



# FIXED INCOME Sustainable Investing

MetLife Investment Management (“MIM”), which is MetLife, Inc.’s (“MetLife’s”) institutional investment management business, serves institutional investors globally by combining a client-centric approach with long-established asset class expertise. MIM’s investment capabilities include deal origination, asset acquisition, trading, portfolio construction and monitoring, risk analytics and risk management.



As a global investment manager, MIM's commitment to clients is rooted in MetLife's purpose: *"Always with you, building a more confident future."* At MIM, our investment approach seeks to deliver competitive risk-adjusted market returns by incorporating financially material ESG assessments and stewardship into our investment process. Our approach leverages both our traditional investing and sustainability expertise.

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## “Always with you, building a more confident future.”

We believe that stewardship activities, including engagement, support sustainable investing efforts. Ongoing dialogue with companies and issuers helps raise awareness of prudent business practices for the long term and promotes data transparency and standardization. We believe that capital markets benefit from more and improved information from which investment decisions can be made.

MIM's client base is diverse and we recognize that clients' investment objectives vary. This is why it is important to offer a range of investment solutions to meet client needs and objectives.

Please refer to MIM's Sustainable Investment Policy [here](#) and Stewardship Policy [here](#) for more information.

## Integration of Financially Material ESG Considerations

MIM's approach to investing begins with an assessment of financially material risks and opportunities as part of our fundamental, disciplined due diligence and monitoring processes.

MIM's asset teams may take into account the IFRS Sustainability Alliance's SASB sector-specific materiality matrix to help identify potential financially material ESG-related considerations, as are deemed relevant and applicable.

In 2022, a dedicated sustainability research and analytical capability was added to MIM's platform through the acquisition of Affirmative Investment Management (**"AIM"**), a leader in sustainability and impact focused fixed income solutions.

### Fixed Income

MIM's Fixed Income (**"FI"**) investment methodology is based on a disciplined, bottom-up research driven, security selection process. Our investment teams take a holistic view of their assessments, such that financially material ESG considerations are evaluated alongside other material risks and opportunities to determine fair value at the issuer and security level. Sustainability research and financially material ESG considerations are incorporated into the FI investment methodology in two ways. First, the Global Fixed Income Credit Research sector teams integrate ESG factors and insights into the credit research process. Second, the FI Sustainability Research team conducts in-depth sustainability research on individual names and at a sector level for sustainability strategies.

The structure of having both sector specialist credit analysts and experienced sustainability analysts as part of the Global Fixed Income Credit Research team fosters collaboration and information sharing between sustainability analysts and credit analysts to gain a greater understanding of relevant risk factors. Analysts operate in alignment with the understanding that stewardship and engagement with issuers provides an opportunity to better understand financially material, relevant risk factors, and improve data transparency.

### Corporate Fixed Income

Sustainability risks and opportunities are pervasive in corporate fixed income markets. The Global FI Credit Research team recognizes that companies with poor environmental, social, or governance practices may face regulatory penalties or increased costs. On the other hand, companies that engage strategically with decarbonization and sustainability themes may be better positioned to capitalize on increasing climate and sustainability opportunities. For our sustainability strategies, our FI Sustainability Research team evaluates the scope, ambition, and relative strength of issuer targets and objectives,

as well as their past performance, progress and ongoing commitment towards meeting these goals. The FI Sustainability Research team also conducts assessments and analysis around ESG risk factors at the industry and issuer level. They have the expertise necessary to opine on whether an issuer can be considered a potentially strong performer from a sustainability perspective.

### **Sovereign, Supranational, and Agency (“SSA”)**

Sustainability and ESG factors are fundamental parts of the credit analysis undertaken by the FI SSA teams to identify investment risks and opportunities in the sector. This includes assessments of the quality of governance, public institutions and policymaking, the impact of governance factors on society and economic growth potential more widely, and the resilience of a country / issuer credit profile to the increased physical and transition risks that result from climate change.

The FI Sustainability Research team considers a wide range of ESG related factors when looking at SSA ESG profiles. We take a holistic forward-looking approach that assesses a sovereign’s Nationally Determined Contributions (“**NDCs**”) and Net Domestic Product (“**NDPs**”) against current performance to determine the country’s trajectory, while also taking national and regional context into account. Additionally, we review a country’s performance using indicators on emissions, healthcare, employment, freedom of speech, corruption perception, access to education, and various other factors.

### **Municipal and Infrastructure**

Sub-sovereign governments and infrastructure assets face a unique relationship when it comes to sustainability. They are often at the front line of environmental and social challenges. Targeted investments in this space offer substantial benefits to various stakeholders ranging from at-risk communities to regional economies. The FI’s Sustainability Research team assesses the projected impact, ongoing goals, and overall approach to ESG factors for these investments and issuers. Investments can include climate resilience, emissions reduction, low-income housing, as well as healthcare and education access or improvements.

### **Structured Finance**

Structured Finance is in an earlier stage of standardization for sustainability focused investors relative to competing sectors like Corporates, Municipal, or Infrastructure debt. European securitizations have proven to be more consistent with their offering materials in terms of availability, comparability and reliability, while U.S. sustainability standardization has lagged.

U.S. labeled sustainability supply has grown, but investor interest has trended lower recently due to a lack of labeled issuance in large sectors like non-agency RMBS and CLO. The largest labeled U.S. securitization segments are Asset Backed Securities (“**ABS**”), and Government Sponsored Enterprises (“**GSE**”) mortgage debt. The recent increase in labeled issuance in the U.S. has been driven by the launch of the GSEs social bond program for single-family MBS. Social bond issuance by the GSEs is expected to grow in the U.S., as the Federal Housing Finance Agency (“**FHFA**”) and Ginnie Mae is committed to social programs and can provide the requisite data and disclosures required by investors. The other structured products sectors that offer social bonds include non-agency RMBS (reverse mortgage and Non-QM), private label CMBS markets (affordable housing), and ABS (student loans, personal loan, auto) but with inconsistent issuance cycles and data comparability.

Sectors which offer green bond investment opportunities include CMBS (Agency Multifamily, SASB), and ABS (Solar, Autos, Data Center, PACE, Rate Reduction, Railcars, and Fiber.) Sustainability related disclosure in CLOs is typically voluntary, with managers using negative screening being the predominant method.

Our FI Sustainability Research team plays an important role in evaluating issuers’ green and social financing frameworks and key drivers of issuer level sustainability performance.



## Stewardship

MIM's stewardship efforts seek to raise awareness and improve data transparency and reporting. We engage with issuers, intermediaries, market participants, and policy makers. We engage in a variety of ways, from individual engagements on specific issues, to participating in and hosting thematic engagements on specialist sustainability topics.

Engagements enable the FI Credit Research team and the FI Sustainability Research team to build closer relationships with issuers and develop a more granular understanding of their sustainability strategies. They also provide a platform for the team to encourage issuers to raise the bar on ambition, data, and transparency around sustainability.

Our analysts regularly interact and engage in discussions with a company's senior management or other relevant stakeholders throughout the initial due diligence process and as part of the portfolio monitoring process, or, in the case of the FI Sustainability Research team, during the production of impact reporting. At times, we may also leverage our relationships with industry intermediaries and industry groups to communicate and resolve concerns more effectively. Ongoing dialogue helps to raise awareness of prudent business practices.

Direct engagement with an issuer or company's senior leadership is a fundamental part of our research process. Our engagement activity often includes conversations about business model resilience and responsiveness to financially material ESG factors. Our conversations are guided by the IFRS Sustainability Alliance's SASB sector-specific materiality matrix, which helps identify potentially financially material ESG-related risks and opportunities.

We developed a systematic approach for tracking our engagement activities, which involves our analysts logging their engagement conversations into a customized platform designed specifically for tracking these activities. Our engagement activities are tagged in alignment with the SASB materiality mapping framework. Leveraging SASB's categorization allows us to provide engagement

reporting for our clients in accordance with their industry recognized framework. Additionally, we track engagement conversations that led to declined transactions as a result of ESG considerations.

### Thematic Engagement

In 2023, we launched our thematic engagement strategy; a strategy of selecting specific topics on which to conduct concentrated engagement efforts in a given year. In 2024, this was expanded to include strategic thematic engagements across Fixed Income and Investment Grade Private Credit platforms. Our thematic engagement activity is conducted both for the benefit of our dedicated sustainability strategies and mainstream investment strategies. One recent thematic engagement topic is scope 3 greenhouse gas ("**GHG**") emissions. Given the heightened global regulatory focus, scope 3 GHG emissions considerations, including financed emissions, are pervasive.

Our thematic engagements aim to better understand how different issuers and borrowers are addressing scope 3 challenges and to encourage targeted sustainability outcomes, such as better disclosures. Issuers were selected from sectors where scope 3 emissions are highly financially material and then with consideration for geography and availability of scope 3 reporting information. This produced a sample of issuers that included those that report and those that do not and covered both emerging and developed markets.

The engagement explored processes and challenges in scope 3 reporting, while a further targeted approach was implemented for scope 3 reporters. This included tailored questions to understand their strategies for reducing emissions across different scope 3 categories and identify any gaps that could be addressed to help strengthen their strategies.

# Incidences of Engagement in 2024: **104**

## Fixed Income Engagement Summary for period January 1 through December 31, 2024



GHG emissions related engagement is proportionately high due to Scope 3 thematic engagement conducted in 2024.

## Sustainability Strategies

MIM FI offers two sustainable investment strategies, SPECTRUM<sup>SM</sup> and Transition. These strategies are designed for clients whose investment objectives include specific sustainability-focused outcomes and are where the FI Sustainability Research team particularly focuses its attention. These strategies are designed to build fixed income portfolios which contribute to a low carbon and sustainable future that limits global warming well below 2°C and supports the achievement of the UN's Sustainable Development Goals (“SDGs”), while targeting mainstream returns for clients. The strategies leverage our FI Sustainability Research team's longstanding expertise to verify issuers across a range of financially material and relevant sustainability factors.

The team uses direct and thematic engagements with issuers as part of the verification process.

As part of these strategies, we provide robust measurement of the sustainability outcomes in client specific quarterly sustainability and annual impact reports. Furthermore, we work with clients to meet regulatory reporting needs, for example in Europe we provide reporting for Sustainable Finance Disclosure Regulation (“SFDR”) disclosures.

In addition to these strategies, we work with our clients to understand their approach to investing and develop investment solutions across our core asset classes to help meet our clients' investment objectives.

### SPECTRUM<sup>SM</sup>

The SPECTRUM<sup>SM</sup> strategy is an impact strategy focusing on investments in labelled green, social and sustainable bonds and bonds from pure-play or aligned issuers. These bonds have a clear use of proceeds with environmental or social impact and are issued by a range of issuers including corporates, sovereigns and government agencies. Our SPECTRUM<sup>SM</sup> impact bond portfolios are built on the foundation of our proprietary SPECTRUM<sup>SM</sup> Bond analysis, which is an independent in-house verification process for all types of impact bonds. SPECTRUM<sup>SM</sup> combines three types of analysis: Impact, ESG and Credit. This analysis considers both the impact bond frameworks and the issuers. An impact bond must pass all three elements of analysis to be included in our investment universe for these portfolios and the FI Sustainability Research team are core decision makers on which investments enter the investable universe.

Detailed annual portfolio specific impact reporting is delivered as an integral part of the SPECTRUM<sup>SM</sup> strategy. This reporting gives details of the types of projects supported and impacts associated, such as greenhouse gas savings, SDGs supported, geographies covered and performance against the strategies net zero target. The SPECTRUM<sup>SM</sup> impact reports have consistently been recognized as industry leading. An example of the impact reporting can be found [here](#).

### Transition Strategy

The Fixed Income Transition Strategy focuses on investment in issuers of public corporate bonds which support investment in infrastructure, companies, technologies, and industries that are critical to the low carbon transition. The Transition Strategy takes a science-based approach, utilizing balanced scientific benchmarks such as the International Energy Agency (“IEA”) Net Zero scenario, against which all issuers and investments are compared to understand their alignment, and to target the economic activities and technologies which are critical to the low carbon transition. Again, the FI Sustainability Research team are core to determining the investable universe for this strategy.

Central to the strategy is the principle that the transition to a low carbon economy requires a whole economy approach, seeking opportunities to support leaders in all sectors. Transition impact reporting covers metrics including distribution of investments across transition categories and sectors, net zero alignment assessment highlighting the alignment of borrower's decarbonization targets to climate pathways and their performance against these targets.

## Other Fixed Income Sustainability Strategies

Additionally, FI offers customizable sustainability focused strategic options based on, and defined by, client needs and specifications. In the EU market, we work with clients to achieve their SFDR classification requirements.

## Governance and Dedicated Resources

Our governance framework helps us to operationalize our purpose, values, and strategic priorities. MIM deploys an integrated approach to sustainable investing, such that our research analysts, asset originators, and portfolio managers are responsible for implementation of our Sustainable Investment Policy and associated practices. These teams are supported by dedicated sustainability resources mobilized throughout our organization.

Our dedicated FI sustainability strategies are subject to a Verification Committee review process. Each sustainability strategy has a Verification Committee which is responsible for reviewing and assessing sustainability research on whether an issuer qualifies for inclusion within the dedicated sustainability strategy. Independent to the sustainability view, an issuer will undergo the standard credit research process and portfolio management considerations.

## Data and Reporting

MIM is committed to providing quality data, measurement, and reporting to our clients and other stakeholders. We recognize that sustainability data, measurement, and reporting can be a key differentiator among global investment managers. At MIM, we seek to provide transparent, robust analytics to demonstrate and support our sustainable investment capabilities and outcomes.

### Sustainability Reporting

MIM provides sustainability reporting for conventional fixed income for clients that seek an understanding of the sustainability characteristics of their holdings. MIM uses methodologies for sustainability metrics based on industry-recognized guidelines and regulatory frameworks, including the Partnership for Carbon Accounting Financials (“**PCAF**”), the Task Force on Climate Related Financial Disclosures (“**TCFD**”), and SFDR. The regulatory and industry guidance landscape supporting sustainability reporting is constantly evolving. MIM closely monitors these developments and will factor in changes to guidance to improve our disclosures over time.

### Impact Reporting

MIM produces an annual impact report<sup>1</sup> for all sustainable portfolios, which covers the environmental and social impacts of the investments in each of our clients’ impact portfolios. Our impact reports are based on robust, clear and conservative methodologies. These include proprietary methodologies, ones developed by partners and the application of industry frameworks. The impact reports feature metrics such as a calculation of portfolio greenhouse gas emissions avoided, the portfolio Weighted Average Carbon Intensity (“**WACI**”) portfolio alignment with the UN SDGs and project-level alignment with net zero. Alongside these environmental metrics, the report provides qualitative detail on the impact of the portfolios, through case studies of supported projects and thematic engagements on key industry topics.

<sup>1</sup> MIM was named an Environmental Finance 2024 Sustainable Debt Award Winner for Impact Report of the Year. The award celebrates leading green, social, sustainable and sustainability-linked bond and loan deals and recognizes market innovations.

MIM believes it is critical to connect portfolio data with sustainability metrics and outcomes to demonstrate to clients and prospects; transparency moderates client concerns about greenwashing and lowers the barrier to entry for additional capital to flow into sustainable finance.

## Memberships and Affiliations

MIM is a signatory to the Principles for Responsible Investment (“PRI”) and is committed to the adoption and implementation of PRI’s six Principles. We are also an active participant in a variety of industry bodies and initiatives supporting sustainability.<sup>2</sup> We believe these partnerships can help deliver sustainable outcomes for the benefit of all stakeholders and signal our commitment to sustainability across our broad platform. We continuously evaluate opportunities to partner with organizations that align with our and our clients’ business objectives. More information about these memberships and affiliations can be found on our website [here](#).



<sup>2</sup> Membership and/or affiliation does not imply agreement with all positions taken by such groups.



CASE STUDIES

# Sustainable Investing

# Financial Institution Sustainability Strategy and Target Setting



A financial institution (the “Issuer”) was engaged by MIM’s FI Sustainability Research team on behalf of the SPECTRUM<sup>SM</sup> strategies to discuss the Issuer’s sustainability strategy and target setting.

## Objectives

Understand the company’s sustainability related target setting, specifically ambitions to introduce limits on future fossil fuel investments. Additionally, understand sector specific exclusion criteria in place, which were due to be published. Engagement efforts were conducted for the purpose of determining inclusion into the SPECTRUM<sup>SM</sup> investible universe.

## Engagement Process

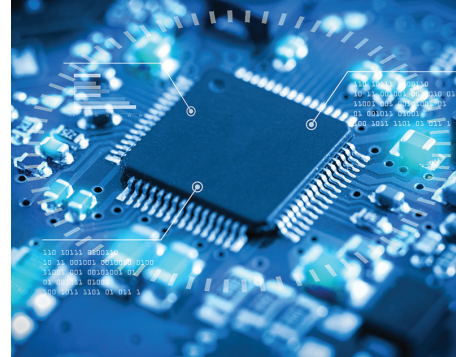
Investor call participation in November 2024.

## Outcomes

The engagement provided MIM’s FI Sustainability Research analyst with further detail on the Issuer’s exposure to fossil fuels, which was confirmed to be limited. Although there are no specific exclusions in place for high emitting issuers, the Issuer is in the process of setting sectoral targets for the majority of these sectors. Additional context and disclosures about the Issuer’s sector allocations gave further insight into renewable energy disbursements in the energy sector. This progress and increased transparency strengthened confidence in the Issuer’s alignment with the SPECTRUM<sup>SM</sup> criteria, resulting with the issuer’s green bond being purchased.

The case studies described herein are meant to provide an example of the investment decision making process, considerations, and terms in connection with a particular investment made by the portfolio manager.

# Technology Company Business Model Resilience



A publicly traded Japanese technology company (the “Issuer”) was engaged with in a one-on-one meeting to discuss their business model resilience in the context of the Japanese market.

## Objectives

To discuss the Issuer’s efforts to raise employee engagement and retain skilled workers.

## Engagement Process

Private direct engagement via phone call in February 2024.

## Outcomes

The Issuer provided details about where it has been strengthening areas of the company found to be weaker than competitors, notably through employee engagement leveraging survey tools for insight. Additionally, to retain talent amidst rising competition in Japan, the Issuer raised wages by an average of 7% in FY 2022 which led to the growth of skilled consultants and engineers amid intensified talent competition in the sector. Furthermore, the Issuer explained that while employee turnover remains low, its employee turnover ratio should gradually rise given its intention to retain only highly skilled and motivated workers for improvement of operational efficiency. MIM’s FI credit research analyst was able provide constructive feedback while gaining some contextualisation of the Japanese market.

# SPECTRUM<sup>SM</sup>

## Thematic Engagement: Scope 3 Emissions



MIM FI Sustainability Research team's 2024 thematic engagement series focused on scope 3 GHG emissions. This topic has risen in prominence in recent years because, in many sectors, scope 3 can account for the largest share of a company's emissions.<sup>3</sup> Additionally, with new reporting requirements being introduced in places such as the EU and California, scope 3 emissions will be an increasingly relevant topic going forward.

### Objectives

For issuers currently reporting their scope 3 emissions, the objective was to understand the approaches these issuers are using to address scope 3 reporting challenges. For those not yet reporting, the aim was to gain sector- and issuer-specific insights into the obstacles hindering their reporting efforts. Across all issuers, the overarching goal was to encourage the disclosure of scope 3 emissions and to enhance data quality over time.

### Engagement Process

Private direct engagements within a thematic engagement program from March through May 2024.

### Outcomes

- Findings from the scope 3 engagement underlined the complexity of scope 3 reporting and the variation in processes for reporting by sector.
- Challenges in reporting scope 3 emissions include a lack of resources, knowledge and direct data.
- Inconsistency in data also makes comparison within sectors and across years difficult, further complicating measuring and evidencing progress in line with individual business's strategies. The best data availability is from sectors with strong reporting regulations, such as the Poseidon principles for measuring the climate impact of shipping in finance portfolios. When direct data is not available, spend data can be used as a proxy, as well as third parties for extensive supply chains. Regarding disclosure, the engagement underlined that despite the obstacles, most issuers are committed to improving their scope 3 emissions reporting.

<sup>3</sup> [https://cdn.cdp.net/cdp-production/cms/guidance\\_docs/pdfs/000/003/504/original/CDP-technical-note-scope-3-relevance-by-sector.pdf?1649687608](https://cdn.cdp.net/cdp-production/cms/guidance_docs/pdfs/000/003/504/original/CDP-technical-note-scope-3-relevance-by-sector.pdf?1649687608)

## Glossary of Terms

**Engagement:** Two-way exchange with issuers and other market participants on ESG issues. Engagement provides MIM's analysts with an opportunity to better understand financially material, relevant risk factors and improve data transparency.

**ESG Integration:** Incorporation of environmental, social, and governance (“**ESG**”) factors into an investment process, based on the belief that financially material ESG factors can affect the risk and return of investments.

**IFRS Sustainability Alliance SASB Materiality Matrix:** The Sustainable Accounting Standards Board (“**SASB**”) materiality matrix, now part of the International Financial Reporting Standards (“**IFRS**”) Sustainability Alliance, identifies the sustainability-related risks and opportunities that are most relevant to investor decision making, including those that are most likely to affect cash flows, access to finance, and cost of capital, by industry.

**Impact Reporting:** Provides evidence of environmental and social impacts supported by the given portfolio. Impact reporting includes relevant Key Performance Indicators (“**KPIs**”) such as portfolio emissions, weighted average carbon intensity (“**WACI**”), renewable energy supported jobs supported, water treated, net zero alignment, and Sustainable Development Goal (“**SDG**”) alignment.

**Pureplay:** A publicly traded company that focuses its efforts and resources on only one line of business or industry.

**Sustainable Finance Disclosure Regulation (“SFDR”):** Transparency framework established in the EU defining how financial market participants must disclose sustainability information. It aims to help those investors who seek to put their money into companies and projects supporting sustainability objectives to make informed choices. The SFDR is also designed to allow investors to properly assess how sustainability risks are integrated in the investment decision process.

**SPECTRUM<sup>SM</sup>:** Proprietary investment framework that provides MIM's credit and sustainability teams with an active, forward-looking approach based on positive selection for dedicated sustainability strategies to identify and screen both issues and securities for a meaningful and measurable impact.

**Stewardship:** The approach taken by MIM to engage with companies and other entities. Our stewardship efforts seek to raise awareness and improve data transparency and reporting.

**Sustainable Investing:** The broad investment approach taken by MIM that seeks to deliver competitive risk adjusted market returns by incorporating financially material ESG assessments and stewardship into our investment process. Our approach leverages both our traditional investing and sustainability expertise.

**Sustainability Reporting:** Provides sustainability metrics relevant to the given portfolio. These commonly support standards such as SFDR and TCFD and include data such as carbon metrics, Principal Adverse Impacts (“**PAIs**”), fossil fuel exposure, and high level decarbonization targets.

**Transition Finance:** Investments in companies and entities across the economy which have aligned their operations and business models with the decarbonization pathways established by the scientific community to achieve the targets set out in the Paris Agreement (an international treaty adopted by 196 parties at the 2016 United Nations Climate Change Conference).

**UN Sustainable Development Goals (“SDGs”):** The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 SDGs, which are an urgent call for action by all countries — developed and developing — in a global partnership.



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