Public Fixed Income Sustainable Investing
Our investment methodology is based on a disciplined in-house research and security selection process, which leverages the deep expertise of our seasoned investment teams. ESG integration has always been a part of this process, which integrates financially material ESG considerations throughout each step in the process.

**Our Approach to ESG Integration**

We take a holistic view to ESG integration. As such, our research analysts consider ESG factors in their research analysis and conduct engagement as part of their overall credit analysis. Beginning with the initial due diligence process and as part of the portfolio monitoring process, analysts frequently engage with issuer leadership to foster an ongoing dialogue regarding sustainable business practices.

In short, we believe investors should consider ESG risks on both a sector and issuer basis. The following examples illustrate the value of sector and issuer specific ESG risk analysis.

- An analyst with deep experience in the health care sector may recognize early on that certain pharmaceutical companies are vulnerable to litigation related to the opioid crisis or may be impacted by an investigation into generic drug pricing.
- For a large, multi-national manufacturer, ESG analysis may uncover unsafe or unfair labor practices used by overseas participants in their supply chain — a major social issue.
- In the energy sector, an analysis of ESG risk has led many investors to avoid the bonds of coal producers, a segment that has suffered from underperformance and even some bankruptcies.

Examples of ESG factors considered as part of our qualitative assessment include:

**Environmental**

Matters pertaining to environmental issues are identified and discussed to determine the issuers’ impact on the environment, climate change mitigation, climate change adaptation, and the risk that such issues present to the credit profile or business operations.

We also evaluate prospective liabilities of an issuer resulting from its environmental impacts, including payments relating to penalties imposed by government agencies, litigation risk or future remediation spending requirements.

**Social**

How an issuer manages relationships with its employees, suppliers, customers, and the communities in which it operates is critical to our credit analysis. We evaluate issues related to labor unrest, health and safety, compliance with labor regulations, and general labor relations and conditions. We also review risks associated with product safety and suitability to ensure companies have sustainable business operations.

**Governance**

We evaluate the diversity, independence, and qualifications of corporate boards to assess their preparedness to face future risks and act in the best interests of the business. We focus on identifying management teams that clearly communicate information regarding ESG factors material to their respective businesses.
Active Engagement

We firmly believe that active engagement with issuer leadership is key to managing investment risk. Analysts engage in ongoing dialogue with senior leadership to assess their business model resilience and responsiveness to the environmental, social and governance factors impacting their business.

Our proprietary Engagement Database is designed to be fully integrated into the research process and allow each analyst to log and update engagement on environmental, social, and governance factors. Additionally, the database includes deals that have been rejected due to a negative evaluation of these factors. The database is easily accessible by all members of the Public Fixed Income team. Therefore, everyone from traders to portfolio managers to risk management and client service professionals are able to source real time information about each issuer.

This ongoing engagement enables us to form a complete understanding of those factors most integral to a particular issuer/sector, such as:

### Environmental
- Climate change reduction of carbon emissions
- Commitment to energy conservation and more efficient sources, including renewables
- Wastewater handling
- Water consumption
- Biodiversity and land use
- Innovation in clean tech
- Promoting of green solutions
- Protecting infrastructure from severe weather events
- Vulnerability to natural disasters and environmental change

### Social
**Corporate Sector:**
- Health and safety in the workplace
- Safety of products for the consumer
- Labor relations and stability of labor force
- Diversity and inclusion
- Engagement with community
- Data security and privacy

**Public Sector:**
- Human rights
- Essential services and housing affordability
- Access to healthcare
- Policies to meet shifting demographic, and income inequality
- Social stability and (in)equality
- UN Development Indicators

### Governance
**Corporate Sector:**
- Stable financial policies
- Board structure and independence
- Leadership and management practices
- Executive pay policies
- Effectiveness of internal controls
- Business conduct to deal with corruption/bribery
- Shareholder rights

**Public Sector:**
- Regulatory or legal separation of governmental entities
- Effective fiscal controls and budgeting practices
- Quality of institutions and rule of law
- Stability of political system
Integrating ESG into the Investment Process

At MIM, we believe ESG risk factors should be evaluated alongside other risks to determine a credit’s fair value. The proper role of an investment manager, in our view, is to ensure that clients are aware of the relevant risks and are being compensated via the terms and structure of the investment. For example, consider how ESG factors can be incorporated into the key steps of the credit research framework:

• **Quality of the underlying asset.** As part of an effort to identify strategically well positioned and cost competitive businesses, it is important that analysts assess a company’s carbon footprint and how it is managing environmental issues material to their business, as future regulations or environmental liabilities may impact the asset’s valuation.

• **Assessing the management team.** When thinking about the quality of management, social factors such as diversity, and governance issues such as the board structure and compensation are important considerations.

• **Liability review.** In public fixed income investments, there is an extensive focus on the issuer’s credit profile, and we feel that it should not be limited only to debt liabilities. ESG factors in this case may include environmental liabilities, mediation liabilities, possible contingent liabilities from litigation and pension funding needs — in short, anything that may be a future draw on the company’s cash and may impact the visibility and volatility of cash flow.

• **Relative value.** One of the most important considerations in credit analysis is relative value; an assessment of how efficiently the market is pricing credit risk. Analyzing ESG issues, as well as a range of other factors, can help determine whether the market is mispricing credit risks.

An alternative to an integrated credit research process would be to conduct a separate ESG analysis. While some asset managers have taken that approach, we believe that a holistic view of a sector and individual issuers within it promotes a more comprehensive understanding of all the risks inherent in a business.

We also believe it is valuable, as part of an integrated and rigorous credit research process, for analysts to be able to cover the entire spectrum from investment grade to high-yield loans. The belief is that the ability to cover one credit, which may migrate from investment grade to high-yield and back, allows for consistency over time.

Industry Initiatives

MIM is a signatory to the UN Principles for Responsible Investment (PRI) initiative and is committed to the adoption and implementation of PRI’s six principles.

We are also a member of the UN Global Impact Investing Network (GIIN). Our parent, MetLife, is a founding member of the Climate Leadership Council and was the first US based insurer to commit to carbon neutrality. It participates in the CDP survey (formerly Carbon Disclosure Project), as well as the annual, insurance industry-specific, NAIC Climate Risk Survey and others. MetLife is listed on the Dow Jones Sustainability Index (North America), the FTSE4Good, and has received significant third-party recognition for its ESG integration efforts.
ESG Case Studies*

The below case studies demonstrate how reviews of material ESG factors are incorporated into our investment process. These case studies illustrate MIM’s approach to applying ESG across our investments in public fixed income.

Corporate Issuers

International Dairy Company

- The company has an ESG rating of CCC from MSCI and does not have a formal ESG program in place.
- In terms of governance, the Board does not have any independent directors.
- The company has faced criticism/news reports regarding alleged consulting agencies with no workers employed and with potential links to company management.

Action taken:

- Engaged with company management, including the CEO and the CFO of the U.S. business.
- Probed management on composition of the Board and any planned changes.
- Discussed related party transactions/payments to consulting firms, with management stating the company is fully compliant with all laws, regulations, and permits and fully discloses all payments to related parties.
- Questioned the company on its current ESG program and planned future programs.
- Continue to monitor for policy changes and ESG progress.
Integrated Oil Company in Canada

- The issuer has been integrating a large acquisition, with its ESG goals being optimized as one.
- The company is contemplating instituting a 2050 net zero target.
- It noted the Canadian government is likely to play a role in funding investments in CCS\(^1\) and hydrogen and it would like to partner in these. CCS could be practical at one of its large sites with government assistance.
- It is also continuing to make progress with pilot studies of various solvents at one of its sites. Expect additional disclosures.

**Action taken:**

- Engaged with the company on the ways in which it is likely to improve its GHG\(^2\) footprint.
- Continue to maintain exposure and monitor ESG progress

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\(^1\) CCS - Carbon capture and sequestration/storage.

\(^2\) GHG - Greenhouse gases. Scope 1 emissions are direct greenhouse (GHG) emissions that occur from sources that are controlled or owned by an organization (e.g., emissions associated with fuel combustion in boilers, furnaces, vehicles). Scope 2 emissions are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling. Scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly impacts in its value chain. Scope 3 emissions include all sources not within an organization’s scope 1 and 2 boundary. (https://www.epa.gov/climateleadership/scope-1-and-scope-2-inventory-guidance) For illustrative purposes only.
**Water Utility in Chile**

- The company has deployed an investment plan of $500M since 2019, aimed to generate greater resilience and autonomy to the operation.
- It emphasized efforts to reduce carbon footprint, with a focus on converting the wastewater treatment plants into “biofactories” to transform wastewater into electricity, natural gas and fertilizer of agricultural use, an environmental milestone. The treatment plants are expected to be zero waste and carbon neutral by 2022.
- It expressed commitment to reduce Scope 1 and 2 emissions by 54% and Scope 3 emissions by 16% by 2030 from the 2017/18 levels.

**Action taken:**
- Based on our assessment the company is a step ahead of local peers to cope with the current water situation as well as on the ESG front.
- Maintain favorable view.

**Diversified Natural Resources Global Co with a Focus on Metals & Mining**

- A sizable part of the issuer’s business has appeared opaque with limited financial disclosure, raising concerns.
- The company has been a buyer of thermal coal assets as of late which concerns us for numerous reasons, including divergence from global climate green initiatives.
- The company has been involved with risky jurisdictions and investigated in corruption/ bribery scandals.

**Action taken:**
- Passed on a deal given concerns around Environmental and Governance factors.

*The case studies described herein are meant to provide an example of the investment decision making process, considerations, and terms in connection with the evaluation process of the investment management team related to ESG factors. These case studies have not been selected to highlight past specific profitable recommendations made by the investment manager. This document does not constitute a recommendation for the securities identified or take into account the particular investment objectives, financial situation or needs of individual clients. Maintaining an exposure does not indicate or guarantee that an investment is or will be profitable and, similarly, avoiding losses will not always occur.*
Municipal and Sovereign Issuers

University on the West Coast in the U.S.

- The university went through both a college admissions scandal and a sexual misconduct scandal. Liability for the latter was resolved with legal settlements of over $1 billion. These events led to a number of management departures, including the President, and the University embarked on wide-ranging governance reforms.
- The university developed new training programs designed to prevent sexual and gender-based harassment and violence, improved the oversight and hiring of its health center, and established the Office of Professionalism and Ethics to serve as a centralized clearinghouse for complaints, among other governance focused initiatives.

Action taken:
- In addition to Social risk considerations, we probed on Governance structure to better understand oversight to ensure such incidences would not happen again.
- Given concerted effort on reforms we maintained exposure.

Oman Sovereign

- Succession of a new leader last year was relatively smooth. In 2021, Sultan Haitham introduced a number of changes to political institutions in an ongoing effort to reform governance.
- He established an oversight body to assess the performance of ministers. The legislative chamber Council of Oman was also granted some additional authority to approve and amend laws.
- Progress is being made in reducing fiscal exposure to oil prices given Oman’s reliance on oil exports.

Action taken:
- Maintain an overweight to the credit given indications that the new Sultan is driving a faster pace of reform, which should improve social and governance indicators; albeit from a still weak base.
- Monitor for any policy changes and potential environmental risks.
Turkey Sovereign

- Based on our assessment Turkey remains vulnerable to governance issues and policy mistakes.
- The abrupt replacement of central bank (CBT) governor Agbal undermines already delicate investor confidence in the credibility of economic policymaking. This has led to rising inflation and could trigger further deposit dollarization, exchange rate volatility, and increase pressure on Turkey’s already weak external finances given the country’s low level of official FX reserves.
- Although geopolitical headline risk has eased in 2021, Turkey remains relatively vulnerable to event risk, including action that further weakens investor confidence in the credibility of policymaking, U.S. or EU sanctions, a large fine on Halkbank, or an escalation in tensions with Russia.

Action taken:
- Have exposure to Turkey; however, remain cautious in case of flareups with a bias to reduce.
- In the past, we have navigated the credit by tactically reducing exposure during events that negatively impact governance in our view.

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For more information, visit: investments.metlife.com/public-fixed-income

For more information regarding the MIM ESG policy visit: investments.metlife.com/about/esg-integration/

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2 At estimated fair value as of March 31, 2021. Includes MetLife general account and separate account assets and unaffiliated/third party assets.
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