, anticipation/coordination<br><b>Stability:</b> WB Government effectiveness, state fragility indicators | <b>Capabilities Approach:</b> Difficult unless through subjective surveys (WVS, OECD social satisfaction) otherwise too outcome-oriented<br><b>Poverty Reduction:</b> Effective redistributive policies, fiscal data quality, social spending efficiency WB, milex | <b>Increase Resilience:</b> Disaster risk reduction<br><b>International Effort:</b> Signatory of international conventions, protection of international environment as a public good<br><b>Domestic Effort:</b> Internal policy, execution of those policies |

## ENGAGEMENT

### CORPORATE

For our High Yield, Investment Grade and Emerging Market Corporate Debt teams, engagement objectives tend to focus on changing behavior in key risk areas and improving disclosure on ESG topics in a part of the market that generally lags equities.

As debt investors, we have found that CFOs understand that debt investors can influence their cost of capital in the primary markets, and, to a certain extent, in the secondary markets through trading prices. While we may not be able to exercise the same voting rights as equity investors, we have found that honest conversations have led CFOs to rethink their approach to accessing capital markets for debt and consider how they can push positive ESG initiatives internally that may be less expensive than the higher interest rate (cost of capital) on a loan or bond. As a large lender, and in certain situations through amendments or restructurings, Barings has been able to change management teams and board members that may priorities ESG initiatives more favorably compared to previous personnel



### CASE STUDY

## High Yield Engagement on Potential Governance Risk

During initial due diligence on a global e-commerce business, Barings identified a potential governance risk due to the company founder serving as the current CEO & Chairman, and remaining a major shareholder. Following a public-market listing, additional disclosures became available and scrutiny of the shareholder control structure and inter-company relationships of the owner presented additional governance concerns.

In October 2021, we collaborated with other equity and fixed income market participants in an engagement organized by Investor Forum. The aims of the engagement were to improve the shareholder voting structure, make independent board appointments, and obtain additional details in divisional disclosure.

We reduced our holdings in the company on a relative-value basis, preferring to wait for corporate governance improvements before increasing exposure once more.

The collaborative engagement remains ongoing and has been partially successful to date following announced improvements to the shareholder-voting structure. Through dialogue in Q1 2022, we are awaiting updates on further Board appointments and better financial transparency.



## SOVEREIGN

ESG engagements with sovereign issuers remain very challenging; however, engagement can be warranted and effective in some areas. Improved fiscal transparency, for example, can be mutually beneficial for all stakeholders because the interests of governments, citizens, civil society and investors are ultimately aligned. During our works, we have engaged with various independent organizations that do excellent work in this area, such as CABRI in Sub-Saharan Africa, the Observatorio de la Política Fiscal in Ecuador, and the Independent Budget Partnership. Members of the Sovereign Debt team have been active in working groups with the Emerging Markets Investors Alliance, to work on improving fiscal transparency in collaboration with issuers and other partners. The Alliance provides a platform for corroborative discussions focusing on improving government transparency, accountability, and responsiveness. In addition to the Alliance working groups, the team is part of the ESG Initiative and joins ESG conferences and webinars to discuss and learn from policy experts. The Sovereign team actively follows policy discussion in emerging market countries by regularly following multilateral reports on these trends and bringing up relevant social and/or environmental policies on calls with issuers where appropriate.

## SECURITIZED CREDIT

Barings places a major emphasis on due diligence and engagement of issuers and servicers. The team typically meets with securitized issuers twice a year at conferences and has regular calls with capital-market teams throughout the year and as part of typical premarketing process. The team also frequently does on-site visits with the management teams of issuers/sponsors, as well as servicing centers to better understand the servicing process and systems of transaction servicers. Meeting with non-management staff provides the opportunity to do a further dive into the underwriting and servicing procedures of companies with the individuals who perform the respective functions.

Although securitizations are typically structured as passive investment vehicles with limited controlling rights and often static collateral pools, our approach is to look through to the sponsor/issuer/servicer with the goal of identifying counter parties who can have most impact related to the actual trust. The Securitized Team has a history of engaging with issuers to build partnerships and advocate for the interests of the broader investor community from a fiduciary perspective and has in the past made decisions to divest from issuers that do not respond to engagements efforts in a constructive manner.

# Public Equities

## ESG INTEGRATION

We use a proprietary assessment framework to capture the ESG performance of companies, which is fully integrated into our fundamental research and structured in a way that is consistent with how we assess a companies' quality attributes. The standardized qualitative assessment of a company is carried out in three broad categories:

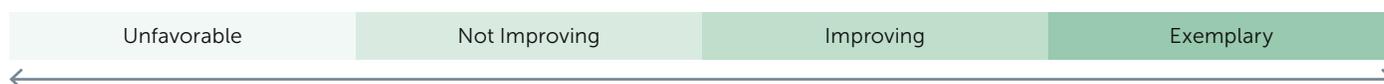
- Sustainability of the Business Model (Franchise)
- Corporate Governance Credibility (Management)
- Hidden Risks on the Balance Sheet (Balance Sheet)

Within these categories, our ESG framework groups industry research and material sustainability issues into nine sub-categories.

| Change to Cost of Equity                          |                 |  |                 |  |
|---|-----------------|--|-----------------|--|
|   | Nine Key Topics |  | Score/Rationale | Data / Issues to Consider  |
| Sustainability of the Business Model (Franchise)  | 1               | Employee Satisfaction                          | Exemplary       | Staff Turnover; Strikes; Fair Wages; Injuries; Fatalities; Unionized Workforce; Training and Education   |
|   | 2               | Resource Intensity                             | Improving       | Water Usage; GHG Emissions; Energy Usage   |
|   | 3               | Traceability/Security In Supply Chain          | Improving       | Traceability of Key Inputs; Investments In Protecting The Business From External Threats, e.g. Cyber Security; Backward Integration (Protection of Key Inputs) |
| Corporate Governance Credibility (Management)     | 4               | Effectiveness Of Supervisory/ Management Board | Not Improving   | Separation of Chair & CEO; Size of Board; Independence of Board; Frequency of Meetings; Attendance Record; Voting Structure; Female Participation on Boards    |
|   | 5               | Credibility of Auditing Arrangements           | Not Improving   | Credible Auditor; Independent Audit Committee; Qualification To Accounts   |
|   | 6               | Transparency & Accountability of Management    | Exemplary       | Access To Management; Financial Reporting; Tax Disclosure; Appropriate Incentive Structure; Gender & Diversity Considerations                                  |
| Hidden Risks on the Balance Sheet (Balance Sheet) | 7               | Environmental Footprint                        | Improving       | GHG Emissions; Carbon Intensity; History of Environmental Fines/Sanctions; Reduction Programs In Place For Water/Waste/Resource Intensity                      |
|   | 8               | Societal Impact of Products/Services           | Exemplary       | Health/Wellness implications of Consumption of goods/ services; Product Safety issues; Community Engagement  |
|   | 9               | Business Ethics                                | Improving       | Anti-competitive practices; Bribery/Corruption; Whistle-Blower Policy; Litigation Risk; Freedom of Speech; Gender & Diversity Considerations                   |

+2% to COE

-1% to COE



The assessment is dynamic and geared at capturing change. For example, if a company has a strategy to reduce its carbon footprint or to improve its disclosure on environmental and social issues—and has a credible management team in place—there could be a positive and meaningful impact on its valuation. On the other hand, deteriorating ESG standards and practices may very likely have a negative effect on a company's future outcomes.

Each sub-category is equally weighted and integrates potential ESG risks or opportunities that a company may be facing—from the training and development of staff to whistle-blower policies. Analysts assess each sub-category and their total rating corresponds with a premium or discount added to the required discount rate (the Barings Cost

of Equity [COE])—which we then apply to the 5-year earnings forecast we use to value a company. For example, a negative ESG assessment would translate into an addition to the discount rate of up to 2%, thus penalizing the stock and reducing its attractiveness by decreasing its current valuation. Conversely, a positive ESG assessment can indicate an exemplary company that is lower risk and can result in a reduction of the COE of up to -1%.

Looking at these metrics allows us to quantify the ESG risk (or premium) alongside other macro and company specific risks—providing a unique and better understanding of the risk (or opportunity) at hand when valuing a company. This approach is particularly useful given that some risks, such as environmental or anti-money laundering fines, tend to be excluded from traditional cash-flow forecasts.

The qualitative assessment also results in a quality sub-score assigned to the company for each of the three broad categories above. An overall quality score, which is the average of the three sub-scores, is also calculated. The sub-scores range from one (strong) to five (weak). In cases where the investment professional determines that the sustainability of the franchise or strength of the company's balance sheet are under threat due to an ESG issue, or that there is lack of commitment from management on resolving the issue, then the three quality sub-scores could deteriorate to such a level that the investment becomes unattractive from a quality perspective. We may divest from, and will not invest in, companies which have a quality score of 5—the worst level on our scale of 1 to 5—and an ESG-related modification to the discount rate of +2 percentage points.

## KOREAN EQUITIES

For our Korean Equities Team, our equity analysts use market-based valuations (e.g. PER, PBR, EV/EBITDA, PSR, etc.) to value companies. When calculating a company's target price that considers attributes of the company and the sector to which it belongs, we select the market-based valuation and include our ESG assessment of the company.

Depending on the company's ESG ratings, our analysts calculate the target price multiples—a lower rating leading to the discount rate of up to 15% and a higher rating leading to a premium of up to 20%. Once the target price multiple is determined, we use it to set the target price of a company's stock.

## ENGAGEMENT

We structure each engagement plan in a way that is consistent with the categories through which we assess company quality. Where an engagement has made sufficient progress or has been closed successfully, the investment professional will make a note of this in the qualitative assessment through our standardized ESG scorecard. This may result in an improvement in the ESG addition to the Cost of Equity and/or an improvement to the Quality score of the company. Conversely, in cases where the ESG issue we have engaged the company on is sufficiently material and the company has failed to improve, the ESG impact on the Cost of Equity could be increased to such a level that the valuation becomes unattractive. Similarly, if the analyst considers the franchise or balance sheet of the company to be under threat due to an ESG issue—or there is lack of commitment from management on resolving an issue—then the quality score could deteriorate to such a level that the investment becomes unattractive from a quality perspective. The result could mean that the investment is no longer attractive on a risk-adjusted basis relative to other opportunities in the investable universe and a divestment from the company may occur.

Monitoring "ESG controversies" is also an important part of the process. These controversies are defined as an activity by a company that causes unintended or undesirable consequences (i.e. a human rights violation, a toxic waste spill, etc.).

While a minority shareholder, we engage meaningfully with the companies in which we invest and maintain conversations as a priority before votes and other escalation practices take place. We believe it is crucial for us to use our voice in supporting collective action on achieving common engagement goals among investors.



## CASE STUDY

# Public Equities Engagement on Board Diversity, Health & Safety

Our aim was to gain an understanding of the rationale behind the fall in female board representation at a U.S. listed manufacturer of power and hand tools. Female board representation had reduced in 2020 from 2019, and we engaged to understand whether this is looking to be addressed, and the subsequent timeline for achievement of this target. This engagement is aligned to the Barings Public Equities ESG Integration and Active Engagement policy, which we published on our company's website in December 2019. As signatories of the UN Global Compact, we are committed to upholding the elimination of discrimination in respect of employment and occupation. This is aligned to SDG5, which is to achieve gender equality and empower all women and girls.

Due to the high-risk nature of the company's product range, we also engaged with the company to attain improved disclosure of the company's safety processes. We wanted to ensure that there are adequate policies in place to reduce potential harm to the end consumer.

We engaged with the Investor Relations team of the company on March 17, 2021 to encourage them to increase the number of female board members. We also sought to improve disclosure on the company's safety processes, due to the high-risk nature of their product range, which can cause potential harm to the end consumer.

On March 23, 2021, the company informed us that in February they added two new Board members that are up for election at the annual general meeting, both of whom are female, and we believe will meaningfully improve representation. We kept the engagement open as we wanted to confirm that these members have been elected at the annual meeting which we will subsequently follow up with the company.

On March 23, 2021, the company also shared that, as part of any development process, all products are tested for quality to ensure the battery, electronics and motorized components work in concert and are stable systems. The company is also well prepared to act quickly to ensure, if subsequent issues are unearthed, recalls are issued, and products are rapidly replaced or fixed. Looking ahead, we have requested better disclosure of safety metrics to independently monitor.

On May 10, 2021, we voted to appoint to elect the two female board directors, which took the total to four of the nine board representatives. This meets our engagement goal to improve female board representation towards 40-50% and, therefore, we closed the engagement.



## CASE STUDY

# Public Equities Collaborative Engagement on Carbon Emissions Reduction

We have engaged with an oil and gas company alongside other investors to encourage it to strengthen its commitments to lowering its carbon emissions. As a major oil producer, the company's business activities have a material effect on the environment and we felt that, while they were taking steps to reduce their carbon emissions, there was scope for management to strengthen its commitments on decarbonization. We recognize that conversations around lowering oil production ahead of 2030 may be challenging; however, we sought to change the behavior of the company towards its 'no' carbon business, such as renewables, hydrogen and biofuels, as it is spending less than 5% of capital expenditure.

While there are short-to-medium targets in place, there has been a lack of disclosure on a long-term target beyond 2030, even though the company reportedly has emissions scenarios mapped out to 2080. Over the past 12 months, we initially met with fellow investors to discuss the questions we were going to put forward. We then had two meetings with the company where we raised several issues related to its decarbonization strategy. During the meetings, the company indicated its preference to be conservative regarding its scope 1–3 targets. Management stressed that its efforts had been best practice in the industry over the past 10 years and the company has strong targets over the short and mid-term, and these are reassessed annually.

In a recently published five-year plan, the company has announced target spending of \$2.8 billion on decarbonization (scope 1, 2 and also scope 3 progress too), which compares to \$1 billion under their previous five-year plan.

The company also has an extra \$0.25 billion in the five-year plan not yet allocated to any specific project. Positive progress has been seen; however, we will continue to engage the company with a focus on understanding target setting beyond 2030 as we believe more progress can be made relative to peers.





# Private Assets

## ESG INTEGRATION

### PRIVATE CREDIT, INFRASTRUCTURE & PRIVATE PLACEMENTS

Barings considers ESG factors alongside all other credit risks when evaluating an investment in Private Credit and Infrastructure opportunities.

Alongside the consideration of environmental and social factors, our team performs in-depth due diligence on the portfolio company's management team, examining their qualifications, experience, incentives, potential conflicts of interest, and succession plans. In addition, we analyze the agent backing the transaction, as they often provide governance oversight and may even make changes to key personnel on the board or senior-management team of the portfolio company. The agent's track record, investment philosophy, and exit strategy are also important factors to consider. Lastly, we make sure the borrower company has adequate accounting and audit capabilities, and we carefully review the quality-of-earnings report provided by a leading accounting firm to assess the sustainability and accuracy of historical earnings, as well as the achievability of future projections.

We will decline investment opportunities with any ESG concerns that we feel cannot be mitigated and will only invest in firms that have met our requirements. Our ESG research is based on both our own research and third-party reports.

We typically receive these reports from the agent, who themselves gathered research from reputable accounting firms, industry/market research reports, customer and supplier reference calls, environmental studies (if applicable), insurance adequacy reviews, background checks and legal reviews. We assess the accuracy of the data drawn from third parties by comparing it with findings from our own proprietary due diligence. To make an informed decision, we can conduct deeper due diligence with additional third parties.

### DIRECT PRIVATE EQUITY/REAL ASSETS

As part of Barings Private Equity/Real Assets (PE/RA) investment process, we seek to gain a comprehensive understanding of the ESG risks associated with each investment. The PE/RA investment team reviews opportunities on a weekly basis with the PE/RA Investment Committee and other members of the investment team to discuss potential risks, including ESG-related issues. If the PE/RA Investment Committee agrees to further due diligence, the investment team will meet with the corporate management teams, visit operational facilities, and analyze industry competitors to better understand any potential risks, including ESG risks.

The investment team provides regular updates on due diligence and will formally present their findings to the PE/RA Investment Committee. The PE/RA Investment Committee, through a supermajority vote, will vote to approve, reject, or require additional due diligence on the investment. The Investment Committee continues to be involved in the process through negotiation of final terms and conditions. The Barings PE/RA team has also established an ESG committee to continue to help the team refine how it incorporates ESG factors into the Barings PE/RA investment process.

In addition to in-house analysis to evaluate ESG risks, our team also has access to third-party resources that provide institutional investors with ESG data. This third-party ESG research analyses thousands of companies worldwide, providing ratings, real-time updates, search functionality, and analytical tools to assess company ESG factors. In certain instances, Barings' PE/RA may be able to leverage this research but, given the private nature of many of the companies it covers, limited data on most target investments is available.

## FUNDS & CO-INVESTMENTS

While we have always held our investment partners to the highest ethical standards and expect rigorous analysis around key risks or deficiencies that could undermine an investment's performance, Barings Funds and Co-investments (FCI) team has constructed a specific assessment for ESG considerations. The three key areas of ESG in our underwriting process include:

- Materiality of ESG issues
- Diversity and inclusion
- Engagement on sponsor ESG policies

For co-investments, FCI analysts score each relevant metric based on how well the company is currently positioned relative to these material issues, and how its financial sponsor and management team are prepared to address deficiencies or seize any opportunities. Within each sector, there are varying degrees of how much a material issue or risk can be managed. We account for the portion of risk that is inherent to a given sector that cannot be managed away by using third-party research for "manageable risk factors" (MRFs). These MRFs effectively place caps on how well a company can be scored based on this element of unmitigated risk.

Evaluating managers and their underlying funds for ESG risks is more nuanced. Like our scoring model for co-investments, FCI has developed a rating methodology informed by a sponsor's targeted investment sectors and a third-party framework for material indicators. In addition, other factors are considered, including our Operational Due Diligence Score, ESG policy, historic loss ratios, and firm-related considerations.

The materiality component of the scoring model is centered on responses to three primary questions:

1. Does the sponsor incorporate relevant metrics into its underwriting process?
2. Does the sponsor engage with its portfolio companies on each relevant metric to influence change?
3. Does the sponsor report on the status and development of each metric to its limited partners?

The Barings FCI scoring model emphasizes how the sponsor considers ESG issues in its investment due diligence and investment management process, as well as internal operational protocols around such categories as fund administration, diversity and inclusion, succession planning, allocation of economics, compliance and HR.

## ENGAGEMENT

### PRIVATE CREDIT

As a debt investor, Barings has limited control in influencing portfolio companies on ESG-related risks compared to equity investors, who tends to have controlling rights. We focus on collaborating with reputable agents who will have their own ESG risk management processes and have developed close relationships with sponsors and company management. The benefit of these relationships and the private nature of the asset class is that we can stay in constant communication with both the sponsor and the portfolio company management teams. This allows us to closely monitor any potential ESG-related concerns and the company's controls.



## DIRECT PRIVATE EQUITY/REAL ASSETS

The due diligence process ahead of potential investment is a key part of the engagement process. If the PE/RA Investment Committee approves a further round of due diligence, the investment team will meet with the corporate management teams, visit operational facilities, and analyze industry competitors to better understand any potential risks, including ESG risks.

ESG risks and opportunities are incorporated into the negotiation of final terms and conditions, and they inform how ESG topics will be prioritized. As an active manager, the Barings PE/RA team generally seeks to be a control investor with board rights that allow for oversight of the investment and decision-making authority. The team also considers the ability to fully control an investment to be both a driver of return and a key risk mitigation.

Ongoing engagement through our controlling position supports our continuing monitoring of investments. The output of our quarterly monitoring process is a color-coded segmentation of our client portfolios that allows us to create individual watch lists. The PE/RA Investment Committee is ultimately responsible for placing an investment on the watch list, creating an additional level of review and an action plan for that investment. The goal of the watch list is to identify situations where we can, at best, influence outcomes that benefit our client portfolios and, at the least, be transparent with our clients on issues and risks.

## FUNDS & CO-INVESTMENTS

We have a keen interest and desire to engage with sponsors on the development and implementation of a comprehensive ESG policy that addresses materiality in the underwriting process, socially responsible investment considerations, diversity and inclusion, partnership with third-party ESG resources, investment underwriting best practices, identified excluded sectors, and reporting and transparency to limited partners.

Our approach is to engage with sponsors to adopt a set of ESG standards and policy requirements. Many emerging managers do not have codified ESG policies at their outset, which we view as a prime opportunity to influence the outcome of establishing guidelines that will bolster the sponsor's investment underwriting process. As part of our ongoing monitoring process, we evaluate a sponsor's progress annually in building out its ESG framework and the formalized adoption of a policy. While the lack of a policy at the time of initial underwriting does not necessarily preclude a fund commitment, we consider the sponsor's progress when making future investment decisions.

# Real Estate

## ESG INTEGRATION

### REAL ESTATE EQUITY

Prior to any acquisition, a sustainability assessment will be completed and only assets that comply with legislation, or those with sufficient capital expenditure underwritten to make them compliant, will be acquired. ESG issues are now a fundamental component of our process—at the property level, during due diligence, through the annual business plan, and at the portfolio level through benchmarking and, ultimately, investment performance.

Barings' in-house expertise—our team of regional engineers and external consultants—identify and track ESG risks and opportunities across our assets. We use topics from established ESG frameworks such as GRI CRESS, GRESB, PRI, LEED, etc., as well as from stakeholder engagement, including conversations with investors, tenant surveys, interviews and additional discussions. We have also engaged third-party ESG consultants to perform ESG Acquisition Assessments during due diligence to identify potential ESG risks and opportunities. Meanwhile, consulting firms conduct detailed on-site assessments and audits to identify additional opportunities to improve the efficiency and performance of an asset during the due-diligence phase. In addition, Barings Real Estate pursues appropriate ESG certifications for each asset and submits appropriate portfolios annually to GRESB.



Some of the key ESG factors that we review include:

- Regulatory requirements and performance related to energy, emissions, water, or recycling
- Review of eligibility and history of green building certifications and energy ratings
- Opportunities to improve energy or water efficiency to include in the asset underwriting
- Resiliency of the asset and the physical and transition risks due to the impacts of climate change
- Stakeholder engagement with investors, property managers, employees, tenants, community members
- Transparency and disclosure of ESG performance, ESG reduction targets and objectives, and compliance with benchmarking ordinances/legislation

Once acquired, we engage with consultants who deliver both core and ad-hoc ESG services. The gathering of environmental performance data is the bedrock of a robust strategy, helping Barings Real Estate manage its portfolio in a more efficient and sustainable manner, understand relative performance, set appropriate targets and track asset performance over time.

## REAL ESTATE DEBT

As part of the initial screening of a lending opportunity, ESG factors are assessed as part of the memo presented at our Investment Committee meetings. These meetings include the most senior investment individuals from the Real Estate Debt Team, and details such as the building's long-term sustainability and borrower structure and governance are addressed.

Environmental factors, such as energy ratings, LEED certifications, greenhouse gas emissions profile, natural disaster or climate change risks, are addressed. For example, a property located close to a river could present a flood risk, which would require further due diligence in the underwriting process.

Social considerations are also addressed, such as transportation linkages and health and wellbeing attributes. For example, a borrower plans to include additional showers and storage facilities to encourage employees to cycle to work would be noted in the investment committee paper. We also include WalkScore, TransitScores, and BikeScore in initial pre-screen papers as part of our due diligence on the property's location. In addition, a tenant mix that could highlight areas of any potential social controversy is addressed in our initial underwriting of an investment opportunity. An investment opportunity where a high proportion of the property income comes from a tenant/industry that is listed on Barings' list of socially controversial areas may preclude us from pursuing the investment.

## ENGAGEMENT

### REAL ESTATE EQUITY

As we typically control the properties in which we invest, our stewardship takes the form of direct changes to operations or management (rather than engaging with a third-party). For example, across our portfolios in continental Europe, we encourage 'Green Forum' meetings between our managing agents and occupiers. These collaborative exercises explore ways to reduce carbon output, establish sustainable procurement procedures, and to encourage positive behavioral change.

Where possible, we require our occupiers to enter into 'Green Leases', which contain obligations on the occupier to share energy, waste and water consumption data with the landlord and not to do anything to negatively affect any of the buildings' environmental performance ratings. In addition, we may commission energy audits for assets in our portfolios to identify measures to reduce energy usage, which we then incorporate into business plans for the assets. For any new property acquisitions into select funds, a sustainability report on the asset is prepared to highlight its credentials and identify measures to reduce energy usage.

## REAL ESTATE DEBT

Barings' Global Real Estate Debt engages directly with both the borrower and investor on all important loan-underwriting issues, including ESG factors. Due to the nature of our position as a lender, we cannot direct a borrower to mandate ESG changes, but we can seek to influence and educate borrowers on important issues. Similarly, we seek to understand investors' sensitivities to various ESG issues and ensure that these are considered in the initial underwriting process and our ongoing management of the loan. Where we can, we will endeavor to support our borrowers to implement sustainable initiatives. To improve the efficiency of a building through upgrading M&E or tenant wellbeing, for example, we will help borrowers provide on-site shower, cycle, food and beverage facilities. In some instances, we have extended the loan facility to finance an enhanced capital-expenditure program to support the borrower in funding these initiatives.



### CASE STUDY

## Real Estate Debt

COMMERCIAL | IRELAND

A loan was made to finance the acquisition of 163 industrial/logistics units in Ireland, with the investment used to increase energy efficiency levels in line with requirements. We engaged the borrower to define ESG requirements and to document them in the facility agreement.

Engagement started during initial negotiations when we became aware of the condition of the units. The borrower appointed an ESG consultant, who interacted with Barings and the borrower to agree on ESG requirements to be included in the facilities agreement, such as:

1. ESG metric reporting at individual property level
2. ESG metric target setting and monitoring, particularly around energy efficiency
3. Energy modeling, climate risk assessments and green building certification
4. Integration of biodiversity net gain and social value (tenant engagement) as part of development proposals and to include in quarterly reporting

Through engagement with the borrower and their consultant, we ensured that the ESG credentials of the portfolio we are lending on are improved over time.

The engagement with the sponsor on ESG will continue through the life of the loan as we monitor and discuss their process and consider any requests.



# Proxy Voting

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).

We also recognize the opportunity for ESG considerations to be integrated into the exercising of our rights and responsibilities in other asset classes, including fixed income.

Barings' Global Proxy Voting records are also available on our [website](#).



# Memberships

## PRI

Reflecting our commitment to responsible investing, Barings has been a signatory to The United Nations' Principles for Responsible Investing (PRI) since January 2014. This commitment involves adherence to their six principles of responsible investment, as well as transparency and accountability through the PRI's annual reporting and assessment process. We remain dedicated to upholding these standards as part of our mandate to maintain a high standard of ESG integration, stewardship and 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.



## OTHER MEMBERSHIPS

At the end of 2018, the firm became a signatory 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 U.K., a platform devoted to sharing thought leadership and best practices in the ESG and impact investing spaces. We are also public supporters of the Task Force on Climate-related Financial Disclosures (TCFD) and are working towards implementing their recommendations. In 2020, we joined Climate Action 100+ and the Investor Forum in order to widen our exposure to, and involvement in, collaborative engagements. Beyond the firm level, our different business units are members of a broad array of industry bodies.



*Barings is a \$371+ billion\* global investment manager sourcing differentiated opportunities and building long-term portfolios across public and private fixed income, real estate and specialist equity markets. With investment professionals based in North America, Europe and Asia Pacific, the firm, a subsidiary of MassMutual, aims to serve its clients, communities and employees, and is committed to sustainable practices and responsible investment.*

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