



**Public Equity:
ESG Integration & Active
Engagement Policy**

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OUR FIRM

Barings is a global financial services firm dedicated to meeting the evolving investment and capital needs of our clients and customers. Through active asset management and direct origination, we provide innovative solutions and access to differentiated opportunities across public and private capital markets.

A subsidiary of MassMutual, we have the financial stability and flexibility to take a long-term approach to investing. Barings' global footprint gives us a broader perspective, access to a diverse set of opportunities and the ability to truly partner with our clients to invest across global markets.

Reflecting our commitment to responsible investing, Barings has been a signatory to the United Nations' Principles of Responsible Investment ("UNPRI") initiative since January 2014. Furthermore, we are signatories to the United Nations Global Compact ("UN GC") initiative in support of the United Nations Sustainable Development Goals ("SDGs").

SCOPE AND PURPOSE

The ESG Integration and Active Engagement Policy ("the Policy", "ESG and Engagement Policy") outlines:

1. How our Public Equities Investment team undertakes stewardship and shareholder engagement for the listed equity strategies they manage;
2. The integral role of ESG in Barings Equities team's investment philosophy and research;
3. The integration of ESG in the management of portfolios; and
4. Why we believe ESG considerations are a fundamental component of the goal of achieving attractive risk-adjusted returns that we strive for in our stewardship of our clients' assets.

The policy applies to Barings Europe Limited and its subsidiaries and has been designed to meet the requirements of the EU Shareholder Rights Directive 2017.

BARINGS ESG APPROACH AND FIRM OVERSIGHT

Barings is an Active Owner and Manager

As stewards of our clients' assets, we are active owners of the companies we invest in; this goes hand-in-hand with our active management approach. Active ownership means using our influence, through our channels of communication with investee companies and where possible, utilising our voting rights, to safeguard and increase performance for clients. We engage with the companies and assets that we invest in and manage on a regular basis and believe the most productive outcomes stem from cultivating strong relationships with corporate management teams. This is consistent with our commitment as signatories to the UN PRI.

ESG is Integrated within the Investment Process

Barings believes that incorporating environmental, social and governance ("ESG") factors into our analysis gives us a more thorough understanding of the complex issues, risks and value drivers that may impact our clients' portfolios over time. In-depth, fundamental analysis is at the heart of our investment philosophy, and ESG factors are integrated within the Equity team's investment process.

To further inform and guide our approach, Barings has established an ESG Working Group: its members include representatives from each asset class including listed equities and other business units. The

Working Group meets at least quarterly to discuss trends, best practices and potential enhancements to our ESG framework, and ensure that information is disseminated across our organization.

Decisions and insights are shared with investment teams to ensure that ESG considerations are included in investment discussions. The Working Group plays a key role in influencing changes to internal policies.

CONFLICTS OF INTEREST

Conflicts of Interest can occur when the interests of a Barings entity or entities and Barings associates (“Associates”) interfere with, or have the potential to interfere with Barings’ fiduciary obligations to its clients (“Clients”). Barings has therefore established a Global Conflicts of Interest Policy, which can be found under the following link:

<http://www.baring.com/investment-policies>

INTRODUCTION TO OUR PUBLIC EQUITY TEAM

Our ESG Philosophy

We believe that environmental, social and governance dynamics can influence the risk characteristics and earnings potential of a company and therefore represent an important consideration for active investors. We engage with companies, and prefer this approach over blanket exclusions of entire sectors, as we believe engagement has a greater chance of successfully effecting change. This can also result in value creation for investors and other stakeholders.

As medium- to long-term investors looking to identify unrecognized growth over a five-year time horizon, we believe it is critical to assess the sustainability of a company’s business model. ESG considerations are an integral element of this as they provide additional insight into our fundamental assessment of company’s potential. It also enhances our decision-making process and therefore our ability to deliver our goal of achieving superior risk-adjusted returns for our clients.

As we execute on our stewardship responsibilities to our clients, we will continue to consider ESG a critical component of our overall investment process. As ESG data and practices evolve, we will further enhance our approach so as to continue to capture the opportunities that consideration of these factors brings.

All the Public Equity assets we manage fully incorporate this ESG philosophy and process described in this paper. This approach reflects our commitment to drive sustainable best practices in our business, our communities, and in our world.

INCORPORATING AND INTEGRATING ESG INTO OUR EQUITY INVESTMENT PROCESS

Barings believes that the analysis of ESG information should be integrated into the investment process. ESG topics are key considerations during our fundamental, bottom-up analysis. This is because we believe that ESG matters are material to our investment theses, and thus are important to long-term investment performance. We incorporate ESG factors into our rigorous investment analysis.

The Barings Equities team fully incorporates ESG analysis into our research using our rights and position to influence the disclosure or behavior the management of investee companies to generate value through

the realization of improved corporate practices. The Barings Equities team extensively interacts with companies and use our influence and knowledge to safeguard and increase performance for clients' assets. We also exercise voting rights to support good practices and to drive change towards sustainable practice. Our investment professionals engage directly with companies on ESG topics. This is done at least annually, but also when there is a material ESG development which warrants engaging with the company management.

Conducting proprietary in-house ESG research enables us to better understand and quantify prevailing market inefficiencies. ESG data is still not uniformly measured and disclosed, and investors remain reliant on the disclosure of the businesses they seek to evaluate. Our team of dedicated investment professionals is well positioned to collect relevant data and produce proprietary in-house research and assess the ESG dynamics of the companies we research. Our investment professionals also draw on the depth and breadth of their expertise and industry knowledge to engage with companies and to build relationships with the companies in which we invest.

The Barings Equity team prefers seeking to influence the activity of the companies we invest in by demanding better disclosure and/or improvements in business practices and changes in behaviour. Although we do not have rigid minimum ESG standards for our investee companies, we expect our companies to have better or at least equal ESG standards relative to their country of incorporation. We are able to implement client-specific exclusion lists and screening criteria at our clients' request for segregated mandates.

Voting

We undertake to exercise voting rights whenever possible, and have retained a dedicated third-party proxy voting provider. In those cases, where we disagree with the provider's recommendations we have the ability to cast our votes differently.

Our policy is to vote on behalf of our clients as systematically as is practicable, using inputs from proxy advisers that are reviewed by our portfolio managers. The European section of the Barings website¹ outlines our voting records and our proxy voting policy. These records show how we have voted in relation to both management and the recommendations of advisors.

In some cases, we may determine that it is not in the best economic interests of our clients to vote. In some markets, securities issuers impose fees on shareholders or their custodians for exercising the right to vote proxies. Others may "block" or prohibit, shareholders from transferring or otherwise disposing of their shares for a period after the securities holders have given notice of their intent to vote proxies.

Moreover, some issuers require the registration of securities in the name of the beneficial owners before permitting proxy votes. In effect, they require us to disclose the identity of beneficial owners, which may be contrary to the wishes of our clients. It can also be the case that the companies concerned reject some of our votes for technical reasons.

As a matter of internal policy, Barings' European unit does not engage in stock-lending.

ESG Assessment

Our ESG assessment is a proprietary component of our fundamental research which impacts both our valuation of the company under research, and our assessment of the company's quality. This ESG

1. <http://www.barings.com/investment-policies>

assessment is dynamic as our investment professionals look for signs of improving or deteriorating ESG standards.

Our dynamic approach enables us to uncover potential unrecognized investment opportunities, whilst also mitigating risks. Our proprietary methodology also meets our commitments to both the UN Global Compact and the UN PRI.

We use a standardised assessment framework to capture the ESG performance of the companies in which we invest. This assessment is structured in a way that is consistent with the categories through which we assess company quality attributes internally. The following categories constitute our assessment framework:

- Sustainability of the Business Model (Franchise)
- Corporate Governance Credibility (Management)
- Hidden Risks – Including environmental and social (Balance Sheet)

Within each of these categories, we consider a number of issues organized in nine sub-categories which are relevant areas of potential risk or opportunity.

Each of these ESG considerations has an impact on two elements of our research:

1. The valuation of the investment and
2. The qualitative assessment of the company

Management Interaction

Meetings with company management teams provide us with primary insights into corporate strategy, vision, and culture. These meetings are instrumental in our assessment of any ESG related issues facing the company. Moreover, effective governance at the board level is an essential area of consideration for our investment professionals. The good stakeholder relationships fostered through regular meetings help to ensure protection of the rights of minority shareholders. Additionally, as part of our initial and ongoing analysis, our investment professionals meet with government officials, visit operational facilities and analyze industry competitors to better understand potential risks, including ESG.

To supplement the rigorous in-house analysis completed by Barings' investment professionals to evaluate ESG risks and opportunities, our team also has access to third-party resources that provide us with issuer-specific ESG data. Some of the sources we currently draw upon include MSCI ESG Research, Bloomberg ESG and Sustainalytics, as well as research reports provided by approved third-party research providers.

Overview of our Proprietary ESG Framework

Category	Nine Sub Categories	Data/Issues to Consider
Sustainability Of The Business Model (Franchise)	Employee Satisfaction	Staff Turnover; Strikes; Fair Wages; Injuries; Fatalities; Unionised Workforce
	Resource Intensity	Water Usage; GHG Emissions; Energy
	Traceability/Security In Supply Chain	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)	Effectiveness Of Supervisory/Management Board	Separation Of Chair & CEO; Size Of Board; Independence Of Board; Frequency Of Meetings; Attendance Record; Voting Structure; Female Participation on Boards.
	Credibility Of Auditing Arrangements	Credible Auditor; Independent Audit Committee; Qualification To Accounts
	Transparency & Accountability Of Management	Access To Management; Financial Reporting; Tax Disclosure; Appropriate Incentive Structure; Gender and Diversity Considerations
Hidden Risks on the Balance Sheet, Including ESG consideration (Balance Sheet)	Environmental Footprint	GHG Emissions; Carbon Intensity; History Of Environmental Fines/Sanctions; Reduction Programmes In Place For Water/Waste/Resource Intensity, Air Quality
	Societal Impact of Products /Services	Health/Wellness implications of Consumption of goods/services; Product Safety issues ; Community Engagement
	Business Ethics	Anti-competitive practices; Bribery/Corruption; Whistle-Blower Policy; Litigation Risk; Anti-Slavery and Human Rights

Every company under research coverage is evaluated under these nine ESG sub-categories and rated one of the following:

- Unfavourable
- Not Improving
- Improving
- Exemplary

Each sub-category is equally weighted and the sum of the nine ratings corresponds with a premium or discount that is added to the Cost of Equity (CoE or discount rate) our investment professionals use in the valuation of the company. Please refer to the below section, "Valuation of the Investment".

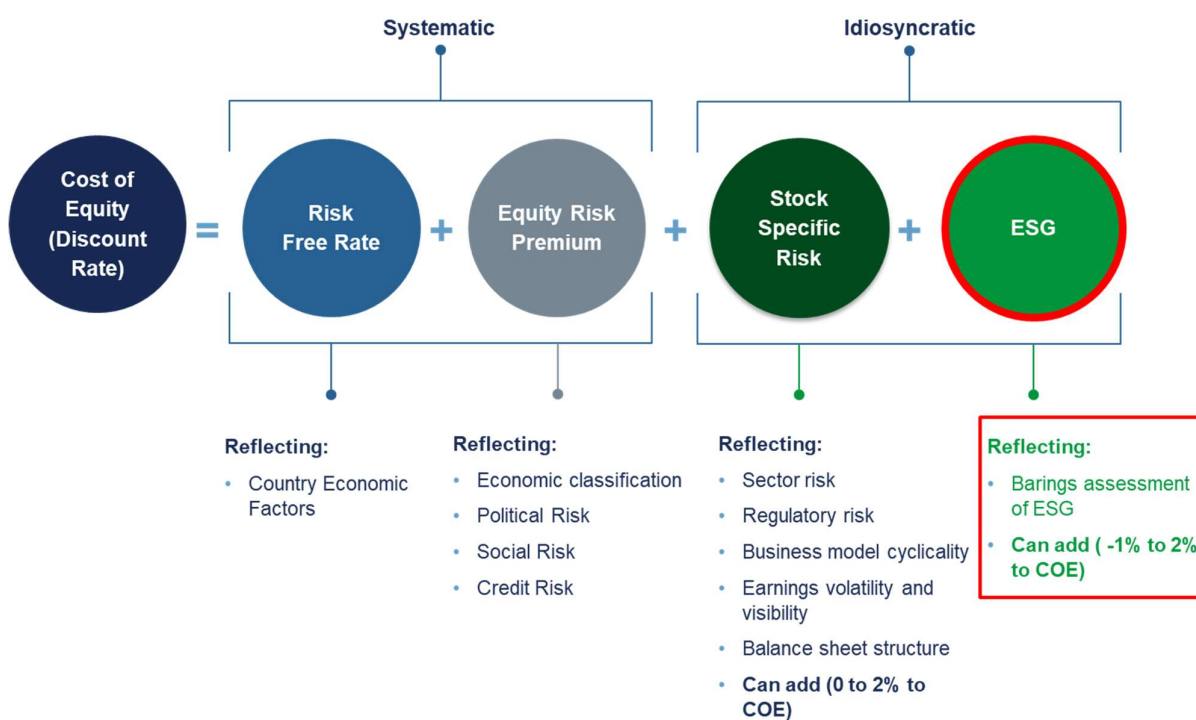
Our ESG framework is aligned with the Sustainability Accounting Standards Board (SASB)² sustainability framework, and enables us to analyse companies in different markets and sectors in a repeatable and consistent manner.

2. Source: <https://www.sasb.org/standards-overview/materiality-map/>

Valuation of the Investment

ESG considerations influence the company-specific risk premium, which in turn affects the Cost of Equity (CoE) our investment professionals use to value the company. The CoE is specific to each company. Better and improving ESG practices lead to a lower CoE, while poor and deteriorating practices will result in a higher CoE. As a result, the ESG assessment has a direct influence on our valuation of the company.

The CoE is the minimum rate of return demanded by equity investors for committed capital. Since the cost of capital varies from market to market, and is dependent on economic and monetary conditions, the cost of equity varies too. Determining this can be challenging, introducing complexities and issues of consistency between investment desks. Our approach allows us to determine a CoE (or discount rate used to value companies) across markets, making it possible to perform comparisons between companies in different markets. In addition, our approach makes full use of the company-specific expertise of our equity analysts. **Below is our proprietary decomposition of the CoE, where we highlight how, amongst other factors, ESG dynamics are reflected.**



Rating companies on the basis of their dynamic ESG behavior rather than making a static judgment based on historical performance is consistent with our forward looking analysis and the intention to reward progress and improvement and therefore has a higher impact on investment decisions.

Qualitative Assessment of a Company

The ESG analysis is also directly linked to the overall stock score such that these assessments directly influence the overall quality score of every company. A detailed example of such a scorecard is located in Appendix A.

Before investing, portfolio managers fully consider investment professionals' recommendations regarding growth, quality and valuation, all of which reflect ESG issues and opportunities. Once invested, portfolio

managers and analysts continue to monitor each issuer to ensure that our thesis remains intact and that an investment's risk and return profile remains attractive relative to other opportunities available in the market.

ACTIVE OWNERSHIP: ENGAGEMENT

Barings applies the UN PRI's definition of engagement. Engagements involve "...interactions between the investor and current or potential investees on ESG issues. Engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosure".

Engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosure. Through engagement we aim to enhance the performance of our investments, for the benefit of our clients, in line with our stewardship responsibility. We do not, however, attempt to impose an inflexible approach that ignores local norms and contexts. We believe that value is derived from transparent communication with the companies in which we invest, coupled with the expertise and discretion of our experienced analysts and portfolio managers, and that a one-size-fits-all approach should not and cannot be applied across the wide range of assets we manage across the globe.

The prioritization of engagement activities is driven by several inputs, including our commitments to the UN PRI and UN Global Compact and aligned with the Sustainability Accounting Standard Board's (SASB) research on material issues by sector³.

Our approach is to engage companies and prefer this approach over blanket exclusions of entire sectors as we believe engagement has a greater chance of successfully effecting change if we, as shareholders, engage with companies whose practices we wish to influence. It is also our belief that we will have a greater chance of success of fully effecting change if we have a stake in companies whose practices we wish to influence. We also believe this is an opportunity to create value for investors.

We aim to meet with all companies in which we seek to invest at least annually. During these interactions we discuss a range of topics including ESG issues. The investment professional responsible for evaluating and valuing the company is also responsible for its ESG assessment – this is an integral part of our analysis. In some cases, our investment professional will not invest in a company because of its ESG credentials, or lack thereof.

Collaborative Action

There may be instances when one of our investment professionals determine that it is in a client's interest to engage on a particular issue of concern in collaboration with other investors / asset managers. We envisage that such instances would be exceptional, and any collaborative engagement would only be pursued through a formal collaboration action to ensure that potential risks (e.g. competition law, acting in concert) are mitigated.

The Investor Forum

Barings became a member of the Investor Forum in February 2020 in order to enhance its engagement and stewardship activities through collaborative engagements.

The Investor Forum is a community interest company set up by institutional investors in UK Equities. Its two core objectives are to make the case for long-term investment approaches, and to create an

3. Source: <https://materiality.sasb.org>

effective model for collective engagement with UK companies. With both objectives in mind, the Forum helps investors to work collaboratively to escalate material issues with the boards of UK-listed companies. Through this the Forum aims to build trust between companies and their shareholders and leads to better-informed boards, with the intention of achieving sustainable long-term returns for investors and savers.

Climate Action 100+

Barings became a member of Climate Action 100+ in February 2020 in order to strengthen its engagement and stewardship activities through collaborative engagements.

Climate Action 100+ is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The companies 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.

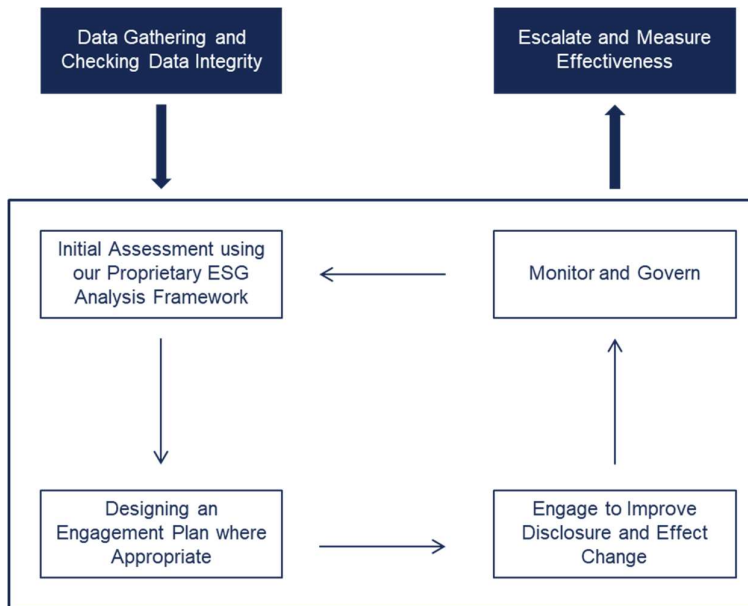
Key Engagement Issues

We believe that ESG improvements and sustainability begins with a principles-based approach to doing business, and that we need to engage on issues that are consistent with our values. The prioritization of engagement activities is driven by several inputs, including our commitments to the UN PRI and UN Global Compact and aligned with SASB's research on material issues by sector. The UN Global Compact Principles, outlined below, encourage us to align our values with our investment analysis and decision making processes.

Engagement Issues	UN Global compact Principle
Human Rights	Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: make sure they are not complicit in human rights abuses
Labour	Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining Principle 4: the elimination of all forms of forced and compulsory labour Principle 5: the effective abolition of child labour; and Principle 6: the elimination of discrimination in respect of employment and occupation
Environment	Principle 7: Businesses should support a precautionary approach to environmental challenges Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies
Anti-corruption	Principle 10: Businesses should work against corruption in all forms, including extortion and bribery

Our Engagement Process

The Equities team engagement process is structured as per the below:



Gathering Information

We gather information on ESG issues from company annual reports and using external providers such as MSCI ESG, Sustainalytics and Bloomberg. This stage is crucial, as key challenges include data integrity, scope, and a lack of standardization. This is why we couple third-party data with the in-depth knowledge of our investment analysts and portfolio managers.

The Initial Assessment

We use a proprietary standardized assessment framework to capture ESG performance of the companies in which we invest. This assessment has a consistent structure to enable comparison. Our findings form the basis for further engagement and are discussed in investment meetings and stock reviews.

Constructing an Engagement Plan

Where an analyst identifies specific ESG issues that need to be addressed, a formal engagement plan is prepared which forms the framework for interaction with companies on the identified ESG issues.

Our view is that engagement needs to target clearly defined objectives, which address relevant areas of potential risk or opportunity for the company. We therefore structure each engagement plan in a way that is consistent with the categories through which we assess company quality internally.

The following elements are thus included in each plan:

- Category of engagement; E, S, and/or G
- Sub-category issues to be engaged on; e.g. fair wages, whistleblower protections
- Data/issue relevant to the specified sub-category
- Objective of engagement; e.g. improve disclosure, change in behaviour
- Title and position of individual we engaged with
- Actions and tangible milestones
- Timeframe including start date and target end date
- Frequency of update
- Latest update

We focus our engagement efforts on companies where we believe we can have the greatest impact on shareholder value. This enables us to conduct focused and in-depth engagement with companies that can effect significant change.

Active Engagement

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

As part of the ongoing due diligence, the investment analyst will continue to meet with company management to monitor progress and to ensure that the investment thesis remains intact. If necessary, a change of view may be implemented to reflect any lack of ESG progress as part of an escalation process. Furthermore, these ESG issues are discussed as part of our investment meetings and stock reviews.

The engagement plan is in line with our philosophy and process where we consider our investments on a five-year research horizon. As long term investors we believe that this is key to improving disclosure and achieving our goals of changing behavior to improve corporate culture in our investee companies.

ACTIVE OWNERSHIP: MONITORING AND ESCALATION

Effective monitoring is an essential component of active ownership in order to ensure that changes are made by the companies that we engage with and that our efforts are well-directed. Monitoring should take place regularly and engagements be reviewed periodically for effectiveness and achievement of established milestones and targets.

Progress is recorded in our internal research database so that investment managers have the most up-to-date information on the issues raised. We utilize a traffic light system within our monitoring framework to show the progress of our identified engagements in line with our dynamic approach to assessing corporate ESG behavior. This also makes it easier to identify whether there is a need for escalation.

Where we identify a lack of progress from the company or the agreed end date of engagement is materially delayed, we employ a formal escalation process.

Escalation

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 valuation and evaluation of the company.

In cases where the ESG issue we have engaged the company on is sufficiently material and there is a significant failure of the company to improve, the ESG impact on the Cost of Equity could be raised to such a level that valuation of the company becomes unattractive. Similarly, if the analyst considers that the franchise or balance sheet of the company are under threat due to an ESG issue, or that there is lack of commitment from management on resolving the issue, then the quality score could deteriorate to such a level where the investment becomes unattractive from a quality perspective.

Our policy automatically means we will divest from the company at the earliest possibility. Divestment decisions by the investment manager could, however, be taken far earlier than this trigger, depending on portfolio characteristics, if we believe the company is not responding to our engagement requests. We aim to monitor our portfolios to ensure that our standards are positive relative to the benchmark.

Furthermore, our analysts will monitor controversies and escalate any issues that are not aligned with our ESG philosophy and approach as they occur.

Part of the escalation process will involve articulating our ESG concerns primarily through private meetings with management teams, as we believe that change is usually facilitated by positive working relationships and respectful exchanges of opinion and information. The lead analyst or portfolio manager responsible for the company manages escalation, overseen by their team head. The process of escalation further depends on local market practice and regulatory options.

We will divest from and not invest in companies which have a quality score of 5—the worst level on our scale of 1 to 5—and a ESG-related modification to the discount rate of +2%.

OUR APPROACH TO EXCLUSION

Our approach is to engage companies and prefer this approach over blanket exclusions of entire sectors as we believe engagement has a greater chance of successfully effecting change if we, as shareholders, engage with companies whose practices we wish to influence. It is also our belief that we will have a greater chance of success of fully effecting change if we have a stake in companies whose practices we wish to influence. We also believe this is an opportunity to create value for investors.

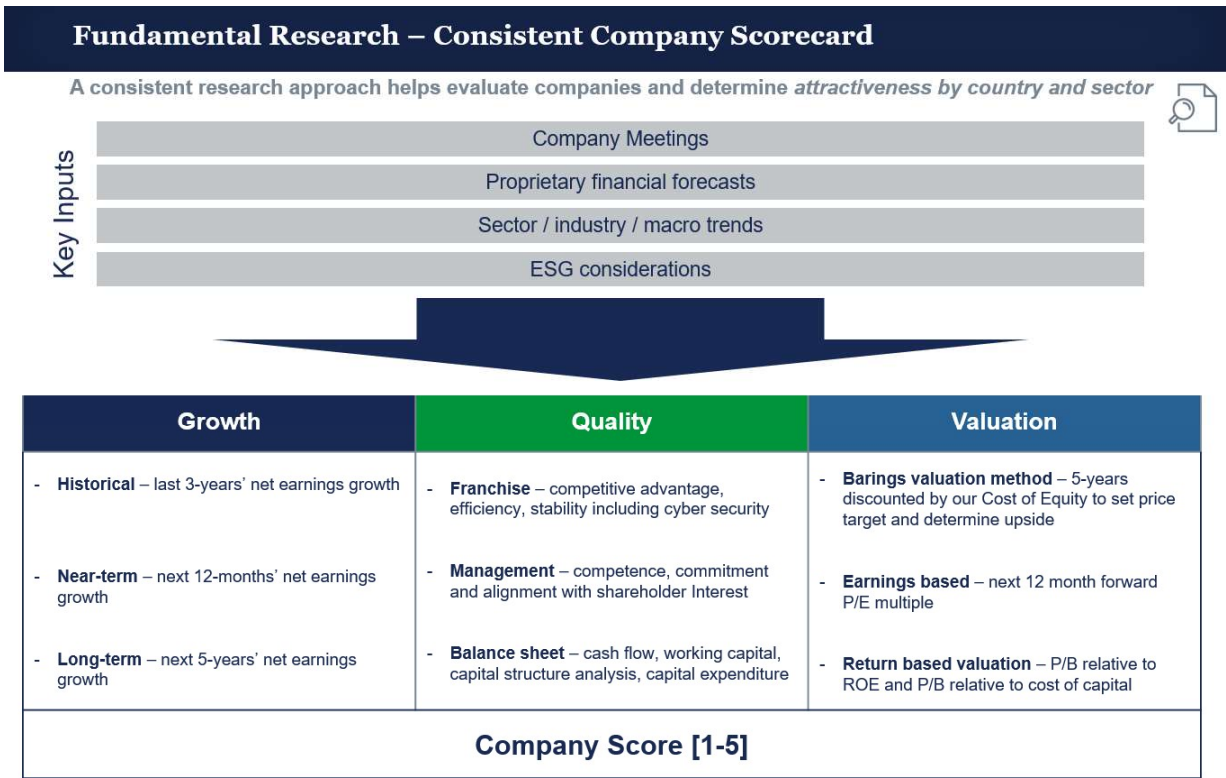
We will not, however, directly invest in companies that violate International Conventions on cluster munitions, antipersonnel mines and chemical and biological weapons. We will not knowingly hold securities that are materially involved in the production, stockpiling and use of these weapons at the time of investment.

CLIMATE-RELATED STRATEGY

There is a clear trend towards a lower carbon economy leading to decreased use of fossil fuel in an effort to combat climate change. We monitor our portfolios carbon emissions and have devised our own methodology of monitoring the carbon footprint of our portfolios. Therefore, we can accommodate any requirements of asset owners in terms of carbon footprint for separately managed accounts. We believe existing methodologies focusing on intensity per unit of sales inaccurately reflect a company's true carbon footprint. Below is an explanation of our proprietary methodology.

- Universe Definition: The universe for each portfolio is defined as the union of all the stocks in the portfolio and benchmark.
- Calculation of Portfolio Carbon Tonnage: Carbon emissions data (Scope 1, 2 and combined) is sourced from (third-party vendor). Where a company is not covered, we rely on internal Barings analysts.
- Calculation of Benchmark Carbon Tonnage: Carbon emissions data (Scope 1, 2 and combined) is sourced from (third-party vendor) for benchmarks. Where a company is not covered, we rely on internal Barings analysts using same methodology as above.
- Monitoring Portfolios: we scale the benchmark carbon footprint to the net asset value of the portfolio and compare

Below is a graphic depiction of how Barings Equities analyses companies in a consistent manner.



Each company is rated on a scale of 1-5, with a 1 score being the most favourable and a 5 score, the least attractive.
Source: Barings.