

Morgan Stanley

INVESTMENT MANAGEMENT

2025

Fixed Income Engagement Report

FIXED INCOME TEAM | 2025



“We believe it is imperative to maintain continuity and rigour in our stewardship and engagement approach. Through our structured approach to engagement, which tends to prioritise quality over quantity of interactions, we seek to effectively encourage bond issuers to address ESG matters that we believe can affect their business performance.”



ANUJ GULATI
*Managing Director
Global Head of Fixed Income
ESG Strategy & Research*

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Foreword

Over the past twelve months, the MSIM Fixed Income team¹ continued to leverage our US\$220 billion AUM platform² to have meaningful dialogues with bond issuers on ESG topics that we believe are most relevant to their business and financing activities.³

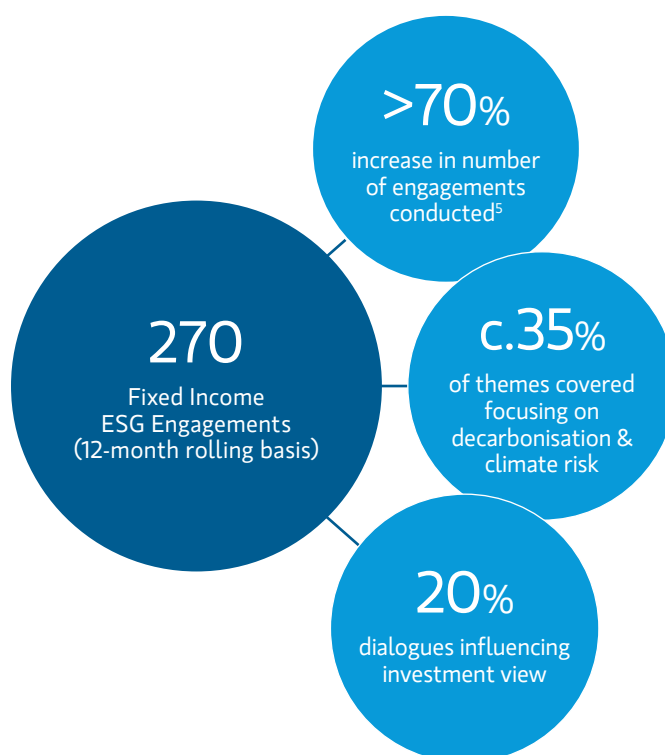
We believe it is imperative to maintain continuity and rigour in our stewardship and engagement approach. As fixed income investors, the breadth and diversity of debt issuers we have access to means that we can engage across a wide range of sectors and entities, supplementing dialogues that take place on the equity side by taking into account the full capital structure of an issuer, and mobilising this in support of positive outcomes. Through our structured approach to engagement, which tends to prioritise quality over quantity of interactions, we seek to effectively encourage bond issuers to address ESG matters that we believe can affect their business performance.

Between July 2024 to June 2025, we conducted 270 meetings with issuers, significantly increasing the number of dialogues by over 70% in comparison to the last period. Importantly, one-fifth of engagements directly influenced our investment views, highlighting how the knowledge gained from our conversations with issuers can affect the investment decision-making process.

As part of our efforts to encourage best practice in sustainable bond issuance, 22% of our total engagement meetings involved discussions on issuers' green and other sustainable-labelled bond frameworks. Engagements with issuers on their labelled debt also extended our scope of interaction to non-listed, small/mid-cap companies, and non-corporate issuers such as governments and development agencies.

Looking forward, we will continue to embed dialogues on ESG topics into our regular touchpoints with issuers as well as into more targeted engagement, leveraging the combined knowledge and expertise of our fundamental credit analysts and ESG specialists. In doing so, we believe effective engagement can help us to identify opportunities for improved risk management and alpha generation,⁴ for the benefit of our clients.

DISPLAY 1 Key Takeaways



¹ The Fixed Income team's capabilities are driven by six specialised teams that span the global fixed income capital markets. Each specialised team has the autonomy to implement its own approach, while centralised resources allow them to focus on driving investment excellence. These Fixed Income centralised resources include dedicated Fixed Income sustainability professionals.

² All references to assets under management are as of 30 June 2025. Strategy assets are inclusive of client mandates invested in the strategy, as well as assets managed on behalf of other MSIM products (primarily global/regional and asset allocation co-managed strategies). The information provided herein is for illustrative purposes only. It should not be construed as a recommendation to buy or sell any particular security or to adopt any investment strategy.

³ The engagement figures and examples in this report relate to activities conducted by investment teams within the MSIM Fixed Income group. This information does not represent engagement activities individually conducted by Calvert Research and Management ("Calvert"), MSIM's responsible investment affiliate, unless otherwise stated. Some team members of the MSIM Fixed Income group may, however, be dual-hatted by MSIM and Calvert.

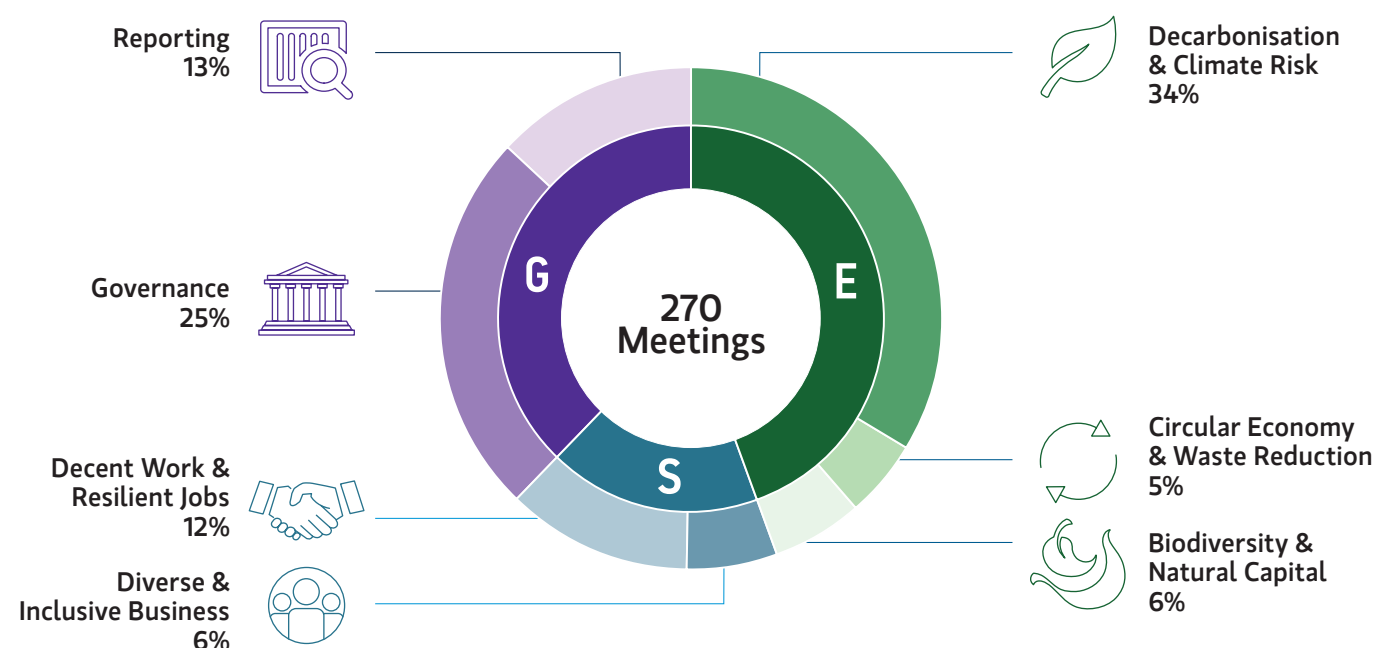
⁴ Please refer to the following for further information: '[MSIM Fixed Income Engagement Strategy: Integrated, Insightful, Influential](#)'.

⁵ Compared to the same 12-month period a year ago.

Engagement by the Numbers

DISPLAY 2

Thematic Breakdown



Refers to meetings conducted in the 12-month period from 1 July 2024 - 30 June 2025. Numbers may not add up to 100% due to rounding. This is based on MSIM's thematic framework, and refers to the predominant theme covered during the engagement; however, our dialogues normally cover multiple ESG issues. Please refer to MSIM's Sustainable Investing Policy for more information. Data refers to number of themes covered across all engagements.

Over the past year, the theme of decarbonisation & climate risk continued to dominate our conversations with issuers, covering the topics shown in *Display 3*.

In comparison to the previous reporting period, the number of engagements conversations focused on governance significantly increased, driven by an evolving geopolitical and regulatory landscape. For instance, engagements covered governance-related topics such as anti-money laundering controversies, cybersecurity practices, and leadership structures.

DISPLAY 3

Decarbonisation & Climate Risk



Widening the Lens: Engagement Across the Issuer Spectrum

Securitisations, such as mortgage-backed and asset-backed securities, represent an interesting financing structure to engage with issuers on, particularly where underlying assets have clear social or environmental impacts. We therefore conducted a number of engagement meetings in the securitised market to support the integration of ESG factors into the due diligence process. For instance, we engaged with the originator of a commercial mortgage-backed security to discuss their approach to climate risk analysis and mitigation, given the deal was secured by a hotel in a high hurricane risk area.

Our interactions with sovereign, supranational and agency (SSA) issuers primarily addressed decarbonisation & climate risk in the context of green and sustainable bond frameworks. These dialogues covered topics such as government expenditures related to the expansion of access

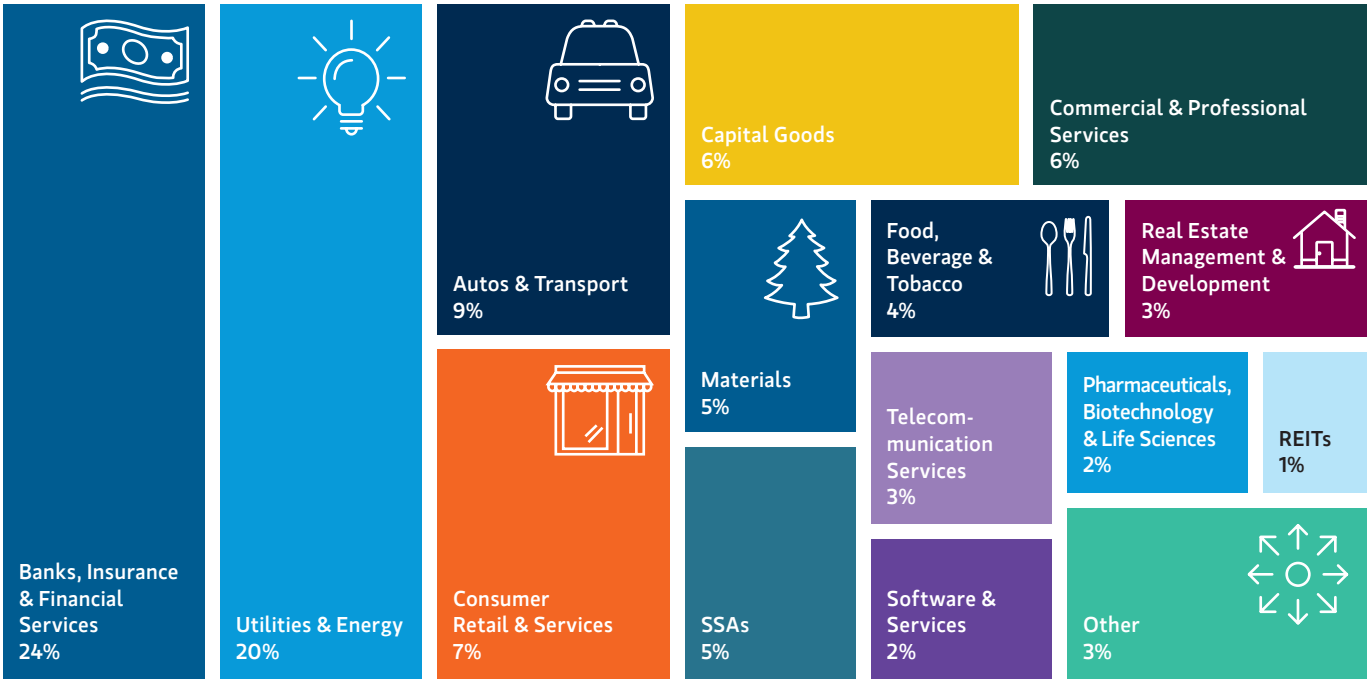
to renewables and nuclear energy, as well as upcoming revisions of Nationally Determined Contributions (NDCs) under the Paris Agreement to reduce country-level emissions. The insights we gained from these meetings enabled our analysts to deepen their understanding of the additionality of sustainable bonds to the issuers’ goals, and we now hold labelled sustainable bonds from over 60% of the SSA issuers with whom we conducted engagements.⁶

Dive deeper into how we engage with sovereign issuers in our sovereign ESG whitepaper: [ESG in Sovereign Fixed Income Investing: From Numbers to Narratives](#).

Discussions with banks and other financial institutions constituted almost a quarter of our interactions. Whilst many of these meetings covered issuers’ sustainable financing strategies, we also addressed legacy financial crime litigation, a core governance risk for this sector with clear financial implications, leading to market-wide repricing of risk.

We also continued to engage with carbon-intensive industries such as utilities & energy, and autos & transportation, as part of our thematic focus on assessing progress and alignment to a low-carbon transition. For autos, we engaged on electric vehicle adoption in response to an evolving regulatory landscape, as well as on labour management across the supply chain for a just transition. Our engagement with utilities also focused on regulatory volatility, through the implications for issuers of uncertainty around tax credits for renewables, alongside assessments (particularly for U.S. utilities) of issuers’ wildfire mitigation plans.

DISPLAY 4
Sector Breakdown



Refers to meetings conducted in the 12-month period from 1 July 2024 - 30 July 2025. Numbers may not add up to 100% due to rounding.

⁶ Source: MSIM. Data as of 30 June 2025.

Addressing Physical Climate Risk

Engaging with Utilities on Wildfire Risk

Physical climate risk refers to the adverse effects caused by extreme weather events (hurricanes, heatwaves, etc) which can be associated with climate change, or by more gradual changes in climate patterns (rising temperatures and sea levels).⁸

Utility companies tend to be particularly exposed to physical climate risk given that energy transmission infrastructure is susceptible to degradation.⁹ Maintenance and repair of infrastructure that is not sufficiently resilient or adapted to such physical risks can cause service disruptions and result in higher direct costs to the company and indirect costs to users. More than 9% of the global investment-grade credit investment universe consists of utilities issuers,¹⁰ highlighting the importance of understanding and mitigating risks that can potentially affect the financial performance of the sector and individual companies, including through engagement.

To address these issues, we engaged with select U.S. utilities to better understand their approach to wildfire risk mitigation. Our aim was to develop a more holistic understanding of how those companies identify their own exposure to wildfire risks, how they manage these risks, and how they think about legal exposure and regulatory support. Topics covered in this thematic engagement included:



WILDFIRE RISK ASSESSMENT

(framework to quantify/define wildfire risk, industry standards, fire risk data sources);



WILDFIRE MITIGATION PLANS

(e.g. percentage of lines undergrounded, infrastructure resiliency, grid hardening); and



APPROACH TO COMPLIANCE WITH JURISDICTION-SPECIFIC REGULATION

(state reserve fund access, regulatory changes).

>5x

Electric utility issuers face ~5x higher costs due to exposure to physical climate risk.⁷

⁷ "For the world's largest companies, climate physical risks have a \$1.2 trillion price tag by the 2050s," S&P Global, March 10, 2025.

⁸ "Climate Risks and Opportunities Defined," U.S. Environmental Protection Agency, March 2025.

⁹ "Climate Risks in the Power Generation Sector," United Nations Environment Programme Finance Initiative, May 2024.

¹⁰ Source: BBG Global Aggregate Corporate Index, as of June 2025.

Raising the Bar for Impact Reporting in the Sustainable Bond Market

Quality impact reporting allows fixed income investors to assess the real-world outcomes of investments and ensure their capital is contributing towards environmental and/or social benefits. This helps build the credibility of sustainable bonds and facilitates the alignment of investment portfolios with ESG goals, improving transparency for clients.

In combination with measuring the impact of projects financed, we also seek to encourage market best practice to increase the transparency and quality of these instruments, and to act as the voice of our clients. To this end, Fixed Income takes part in multiple International Capital Market Association's (ICMA) working groups under the Green, Social and Sustainability-Linked Bond Principles, and has provided inputs towards ICMA's Harmonised Framework for Impact Reporting,¹¹ alongside additional feedback on green enabling projects categorisation and eligibility criteria.

When aggregating and analysing impact data at the portfolio level (primarily for green bond strategies), we encountered variability in the quality of disclosure and the level of transparency, including issues such as:

1

Reduced comparability between issuers' reports, resulting from a lack of standardisation across reporting styles, timeframes and metrics;

2

Generic, incomplete or inaccurate impact data; or

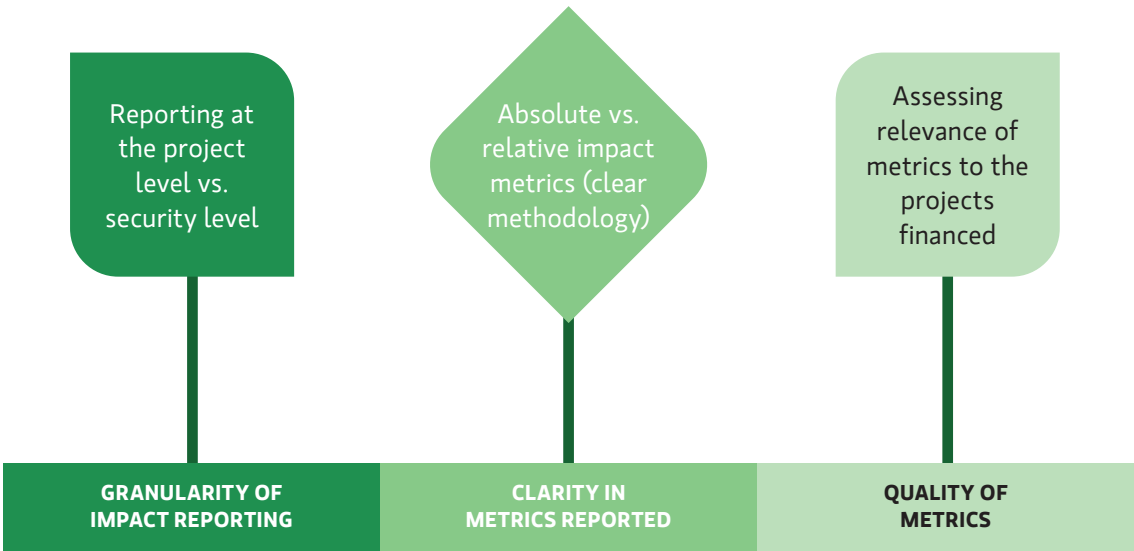
3

Insufficient disclosure on key factors such as methodologies and measurement.

¹¹ "Harmonised Framework for Impact Reporting," ICMA, June 2024.

As a result, we decided to engage with a select list of labelled sustainable bond issuers, across sectors and regions, prioritising laggard performers as per our proprietary impact reporting quality assessment. Key topics covered in these meetings are shown in *Display 5*.

DISPLAY 5
Impact Reporting Engagement Theme Breakdown



Double Materiality: Purposeful Dialogue Influencing Investment Views

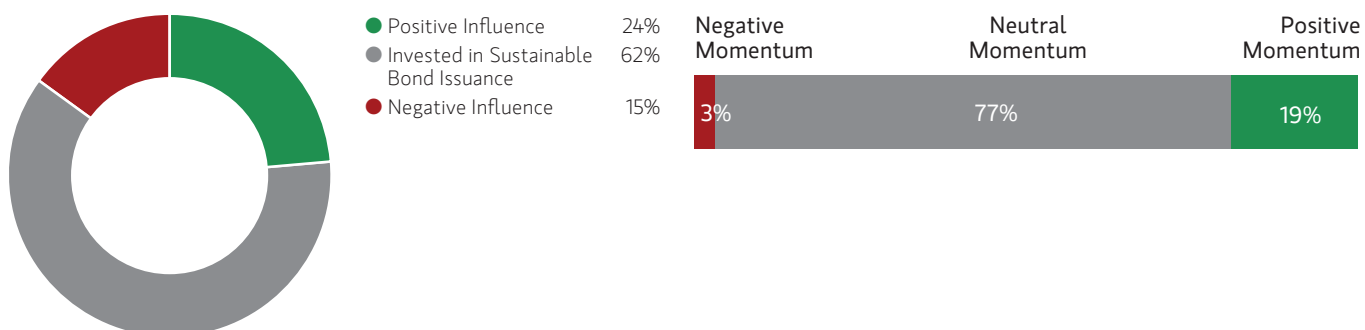
As outlined in our [Fixed Income Engagement Strategy](#), we believe the insights gained from dialogues with debt issuers can influence our investment views, whilst the perspectives we share in return can constructively inform their approach to ESG.

As part of our post-engagement monitoring, we try to assess the momentum of an issuer with respect to the specific topic discussed, and we evaluate any potential impact on the investment case. Over the reporting period, one-fifth of our engagement meetings influenced our investment views, as detailed further in *Display 6*:

DISPLAY 6

Analyst View of ESG Trajectory and Engagements Influencing Engagement View¹²

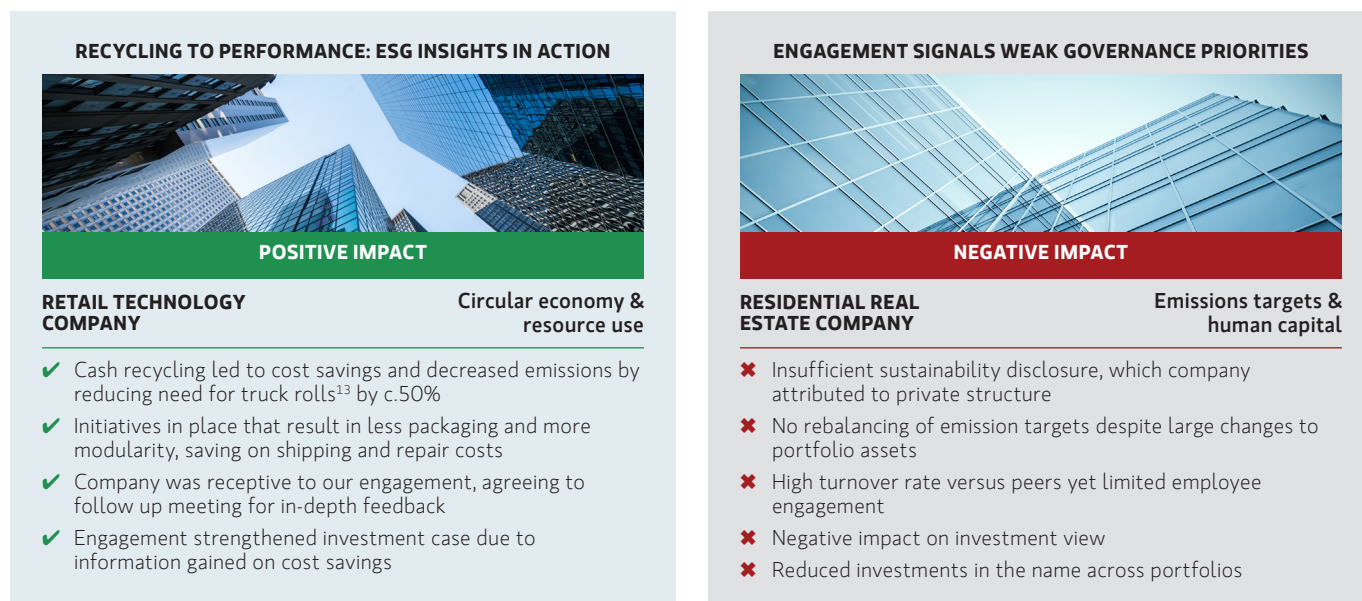
20% Engagements Influencing Investment View



¹² Invested in Sustainable Bond Issuance refers to engagements on an issuer's labelled bond framework, where our analysts are comfortable with the issuer's strategy such that we hold their labelled bond(s) as of 30 June 2025.

DISPLAY 7

A Study of How Engagement Influences Our Investment Choices

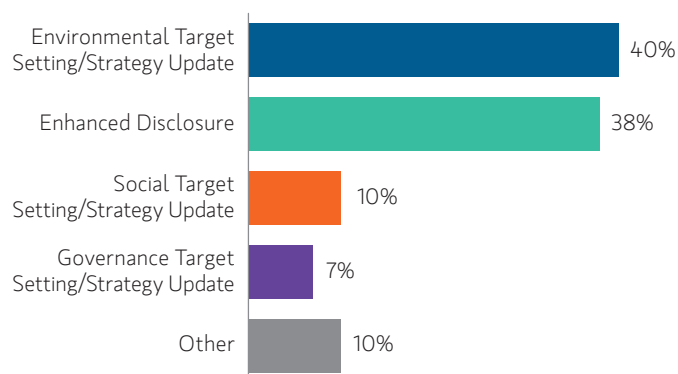


The second objective of our engagement process is centred on facilitating purposeful dialogue with issuers to promote ESG outcomes. Through targeted engagement with issuers, we seek to offer clear recommendations to enhance performance on key financially material ESG issues, thereby advancing this goal. Over the period, our main recommendations focused on enhancing disclosure practices, as well as environmental target setting and strategy updates, such as the inclusion of Scope 3 emissions as part of corporate decarbonisation targets, where they are material.

DISPLAY 8

Targeted Engagement Breakdown

Target Categories



Examples of Recommendations

Set emissions reduction targets across Scopes 1-3

Report sustainability indicators annually in line with industry frameworks

Improve human rights policies and grievance mechanisms

Address anti-money laundering deficiencies

Feedback on materiality matrix

Refers to targeted engagements only. Category refers to the predominant objective and/or recommendation in the meeting. Meetings may have multiple objectives.

¹³ Refers to the deployment of a technician to resolve an issue.

Collaborating for Progress: Deepening Issuer Dialogue

Collaborative engagement can help amplify the recommendations and insights provided by fixed income investors to bond issuers. Vice-versa, issuers stand to gain valuable insight from actionable feedback on their ESG strategies and strategic outlook coming from a diverse pool of investors. We have found that collaborating with other investors and external organisations, as appropriate, has broadened our access to stakeholders within debt issuing organisations, enabling dialogue with the relevant teams and senior decision-makers who are directly responsible for shaping strategic business, economic and ESG actions.



PRI COLLABORATIVE SOVEREIGN ENGAGEMENT ON CLIMATE CHANGE

Led by the PRI, the initiative provides a platform for investors to collectively engage with sovereigns to mitigate climate risks and capitalise on potential opportunities. As sovereigns continue to work towards their nationally determined contributions ('NDCs'),¹³ investor feedback highlights the importance of robust disclosure, science-backed targets and openness to dialogue considering the evolving market in which we operate.

MSIM has been engaging over the past two years, alongside other investors, with stakeholders within the Australian government to encourage action towards meeting its Paris Agreement goals. Regular touchpoints with government representatives have provided us with insight into the country's development of a scientifically backed emissions reduction target and sector-specific decarbonisation efforts.

In addition, MSIM is participating in the PRI's new collaborative sovereign engagement on climate change, focused on Canada. The initiative aims to engage with stakeholders in the Canadian system on climate resiliency, developing the country's net-zero transition plan, and enhancing sovereign disclosure.

For more information, please refer to our Sovereign ESG Whitepaper - [ESG in Sovereign Fixed Income Investing: From Numbers to Narratives](#).

¹³ Per the Paris Agreement, nations make commitments or nationally determined contributions, outlining emission reduction plans.



**PRI ADVANCE ON
HUMAN RIGHTS**

MSIM is part of the PRI-led Advance collaborative initiative, through which institutional investors are working together to engage on human rights and social issues in the mining and renewables sectors. Over the reporting period, the initiative provided opportunities for our team to meet with labour rights experts in the metals and mining sector from non-governmental organisations (NGOs), which helped to highlight the disconnect between company narratives versus the realities on the ground. The insights obtained are enabling us to refine our asks to the company as part of this ongoing initiative.



**European
Leveraged
Finance
Association**

**ELFA DISCLOSURE &
TRANSPARENCY COMMITTEE**

Since 2021, MSIM Fixed Income has been part of the European Leveraged Finance Association (ELFA). Through our high yield investment team, we use the platform to encourage reporting best practice amongst high yield bond issuers.

- In 2024, a senior research analyst in the high yield investment team was appointed Disclosure & Transparency Committee Co-Chair, seeking to improve the quality of disclosures in the high yield space.
- In 2025, the Committee has focused on encouraging best practice with regards to bond documentation and language in agreements. The Disclosure and Transparency Committee works closely with ELFA's ESG committee, with the aim of improving issuer governance and reporting practices.

Cross-Team Collaboration

We also leverage internal resources, including conducting engagements together with other internal engagement or investment teams across MSIM, where we may have both equity and debt exposure. Over the period, we have collaborated with Calvert's Engagement team, engaging select issuers with a stronger voice through these additional, dedicated resources, with a particular focus on holdings in our Calvert fixed income funds.

DISPLAY 7

Collaboration with the Calvert Engagement Team



We leverage internal resources, including conducting joint engagements with other internal teams.

Collaboration with Calvert's dedicated engagement team has provided additional resources to help develop robust recommendations for issuers, to drive positive outcomes.



NAVIGATING AN EVOLVING SUPPLY CHAIN

AUTOS MANUFACTURER

Transition strategy, supply chain & indigenous rights

- ✓ Regulatory shifts, tariffs, and potential indigenous rights issues prompted us to engage
- ✓ Electric vehicles (EVs) remain a core business component with fleet efficiency rooted in EV sales
- ✓ Positive momentum on increasing indigenous community engagement & reporting
- ✓ Recommended enhanced disclosure on stakeholder engagement for a just transition



Case Studies



**DECENT WORK &
RESILIENT JOBS**

**DIVERSITY &
INCLUSION**

Mining Responsibly: Mitigating Human Rights Risk

BACKGROUND

The metals & mining sector plays a vital role in providing materials essential for the low-carbon transition. Responsible investment considerations—including respect of international human rights and labour standards, and ensuring workers' safety—are critical operational factors within this industry. Inadequate management of these issues can result in significant financial consequences for companies operating in the sector.

KEY ISSUES

Follow-up engagement with a mining company operating predominantly across North America, Oceania and Africa, on their Modern Slavery Statement: in the initial engagement two years ago, we stressed the importance of developing a formal human rights due diligence process, moving away from broad-based risk screening to more in-depth assessment of each issue. We encouraged the development of human rights risk management and monitoring systems which appeared to be lagging, such as audit programmes and grievance measures. In addition, we recommended setting forward-looking goals for each sub-section of their modern slavery strategy.

KEY TAKEAWAYS

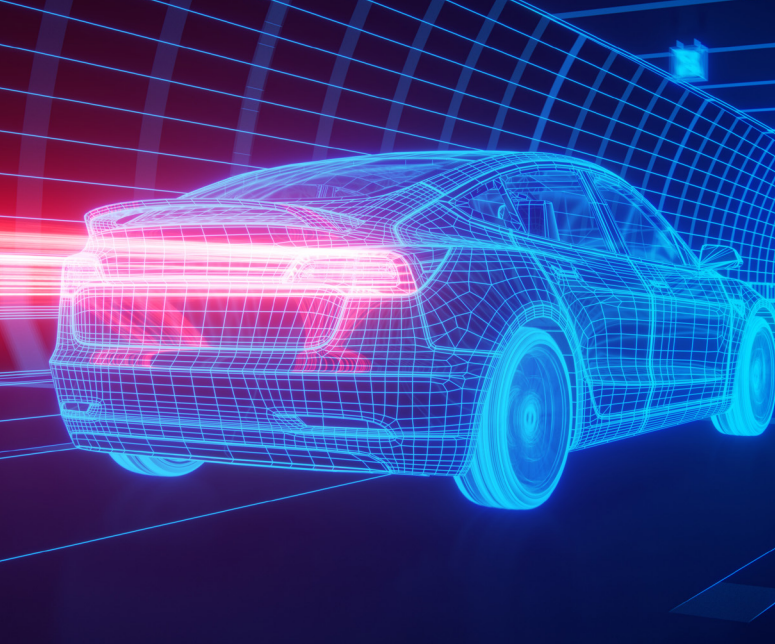
The company integrated our feedback in their most recent annual report, and provided us with a comprehensive update:

1. The company is moving beyond describing basic third-party due diligence requirements, to reporting their more detailed human rights assessment, specifically:
 - A. Clearly defining the scope and methodology of the human rights policy, and expanding due diligence approach to exploration projects;
 - B. Inclusion of case studies to provide practical examples, and valuable insight into risks affecting the company.
2. Independent supply chain audit programme set up which includes, at minimum, relevant international human rights standards such as the International Labour Organisation (ILO), UN Guiding Principles on Business and Human Rights (UNGP), and supplier code of conduct.
3. Greater transparency provided on remediation mechanisms following labour rights or human rights grievances, including case studies.
4. Measurable KPIs and goals were included under relevant sections of the company's report, enabling investors to measure progress in the future.

OUTCOME

- ✓ Our credit and ESG research analysts found that the company had made positive improvements to their approach to human rights since the start of the engagement. The company had actioned our feedback, making material changes to their human rights risk management, broadening coverage and improving disclosure.
- ✓ We provided further suggestions to the company on best practices, such as reporting of salient year-over-year changes in human right risks identified via grievances.

This example is provided for illustrative purposes only. There is no assurance that the engagements will be successful and/or result in positive investment outcomes.



**DECARBONISATION
& CLIMATE RISK**

Promoting Best Practices: Encourage Credible Emissions Reduction Targets

BACKGROUND

Companies in the household products sector can face pressure to set decarbonisation targets, driven by both consumer demand and regulation, to enhance resilience against climate-related challenges. Many firms have established timelines to reach net zero emissions, with targets independently verified by specialised organisations, such as the Science Based Targets initiative (SBTi), providing assurances to investors that companies have a clear, actionable decarbonisation pathway.

KEY ISSUES

Newly initiated engagement with a consumable battery manufacturing company, given our meaningful exposure across portfolios: the aim of the meeting was to discuss the company's performance on sector-relevant carbon KPIs, encourage the adoption of science-aligned emission reduction targets, as well as disclosure of scope 3 emissions.

KEY TAKEAWAYS

1. On their decarbonisation pathway, the company clarified that they have started to measure scope 3 emissions, with plans to include them in their climate disclosure.
2. In terms of meeting their scope 1 and 2 emissions reduction target, the focus of the company's decarbonisation efforts was on increasing energy efficiency; they have partnered with a university to conduct an energy assessment of facilities and reduce consumption from battery plants.
3. Company representatives asked us for our views on decarbonisation priorities for their sector: we pointed towards clear corporate commitments to setting science-aligned targets, and the inclusion of scope 3 emissions—a material proportion of emissions for consumer companies—in emission reduction plans and reporting.

OUTCOME

- ✓ The initial call was constructive and conveyed to the company our investor viewpoint and expectations in relation to decarbonisation and product safety.
- ✓ Following the engagement, our analyst noted positive steps had been taken by the company, who had implemented our recommendations in their latest sustainability report by:
 - 📄 **A.** Publishing a commitment to a near-term emissions reduction target to be verified by SBTi; and
 - 📄 **B.** Reporting on their scope 3 emissions, with additional details on the measurement methodology.

This example is provided for illustrative purposes only. There is no assurance that the engagements will be successful and/or result in positive investment outcomes.



Assessing Governance Risk: Encouraging Corporate Ethics in the Banking Sector

BACKGROUND

Within the banking sector, governance risks usually influence credit quality to a greater extent than social or environmental factors, given the regulatory scrutiny to which banks are subject. In addition to legal expenses and reputational implications, severe controversies—such as those around money laundering and business ethics—can also impact employee motivation and confidence in their management, potentially leading to challenges in retaining or attracting talent. We believe that good corporate governance and ESG practices are a signal of management quality and that well-managed companies can produce long-term, sustainable financial returns.

KEY ISSUES

Ongoing engagement with a bank involved in a series of money-laundering controversies: a regulatory body imposed a multi-billion dollar fine on the bank due to violations. In addition, limitations were imposed on national operations, which had the potential to restrict the bank's growth. In the months leading up to the regulator's ruling, we met with the company to share views and assess the extent of any remediation plans.

KEY TAKEAWAYS

1. The bank had made significant investment towards strengthening risk and control functions and expected an additional equivalent expenditure on the improvement of controls over the next few years, signaling an ongoing increase in remediation expenditure as opposed to a one-off investment.
2. Resources to address legacy AML deficiencies were increased, including the appointment of a new Head of Financial Crime Risk Management, and the hiring of AML specialists from a range of backgrounds, with experience and qualifications in money laundering prevention. Management highlighted that it is a top priority to expand this function across the firm's global operations.
3. Employee training and pulse surveys had been enhanced to monitor and assess morale. The bank emphasised that employee turnover had not been impacted by the controversies, and as the asset cap only applied to a portion of the company's total business, most employees did not feel personally affected.

OUTCOME

- ✓ The engagement enabled our analysts to better assess the extent of the bank's response to severe controversies, which we plan to continue monitoring. In particular, we aim to track the company's employee turnover, as we have previously seen significant loss of talent for banks that have experienced governance-related controversies.
- ✓ Given the engagement provided our analysts with sufficient information to assess the company's controversy remediation approach and the bank's openness to engage, we continue to hold the name widely across our fixed income and liquidity portfolios.

This example is provided for illustrative purposes only. There is no assurance that the engagements will be successful and/or result in positive investment outcomes.



BIODIVERSITY & NATURAL CAPITAL

From Commitment to Policy: Enhancing Biodiversity Through Responsible Practices

BACKGROUND

Consumer product companies are heavily reliant on natural resources as part of their supply chains; resource shortage and/or fluctuations in the prices of certain commodity inputs can materially affect the margins and operations of this sector. Companies that take an active approach to managing biodiversity and deforestation risks can protect their ecosystem and avoid negative repercussions, both legally and reputationally, that arise from harmful practices.

KEY ISSUES

Ongoing engagement with a consumer product company focused on their biodiversity and no-deforestation approach: the company had a generic commitment to responsible forestry practices, hence our original ask was to set a company-wide, time-bound target to end deforestation and as a follow-up, detail traceability of commodity supply chain sources. In addition, we recommended the company assess and report on biodiversity dependencies and impact.

KEY TAKEAWAYS

1. The company has implemented some tangible steps since the beginning of our engagement, with the company publishing an updated forestry policy, clarifying their commitment to deforestation in line with our initial ask. In our follow-up meeting, we suggested setting specific targets in relation to:
 - A. Traceability of palm oil (using third-party verified responsibly sourced palm oil); and
 - B. Sourcing wood pulp from responsibly managed forests, demonstrating traceability and publishing a grievance log to demonstrate robust risk management.
2. The company outlined resource expansion to enhance their biodiversity efforts and highlighted their participation in the Taskforce on Nature-related Financial Disclosures (TNFD) pilot programme, a key step in assessing nature-related dependencies and impacts.

OUTCOME

- ✓ Positive momentum in the overall progress and receptiveness of the company in developing a forestry policy, and onboarding investor feedback.
- ✓ Recently, the company announced a commitment to 100% certified responsibly sourced palm oil. On wood pulp, the company has improved disclosure, publishing grievance mechanisms and a grievance tracker.

This example is provided for illustrative purposes only. There is no assurance that the engagements will be successful and/or result in positive investment outcomes.

Meet the Team



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Global Head of Fixed Income
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ENGAGEMENT REPORT CONTRIBUTOR



BARBARA CALVI
*Executive Director
Calvert Head of Sustainability*

Team members may change without notice from time to time.

Risk Considerations

ESG ratings are relative and subjective and are not absolute standards of quality. Ratings apply only to portfolio holdings and do not remove the risk of loss. There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to **market risk**, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events.

ESG Strategies that incorporate impact investing and/or Environmental, Social and Governance (ESG) factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. As a result, there is no assurance ESG strategies could result in more favorable investment performance. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. Certain **U.S. government securities** purchased by the strategy, such as those issued by Fannie Mae and Freddie Mac, are not backed by the full faith and credit of the U.S. It is possible that these issuers will not have the funds to meet their payment obligations in the future. **Public bank loans** are subject to liquidity risk and the credit risks of lower-rated securities. **High-yield securities** (junk bonds) are lower-rated securities that may have a higher degree of credit and liquidity risk. **Sovereign debt securities** are subject to default risk. **Mortgage- and asset-backed securities** are sensitive to early prepayment risk and a higher risk of default, and may be hard to value and difficult to sell (liquidity risk). They are also subject to credit, market and interest rate risks. **Municipal securities** are subject to early redemption risk and sensitive to tax, legislative and political changes. The **currency market** is highly volatile. Prices in these markets are influenced by, among other things, changing supply and demand for a particular currency; trade; fiscal, money and domestic or foreign exchange control programs and policies; and changes in domestic and foreign interest rates. Investments in **foreign markets** entail special risks such as currency, political, economic and market risks. The risks of investing in **emerging market** countries are greater than the risks generally associated with foreign investments. **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, and correlation and market risks. **Restricted and illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). Due to the possibility that prepayments will alter the cash flows on **collateralized mortgage obligations** (CMOs), it is not possible to determine in advance their final maturity date or average life. In addition, if the collateral securing the CMOs or any third-party guarantees are insufficient to make payments, the portfolio could sustain a loss.

UN SUSTAINABLE DEVELOPMENT GOALS

The content of this publication has not been approved by the United Nation and does not reflect the views of the United Nations or its officials or Member States. See <https://www.un.org/sustainabledevelopment/sustainabledevelopment-goals> for more details on the Sustainable Development Goals.

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