30 September 2025

ESG Asset Class Report

By:

Global Multi-Asset Team (GMAT)
PineBridge Investments

Executive Summary

The Trump Administration hit the ground running in January, signing 26 executive orders on Inauguration Day alone. The orders spanned a wide range of environmental, social, and governance issues, including immigration, energy policy, and federal workforce rules, along with the withdrawal from certain international agreements. We conducted a deep dive into the US sovereign, equities, and fixed income asset classes to identify and assess any catalysts for a change in outlook. We also reviewed our UK sovereign and equities outlooks, which remain on positive watch.

Changes to our Engagement Level and ESG Outlook assessments typically evolve over time for any particular asset class. While we did not revise our ESG assessments following our in-depth examination of the US sovereign, equities, and fixed income asset classes, some key updates from our last review include the following:

Sovereigns

We are mindful of potential developments affecting our US sovereign outlook. Legislative action taken under the Biden administration is funding a number of programs, more in Republican than Democratic districts. As such, the US outlook may be less dire than it appears. However, various actions taken by the Trump administration have led us to keep our US sovereign ESG Outlook on watch. Our UK sovereign ESG Outlook remains on positive watch, reflecting a major shift with the restoration of previously diluted climate policies. While the UK is the first developed market to submit Nationally Determined Contributions (NDCs) aligned with net zero emissions by 2050, concerns persist around their effective implementation and the nation's fiscal capacity.

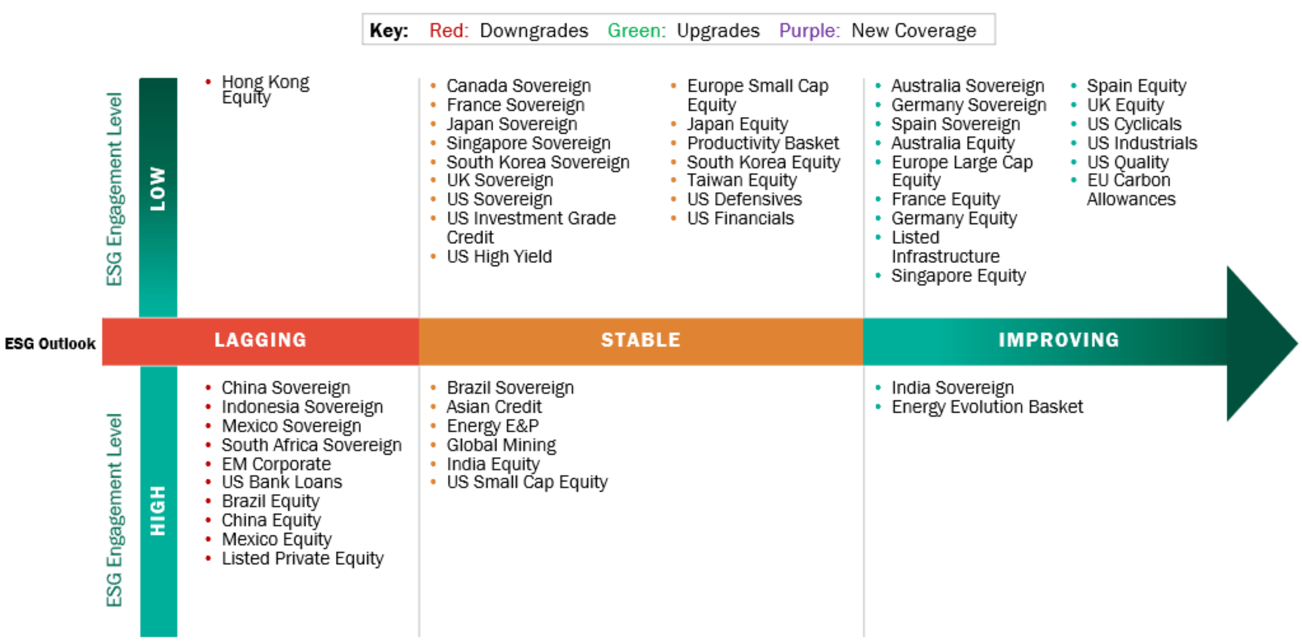
Equities

Well-known US companies have made headlines by rolling back certain policies, particularly those related to diversity, equity, and inclusion (DEI) and net zero commitments. However, while companies may be changing terminology, they are not necessarily changing the underlying programs deemed beneficial to their employees and other stakeholders. Companies recognize that to remain competitive and improve upon their sustainability, they must consider their consumers, brands, and investor demands. That said, we continue to monitor the situation closely. UK equities remain on watch due to recent regulatory changes that may weaken governance and sustainability standards.

Fixed Income

We maintained our "Stable" ESG Outlook on US Credit and US High Yield. For US Credit, although carbon intensity is lower and board diversity is improving relative to global peers, we are seeing a decline in new issuance of green and sustainability-linked bonds and a stabilization in ESG trends overall. Although US High Yield lags the global bond universe, improvements are evident in certain areas, including board diversity and community relations. The divergence between federal and state policies is complicating compliance for certain issuers, depending on their geographic footprint and investor base.

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



As of 30 June 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

US: Big shifts from the top in sentiment and policy

The US sovereign outlook remains on watch as we assess the impact of withdrawal from the Paris Agreement, implementation of historic changes to longstanding social programs, and a strong deregulatory push.

Environment

Despite progress made by the Biden Administration at the COP29 convention, where the US demonstrated its dedication to global climate policy and international cooperation, its 2035 NDC submitted in late 2024 was not 1.5˚C aligned and will be removed under the Trump administration, which began the process to withdraw from the Paris Agreement with President Trump's Executive Order 14162. The withdrawal effectively removes the US commitments to cut greenhouse gas emissions and reduces its role in global climate cooperation.

Importantly, the Trump administration did not withdraw the US from the treaty underlying the Paris Agreement, the United Nations Framework Convention on Climate Change. As the UNFCCC is a binding treaty, ratified by the US Senate in 1992, withdrawing from it would require congressional action and, in our view, would be more significant.

We anticipate continued positive momentum from the implementation of the Inflation Reduction Act (IRA) and the Bipartisan Infrastructure Law (BIL), given that programs are being funded in both Democratic and Republican states.

Although the Trump administration has used executive authority to undermine implementation of the IRA, the vast majority of funding is for tax incentives, which remain fully funded and operational. Grants and loans have seen the steepest operational drop due to freezes and rescissions.

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. However, while domestic oil production has increased steadily since 2020 and is at record levels, the EIA projects it will peak in 2025, then decline in 2026, with US energy consumption remaining relatively stable.

Green initiatives in the US continue to be driven by active investor engagement and other stakeholder interests. Notably, major global financial institutions have withdrawn from the Net Zero Banking Alliance, yet remain committed to achieving net zero by 2050, with stated targets for financed and internal emissions reductions by 2030.

Social

The One Big Beautiful Bill Act (OBBBA) cuts funding to longstanding social programs such as Medicaid (health coverage) and SNAP (food benefits) and institutes tougher eligibility and work requirements. Yet the act's provisions are more balanced than headlines might suggest. The OBBBA includes tax deductions to fulfill Trump's "no tax on tips" and "no tax on overtime" campaign promises, benefiting low- to middle-income workers in service occupations, and boosts the child tax credit and dependent care FSA pretax contribution limit. It also establishes funding of a "Trump Account" with a $1,000 deposit for every child born during his term.

President Trump also issued Executive Order 14151 to terminate federal DEI and DEIA programs and restore merit-based systems. Proponents argue that it restores fairness and efficiency while critics argue that it undermines equity and inclusion. It bears watching.

Governance

President Trump's deregulation agenda is aimed at reducing federal oversight and private sector compliance costs and boosting economic growth. This deregulatory push has the potential to reduce unnecessary bureaucracy and associated costs while empowering innovation.

Global Developments and Trends

A snapshot of notable developments around the world

UK: A renewed commitment to green targets

The UK is the first developed market to legislate a net zero carbon emissions target by 2050 and is advancing its ESG agenda, with a continued focus on diversity and transparency and stronger governance reforms.

Environment

The UK has seen a significant shift in environmental policy with the Labour government's ascension to power. Unlike the previous administration's cautious approach to climate policies, the new government has a national mission to make the UK a clean energy superpower. At COP29, the prime minister announced an ambitious and credible Nationally Determined Contribution (NDC) target to reduce all greenhouse gas emissions by at least 81% by 2035, compared to 1990 levels (excluding international aviation and shipping emissions, in line with UNFCCC convention). The UK's Climate Change Committee, an independent statutory body established under the Climate Change Act 2008, has determined the target is credible and aligned with achieving 1.5 °C. In addition, the target is in line with the UK's Carbon Budget 6, which is set in domestic legislation (the carbon budget includes international aviation and shipping emissions).

While the Labour government has signaled stronger climate ambitions, including plans to accelerate net zero and regulate ESG ratings providers, execution and financing remain uncertain. High deficits constrain any further green spending, and pressure to deregulate planning and capital markets may come at the cost of ESG progress.

The political environment is stable for the next five years, lending certainty that policy will continue to be pro-environmental for at least that long. We are closely monitoring the upcoming fiscal events and reviewing policies such as the new planning bill for signs that the progress is going to reverse over the medium term.

Social

The UK is one of the few developed markets in which income inequality is subsiding, and its gender pay gap has generally declined over time. However, the country's Human Capital Index (which measures a child's potential future productivity by examining health and education outcomes from birth to age 18) and Ease of Doing Business Index (which measures the ease of starting and operating a business in a given country) have deteriorated recently.

The Labour government is implementing social programs encompassing housing, social care, healthcare, and welfare, including committing to the largest increase in social and affordable housing in a generation, with a focus on building on brownfield sites.

Other programs are more controversial, including plans to implement a cap on care costs and welfare cuts to manage spending and encourage employment.

Governance

The UK has the worst improvement score among its developed market peers.

Recent regulatory changes may weaken governance and sustainability standards. The Financial Conduct Authority's overhaul of listing rules – merging premium and standard segments and removing requirements for shareholder votes on significant transactions – reduces traditional governance safeguards and introduces greater flexibility for dual-class share structures, which investors have criticized as diluting accountability. At the same time, the revised UK Corporate Governance Code has dropped all explicit references to ESG, signaling a deprioritization of sustainability considerations at the board level. These developments, combined with uncertainty around future sustainability disclosure standards, could slow progress on ESG integration and increase the risk of governance-related controversaries, warranting closer monitoring.

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.

Any views represent the opinion of the manager, are valid only as of the date indicated, and are subject to change. The views expressed do not necessarily reflect the opinions of any other investment professional at PineBridge Investments and may not be reflected in the strategies and products that PineBridge offers. Opinions expressed herein may differ from the views or opinions expressed by other areas of PineBridge Investments. It should not be assumed PineBridge will make investment recommendations in the future that are consistent with the views expressed herein or use any or all of the techniques or methods of analysis described herein. PineBridge Investments and its affiliates may have positions (long or short) or engage in securities transactions that are not consistent with the information and views expressed in this document. Information from third party sources has not been independently verified. Any opinions, projections, forecasts and forward-looking statements are speculative in nature; valid only as of the date hereof and are subject to change. PineBridge is not soliciting or recommending any action based on this information. This material does not constitute legal advice or investment research. Views may be based on third party data which has not been independently verified.

Global Disclosure Statement

PineBridge Investments is a group of international companies that provides investment advice and markets asset management products and services to clients around the world. PineBridge Investments is a registered trademark proprietary to PineBridge Investments IP Holding Company Limited.

Readership: This document is intended solely for the addressee(s) and may not be redistributed without the prior permission of PineBridge Investments. Its content may be confidential, proprietary, and/or trade secret information. PineBridge Investments and its subsidiaries are not responsible for any unlawful distribution of this document to any third parties, in whole or in part.

Opinions: Any opinions expressed in this document represent the views of the manager, are valid only as of the date indicated, and are subject to change without notice. There can be no guarantee that any of the opinions expressed in this document or any underlying position will be maintained at the time of this presentation or thereafter. We are not soliciting or recommending any action based on this material.

Risk Warning: All investments involve risk, including possible loss of principal. If applicable, the offering document should be read for further details including the risk factors. Our investment management services relate to a variety of investments, each of which can fluctuate in value. The investment risks vary between different types of instruments. In making an investment decision, prospective investors must rely on their own examination of the merits and risks involved.

Performance Notes: Past performance is not indicative of future results. There can be no assurance that any investment objective will be met. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. PineBridge Investments often uses benchmarks for the purpose of comparison of results. Benchmarks are used for illustrative purposes only, and any such references should not be understood to mean there would necessarily be a correlation between investment returns of any investment and any benchmark. Any referenced benchmark does not reflect fees and expenses associated with the active management of an investment. PineBridge Investments may, from time to time, show the efficacy of its strategies or communicate general industry views via modeling. Such methods are intended to show only an expected range of possible investment outcomes, and should not be viewed as a guide to future performance. There is no assurance that any returns can be achieved, that the strategy will be successful or profitable for any investor, or that any industry views will come to pass. Actual investors may experience different results.

Information is unaudited unless otherwise indicated, and any information from third-party sources is believed to be reliable, but PineBridge Investments cannot guarantee its accuracy or completeness. All information is sourced from PineBridge Investments unless otherwise noted.

This document and the information contained herein does not constitute and is not intended to constitute an offer of securities or provision of financial advice and accordingly should not be construed as such.

The securities and any other products or services referenced in this document may not be licensed in all jurisdictions, and unless otherwise indicated, no regulator or government authority has reviewed this document or the merits of the products and services referenced herein. This document and the information contained herein has been made available in accordance with the restrictions and/or limitations implemented by any applicable laws and regulations. This document is directed at and intended for institutional and qualified investors (as such term is defined in each jurisdiction in which the security is marketed). Before acting on any information in this document, prospective investors should inform themselves of and observe all applicable laws, rules and regulations of any relevant jurisdictions and obtain independent advice if required.

Where applicable, the Manager may determine to terminate any arrangements made for marketing the Shares in one or more jurisdictions in accordance with the AIFM Directive and UCITS Directive respectively, as may be amended from time to time. Investors and potential investors can obtain a summary of investor rights and information on access to collective redress mechanisms at www.pinebridge.com/investorrights.

Certain Geographic Disclosures:

Australia: PineBridge Investments LLC is exempt from the requirement to hold an Australian financial services license under the Corporations Act 2001 (Cth) in respect of the financial services it provides to wholesale clients, and is not licensed to provide financial services to individual investors or retail clients. Nothing herein constitutes an offer or solicitation to anyone in or outside Australia where such offer or solicitation is not authorised or to whom it is unlawful. This information is not directed to any person to whom its publication or availability is restricted.

Hong Kong: The issuer of this document is PineBridge Investments Asia Limited, a company incorporated in Bermuda with limited liability, licensed and regulated by the Securities and Futures Commission (SFC). This document has not been reviewed by the SFC. PineBridge Investments Asia Limited is registered as a Class A Registered Person with the Bermuda Monetary Authority pursuant to the Investment Business Act 2003 (as amended).

Malaysia: PineBridge Investments Malaysia Sdn Bhd is licensed and regulated by Securities Commission of Malaysia (SC). This material is not reviewed or endorsed by the SC.

Singapore: PineBridge Investments Singapore Limited is licensed and regulated by the Monetary Authority of Singapore (MAS). In Singapore, this material may not be suitable to a retail investor. This advertisement or publication has not been reviewed by the MAS.

Taiwan: PineBridge Investments Management Taiwan Ltd. Is licensed and regulated by Securities and Futures Bureau of Taiwan (SFB). In Taiwan, this material may not be suitable to investors and is not reviewed or endorsed by the SFB.

Last updated 15 January 2025. For additional legal and regulatory disclosures including other cross border information, please refer to https://www.pinebridge.com/en/regulatory-disclosure.