BARINGS

UK Stewardship Code Statement

January 2018

BARINGS' COMMITMENT

At Barings, our firm-wide commitment is to deliver competitive risk-adjusted returns for our clients. We consider environmental, social and governance (ESG) factors as an important part of this commitment, as these issues can impact an investment's risks and returns over time. That commitment, coupled with our recognition of the importance of responsible investing to our clients, has led us to evolve our investment processes, where appropriate, to include ESG criteria in our fundamental analysis.

To further these firm objectives and emphasise our accountability, Barings became a signatory to the United Nations' Principles of Responsible Investment (UNPRI) in January 2014. This will help drive positive change, ultimately contributing to more transparent, sustainable and well-governed financial markets.

Similarly, Barings is required by the rules in the Financial Conduct Authority (FCA) Conduct of Business Sourcebook (COBS) to disclose our commitment to the UK Stewardship Code. The UK Stewardship Code sets standards for investors in monitoring and engaging with the companies they own and aims to improve the quality of dialogue between investors and companies to help improve long-term risk-adjusted returns to shareholders. We also explain below where our response differs based on the nature of the underlying asset class.

BARINGS' UK STEWARDSHIP CODE STATEMENT

We are supportive of the Financial Reporting Council's UK Stewardship Code and this statement sets out how our policies and processes conform to its seven principles. Further information on the code can be found at www.frc.org.uk/Our-Work/CodesStandards/Corporate-governance.aspx.

When investing, we never forget that good governance practices have the potential to boost returns, and that poor governance practices can do considerable damage to them. Our guiding principle is therefore to harvest the benefits of strong fundamentals by investing for the long term in high quality companies, which typically have healthy governance practices. Bearing this in mind, we set out to develop and maintain a dialogue on strategy, performance and the management of risk.

In framing our responses to the code, we are mindful that we are a global asset manager. We consider good governance practices should be a major focus for companies and investors in the markets in which we provide risk capital. However, we do not attempt to impose an inflexible "one size fits all" approach; rather, we frame our assessment in the context of local norms. More broadly, we recognise that there are elements of good corporate governance practices that are intangible, particularly in areas related to management and their motivations. The following paragraphs address how our investment practices reflect the seven main principles of the UK Stewardship Code, most applicable to our equity businesses, taking into consideration both tangible and intangible factors.

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The core elements of our approach are as follows. Our equity analysts assess corporate governance, social and environmental factors prior to investing. If we do identify concerns, our priority is to act in the best interest of our clients.

We discharge our stewardship responsibilities through two main channels: meetings with management and voting on company and other resolutions. In the area of company meetings, we talk regularly with all of the companies that we hold, raising governance issues as part of our ongoing discussions. Where necessary, we organise or support specific meetings with companies and their advisors to raise governance concerns. As far as voting is concerned, we take our responsibility as investors seriously and seek to use our votes thoughtfully. Barings owe fiduciary, contractual and statutory duties to vote proxies on the securities that we manage for clients. For many of those clients, we have assumed contractual responsibility to vote proxies on the securities that we manage for their accounts. We have contracted with Glass Lewis, one of the leading advisory firms in this area, to vote clients' proxies on a global basis. This company also provides advice, proxy analysis and record-keeping services. Additionally, it monitors resolutions put forward at annual and extraordinary meetings. We review the research produced by Glass Lewis; where we deem it to be in the best interests of our clients, we will vote in line with their recommendations.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and which should be publicly disclosed.

Conflicts of interest have the potential to arise when we are investing in client or supplier companies, or when decision-makers within our organisation are also directors, officers or employees of potential investments. We therefore monitor where conflicts may exist by maintaining a list of all publicly traded clients (including details of the clients' parent companies, where they are publicly traded). We also maintain a list of all employees of Barings who are directors or officers of publicly traded companies.

To help address conflicts of interest in the voting area, we make use of the independent recommendations generated by Glass Lewis. Conflicts are also mitigated through governance and oversight arrangements that include representation from Investments, Operations, and Legal/Compliance or other functional departments.

In instances where Glass Lewis makes no recommendation on a particular matter, or if an Investment manager wishes to override a Glass Lewis vote recommendation, the matter is escalated in accordance with governance and oversight arrangements to determine how the proxy is to be voted. In doing so, it establishes whether a conflict of interest exists, checking to see whether the rationale for the vote is reasonable and is in the best interests of our clients.

Principle 3: Institutional investors should monitor their investee companies.

As part of our investment process, we regularly meet with management teams of potential or existing investments. We use company meetings as an opportunity to discuss strategy, risks and opportunities. ESG issues fit within these categories. Focus on good governance practices has become well-entrenched and ensuring effective governance oversight at the board level and healthy stakeholder relationships to ensure protection of the rights of minority shareholders will continue to be an essential area of consideration in our analysis.

We expect high quality management teams to manage their company to generate long-term value with clear views on the sustainability of the business model and strategies to reinforce and enhance the competitive position of the group, its brand value, and its reputation and therefore its economic value.

The incentive structure for senior management should reflect these long-term objectives to ensure the company is run for the long-term benefit of shareholders. Given our view on the importance of and potential risks posed by weak governance structures and neglecting environmental and social issues, the companies that we invest in should have robust business practices in place with reference to these issues.

As far as environmental and social issues are concerned, we expect management teams should understand that having a poor reputation on social issues such as labour relations, high staff turnover and unsustainable supply chains could influence the value of their franchise. There is a general understanding that the costs of increased carbon emissions on economic activity are becoming clearer. Water consumption is a critical issue for many companies and related costs may well increase in the near term. A key question for management teams is whether these projected costs will result in increased regulation and how such regulation will affect financial returns. There is a risk that regulators will internalise costs associated with emissions or resource intensity and we should be confident that management teams are prepared for such a scenario and are investing accordingly.

As a result, our analysis attempts to quantify these risks. We monitor the balance sheet and capital spending plans of companies to take into account potential changes in regulation. We are very aware of the management attitude towards these risks and reflect our analysis of their attitude in our score of management quality.

Barings as a firm recognises the increasing importance of responsible investing among our clients. Further, we believe that our firm-wide commitment to intensive, fundamental underwriting, an essential pillar of our investment culture, inherently includes ESG analysis. Incorporating these factors presents a more holistic understanding of the complex issues, risks and value-drivers that may affect our clients' portfolios. As such, the firm signed on to the United Nations' Principles of Responsible Investment initiative in January 2014 and, in our efforts to carry out the six principles, have conducted full reviews of our investment approaches to ESG. Because of this review of our equity investments, we have enhanced our 'Growth At a Reasonable Price' (GARP) philosophy across all of our equity teams by formally integrating ESG considerations into the investment decision-making process with the introduction of an ESG summary sheet. This sheet forms part of the overall research pack for a company.

At Barings, our specialist equity teams invest in quality companies with clear competitive advantages, solid franchises and visible and sustainable earnings streams. Our view is that an active consideration of the risks and opportunities posed by ESG factors to the companies in which we invest is entirely consistent with this philosophy. All of our equity teams formally integrated ESG considerations into their investment processes during the fourth quarter of 2016.

We have structured our ESG assessment in a way that is consistent with the categories through which we assess quality internally: Franchise, Management and Balance Sheet. There are nine topics split evenly into three categories that we have identified as influential to the overall score that analysts will give a company:

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

We have fully integrated the ESG summary sheet into the body of our research output as a statement of risks and opportunities offered by unrecognised qualities. ESG analysis is also directly linked to the overall stock score sheet such that these assessments directly influence the overall quality score of every company. In addition, we mechanically adjust the discount rate for each company to reflect the individual ESG score. A low ESG score translates into an addition to the discount rate of up to 200 bps, thus penalising the stock and reducing its attractiveness. The rationale for this is that a company associated with poor ESG practices is likely to be an inherently riskier investment, which the discount rate should reflect. Conversely, a high ESG score can indicate an exemplary company that presents less risk and can result in a reduction of the discount rate of up to 100 bps. Hence, our adjustment to the discount ranges between +200 bps to -100 bps. We believe the asymmetric adjustment range reflects the asymmetric nature of ESG risk. We have provided, as a separate attachment, a white paper called "Determining the Cost of Equity". This paper describes, in detail, Barings' approach to determining the cost of equity and how we calculate and include discount rate in our investment decisions.

Please find below an example ESG scorecard.

Quality Score Influencers	9 Key Topics		Data / Issues to Consider	Date Sources
Sustainability of The Business Model (Franchise)	1 Employee Satisfaction	Exemplary	Staff Turnover; Strikes; Fair Wages; Injuries; Fatalities; Unionized Workforce	Bloomberg ESG / Sustainalytics / MSCI ESG / Knowledge of the Company
	2 Resource Intensity	Exemplary	Water Usage / Sales; GHG Emissions / Sales; Energy / Sales	Bloomberg ESG / Sustainalytics / MSCI ESG / Knowledge of the Company
	3 Traceability / Security in Supply Chain	Exemplary	Traceability of Key Inputs, Investments in Protecting the Business from External Threats, e.g. Cyber Saecurity; Backward Integration (Protection of Key Inputs)	Bloomberg ESG / Sustainalytics / MSCI ESG / Knowledge of the Company
Corporate Governance Credibility (Management)	4 Effectiveness of Supervisory / Management Board	Exemplary	Seperation of Chair & CEO; Size of Board; Frequency of Meetings; Attendance Record; Voting Structure	Bloomberg ESG / Sustainalytics / MSCI ESG / Knowledge of the Company
	5 Credibility of Auditing Arrangements	Exemplary	Credible Auditor; Independent Audit Committee; Qualification to Accounts	Bloomberg ESG / Sustainalytics / MSCI ESG / Knowledge of the Company
	6 Transparency & Accountability or Management	Exemplary	Access to Management; Financial Reporting; Tax Disclosure; Appropriate Incentive Structure	Bloomberg ESG / Sustainalytics / MSCI ESG / Knowledge of the Company
Hidden Risks on The Balance Sheet (Balance Sheet)	7 Environmental Footprint	Exemplary	GHG Emissions; Carbon Intensity; History of Environmental Fines / Sanctions; Reduction Programmes in Place for water / Waste / Resources Intensity	Bloomberg ESG / Sustainalytics / MSCI ESG / Knowledge of the Company
	8 Societal Impact of Products / Services	Exemplary	Health / Wellness Implications of Consumption of goods / services; Product Safety; Community Engagement	Bloomberg ESG / Sustainalytics / MSCI ESG / Knowledge of the Company
	9 Business Ethics	Exemplary	Anti-Competitive Practices; Bribery / Corruption; Whistle-Blower Policy; Litigation Risk	Bloomberg ESG / Sustainalytics / MSCI ESG / Knowledge of the Company
	Change to Discount Rate	-1.00%		

Source: Barings, as at January 2017

ESG plays an integral role in our process. It is our assessment that well-governed companies are better positioned to manage the risks inherent in running a business over the long term and to leverage a competitive advantage to create value for the owners of their business: the shareholders. Neglecting responsibilities to society and the environment represents a risk to the sustainability of the business and, over time, could come to compromise earnings and cash flows. Identifying and avoiding the risks posed by poor practice in these areas has the potential to enhance investment performance and is complementary to Barings' quality GARP philosophy and the work we do to identify high quality companies with sustainable competitive advantages and long-term earnings visibility.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

In determining when to take action, our broad approach is as follows: Barings seeks to engage when governance is a meaningful risk with the potential to reduce the value of a company in which we are investing and where we feel that management is likely to respond to our initiatives. We act on our views when we believe the interests of management are being prioritised over those of shareholders. In doing so, we are careful to strike an appropriate balance between improving performance through engagement and protecting client interests by simply selling our holdings (on the reasonable grounds that the investment case has altered).

When it comes to escalating governance concerns, there is a range of options available to asset managers. The least intrusive way of doing so is through a discussion with a company's advisor or an investor relations officer. Alternatively, in order of increasing assertiveness, managers in the industry can raise issues through the following channels: in private with senior management or non-executive directors; in public at annual or extraordinary general meetings; in public at meetings convened at our request; or, in extreme circumstances, via the press. Our view is that actions at the more aggressive end of the scale tend to generate counterproductive and defensive responses from executive teams. Therefore, we tend to favour private meetings. The lead analyst or portfolio manager on a stock manages escalation, overseen by his or her team head. The process of escalation further depends upon local market practice and regulatory options.

A recent area of focus for Barings has been collective investment schemes. Here, for example, conflicts of interest can emerge between companies and their shareholders over corporate structure proposals. If the proposals put forward are not in our clients' interests, we have demonstrated a willingness to requisition a vote, or to vote at public meetings against proposals that we find unacceptable. We are also willing, if necessary, to vote for an orderly winding up of a collective investment company, if this is in the best interests of shareholders.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

Collective action has the potential to maximise the impact of governance activities. It allows managers to share knowledge and opinions with other shareholders while giving our views more weight when presented to management. However, the collective approach is not suitable for all circumstances. It will not always capture the particular mix of views generated by our investment process and runs the risk of being "captured" by single-issue campaigners. Against this background, Barings considers collective initiatives on a selective basis.

We are a signatory to the United Nations' Principles for Responsible Investment, which promotes ESG in or industry and has its own collective action platform that we engage in. We are also willing to consider participation in collective action initiatives organised in an ad-hoc, issues-by-issue manner. Amongst the areas where Barings and/or our collective action bodies have launches initiatives in recent years are corporate restructurings, management change and overall strategy.

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.

As explained above, our policy is to vote on behalf of our clients as systematically as is practicable, using inputs from Glass Lewis that are reviewed by our portfolio managers. In the disclosure area, details of our voting record are publicly available at http://www.barings.com/investment-policies. These records show how we have voted in relation to both management and Glass Lewis recommendations. Reports are refreshed half-yearly and cover the two most recent six-month periods in each case. We disclose our voting record with a three-month time lag. Additionally, we provide regular voting reports for clients upon request. Barings voted on 19,138 resolutions during 1st July 2016 to 30th June 2017 and 18,646 resolutions the prior 12 months on behalf of clients across a wide range of geographies.

In some cases, we determine that it is not in the best economic interests of our clients to vote. This typically reflects considerations of relevance in markets outside the UK. In these markets, some 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. Generally, these instances are related to Powers of Attorney for overseas companies where the relevant documentation has not been completed in time. We did not vote on 306 proposals during 1st July 2016 to 30th June 2017, equating to 1.6% of the total.

It is not our policy to inform companies in advance of our intention to vote against management recommendations systematically. Our view is that the benefits gained from doing so are marginal in relation to the costs involved. Investee companies are generally aware of Glass Lewis’ recommendations. Further, management teams of our holdings will be aware of contentious issues since we disclose that Glass Lewis guides our voting policy. We encourage companies to enter into dialogue with Glass Lewis, where appropriate, and discuss our voting options with management on a case-by-case basis. We do not allow custodians to undertake stock lending for positions held on the behalf of our clients.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities.

In addition to the reporting initiatives in the voting area outlined above, we publish our Corporate Engagement policy (of which this statement forms a part). We also publish a public Transparency Report via our submissions to the UN PRI framework that includes governance disclosures. To provide further information on how we exercised voting rights relative to our peers, we participate in the Trades Union Congress survey of fund managers’ voting records. The frequency of reporting for all of these reporting mechanisms is annual.

As part of our broader programme of reporting to clients, we occasionally include an element of governance disclosure. This takes the form of both text comments and of slides in reporting packs. Some clients require us to comment regularly on our governance activities. In several areas (i.e. emerging markets), governance concerns are a greater risk factor than elsewhere, meriting regular discussion at prospecting and servicing meetings. An external auditor reviews our key controls around voting annually and form part of our Audit and Assurance report. This enables us to obtain independent assurance of our governance capabilities.

FIXED INCOME

The Fixed Income team operates across both public and private markets, with a focus on both bonds and loans. In certain situations it may be our view that clients are better served through us receiving private side information and in such situations this information is shielded from the wider firm. We note that conflict management processes have been in place within the firm for many years to cover any situations that arise. These processes are transparent and open to review and challenge by our clients. In fact, many of our procedures comply with the broad principles as outlined in the UK Stewardship Code (particularly in the areas of managing conflicts of interest, the requirement to monitor investee companies and collaborative engagement with other investors). However, the inherently private nature of a significant part of our target investment market renders the terms of the UK Stewardship Code, which is more applicable to public equity-based investments, less applicable for the investment activities in which these entities engage.

Rather, we abide by our signatory status to the United Nations Principles of Responsible Investment (UN PRI). The six principles of the UN PRI are similar to those enumerated within the UK Stewardship Code and are listed below. These Principles apply across all of our investments, both public and private.

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest
- Principle 4: We will promote acceptance and implementation of the principles within the investment industry
- Principle 5: We will work together to enhance our effectiveness in implementing the principles
- Principle 6: We will each report on our activities and progress towards implementing the principles

We report on our responsible investment activities annually in a Transparency Report that is publicly available on the UN PRI website https://www.unpri.org/organisation/barings-llc-f-k-a-babson-capital-management-llc-142571.

REAL ESTATE

Within our real estate management business, we recognise the importance of, and the principles set out in, the UK Stewardship Code and are committed to complying with it. However, we primarily focus on the provision of advice and/or management of collective investment schemes that invest in real property.

Barings Real Estate provides our clients with an investment platform that excels in its commitment to ethical, sustainable and responsible investing in both direct and indirect real estate. We embrace a culture of taking responsibility and making decisions that are right: Decisions that are right not only for our investors, but also for the world in which we live. We stand behind these commitments, and wants our investors to feel proud to have retained us to help them meet their real estate financial and investment goals.

Given that we operate in the real estate investment arena, the terms of the UK Stewardship Code are perhaps less relevant. Rather we abide by our signatory status to the UNPRI, as referred to in the above section on Fixed Income. We value transparency in reporting our ESG strategy and performance data, therefore, we are a member of the Global Real Estate Sustainability Benchmark (GRESB) and have been reporting since 2013. The GRESB reporting framework allows us to benchmark ESG performance so that we may strive to improve and update our ESG program each year. For further information on GRESB, please refer to https://gresb.com/

Additionally, we are committed to adhering to the requirements within the ESG Disclosure Framework for Private Equity (“the Framework”). The Framework is a response to the changing and diverse expectations for the disclosure of ESG information. It sets forth due diligence and disclosure questions for investors and is designed to encourage sharing of ESG strategies, policies and practices between clients and investors. A copy of the Framework can be accessed from the following website:

https://www.investeurope.eu/media/21433/ESG_disclosure_framework.pdf

To ensure that we are managing our real estate sustainability risks and opportunities and are communicating our approach to key stakeholders, employees are required to comply with Barings’ Real Estate Global Sustainability Policy (“the Policy”). This sets out five principal objectives:

Enhance:	To enhance a property’s “green” credentials during the period of investment
Reduce:	To seek cost-effective ways of reducing energy consumption, carbon emissions, water consumption, and waste generation while providing positive benefits to the occupiers of the buildings under management
Measure:	To measure the impact of properties on the environment, including positive impacts of any sustainability measures undertaken
Engage:	To engage our identified stakeholders through appropriate communication channels and disclose sustainability objectives, strategies and performance regularly
Lead:	To promote Barings Real Estate ESG Objectives, Strategies and Tactics through the governance of the ESG Real Estate Committee

A full copy of the Policy can be accessed from the following website:

https://www.barings.com/assets/user/media/ESG-Sustainability-Policy.pdf

Finally, we maintain a Real Estate Environmental, Social and Corporate Governance committee (“ESG Committee”) with reporting responsibilities to senior management. The role of the Real Estate ESG Committee is to review all real estate environmental, social and corporate governance matters, including, but not limited to: setting policy, completing surveys, pursuing memberships, reporting on the respective topics, and internal and external stakeholder engagement. This committee reports into the Barings Global ESG Committee which covers the entire business.

FURTHER INFORMATION

For further information, please contact:

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In addition, please refer to Barings' ESG Investment Policy Statement which can be found on our website at the following link: https://www.barings.com/assets/user/media/Barings-ESG-Policy-Statement.pdf.