PineBridge® INVESTMENTS
A MetLife Investment Management Company

ESG Asset Class Report

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Executive Summary

The COP30 conference held in Belém, Brazil, was disappointing overall, as the race for financing overtakes national target-setting in a rapidly shifting landscape. The first COP without an official US presence contributed to a leadership void and a greater fracturing into like-minded coalitions.

While changes to our Engagement Level and ESG Outlook assessments typically evolve over time for any particular asset class, we did revise the ESG Outlook across certain of the equities sub-asset classes we assess. Some updates from our last review include:

Sovereigns

Global environmental momentum has plateaued, underscored by the US withdrawal from the Paris Agreement and the absence of a US delegation at COP30, leaving a material leadership vacuum. Post-COP30 outcomes increasingly reflect a shift in global climate ambition from a 1.5 °C to a 2.0 °C warming path by 2050, as execution risks persist amid energy security priorities and sustained fossil fuel dependence. Social factors remain the most binding ESG constraint, particularly gender inequality and adverse demographic trends. Governance trajectories are diverging more sharply, elevating institutional strength and policy implementation capacity as key drivers of relative ESG performance and market differentiation. Our Sovereign ESG Outlooks remain unchanged this period.

Equities

We upgraded select ESG Outlooks across Asia-Pacific equities. Japan's improving ESG profile is underpinned by strong governance and incremental progress on environmental factors. South Korean equities exhibit a clearly improving ESG trajectory, supported by meaningful gains in both the environmental and governance pillars. In Europe, a robust regulatory framework has driven substantial ESG progress, reinforcing the region's leadership across E, S, and G pillars. However, we revised our ESG Outlook from Improving to Stable for European Large Cap equities, as well as France and Germany equities, reflecting a shift in the region's ESG regulatory stance from expansion toward simplification.

Fixed Income

In global fixed income, ESG activity remains uneven across regions and asset classes. US investment grade credit continues to lead on overall ESG quality, supported by strong governance practices and disclosure standards, though forward momentum has moderated amid higher financing costs and regulatory rollbacks. Asian credit and EM corporate debt remain structurally carbon-intensive, with uneven climate progress and persistent social and governance risks. Weaker regulatory enforcement globally and declining sustainable issuance make active engagement and close monitoring of transition risks across credit markets paramount. Our Fixed Income ESG Outlooks remain unchanged.

The chart below summarizes our most recent asset class review for the 50+ sub-asset classes we cover in this report.

Key: Red: Downgrades Green: Upgrades Purple: New Coverage

ESG Engagement Level / ESG Outlook	LAGGING	STABLE		IMPROVING	
LOW	• Hong Kong Equity	• Canada Sovereign • France Sovereign • Japan Sovereign • Singapore Sovereign • South Korea Sovereign • UK Sovereign • US Sovereign • US Investment Grade Credit • US High Yield	• Europe Small Cap Equity • Productivity Basket • Taiwan Equity • US Defensives • US Financials • Europe Large Cap Equity • France Equity • Germany Equity	• Australia Sovereign • Germany Sovereign • Spain Sovereign • Australia Equity • Japan Equity • South Korea Equity • Listed Infrastructure • Singapore Equity	• Spain Equity • UK Equity • US Cyclicals • US Industrials • US Quality • EU Carbon Allowances
HIGH	• China Sovereign • Indonesia Sovereign • Mexico Sovereign • South Africa Sovereign • EM Corporate • US Bank Loans • Brazil Equity • China Equity • Mexico Equity • Listed Private Equity	• Brazil Sovereign • Asian Credit • Energy E&P • Global Mining • India Equity • US Small Cap Equity		• India Sovereign • Energy Evolution Basket	

As of December 2025. For illustrative purposes only. We are not soliciting or recommending any action based on this material. Any views represent the opinion of the manager and are subject to change.

Global Developments and Trends

A snapshot of notable developments around the world

Europe: ESG regulation shifting from expansion to simplification

The EU has been a global leader in ESG, driving improvement through regulation. While the EU reaffirmed pledges at COP30 to cut emissions by at least 55% by 2030 compared to 1990 levels and to become climate-neutral by 2050, Europe's ESG regulatory environment is shifting from expansion to simplification, with reduced Corporate Sustainability Reporting Directive (CSRD) scope and delayed due-diligence obligations following passage of EU Omnibus I.

Environment

The EU has a strong Renewable Energy Directive compared with other regions across the globe, with renewables targeted to generate 42.5% of EU energy consumption by 2030.

Germany remains an EU frontrunner on climate ambition and ESG regulation, committed to its 2030 coal-exit pathway (ahead of the 2038 legal requirement) and developing renewables to achieve climate-neutrality by 2045. At COP30 in Belém, the government reaffirmed the 1.5 °C goal and pledged an additional €60 million to the UN Adaptation Fund to support particularly vulnerable countries.

Spain also is at the forefront of the renewables transition, investing heavily in renewables and aiming for 81% renewable electricity by 2030. Progress on renewable deployment, grid investment, and energy security continues to translate climate ambition into measurable outcomes.

In contrast, France remains vocal on climate issues yet faces some deterioration in environmental metrics, driven by continued reliance on fossil fuels despite progress in nuclear power and emissions reductions. Renewables expansion continues to lag that of many EU peers, and political fragmentation has increased focus on domestic issues, potentially reducing environmental policy momentum.

Social

Germany is taking a leading role in supply chain management, passing the German Supply Chain Act. The Act, which first became effective in 2023 for companies with at least 3,000 employees, was expanded in 2024 to include companies with at least 1,000 employees. The Act requires companies to take measures to prevent human rights violations, such as child and forced labor, and environmental damage in their global supply chains.

Social challenges persist in Spain, yet they are increasingly being mitigated through labor-market reforms and EU recovery funding. Spain recently approved an extraordinary regularization program granting legal residence and work permits to approximately 500,000 undocumented migrants, aiming to reduce informality, address labor shortages, and support social cohesion.

Governance

EU ESG leadership has been driven by a strong corporate disclosure framework, with directives including, but not limited to:

- Corporate Sustainability Reporting Directive (CSRD)
- Sustainable Finance Disclosure Regulation (SFDR)
- Sustainable Corporate Governance Framework

Each EU country must implement the directives in its own legal framework.

Europe's ESG regulatory environment is shifting from expansion to simplification following passage of EU Omnibus I in late 2025. In France, the CSRD now applicable to companies with more than 1,000 employees and €450 million+ total revenue makes sector standards voluntary, and climate-transition-plan requirements have been removed. This shift is expected to reduce accountability and transparency across companies in countries that ease their standards accordingly.

In addition, the Corporate Sustainability Due Diligence Directive has been adopted and published in the Official Journal of the European Union. Notably, thresholds increased to 5,000+ employees and €1.5 billion total revenue.

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APAC: Governance reform disclosures reduce ESG risk across Asia

Across Asian equities, ESG risk is gradually improving, led primarily by governance reforms and disclosure enhancements, while carbon intensity and social factors remain key differentiators. Governance is the most consistent positive driver, especially in Japan and South Korea, where reforms are becoming structurally embedded. Environmental progress is uneven and generally misaligned with Paris-consistent pathways, and social factors remain the weakest pillar region-wide, reflecting challenges around demographics, gender diversity, and labor constraints. This backdrop supports active engagement and selective country tilts.

Environment

Environmental progress in APAC is mixed.

South Korea and Japan show policy momentum on decarbonization, yet they remain misaligned with Paris-consistent pathways.

China has continued to expand renewable energy capacity at a globally unmatched scale, with wind and solar installations now accounting for close to 40% of electricity generation. Carbon emissions appear to have plateaued earlier than previously expected. However, coal-fired power capacity continues to expand due to national energy security considerations, reinforcing structural carbon intensity risks. At COP30, China announced a post-2030 emissions reduction target for the first time, but the ambition was broadly aligned with existing policy trajectories rather than representing a step-change.

India is accelerating its clean-energy transition, with non-fossil power capacity surpassing 51%, and making major investments in solar, hydrogen, and nuclear.

Taiwan faces energy transition headwinds following the phase-out of nuclear power, slower-than-target renewable adoption, and increasing reliance on LNG.

Social

Social factors remain the weakest pillar region-wide, reflecting challenges around demographics, gender diversity, and labor constraints. In China, income inequality remains high relative to emerging-market peers, with limited near-term improvement despite policy emphasis on “common prosperity.” Moreover, human rights concerns, including forced labor allegations, remain unresolved.

In South Korea, the Social pillar remains the most challenged, as improvements in income distribution have not translated into broader inclusion, with persistent gender disparities and low birth rates posing longer-term sustainability risks.

There is improvement in India, where a high rate of digital adoption has led to a rapid financial inclusion rate of 80% in six short years. In addition, India’s long-awaited four new labor codes were implemented in late 2025, providing Better Wages & Compensation, Enhanced Safety & Working Conditions, Universal Social Security, and Simplified Administration.

Governance

Governance reforms and disclosure enhancements are leading ESG improvement in the region. In Japan, governance reforms have strengthened shareholder rights, capital discipline, dividend incentives, and stewardship activity from domestic institutional investors. In South Korea, reforms further enhance fiduciary duty, protect minority interests, and encourage higher dividend payouts. Plans to bolster stewardship code activism are forthcoming.

We are seeing gradual board diversity improvement in Japan, South Korea, and Taiwan. Other issues of note include data quality and auditability in China, and improved transparency driven by mandatory sustainability reporting and IFRS-aligned disclosures in Taiwan.

Global Developments and Trends

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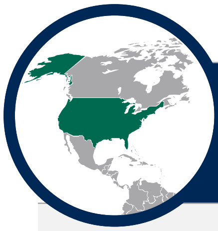

US: Climate momentum has paused

The US withdrew from the Paris Agreement and for the first time, did not send an official delegation to the Convention of the Parties (COP30). It remains to be seen whether the climate momentum achieved under the Biden Administration with the passage of the Bipartisan Infrastructure Law and the Inflation Reduction Act will continue.

Environment

While the US has made progress, its CO_2 emissions per capita remain elevated relative to peers, and its carbon footprint likely will increase with the anticipated increase in oil production.

The commitments made by the Biden Administration at COP29, including its 2035 Nationally Determined Contributions (NDC) and its dedication to global climate policy and international cooperation, were effectively annulled when the Trump administration withdrew from the Paris Agreement. The current administration also seeks to limit financial commitments to other countries for climate change mitigation and adaptation efforts made by the US under the UN Framework Convention on Climate Change.

COP30 marked the first COP Convention in which the US did not send an official delegation, and no country stepped in to fill the leadership void, causing concern that climate momentum globally may have stalled.

That said, we anticipate continued positive momentum in the US from the implementation of the Inflation Reduction Act (IRA) and the Bipartisan Infrastructure Law (BIL), given that these programs are being funded in both Democratic and Republican states. The nonpartisan business organization E2 reported that over 60% of all IRA-related clean energy projects went to Republican congressional districts in the two years following its passage. In addition, the US Department of Transportation reports that the BIL has benefited all 50 US states, the District of Columbia, and US territories. We are monitoring activity closely for further developments.

In addition to legislative action, we note that green initiatives in the US also have been driven by active investor engagement, and we expect this to continue. However, the significant shift in climate policy under the Trump administration has set the US on a trajectory toward a substantial overshoot of the 1.5˚C temperature limit, which will be difficult to reverse even with constructive actions by future administrations.

Social

The US Social score has deteriorated over the past three years. This trend may continue with the deportation of undocumented immigrants, education spending cuts, and other policies that exacerbate inequalities. Income inequality, as measured by the GINI Index, is greatest for the US relative to its peers.

Governance

The US Governance improvement score has increased over the past three years and now ranks second, behind France. Improvement relative to peers is driven by the World Justice Project's WJP Rule of Law Index and the Sustainable Development Goals Index. However, the improvement is offset by some deterioration in the Corruption Perceptions Index and Political and Operational Stability Index.

Global Developments and Trends

A snapshot of notable developments around the world

Latin America and EMEA (Emerging):
Progress on the environmental pillar while social and governance lag

Emerging markets in Latin America and EMEA have committed to progress on environmental goals and have plans in place to pursue them. However, social issues – most notably human rights concerns – are an ongoing problem in many areas, as are governance concerns related to persistent corruption.

Environment

Emerging markets in Latin America and EMEA have committed to progress on environmental goals and have plans in place to pursue them.

Brazil elevated its climate leadership in 2025 by placing nature and forest protection at the center of COP30. President Lula's administration has formally pledged to reach zero deforestation by 2030 and has reaffirmed methane-reduction rules for the oil & gas sector by end-2025.

Mexico presented its NDC 3.0 at COP30, raising its climate ambition by introducing its first-ever absolute economy-wide emissions cap for 2035 and reaffirming its goal for net-zero emissions by 2050. However, energy transition execution remains weak amid a state-dominant power system and heavy fossil reliance.

South Africa's emissions per capita are 1.5 times the global average, and its coal emissions per capita are the highest in the G20. Coal remains the primary source of energy for South Africa, accounting for about 80% of the nation's power. South Africa is pioneering the Just Transition model of funding for energy transition – which aims to raise $12.8 billion from a range of countries to reduce coal use while protecting vulnerable workers and communities. While investment has started flowing, the pace of implementation is highly uncertain.

Social

Human rights and other social issues continue to weigh on Latin American and emerging EMEA sovereigns.

Income inequality remains stubbornly high in Brazil, and social risks have intensified. Record levels of gender-based violence prompted a new federal protection law in late 2025.

In Mexico, social safety nets have weakened and crime is rising, dampening our outlook for overall social stability. Human Rights Watch reports persistent torture, disappearances, and abuses by security forces and continued impunity. Mexico ranks 33rd in terms of its gender gap despite some progress in areas such as women's economic participation, though it still ranks 122nd in the world on that metric.

Inequality remains high in South Africa and has not improved. South Africa has the highest rate of income inequality in the world, with 10% of the population owning more than 80% of its wealth.

Governance

Corruption remains an impediment to economic development in parts of Latin America and emerging EMEA.

While Brazil has deteriorated with regard to corruption, the Brazilian Securities Commission (CVM) now requires all listed companies to publish sustainability-related reports aligned with the International Sustainability Standards Board (ISSB) standards.

In Mexico, governance conditions deteriorated, marked by low-credibility judicial elections and record-low rule-of-law and corruption scores. After reforms aimed at enhancing the judiciary's transparency and accountability, Mexico held its first nationwide judicial elections in 2025. Turnout was among the lowest globally, at about 13%, and international observers warned of politicization, voter "cheat sheets," and risks to judicial independence. Mexico fell in the WJP Rule of Law Index to 121 out of 143, with deterioration in constraints on government power, rights protection, and criminal justice. It also fell in the Corruption Perceptions Index, to 140 out of 180 countries, its worst score ever, driven by impunity, scandals, and weakening institutions.

Corruption remains a top concern in South Africa, ranking lowest among the EM sovereigns we cover.

Our ESG Review Process

Our ESG semiannual review of 50+ sub-asset classes aims to produce two important indicators for each asset class: (1) the ESG Outlook focused on forward-looking improvements, and (2) the ESG Engagement Level, which informs the level of ESG risk present and the expected engagement needed to drive improvement. We use the insights from this process to evaluate their likely impact on cash flows and capitalization rates as part of our Capital Market Line (CML) modeling and global asset allocation. Our ultimate goal is to seek and foster sustainable business practices through our investments, thus providing better outcomes for our clients.

1 ESG Outlook

We believe forward-looking improvements in ESG will support cash flows and result in a more generous discount rate, driving investor value. We develop our ESG Outlook by:

- **Spotlighting the E, S, and G trends for both the current state and the areas of ESG improvement for each asset class.**

  We built a series of individual E, S, and G factors and combined ESG historical trend lines to assist our research. We use proprietary tools and third-party data from MSCI, Bloomberg, and the Sustainability Accounting Standards Board (SASB), which provide the current status and recent trends for E, S, and G, as well as ESG overall for each asset class. For sovereigns, we have developed a proprietary framework incorporating publicly sourced ESG factors to assess countries' exposures to, and management of, ESG risks.

- **Understanding the recent improvement trends and current state for each of the E, S, and G pillars.**

  This provides a baseline to frame the ESG Outlook and ESG Engagement Level. We then drill down to understand each asset class's history and its current E, S, and G status. When a security skews these results, it becomes a useful guide for the team to identify which companies need to be engaged with, and which issues need to be addressed.

  The art is in identifying the potential catalysts of forward-looking improvement to move us above or below the existing trajectory. To complement our ESG research, we discuss and debate ESG-related changes underway at the asset class level with our bottom-up specialists, and then independently decide whether the forward-looking ESG Outlook is "Improving," "Stable," or "Lagging." We also place a special focus on certain E and S characteristics of global importance for each sub-asset class, specifically carbon emissions and board gender diversity, as well as the wealth gap for sovereigns (i.e., the Gini coefficient).

2 ESG Engagement Level

Engagement is a key component of our ESG improvement philosophy, particularly when we see potential in investments that are lagging on ESG.

The ESG Engagement Level reflects our assessment of the ESG risk if we were to invest passively in the asset class. The associated level of engagement we prescribe (Low or High) refers to what is required of investors, in our view, to drive enough ESG improvement given the asset class's current state, historical ESG trends, and degree of potential improvement in the asset class.

For instance, a "High" Engagement Level indicates the asset class's current ESG state is not favorable, the existing trends are not encouraging, and triggers for improvement are not apparent. In our view, traditional passive investing is not acceptable or appropriate for such an asset class, even if investing in the asset class is financially attractive after taking the drag from ESG into account as part of our Capital Market Line modeling.

Too few constituents in the index are likely to improve or appear receptive to engagement for improvement. In such circumstances, we will consider exposure to the asset class if we can source an active manager that we deem is very likely to add alpha in the right way – via vigorous ESG integration and engagement. We also may create an ESG-optimized allocation using third-party data for current and momentum carbon emissions and board gender diversity factors.

We seek to identify the potential good actors in segments that may be lagging on ESG, looking to incentivize others by producing clear improvements in performance. This is essential in a world where the largest potential improvements in areas like carbon emissions are in the lagging asset classes.

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