Committed To Being An Effective Steward of Our Clients’ Capital.

This report for the 2021 period has been submitted to the Financial Reporting Council for their annual review.
Loomis Sayles welcomes the high stewardship standards set by the UK Stewardship Code and is committed to being an effective steward of our clients’ capital.

We have long recognised the importance of responsible allocation, management and oversight of investment capital to create long-term value for our clients and we see effective stewardship as key to achieving our goal of delivering superior long-term risk-adjusted returns for our clients.

Throughout this report, we seek to describe and demonstrate how we have applied the Code’s 12 Principles in a manner that is aligned with our business model and strategy. The way in which we discharge our stewardship responsibilities is underpinned by our strategy and culture. Generally, we are investors with a long-term focus on ensuring our investee companies can create and sustain long-term growth.

We manage a number of different investment strategies for our global clients across various asset classes and therefore do not subscribe to a single investment process or uniform approach to stewardship. Instead, we seek to empower our investment teams by providing them with a range of data, training, research and other tools and resources to enable effective stewardship in accordance with their own investment philosophy. This approach is supported by a robust governance structure that is committed to providing the strategic direction, resources, risk management and oversight necessary to support our stewardship activities.

We support the increased focus on stewardship outcomes within the Code and welcome the opportunity it provides firms to demonstrate past achievements and reflect on their experiences. This is firmly aligned with Loomis Sayles’ commitment to continually assess and advance our approach to stewardship in order to meet our client’s investment needs.

Sincerely,

Kevin P. Charleston
Chairman & CEO
Purpose and Governance

PRINCIPLE 1: PURPOSE, STRATEGY AND CULTURE

Signatories’ purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Purpose

At Loomis Sayles, our goal is to deliver superior long-term risk-adjusted returns and effective investment solutions to meet our fiduciary duty to our clients. Exercising effective stewardship is essential to fulfil this goal over the long term while also providing benefits to the global economy, financial markets and society at large. As such, stewardship is an important component of the firm’s strategy and culture.

Throughout a history shaped by world events, seismographic shifts in the economy, and undulating peaks and valleys of market cycles, Loomis Sayles has remained committed to producing consistent, competitive returns for our clients.

Our passion for performance and an unwavering commitment to our clients are marked by:

Consistency. Reliable performance is facilitated by stable leadership at both the corporate and portfolio management levels, coupled with a disciplined investment process designed to optimize opportunity and manage risk.

Transparency. At Loomis Sayles, we want to ensure clients have a clear understanding of the why, what and how behind all of our investment strategies.

Loomis Sayles Investment Platforms

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Strategy and Culture

Loomis Sayles provides investment management services to institutional investors and pooled investment funds. We manage a number of investment strategies for our clients across asset classes. We have clients and investments across the globe, including in developed economies and emerging markets. Loomis Sayles is an indirect subsidiary of Natixis SA, an international asset management group based in Paris, France. We are headquartered in the United States.

The understanding of long-term fundamentals underpins our investment approach. As such, we consider ourselves to be a long-term investor. This informs our stewardship activities, which focus on ensuring that our investee companies can create and sustain long-term growth. We recognize that sustainable growth is inextricably tied to the behaviours of the issuers in whom we invest in all aspects of ESG. Along with the traditional financial analyses and modelling, our goal of achieving long-term returns has historically required our investment teams to take into account the conduct of potential investees with regard to, among other ESG matters, use and conservation of natural resources, policies and practices impacting employees and the community, and the governance structure, including issues of independence, ethics and the quality of management. See case studies in Principle 7, which demonstrate how we integrate these practices for environmental, social or governance factors. The achievement of our purpose (as stated above), our own beliefs (as further described in Principle 2), and the stated wishes of our clients are aligned with the intentions of quality stewardship and are overseen through various methods by the Board of Directors of Loomis Sayles.

As more fully described in Principle 9, engagement on ESG criteria is an integral part of our fundamental analysis across all asset classes. It is considered key to our objective of achieving our goal of superior risk-adjusted returns for our clients. We consider ESG-related risks and opportunities and address material issues with company management as part of our regular interaction with them. Our engagement initiatives can include broad collaboration, thematic objectives, or requests for greater transparency. The goal is to influence companies on the material E, S, and G issues our investment professionals believe both before investment and during the holding period.

Our investment teams are participants in several forums that ensure that their investment activities are informed by our purpose and investment beliefs. Our investment teams regularly participate in an Investment Review process conducted by our Chief Investment Officer (CIO) and Chief Investment Risk Officer (CIRO). The CIO Investment Risk Review Committee addresses the six pillars, which include a specific ESG pillar, and which are further discussed below. The Investment Risk Review Committee meetings focus on a variety of factors, including ESG ratings and carbon intensity. ESG, and how it is incorporated into the investment process, is a key component of the Investment Risk Review. Investment teams discuss how they incorporate ESG in their search for alpha generation and risk management and what data they use, as well as the most important metrics employed. Many meetings include a review of securities that have poor ESG ratings and discussions around why the investment team holds the securities. Additionally, the carbon intensity of the portfolio and benchmark is reviewed. The Investment Risk Review Committee generally looks for improving trends in metrics relevant to a team’s process. The CIRO discusses with each team the execution of objectives, what metrics are used, and identifies outliers. Portfolio holdings are examined to identify ESG decisions that add to alpha generators and risk mitigations. The CIO and CIRO are members of the Loomis Sayles Risk Management Committee (RMC) and our ESG Committee, both of which report to our Board of Directors. Information on the findings of the CIO Investment Risk Review Committee and the Investment Risk Review Committee, including meeting minutes and summary pages of key data are included in each quarterly RMC Investment Report, and areas of concern are highlighted to the RMC Committee. The RMC is comprised of many of the Board members and senior representatives of departments and the Chief Executive Officer (CEO) conveys matters of importance regarding the Investment Report at the Board meetings.

Given the wide range of strategies managed by investment teams across different asset classes, we respect and support the manner in which each team integrates the risks and opportunities presented by ESG issues consistent with the core tenets of its strategies; selects individual securities consistent with long-term sustainable growth; and engages with issuers to address environmental, social and governance matters requiring improvement, which simultaneously reflects our stewardship efforts and our goal of meeting our clients’ objectives. Loomis Sayles has six pillars underpinning all of its strategies, with ESG and Sustainability as one of these pillars.
The Pillars Are:

1. **A sound investment philosophy.** Every Loomis Sayles strategy starts with a solid foundation or ‘alpha thesis’. This alpha thesis seeks to identify market inefficiencies and the investment process necessary to exploit them.

2. **A rigorous repeatable approach.** Investment processes must take an exacting, consistent approach to idea generation, portfolio construction, reward-to-risk assessment and decision making in any market environment. But discipline should never mean dogma; each team continually evaluates and refines their investment process in line with the core tenets of their strategy.

3. **Proprietary research.** In this information age, being well informed is no longer a competitive advantage. High-conviction, prudent risk taking requires deep insights that can only be generated through proprietary research. Tailored research, distinct to each alpha thesis, is an inextricable part of the investment process.

4. **Disciplined portfolio construction.** Though our strategies have different return patterns and time horizons, they all seek strong risk-adjusted returns. Disciplined portfolio construction requires constant assessment of reward-to-risk at the security and portfolio levels. Investment teams look for asymmetric reward-to-risk opportunities and minimize exposure when information is lacking or insufficient.

5. **Integrated risk management.** Risk management is central to alpha generation, not ancillary. Our integrated risk management capabilities are customized to each investment strategy—an approach we believe optimizes each team’s ability to identify, analyze and utilize risk.

6. **Incorporated ESG Factors.** Our investment teams each use a tailored approach to incorporate ESG factors and engage with issuers to meet our clients’ objectives. We do not view ESG as an overlay to our investment processes. We view it as an integral component throughout.

Our structure allows us to address various stewardship requirements across asset classes – for example, effective stewardship in the context of a sovereign debt strategy requires very different activities and considerations when compared to a small cap equities strategy. We believe this approach also allows us to best meet the distinct needs of our clients, particularly our segregated account clients, many of which expect us to be able to conform to their own stewardship preferences to varying extents. For example, we incorporate bespoke ESG criteria into the investment strategy we manage on certain clients’ behalf, and will provide tailored reporting.

Our focus is on empowering our research and investment teams to pursue stewardship objectives, including ESG integration, in alignment with their own investment philosophies, by providing them with market-leading tools, systems and data. We believe that this decentralised approach more effectively promotes authentic integration and consideration of material ESG issues throughout the firm. Our assessment is that this approach has been effective in serving in the best interest of our varied clients.

A focus on the long term is inherent to the culture at Loomis Sayles. We strive to build long-lasting and mutually beneficial relationships with our clients. We have many longstanding clients, including some relationships that date back more than 40 years. Many of our investment teams base their investment approach on the long term as well and remain invested in companies over multiple years. Our employee tenure is also long; we strive to retain exceptional talent and provide an environment that fosters growth and development. We support our employees’ desires to grow professionally and continue learning by providing them the opportunity to enhance competencies in their current positions and expand their educational experiences. We offer a tuition reimbursement program for those wishing to pursue higher education or courses related to their position. As with our clients, we have many employees who have been with Loomis Sayles for many years. Our parent, Natixis, also has a focus on the long term and is a member of FCLTGlobal2. FCLT’s mission ‘is to rebalance capital markets to support a long-term, sustainable economy’.

In the fall of 2021, as we began to prepare for returning to our offices around the globe from our extended work-from-home period, CEO Kevin Charleston sent a message to all employees, capturing our culture and our framework for working together again.

“For nearly 100 years, Loomis Sayles’ mission has been to achieve financial success for the individuals and families who entrust us with their assets. This is noble work that requires passion, persistence and most of all, collaboration. Returning to the office after +18 months gives us all a unique opportunity to reflect on ourselves and our contributions within Loomis Sayles and beyond. Each of us has an opportunity now to set forth on an intentional path towards a professional culture in which mutual respect is a given, every success is celebrated and together we contribute to the legacy of this incredible organization”.

1. Natixis, member of FCLTGlobal®. FCLT’s mission ‘is to rebalance capital markets to support a long-term, sustainable economy’.

2. Natixis, member of FCLTGlobal®. FCLT’s mission ‘is to rebalance capital markets to support a long-term, sustainable economy’.
Mr. Charleston went on to reiterate the importance of our strong culture and re-emphasized the underpinnings of our culture: collegiality, inclusion and respect. He touched on mutual trust among colleagues, that diversity fosters enrichment, that a breadth of best-in-class investment capabilities is vital to our collective success, that expertise across the firm, including and beyond our investment professionals, is of great importance to the firm, and that we empower our colleagues to represent our clients’ best interests. 1https://www.fcltglobal.org/mission/

PRINCIPLE 2: GOVERNANCE, RESOURCES AND INCENTIVES

Signatories’ governance, resources and incentives support stewardship.

Governance

Responsibility for the overall direction of Loomis Sayles resides with our Management Committee, which consists of all members of the Board of Directors plus two representatives of our immediate parent, Natixis Investment Managers. The Loomis Sayles Management Committee sets the tone at the top by articulating, implementing and overseeing the realization of the organization’s strategy and values and by maintaining our culture of accountability, transparency and compliance.

We made the strategic decision to embed stewardship and ESG throughout the organisation rather than allocating responsibility for all stewardship and ESG matters to a centralized team. By doing so, we believe we have fostered a culture of shared responsibility and alignment with the firm’s stewardship activities across the organisation. This is supported by our wider governance arrangements, which ensure effective oversight and reporting of the firm’s stewardship activities. Stewardship at Loomis Sayles is implemented and supervised by a variety of committees, including the Risk Management Committee and the ESG Committee, both of which report to the Board of Directors on stewardship activities and the monitoring thereof.

The Risk Management Committee is the firm’s key oversight committee. It consists of Board members and senior representatives of departments. It meets quarterly to identify and monitor all areas of firm and investment risk, including stewardship activities. It is responsible for reviewing and evaluating reports that assess how effectively governance is supporting all firm risk controls and establishing corrective measures where necessary. The Head of ESG and the CIRO are members of the Committee and are responsible for reporting on the stewardship activities of the firm and the investment teams.

In 2021, the Head of ESG left the firm to pursue another opportunity. Loomis Sayles’ CIO assumed the additional role as Head of ESG, and a search was undertaken to hire a new Head of ESG. Loomis Sayles installed the CIO as interim Head of ESG to recognize the importance of the role and, by extension, of ESG and stewardship at Loomis Sayles. The search for a Head of ESG undertaken in 2021 focused on a senior-level individual with the ability to lead Loomis Sayles’ strategic long-term roadmap for further integrating ESG into our investment processes and company goals. While subsequent to our reporting period, we are pleased to report that in 2022, Loomis Sayles hired a new Head of ESG who has demonstrated the skills and experience to lead the firm’s efforts in this area. The Head of ESG will of course assume a primary role on the ESG Committee and on the ESG Working Committee. The chart below describes the functions of these committees.

We believe that our governance structures and processes have been very effective in supporting stewardship. For example, our multi-subcommittees of the ESG Working Committee allow the firm to address nimbly various issues that arise in the context of stewardship and ESG broadly. To name a few, we have a Reporting Subcommittee, which works as a group to prepare various ESG reports, such as the UK Stewardship Code and the PRI annual assessment; an engagement subcommittee, which meets to discuss and consider approaches to engagement; and a technology subcommittee, which comes together to establish a common awareness of technology needs and projects in the context of ESG. The ESG Working Committee may identify and establish additional subcommittees as needed to meet the current needs of the firm. We are flexible and adapt our structure to meet evolving stewardship needs. Looking ahead to 2022, we anticipate that the newly appointed Head of ESG will continue to evaluate how our committee structures serve our goals, and adapt accordingly.
ESG Committee: This committee met bi-weekly to review the firm’s ESG activity and monitor progress of ESG initiatives. In the third quarter of 2021 and throughout the rest of the year, the committee met on a weekly basis, to ensure the continued focus on stewardship and ESG upon the CIO’s assumption of the role of Head of ESG. This committee is responsible for making decisions regarding the allocation of resources, the implementation of initiatives and the selection of tools to support the ESG initiatives at the Firm. The members of this committee include, among others, the Head of ESG, CEO, General Counsel, CIO, Chief Operating Officer (COO), CIRO, Head of Product Management and Director of Product Management Growth Equity Strategies. Four of these individuals are also members of the Firm’s Management Committee and Board of Directors.
**ESG Advisory Board**: Loomis Sayles' ESG Advisory Board meets at least semi-annually to address high-level ESG strategy and progress. It is responsible for approving major ESG policies and initiatives and is formed of executives from across the firm including our CEO, CIO, CIRO, COO, General Counsel, Head of Loomis Sayles Investments Limited, Director of Credit Research, Co-Director of Macro Strategies, Director of Consultant Relations, as well as one portfolio manager from each of the equity and fixed income investment teams.

**ESG Working Committee**: This committee drives the ESG work at Loomis Sayles. It is a working group that meets on a bi-weekly basis and is led by the Head of ESG. Additionally, in 2021, the Working Committee maintained a standing daily morning videoconference meeting to ensure it was fully aware of the firm’s latest stewardship and ESG needs, and to be able to raise ESG topics on a small-group, informal basis. The Working Committee includes employees across investment, research, legal, marketing and technology. One of its goals is to continually enhance the integration of ESG issues in the investment process through identifying superior tools for use by our investment professionals and to make them easily accessible. It sources and develops ESG research, tools, training, and education opportunities. The ESG Working Committee’s responsibilities also include providing strategic support to the investment teams, monitoring regulatory developments, preparing submissions to the PRI and other oversight entities, identifying opportunities to join groups seeking enhancements to stewardship impacts, and conducting internal stewardship training. It performs many of these tasks through its ESG Subcommittees.

**ESG Subcommittees**: We have several ESG subcommittees. Each is made up of participants from across the firm and led by a member of the ESG Working Committee. These subcommittees include Marketing, Technology, PRI, Climate Change, Fixed Income Best Practices, Reporting, and Engagement.

**Diversity Equity and Inclusion**

Loomis Sayles believes in a workplace culture that acknowledges, supports and invests in the diversity of all its members. This is critical to fulfilling the investment needs of our clients worldwide, managing the complexity of our dynamic business and building a community where all employees have an equal opportunity to reach their potential.

In 2021, Marques Benton joined our firm in the newly created role of Chief DEI Officer, reporting to the CEO and Head of Human Resources. Marques is responsible for putting our DEI strategic plan into action. In collaboration with senior management, he is focusing on attracting, developing and retaining diverse talent and engaging with all staff to foster a culture of inclusion.

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**New ESG-Focused Roles**

**JUSTIN DUTCHER**

VP, ESG Marketing Manager

Justin leads the communication strategy of the firm’s ESG approach to the global marketplace and collaborates with investment teams to develop and communicate their unique ESG philosophies and expertise.

Justin has been involved in the ESG Working Committee since 2018 and has led the ESG Marketing Subcommittee for much of that time. He holds the PRI Academy’s Applied Responsible Investment Certificate.

**HOLLY YOUNG**

VP, Senior ESG Analyst

Holly leads the introduction and integration of ESG analytics and tools, including education on new themes and assessment of the firm’s evolving ESG needs. She works closely with investment teams and analysts to help incorporate data and ensure their unique needs are being met.

Holly has been involved with ESG at Loomis Sayles for several years. She has led the assessment of and relationships with the firm’s ESG research vendors.

**JUSTINE GEARIN**

ESG Project Associate

Justine contributes to the ESG team by working on various projects, including assisting with data needs, RFPs, client requests and ESG support for investment teams.

Justine is a graduate of Bentley University and former Loomis Sayles UWIN intern for the ESG Working Committee and in the Credit Research department. She was also previously an intern in the Relative Return investment team where she focused on ESG projects.
As indicated earlier under Principle 1, taking a prescriptive ‘one size fits all’ approach to stewardship does not align with our business nor is it in the best interests of our clients. Still, a key objective of the firm is to ensure that our investment teams have the necessary resources and tools to effectively integrate stewardship issues into the investment process. Our Head of ESG is responsible for increasing awareness of ESG principles among the firm’s investment teams and partnering with them to identify how ESG considerations may be further incorporated into their unique practices. The Head of ESG leads the Loomis Sayles ESG Working Committee in providing strategic support to investment teams, conducting internal education and serving as a thought leader for the firm on material sustainability issues.

In recent years, we have increased the resources allocated to ESG to help our teams to deliver maximum value to clients. Over time, the increased focus on ESG considerations has led to the incorporation of responsibilities into existing functions across the organisation. We now have individuals in a myriad of functions that spend a meaningful amount of their time on ESG matters.

We have also hired people into new ESG-focused roles, invested in technology and data, and provided training and education on new ESG and climate tools. Our proprietary technology application, the ESG Center, acts as a central hub for internal and external ESG data, allowing analysts and portfolio managers to easily assess metrics relative to the investment teams’ respective benchmarks during research and portfolio construction.

We are committed to ensuring our investment teams have access to the research, data, systems, training and other resources required to embed stewardship in their activities in a way that delivers the maximum value for our clients.

DATA AND TECHNOLOGY

The ESG Center, our proprietary technology application, was developed to serve as a central location for external and internal ESG data. This includes internal fixed income ESG scores and climate footprint analysis for all portfolios, both equity and fixed income. Our portfolio managers use the ESG Center to assess ESG metrics within their portfolios and relative to their respective benchmarks. We continually review ESG resources, focusing on providing value to our investment teams and improving their ability to incorporate ESG considerations into their fundamental analysis of issuers.

Our fixed income credit and sovereign analysts have created materiality maps for their areas of coverage. Material issues can include a broad range of metrics that may be environmental, social, or governance related. The credit research materiality maps are based on the foundational work of the Sustainability Accounting Standards Board (SASB), but are enhanced by our own senior analysts to more accurately reflect their understanding of these issues and their relationship to specific sectors. The sovereign materiality maps are based upon the senior analyst’s expertise and knowledge of the material factors affecting sovereigns. These materiality maps drive an internal Loomis Sayles ESG score or assessment for each credit covered. The internal materiality maps and ESG scores are incorporated into our proprietary ESG portfolio analysis (ESG Center) and fixed income valuation tools (Unified Relative Value, and Emerging Market Relative Value, and Regime Tool). The ESG score is not an overlay on the internal Loomis Sayles rating of each credit, but a ‘subset’ of the credit analysis: it shines a light on the material ESG factors – both risks and opportunities.

The firm has also developed an ESG Engagement Database, a proprietary application developed to collect our discussions about environmental, social, and governance topics with company management teams and sovereign officials. We have been using this database for several years, and strive to continuously enhance the quality of the information we collect.

RESEARCH

Our in-house research expertise, which includes more than 180 research professionals across all asset classes, is core to our investment strategies and is fundamental to delivering on stewardship outcomes. Whilst our structure differs by asset class, the common goal is to develop a thorough understanding of an issuer or company’s track record, governance, management strength and strategy, its use of, and impact on, human and natural resources, as well as regulatory and political risks.

We draw on discussions with company management teams and sovereign officials regarding ESG issues, as well as subscribing to and utilizing third-party ESG Research. Analysts develop independent views of material factors impacting fundamentals in their valuation assessments.
**FIXED INCOME**

Our centralized research analysts’ coverage spans the credit spectrum and includes issuers in developed and emerging markets. Credit recommendations include research of material ESG issues and combine rigorous fundamental analysis with comprehensive relative-value assessment. Credit research analysts are integrated into sector teams that offer market and research insight through the collaboration of portfolio managers, strategists, product analysts and traders.

- **Credit Research** – analyses issuers in the corporate bond bank loan and US public finance markets, including convertibles and distressed credits, along with agency issuers.
- **Sovereign, Commodity and Macroeconomic Research** – assesses the global macro investment environment and analyses sovereign issuers and commodity markets.
- **Securitized Assets Research** – covers the ABS, MBS, RMBS and CMBS markets.
- **Quantitative Research** – provides quantitative research and risk profile information to the investment teams.

**EQUITY:**

Equity research analysts are dedicated to specific investment teams to enable them to focus on that team’s respective investment philosophy and process. Through disciplined and proprietary fundamental analysis, their research includes material ESG and sustainability issues, as well as valuation perspectives applied over various time horizons and opportunity sets. Analysts are charged with developing company, industry, and sector expertise, and use this knowledge to identify the companies within their coverage that they believe fit best with their approach to equity investing and can offer the best total-return opportunity over a specified time horizon.

- **Growth Equity Strategies** – The team is an active manager with a long-term, private equity approach to investing. Through its proprietary bottom-up fundamental research framework, the team looks to invest in those few high-quality businesses with sustainable competitive advantages and profitable growth when they trade at a significant discount to intrinsic value. As a bottom-up fundamental investor, the team’s active risk management process is integral to its active investment process.
- **Global Equity Opportunities** – The team believes investing in companies with the alpha drivers of quality, intrinsic value growth, and valuation can help deliver long-term outperformance. The team’s primary source of idea generation is through fundamental research. Research analysts seek to identify quality companies globally that are mispriced in the market and have a duration effect (compounding effect of the quality and intrinsic value growth alpha drivers, i.e., they add value to a stock over time); effectively targeting two market inefficiencies.
- **Specialty Growth Strategies** – The team’s traditional fundamental research is the driving force behind the team’s decision-making process and they rely largely on internal, proprietary research. The goal is for a lower volatility approach to high growth investing. Idea generation consists of methodologies that help target undiscovered secular growth stocks.
- **Small Cap Value** - The team utilizes a disciplined, fundamental, bottom-up active approach to investing. The investment philosophy is rooted in the belief that known and recurring inefficiencies are available in the small cap market causing stock prices to deviate from their intrinsic value. The team uses a repeatable investment process to uncover higher quality businesses, and seeks inefficiencies in companies that are misunderstood, underfollowed or in the midst of a special situation.
- **Global Emerging Markets Equity** – The team believes a private equity approach to research and investing requires a long-term, ownership mind-set. The team seeks distinctive insights through deep, fundamental research to identify high quality companies, and companies transitioning to become high quality, trading at significant discount to intrinsic value. Deep insight requires going well beyond company management, as the team seeks to exploit the ‘quality inefficiency’ in global emerging markets through rigorous security selection.
TRAINING

Our approach to integrating stewardship and ESG relies on providing effective education, training and support to all of our investment professionals. Over the course of 2021, we worked to further develop expertise among our investment teams through training with a particular focus on incorporating climate change considerations into the investment process. This training and education included monthly sector-focused climate insights from a leading external climate consultant, as well as training for investment teams on a growing suite of climate risk tools. These climate risk analytics and physical and transition scenarios enable us to evaluate the possible impact of future events on our portfolios.

Loomis Sayles employees are supported with professional development opportunities related to ESG matters. For example, Loomis Sayles provides employees with reimbursement for expenses for study materials and exam costs related to the CFA Certificate in ESG Investing program. All full-time employees are eligible for this program, which was formalized in 2021, as we believe the organisation as a whole will benefit as more employees are informed about the important issues surrounding ESG.

Incentives

We ensure the firm’s remuneration practices promote sound and effective risk management, including ESG risks. The Head of ESG is responsible for increasing awareness of ESG principles among the firm’s investment teams and partnering with them to identify how ESG considerations may be further incorporated into their unique investment processes. The Head of ESG’s compensation is tied to the continued progress, integration and engagement of ESG across the firm.

In credit research, investment analysts are responsible for deciding how material ESG factors affect their view of an issuer’s overall creditworthiness and valuation, which includes the incorporation of robust ESG materiality maps. Since ESG is integral to analysts’ assessment of creditworthiness and relative value, and analysts are measured on the performance of their recommendations, ESG ‘performance’ is embedded in their evaluation. Portfolio managers decide which securities actually go into portfolios, based on input from the research analysts, investment analysts, trading desk, and others. Portfolio managers are rewarded for performance; they naturally consider ESG factors addressed by research analysts and will take into account such matters in the normal course of assessing risks related to the long-term prospects for securities they are considering purchasing or selling, or those that are already held in their portfolios.

We ensure the firm’s remuneration practices promote sound and effective risk management, including ESG risks.
PRINCIPLE 3: CONFLICTS OF INTEREST

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Our Conflicts of Interest Policy sets out the principles and guidelines for identifying, managing, recording and, where relevant, disclosing existing or potential conflicts and protecting the interests of Loomis Sayles’ clients.

Loomis Sayles regularly reviews its business to identify potential conflicts of interest and to ensure already identified conflicts continue to be managed effectively. When assessing a potential conflict of interest, Loomis Sayles considers whether it: (1) is likely to make a financial gain, or avoid financial loss, at the expense of the client; (2) has an interest that is separate and distinct from that of the client in the outcome of the service provided to the client or of a transaction carried out on behalf of the client; (3) has a financial or other incentive to favour the interest of one client or group of clients over the interests of another client or groups of clients; or (4) receives or will receive, from a person other than the client, an inducement in relation to the service provided to the client, in the form of higher fees. Each Loomis Sayles employee is responsible for (1) identifying actual or potential conflicts of interest and reporting them to the Chief Compliance Officer (CCO), (2) discussing any questions or concerns about possible conflicts with the CCO, and (3) managing and mitigating conflicts fairly and in accordance with applicable policies and procedures.

In accordance with our Procedures for Maintaining the Loomis, Sayles & Company Compliance Manual, our CCO or his designee reviews the Conflicts of Interest policy on an annual basis. In 2021, the review of the Conflicts of Interest policy concluded that no changes needed to be made to the policy. Further, our Conflicts of Interest policy is reviewed and approved by the Board annually to ensure it remains accurate and up to date. Loomis Sayles’ Conflicts of Interest Policy is disclosed in its Form ADV under ‘Conflicts of Interest’, available at www.adviserinfo.sec.gov, or https://files.adviserinfo.sec.gov/IAPD/Content/Common/crd_iapd_Brochure.aspx?BRCHR_VRSN_ID=7077220.

In addition, the firm has several oversight committees that monitor its business practices and risks, including potential conflicts of interest. We take our fiduciary duty to our clients seriously and believe we have robust policies and procedures in place to manage conflicts of interest effectively and always in our clients’ best interests.

We have identified specific examples where potential conflicts could arise in relation to our stewardship activities. Many of these conflicts are managed through our Proxy Voting Policies and Procedures, which are designed and implemented in a way to ensure that proxy matters are handled in the best interests of clients.

The Proxy Voting Procedures generally direct the Proxy Committee on how to vote on the most common proxy proposals. Topics covered include director nominees, proxy contest defences, ratifying auditors, tender offer defences, governance provisions, capital structure, executive and director compensation, incorporation domiciles, mergers, acquisitions, corporate restructurings, and ESG matters. Except in certain limited instances, including those discussed below, Loomis Sayles votes in accordance with those pre-determined policies. We set these out in more detail under Principal 12. The Proxy Committee may use its discretion to vote against the pre-determined policies, after taking the following steps: (1) conducting a review for any material conflict of interest Loomis Sayles may have, and (2) if any material conflict is found to exist, excluding anyone at Loomis Sayles who is subject to that conflict of interest from participating in the voting decision in any way. Below we set forth general areas where we expect conflicts to arise in connection with our stewardship and proxy voting matters, as well as certain actual conflicts that arose in the reporting year, along with a discussion of how we mitigated them.
Examples of Potential Conflicts That Could Arise In Relation to Our Stewardship Activities Include:

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<thead>
<tr>
<th>CONFLICT</th>
<th>MITIGANT</th>
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<tr>
<td>Different investment strategies invested in the same asset may have a</td>
<td>In the event that investments teams have differing views regarding the impact of the proposal on their clients’ investment interest, we may</td>
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<td>different preferred outcome on a particular voting proposal. This could</td>
<td>cast a split vote, despite the stated policies in our Proxy Voting Policies and Procedures. During 2021, the firm split its vote at 17 meetings.</td>
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<td>be due to varying investment philosophies or as a result of being invested</td>
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<td>in different levels of the capital structure. For example, Loomis Sayles’</td>
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<td>equity and fixed income teams may have divergent interests in a proposal</td>
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<td>for a merger and acquisition or debt restructuring.</td>
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<td>Our proxy voting is not influenced by our client base and thorough checks are undertaken prior to all votes in order to identify any</td>
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<td>relationships between the investee company and Loomis Sayles that could result in a perceived conflict. In this instance, we would alleviate</td>
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<td>any potential conflict by voting in accordance with our Proxy Voting Policies and Procedures.</td>
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<td>When submitting a voting recommendation, employees must certify the recommendation is made in the client’s best interest and they are not</td>
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<td>aware of any personal conflicts affecting their recommendations. For example the existence of a personal or professional relationship with</td>
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<td>members of the investee company Board. All employees are subject to our Code of Ethics.</td>
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<td>We may engage with an investee company whose pension scheme is also a</td>
<td>Clients may dictate specific terms with respect to proxy proposals that conflict with the stated policies set out in the Firm’s Voting Policy</td>
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<td>client.</td>
<td>and Procedures. In these situations, we will direct the proxy vote in accordance with our client’s wishes.</td>
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<td>Employees may have a personal interest in the outcome of a voting</td>
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<td>proposal that conflicts with the interests of a client.</td>
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<td>Our engagement and stewardship policies may conflict with our clients’.</td>
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Below are some examples of conflicts in our proxy voting we encountered during 2021, and how we addressed them:

**COMPANY #1: MANAGEMENT PROPOSAL REQUESTING THE RE-ELECTION OF THREE DIRECTORS**

**INVESTMENT TEAM A: – FOR**

**INVESTMENT TEAM B: – DEFERRED TO LOOMIS SAYLES POLICY OF VOTING AS RECOMMENDED BY THE RESEARCH VENDOR**

The issuer operates a platform for stays and experiences to guests worldwide. The company's marketplace model connects hosts and guests online or through mobile devices to book spaces and experiences. It primarily offers private rooms and luxury villas. At its 2021 Annual Shareholder Meeting, management put forth a request to re-elect three directors to the board. In the course of our research, we examined a number of provisions in the governing documents of the company that restrict the rights of shareholders, most notably, a dual-class voting structure. Firm policy directed us to generally vote against nominees that have been identified as not acting in the best interests of shareholders, and as such, we prepared to vote against these directors due to their long-standing membership on the board and not the continued restriction of shareholder rights. When asked to opine on the re-election of the three directors in question, one of our investment teams holding shares of the company in their portfolios expressed their belief that these three directors were an integral part of the company's business and continued to steer the business as travel recovered from the effects of COVID-19 pandemic restrictions. They expressed an understanding of the concerns raised by the existing restrictions, but continued to believe that the current management, including these three directors, would continue to generate shareholder value over the long-term. Therefore, this team determined to vote for all three directors. Concurrently, another strategy of holding shares of the company elected to vote against the three directors due to the aforementioned concerns about the existing shareholder rights restrictions in the governing documents. In the end, all three directors were re-elected to the board with 99% of the vote in their favour.
COMPANY #2: MANAGEMENT PROPOSAL REQUESTING THE RE-ELECTION OF DIRECTOR

INVESTMENT TEAM A: – FOR
INVESTMENT TEAM B: – AGAINST

The Company, through its subsidiaries, provides technology infrastructure and marketing reach to merchants, brands, retailers, and other businesses to engage with their users and customers. At the Company’s 2021 Annual Shareholder Meeting, management put forth a request to re-elect a director to the board. In the course of our research, we discovered that the Director was also the President and Chief Executive Officer of two public companies. We were concerned about the time commitment required by serving on three boards. Our proxy policies direct us to generally vote against a director nominee who serves as an executive officer of any public company while serving on more than two total public company boards unless a convincing argument to vote for that nominee is made by our proxy research providers, which did not occur in this case. When asked to opine on the re-election of the director, one of our investment teams holding shares of the company in their portfolios expressed their belief that he had been an integral part of the company’s business and that his experiences and expertise outweighed the issues raised by possible over-commitment. Concurrently, another investment team whose portfolios hold shares of the company did not agree with this assessment, and elected to vote against the re-election due to the aforementioned concerns about the time commitment required to serve on three boards in addition to his executive duties. The director was re-elected to the board with 84% of the vote in his favour.

COMPANY #3: SHAREHOLDER PROPOSAL REGARDING INDEPENDENT CHAIR

INVESTMENT TEAM A: - AGAINST
INVESTMENT TEAM B: - FOR
INVESTMENT TEAM C: - FOR
INVESTMENT TEAM D: - FOR

The company engages in the retail sale of consumer products and subscriptions in North America and internationally. At the company’s 2021 Annual Shareholder Meeting, certain shareholders put forth a proposal that the chair of the board be an independent director. Loomis Sayles’ Proxy Voting Policy is to vote for all proposals for the board to adopt a policy requiring its chairman to be ‘independent’ (based on some reasonable definition of that term) with respect to any issuer whose enterprise value is, according to our vendor, greater than or equal to $10 billion. We found this proposal to meet that criteria and were set to vote for this proposal for all our holdings. However, upon consultation with the investment teams holding this company in their portfolios, we found that one strategy, in alignment with their investment philosophy, believed their investors would benefit from having the company’s visionary founder and largest shareholder continue to hold the position of chairman. As such, all shares held by that strategy voted against this shareholder proposal. Concurrently, all other holdings deferred to the firm’s standard policy with regard to such proposals and voted that the chair of the board should be an independent director. This proposal did not pass, with only 15% of the eligible shares voting for it.
PRINCIPLE 4: PROMOTING WELL-FUNCTIONING MARKETS

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

The identification and management of risk is a central part of our investment decisions, and as such, risk analysis is embedded directly into each team’s investment process. Our Macro Strategies research team is responsible for assessing the global macro investment environment, which includes identifying marketwide systemic risks. Research analysts in our sector and product teams also play a role in identifying asset class and sector specific risks as well as interpreting how market-wide issues are likely to affect particular sectors, companies, and issuers. We use proprietary risk management systems and employ various metrics customized to the needs of each investment team to ensure investment decisions are made following a robust assessment of risk.

The firm’s Risk Management Committee is responsible for ensuring that the firm is identifying, monitoring, and managing the primary risks (investment, operational and legal) inherent in the firm’s business. This committee is composed of the CEO, CIO, CIRO, Chief Financial Officer (CFO), General Counsel, CCO, Head of Technology and Operations, Head of ESG, Director of Institutional Services, Director of Credit Research, Head of Trading, Deputy General Counsel, Head of Operations, and Head of Data Management.

Our senior leadership team plays an active role in industry wide initiatives to respond to market-wide issues and systemic risks. For example, our Director of Fixed Income Research serves as Chair of the Credit Roundtable, which attempts to address marketwide and systemic risks of particular relevance to bondholders. Similarly, our COO is president of the Association of Institutional Investors, which represents the interests of investors and aims to promote fair and efficient financial markets through open engagement with policymakers and others. We describe our work with other market participants through industry bodies under Principle 10.

As a large asset manager, Loomis Sayles provides feedback to issuers and bankers on new issues during road shows and investor meetings. We comment on tenor as well as relative pricing in the market. Although we are not market makers, we feel our input provides guidance on the market, which in turn, helps to promote efficient, well-functioning markets.

We identified and responded to three key marketwide and systemic risks during the reporting period:

- The risks posed by COVID-19;
- Climate risk; and
- Chinese property market

COVID-19

Our global presence and research-driven approach meant we were able to quickly identify COVID-19 as a risk and closely monitored the evolving situation around the world. Proactive action and clear communication were critical in responding to the unprecedented situation.

At the beginning of the outbreak, we installed a ‘pandemic task force’, led by our COO, which met daily to evaluate the changing situation, local and global government responses and the potential and actual impact to our global investment operations and employee base. In March 2020, our CEO joined thousands of other CEOs and business leaders who signed on to ‘Stop the Spread’, a movement to lead the private sector’s response to the pandemic, catalyse action and augment the government response to COVID-19. We updated our emergency notification system quarterly and conducted business continuity tests during 2021. These tests were designed to ensure that Loomis Sayles was appropriately positioned to perform critical business processes in the event of an emergency situation. The tests covered our emergency notification system and our work area recovery capabilities, and helped us to prepare for the most likely business continuity scenario, including a cybersecurity incident limiting access to the Boston headquarters, a regional weather emergency, pandemic virus, or terrorist threat. The firm’s semi-annual emergency simulation test includes tests of our emergency notification system, emergency conference capabilities, emergency communications, and work area recovery site and remote access. The 2021 test results indicated that no significant technological, communications, or other issues prevented or limited the successful completion of all critical daily functions.
Macro Strategies and Credit Research joined efforts to identify risk/opportunities across the global economy and industries. These efforts led to comprehensive firmwide impact reviews in both 2020 and 2021. The two groups jointly collaborated on the inflation impact from shutdowns and supply chain bottlenecks due to COVID-19. Credit Research provided quarterly bottleneck updates on their various industries in 2021, and the Macro Strategies team developed a bottleneck indicator index to provide insights into COVID-19-related supply chain issues. The Macro Strategies team also had a dedicated senior analyst tracking COVID-19 and the global policy responses to the pandemic. Our equity teams hewed closely to their disciplines during this turbulent year to manage the risks and identify opportunities, globally. Our response to the risks posed by COVID-19 extended beyond firm-level and employee considerations to the immediate and ongoing impact on investee companies and our ability to engage with those companies. Perhaps contrary to our initial expectations, the pandemic has not hindered our ability to engage with investee companies. While direct engagement with investee companies through in-person meetings and conferences largely has not been possible, the widespread adoption of remote working practices has removed common barriers to engagement such as scheduling issues. As a result, we noticed access to company management increased substantially in 2020 and continued into 2021. This is a feature true across all investment strategies at Loomis Sayles, including those operating in emerging and frontier markets. In contrast, we have found that we have had less ability to engage with sovereign officials this year, as there was a larger number of participants on calls relative to in-person meetings held prior to remote working practices. This hindered our ability to engage at the same level.

While common critical risk areas across investee companies could be identified, each investee company was reviewed individually to understand the relative risks and opportunities of the pandemic to that company. This analysis drove the level of engagement and informed investment decisions. For example, one of our equity investment teams engaged with a large global internet retail company to understand how they were responding to the pandemic in terms of managing employee safety. Another team engaged with leadership at a multinational pharmaceutical company to understand how the supply of and access to life-saving insulin therapies could be maintained in the wake of the pandemic-driven disruption in global supply chains.1

Loomis Sayles strategies generally have a long-term investment approach which informed the way investment teams viewed the risks posed by the pandemic. Generally, we did not exit positions in response to the market volatility experienced during the early stages of the pandemic. However, we have exited positions where the pandemic has undermined our confidence in the viability of the issuer or the long-term prospects of the sector. Similarly, we have invested in sectors where we believe the pandemic will act as a catalyst for changes that will benefit the sector over the longer term. These decisions have been informed by our engagement with investee companies, which has encompassed how they are responding to COVID.

Like most investment managers, we did not envisage the risk of a global pandemic materialising in 2020. However, our business continuity plan enabled us to conduct our business without interruption.

Climate Risk

In recent years, we have made climate change a priority and have taken a number of steps to formalise the firm’s commitment to addressing the risks posed by climate change:

- Created a set of shared principles that guide our investment approach taken toward climate change
- Developed internal fixed income ESG materiality maps that incorporate climate change considerations, which are used to determine which ESG factors are most material to different issuers and sectors
- Expanded our bespoke ESG capabilities to customise portfolios according to investor guidelines, reporting requirements, and proxy policies
- Partnered with an external climate-focused consultant to carry out climate training for investment professionals and provide a roadmap for TCFD implementation
- Established a Climate Change Subcommittee under the ESG Working Committee
- Assigned responsibilities for climate change to the Head of ESG, the ESG Working Committee and the ESG Advisory Board
- Incorporated ESG and climate change into the agenda for the quarterly Risk Management Committee

1In the body of the report we have provided a number of examples and case studies that demonstrate our approach in relation to specific investee companies. It has been necessary to anonymise these issuers as we are prohibited from naming holdings we have recommended under Rule 206(4)-1(a)(2) of the US Investment Advisers Act of 1940.
• Began conducting scenario analysis using the ISS climate report, which helps us to conduct forward looking climate-related scenario analysis. This analysis will help us to report our portfolios in line with the TCFD recommendations.

During 2021 our key areas of focus, to further this progress included:

• The further integration of climate-related scenario analysis tools into our investment teams' processes
• Further integrating clients' evolving ESG priorities and disclosure expectations into our reporting practices and portfolio management tools
• Continuing to expand and deepen the scope of our ESG tools to cover new sectors, capabilities and themes
• Assessment of investment opportunity areas to further the Net Zero pursuit
• Creating a comprehensive climate risk assessment tool
• An emphasis on technology to facilitate monitoring of custom ESG key performance indicators, to provide sophisticated stewardship and ESG reporting options to our clients

CLIMATE SCENARIO ANALYSIS

As part of a wider initiative begun in 2020 to improve the ESG data, tools and resources available to each product team, we committed to provide education to our teams on our growing set of climate data, including climate scenario analysis. Such analysis can be complex and is relatively new for many Loomis Sayles teams, so our ESG Working Committee developed a primer and training for investment teams in 2021.

Loomis Sayles uses several ESG vendors to access comprehensive climate risk analytics to evaluate potential future impacts and financial costs to our portfolios from both physical and transition scenarios. Evaluating potential risk from future impacts of Climate Change enable asset managers to judge to resiliency of investment products and strategies, including whether a portfolio is aligned with the goals of Net Zero or the Paris Agreement objectives.

Our transition scenario analysis is based on the current IEA 2021 Scenarios:

1. Stated Policy Scenario (STEPS) ‘Current country commitment to Paris Agreement’ (1.8-2.1°C by 2050), (2.4-2.8°C by 2100)
2. Announced Pledges Scenarios (APS) ‘Reflects mid 2021 global commitments’ (1.7-2.0°C by 2050), (1.9-2.3°C by 2100)
3. Sustainable Development Scenario (SDS) ‘Paris Aligned Scenario’ (1.5-1.8°C by 2050), (1.4-1.47°C by 2100) where Developed Markets reach net zero in 2050, China in 2060 and other nations by 2070
4. Net Zero Emissions (NZE) ‘Net zero scenario’ (1.4-1.7°C by 2050), (1.3-1.5°C by 2100). The IEA SDS Scenario satisfies not just the 2-degree C temperature target set by the Paris Agreement, but the policies it uses as a means to reduce emissions are also in line with sustainable development and efforts to eradicate poverty.

The tool allows an assessment of a portfolio’s alignment versus the scenarios above, as well as the alignment of a benchmark. The scenario analysis compares the projected annual carbon emissions of holdings in portfolios with the budgets allotted by each scenario through the 2050 time period. The methodology takes company emissions reduction targets into account where they are aggressive and robust enough to be Paris aligned. It provides an implied temperature score at both the company and portfolio level. Temperature scores reflect the potential temperature increase the trajectory pathway arrives at in 2050. The tool also assesses individual companies’ alignment with the three scenarios and supplies the ratio of carbon budget reduction required by each holding to meet each scenario, as well as the year each company exceeds the SDS pathway if the issuer falls short of alignment through 2050. The scenario tool helps our investment teams not only understand a portfolio’s current positioning in relation to potential climate scenarios, it can help direct engagement with companies who have much steeper emissions reductions to achieve and highlight which issuers have not taken steps to establish reduction targets. This type of analysis also provides metrics with which we can measure progress toward Paris and net-zero goals at both the portfolio level.

The chart below is from the ISS Climate Report. The report shows the extent to which one of our portfolios lines up with current IEA scenarios, including the Sustainable Development Scenario, which is aligned to the Paris Agreement.
We are encouraged to see that governments, businesses and citizens around the world are mobilizing to change course and address climate change. This response has impacted global financial markets, and will continue to do so. While the investment implications from climate change are moving rapidly, we are committed to doing our part on this important issue.

China Property Sector

Our sovereign and credit analysts identified cracks in the Chinese property sector. Working together, the analysts reviewed the overall risks to the Chinese financial system and any potential spillover effects. The team identified names that are either currently under stress or those that could come under stress in the near future, and looked at the potential impact on the onshore and offshore bond markets, the banking system, the housing market, and the labour market. The team addressed the contagion risk from one large issuer that came under stress and noted that systemic risks in China was building. The team provided scenario analysis given the high degree of leverage in the property sector as a whole and looked at what might trigger contagion risk. The team evaluated the risk of default and panic sales, as well as any triggers that would impact household confidence in buying a new home. The analysts’ opinion was that how China handles the sectors’ high leverage and debt problems was a test for Beijing’s balancing act between financial de-risking and preventing systematic financial risk.
Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Loomis Sayles believes that a multi-layered approach to the review and assurance of its policies and procedures is a responsive manner to ensure that our activities are effective. At the ‘ground level’, the CCO designates a ‘policy owner’ in the Legal and Compliance Department to oversee and ensure the accuracy and currency of each policy. The CCO or his designee reviews each policy on a regular basis, generally annually unless circumstances such as a change in regulation require a more frequent basis, to ensure it is current, accurate and effective. As additional layers of review and assurance, Loomis Sayles relies on internal audits and several internal oversight bodies and processes to ensure that our policies and procedures are effective. This multi-layered approach provides a framework for ensuring clear ownership of policies alongside independent oversight and assurance. Our key oversight activities are set out below.

**Review of Policies and Practices**

The CCO requires that all policies be reviewed internally by the ‘policy owner’. The policy owner, in turn, is required to verify on an annual basis that these policies remain accurate, reflect regulatory requirements and that the associated procedures are consistent with the policy. The policies that we believe are most directly relevant to stewardship, including the Conflicts of Interest Policy and the Proxy Voting Policy, were each reviewed in 2021. No changes were deemed required to the Conflicts of Interest Policy at that time. The Proxy Voting Policy was updated twice in 2021. In January, Loomis Sayles amended the Proxy Voting Policy to reflect the U.S. Department of Labor’s regulations relating to proxy voting and the exercise of shareholder rights. In March, Loomis Sayles amended the Policy to note that a review by the Proxy Committee would not be required if an investment professional covering a security had offered an opinion on how to vote a proposal. A review of any potential conflicts of interest in connection with the opinion would be conducted prior to the vote. Further, as part of its internal audit process, Loomis Sayles uses an external audit firm to conduct a System and Organization Controls Report (SOC 1), which includes an assessment of compliance with its Proxy Voting Policy and Procedures. In addition, the internal audit resources of the parent company are employed to conduct audits on selected Loomis Sayles policies and procedures on a rotating basis, including review of marketing communications. The results of these audits are reported to the Audit Committee and the Risk Management Committee. Based on the results of these audits, and in response to regulatory or other changes, company policies may be updated and subsequently presented to the Audit Committee and the Risk Management Committee.

**Investment Risk Review Process**

Loomis Sayles’ investment teams regularly participate in an Investment Review process conducted by our CIO and CIRO. These reviews are conducted in committee format. They are intended to examine the investment philosophies and activities of each investment team, including those related to environment, social and governance decisions, to determine if those activities are consistent with the investment styles of the products and firm policies established regarding risk or other parameters placed on the teams’ investment activities. A detailed description of the purpose and activities of the CIO Investment Risk Review Committee and the CIRO Investment Risk Review Committee specifically related to stewardship is included in our discussion of Principle 1.

The effectiveness of stewardship activities forms an important part of this Investment Risk Review process. For example, the Investment Risk Review Process highlights whether investments pose sustainability risks, whether engagement with companies and issuers is being effectively fed back into portfolio management decisions and whether material risks identified as part of engagement activities have been adequately accounted for by portfolio managers.

The CIO and CIRO are members of the Loomis Sayles Risk Management Committee (RMC) and our ESG Committee, both of which report to our Board of Directors. Information on the findings of the CIO Investment Risk Review Committee and the CIRO Investment Risk Review Committee, including meeting minutes and summary pages of key data are included in each quarterly RMC Investment Report. Areas of concern, including those specific to stewardship, are highlighted to the RMC Committee. The RMC is comprised of many of the Board members and senior representatives of all departments and the CEO conveys matters of importance regarding the Investment Report at the Loomis Sayles Board of Directors meetings.
ESG Committee

The ESG Committee, which is described in detail in the description of governance in Principle 2, meets bi-weekly to review the responsible investment and engagement activities of the Firm. It plays an oversight and co-ordination role in respect of our ESG activity and monitors progress of ESG initiatives. It is responsible for making decisions regarding allocation of resources, the implementation of initiatives and the selection of tools to support the ESG initiatives at the firm.

As part of our ongoing review of the quality of our ESG initiatives we also established the Fixed Income Best Practices subcommittee.

CASE STUDY: A LOOK AT OUR FIXED INCOME BEST PRACTICES PROJECT

The objective of the Best Practices Project is to work across the fixed income groups and associated departments—research, portfolio management, risk management, technology, trading and marketing—to enhance the processes and communication of our ESG integration and engagement efforts. As a result of this project, we have identified efficient and effective ways to communicate and track the material ESG factors within our current fundamental fixed income research processes. The lessons learned from this project have led to the creation of custom proprietary materiality maps with associated internal fixed income ESG scores, which have been incorporated into our systems for both corporate bond industries and sovereigns. Future work includes the expansion of our materiality maps to other fixed income sectors, including municipals and securitized.

During 2021, the Best Practices Team focused on further identifying areas of improvement for our ESG efforts. Particular focus was on the development of new systems with our technology partners. The latest version of ESG Engagement App, launched last year, now provides for the tracking of specific risks and opportunities, including outcomes, among other enhancements. Working with our Technology Department, the team provided valuable input as to the development of a new App, which will store all of our materiality maps. This App will make it easier to make edits to existing maps, revise ESG Scores, retrieve data, produce reports, and communicate with other firm-wide systems.

During the year, the Team reviewed the existing engagement process in a drive to make it more efficient and effective. More formal parameters were recommended by year end, with the expectation that a consensus among all affected parties would be reached by early 2022, and implementation to occur soon thereafter.

Proxy Voting

Loomis Sayles’ Proxy Voting Committee is responsible for, among other things:

- Annually reviewing the Proxy Voting Procedures to ensure consistency with regulatory and internal policies, including confirming that they are reasonable and effective, and designed to ensure that votes are cast in clients’ best interest
- Annually reviewing existing voting guidelines and developing additional voting guidelines to assist in the review of proxy proposals
- Annually reviewing the proxy voting process and addressing any general issues that relate to it

We also regularly review our votes to verify that they have been cast in accordance with our policies and procedures. The Proxy Voting Committee reviewed the Proxy Voting Procedures in January and March of 2021, and made the material changes described above under ‘Review of Policies and Practices’. We also discuss our proxy voting policies and procedures further under Principles 3 and 12.
Stewardship Reporting & Benchmarking

Our Chairman and CEO added ESG as an agenda item to the Risk Management Committee (a subcommittee of the Loomis Sayles Management Committee) in 2020. Among other ESG metrics, we report on carbon intensity in each of our representative accounts for each strategy, as well as that of the benchmark. In 2021, we added ‘alignment with the Paris Agreement’ as a reporting item, based on data from one of our climate vendors.

We monitor companies ranking most highly for owned emissions and carbon intensity, as well as recent engagements with those companies for context. We track portfolio Paris-alignment and temperature score, along with historical change.

Externally, Loomis Sayles seeks to be transparent in reporting on stewardship activities. In addition to reporting on the UK Stewardship Code, we have developed a comprehensive sustainability report. For the 2021 period, we published our second annual sustainability report, which includes our first climate disclosure aligned with the recommendations of the TCFD. In the development of our reporting, we have engaged independent, external advisors to ensure we are following best practices in the industry. We also include stewardship information in client reporting. As described in Principle 6, the contents of this reporting are based on individual client requirements or regulations, and specific to the mandate. Our client reporting has been well received, and our ongoing dialogue with clients as described in Principle 6, helps us to ensure it is fair, balanced and understandable. We were delighted to be accepted by the Financial Reporting Council as a signatory to the 2020 UK Stewardship Code, based on our report last year. In reviewing other signatories’ reports, we feel that we are in good company in meeting these robust standards.

In 2022, we plan to undertake a survey of clients on ESG, to support our existing practices of direct engagement with clients on stewardship expectations. We hope this survey will help increase our understanding of our clients’ needs in this area, so we can make informed decisions. In particular, we will look to illuminate the future needs of select clients that have not yet raised any specific expectations to us.

Other Means of Assessment

We respond to numerous surveys conducted by parties outside of Loomis Sayles. Most importantly, as signatory to the PRI, we submit annual reports that are subject to assessment and scoring.

We are in frequent contact with clients regarding their concerns about stewardship, and we use their feedback to assure ourselves of the fair and balanced nature of our communications with them as well as the clarity of the information we provide. This information is provided in a variety of ways, including responses to due diligence questionnaires, reports created pursuant to client requests, client meetings, and individual inquiries addressed to clients’ specific interests and concerns. Marketing communications are reviewed by at least three members of the ESG Working Committee, described in detail in the description of our governance under Principle 2. The review is required in order to ensure that stewardship and ESG dialogue is presented in a fair and balanced manner, is easily comprehended and is accurate. Two of the three reviewers are experienced attorneys with more than 10 years of involvement in the stewardship activities of Loomis Sayles.

The process we follow to develop and review our UK Stewardship Code Report is robust and stringent. The ESG subcommittee charged with responding to the industry commitments we are part of includes representation from various parts of the organization; fixed income research, investment teams, legal, and marketing. This group drafts the report, and then shares it with members of the ESG Committee for input. We have also chosen to hire an outside consultant to review the draft document to ensure it is aligned with industry best practices. After the consultant and ESG Committee’s input is incorporated, the draft is shared with the ESG Advisory Board for review. The ESG Advisory Board, as described in Principle 2, is formed of executives from across the firm. Finally, the document is reviewed by our advertising and legal review team. We believe this process ensures our report is complete, fair and balanced.
PRINCIPLE 6: CLIENT AND BENEFICIARY NEEDS

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Loomis Sayles provides investment management services to a wide variety of institutional clients, including public funds, endowments, pension plans, corporations, foundations, and insurance companies. As of 31 December 2021, the firm had assets under management totalling £268bn:

**ASSETS UNDER MANAGEMENT**

**BY CLIENT BASE**

- US institutional
- Non-US institutional
- US retail
- Non-US retail

£268.0 GDP BILLION

**BY DOMICILE OF ACCOUNT**

- United States
- Europe ex UK
- Japan
- United Kingdom
- Other Americas
- China
- Canada
- Middle East
- Other Asia
- Australia

**INVESTMENT EXPERTISE ACROSS ASSET CLASSES**

**Fixed Income: £189.2 B**

- Investment Grade Corporates
- Equities
- Developed Country Treasuries
- Mortgage & Structured Finance
- High Yield Corporates
- Emerging Market Debt

**Equity: £78.8 B**

- Municipals
- Other
- Bank Loans
- Convertible Bonds
- Government Related

**EQUITY AUM COUNTRY BREAKDOWN**

- United States
- Europe ex UK
- China
- United Kingdom
- Other Asia
- Japan
- Other Americas
- Middle East
- Canada
- Australia
- Other

**FIXED INCOME AUM COUNTRY BREAKDOWN**

- United States
- Europe ex UK
- Other Americas
- United Kingdom
- Canada
- Other Asia
- Middle East
- Japan
- Australia
- Other
- China


Due to rounding, pie chart total may not equal 100%. Other includes cash & equivalents and derivatives.

Total AUM includes the assets of both Loomis, Sayles & Co., LP, and Loomis Sayles Trust Company, LLC. (£40.2 billion for the Loomis Sayles Trust Company).

Loomis Sayles Trust Company is a wholly owned subsidiary of Loomis, Sayles & Company, L.P.
At Loomis Sayles, our goal is to deliver superior long-term risk-adjusted returns and effective investment solutions to meet our fiduciary duty to our clients. We offer a wide array of traditional and alternative investments to meet the needs of institutional and retail investors. Although we do not subscribe to a single investment process, a shared set of investment pillars and values, including ESG considerations, underpins each investment team’s philosophy and process. We build our client-focused investment capabilities on a foundation of diverse, proprietary expertise in global credit, equity, macroeconomic, and quantitative research.

Generally, our clients have long-term investment horizons. However, time horizon can vary greatly from clients with near-term liquidity objectives to foundations and endowments with perpetual investment horizons. Though our strategies have different return patterns and time horizons, they all seek strong risk-adjusted returns.

The majority of our business involves managing segregated portfolios on behalf of institutional investors. Business development activities typically require several years of engagement with prospective clients before being hired and then investing. During this time, we seek to understand prospective clients’ investment objectives as well as provide analysis, information, and education directly to the prospective client as well via third-party consultants and databases. This process helps identify appropriate investment solutions – and investment time horizons – for each potential investor. We have found that direct engagement with our clients allows us to effectively educate them on our investment capabilities and understand how we can best address their varied needs. As mentioned, in Principle 5 we plan to supplement this direct engagement with a more structured client survey in 2022 to help us uncover the future ESG needs of select clients that have not yet raised any specific expectations to us.

Every Loomis Sayles strategy starts with a solid foundation or ‘alpha thesis’. This alpha thesis seeks to identify market inefficiencies and the investment process necessary to exploit them. An investment time horizon can be core to an alpha thesis.

As one equity team explains it:

“Because we approach investing as if we are buying into a private business, a long investment horizon is central to our philosophy. In our view, a long investment time horizon affords us the opportunity to capture value from secular growth as well as capitalize on the stock market’s short-sightedness through a process called time arbitrage. As a long-term investor, we develop long-term constructive relationships with management through regular and recurring dialogue regarding key decision-making criteria, which includes ESG topics. We believe a long-term orientation is fundamental to a favourable decision-making framework with regard to these areas. Because meeting ESG challenges is a key component of company management’s long-term strategic decision-making, we seek to invest with management teams who share a long-term perspective. Company management must necessarily weigh the interests of various stakeholders including employees, customers, supply chain partners, and local communities, as well as resource stewardship. Evaluating management’s ability to allocate capital to investments creating long-term shareholder value is core to our quality assessment of each company. We believe management focused on short-term objectives cannot realize long-term results.”

The appropriate investment solution may be an off-the-shelf strategy or may be customized to meet bespoke client objectives. For portfolios with client-defined investment objectives, the approach taken by each investment team reflects the appropriate client-specific investment time horizon. Often, these clients require particular portfolio restrictions and reporting in connection with stewardship matters. As a result, we must comply with client directives and/or requests in our stewardship activities and reporting in those instances.

At Loomis Sayles, we also offer a wide array of commingled investment vehicles, such as ‘40-Act mutual funds in the US as well as Luxembourg- or Dublin-registered UCITS funds for investors outside the US. Distribution of these vehicles is primarily through large retail institutions where the decision to make our strategies available to end investors resides primarily with gatekeeper analysts for institutions. The needs-based selling process here is similar to the institutional process described above. Given the investment time horizon is pre-established for these commingled investment vehicles, the focus is on matching investor objectives to an appropriate fund. If one of our strategies is selected, ongoing support, analysis, information, and education is provided for the gatekeeper analyst as well as client-facing teams.
**SUSTAINABLE FINANCE DISCLOSURE REGULATION (‘SFDR’)**

The European Union’s SFDR came into force in March 2021. It is meant to help institutional asset owners and retail clients understand, compare and monitor the sustainability characteristics of investment funds by standardizing sustainability disclosures. Firms must make both firm- and product-level disclosures about the integration of sustainability risks, the consideration of adverse sustainability impacts, the promotion of environmental or social factors, and sustainable investment objectives.

The regulation has prompted Loomis Sayles to think deeply about how we incorporate ESG factors into the investment processes of our various products and how we describe sustainability characteristics in our disclosure. SFDR is helping us glean insights and perspectives about our work that can be helpful in other regions, even if regulations are different.

We have submitted the following UCITS funds to be consistent with the Article 8 regulations of SFDR:

- Loomis Sayles Euro Credit Fund
- Loomis Sayles Euro High Yield Fund
- Loomis Sayles Global Growth Equity Fund
- Loomis Sayles Sustainable Euro Credit Fund
- Loomis Sayles Sustainable Global Corporate Bond Fund
- Loomis Sayles U.S. Growth Equity Fund

When our strategies do not include ESG restrictions or exclusions in the investment process, we can tailor each strategy to a degree according to the needs of the client. This may involve overlaying one of our strategies with a bespoke ESG-based exclusion list in accordance with client needs, such as excluding companies with revenue derived from munitions, alcohol, gambling and tobacco. Moreover, Loomis Sayles will accept screens as requested by its clients in order to meet their evolving ESG goals throughout the life of the client relationship. In 2021, Loomis Sayles had over 75 different client-directed screens.

Loomis Sayles generally provides written reports to separate account clients on either a monthly or a quarterly basis. Standard reports include a complete list of account holdings and account performance information. These reports and related account information are also available on the Loomis Sayles website through its e-service platform. Certain clients may receive additional information if specifically requested and required by their advisory agreement. We work closely with our clients to meet their investment needs, including the unique ESG guidelines or values they may have. We are increasingly seeing additional information requests and requirements relating to ESG issues and we are happy to respond to ESG reporting requests as required.

At the outset of any client arrangement, each of our clients is provided with a relationship management contact who facilitates engagement with the client to determine their needs and expectations including those related to stewardship. The relationship manager, as well as a specialised group of individuals focused on client intake, works with these clients during the on-boarding process to lay out these requirements in the written agreements. This relationship manager remains as the client’s ongoing contact at Loomis Sayles, and they ensure that portfolio managers and other parties are apprised of any evolving client needs.

The discussions we have with clients on ESG issues vary across clients, investment strategies and geographies. Our clients’ needs and preferences on ESG issues span a broad spectrum and we are happy to accommodate client specifications. For example, we have clients who request detailed reporting on ESG and stewardship issues and others for whom receiving this information is not a priority. For clients who are engaged on ESG issues, each investment team develops customized data and reporting schedules catered to their individual requirements. Our client-focused approach is also reflected in our Proxy Voting Procedures and Reporting. The level of engagement by clients on the exercising of proxy votes varies and we cater to individual needs as required. For example, clients may provide Loomis Sayles with their own proxy voting guidelines to follow, and in some cases, we also provide a tailored analysis of the proxy votes and the rationale at the client’s request.

While we are seeing an increase in client demand for specific ESG and stewardship reporting, it is not provided as a matter of course but rather in response to client specific needs. We have created an ESG reporting subcommittee, which is composed of
investment directors and relationship managers. The subcommittee meets to discuss the collective organizations needs related
to these reporting requirements and provide direction on any enhancements necessary in our systems. The reporting
subcommittee is led by Holly Young, VP and Senior ESG Analyst. Holly works closely with investment teams to ensure their
unique data needs are being met, ensures client reporting needs are addressed and provides overall ESG data expertise.

In recent years, we have also developed a comprehensive sustainability report for Loomis Sayles, which we publish annually. The
report provides details of our approach to ESG and recent initiatives. The 2021 Sustainability Report includes our first firmwide
climate disclosure, aligned with the recommendations of the TCFD.

We are constantly evaluating the effectiveness of our client-focused method to meeting clients’ distinct ESG and Stewardship
reporting, in the everyday course of our client interactions. For example, as investment teams share quarterly updates with
clients, it is natural to discuss whether the reporting is meeting a client’s needs. These ongoing connections with our clients
provide continuous opportunities to ensure our approach meets their evolving needs, including sustainability requirements.

In 2022, we plan to undertake a survey of clients on ESG, to complement our existing practice of direct engagement with clients
on their stewardship expectations. We hope this survey will further augment our understanding of our clients’ needs in this area
so we can make informed decisions. While we believe that our current custom, high-touch approach to meeting the stewardship
needs of our clients is highly effective, we recognize that a survey may reveal latent demand, engender further dialogue, and
encourage other clients to request additional reporting, particularly if they had not yet articulated their needs in this area.

We are constantly evaluating the effectiveness of our client-focused method to meeting clients’ unique ESG and
Stewardship reporting, in the everyday course of our client interactions.
PRINCIPLE 7: STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

As a long-term investor, we believe that integrating stewardship into the investment process not only leads to sustainable benefits for the economy, environment and society but it is also essential to deliver superior risk-adjusted return potential for our clients.

We do not prescribe a single approach to integrating stewardship and investment. Because of the wide range of strategies Loomis Sayles offers, we provide the education, tools and resources to enable each investment team to integrate stewardship and portfolio management in a way that is most suitable in light of the characteristics of their investment strategy and client base. As long-term, fundamental investors, assessment of material ESG elements is an intrinsic part of our firm’s research and active investment culture. Additionally, our portfolio management system includes issuer and company ESG ratings from some of the main data providers as well as proprietary fixed income ESG scores produced by our own research teams. However, there is no centrally prescribed way in which the data must be used; our aim is to facilitate the integration of ESG and portfolio management across all of the strategies that we manage rather than mandate a particular approach.

In order to formalise their approach to integrating ESG into the investment process and foster best practices across the firm, team’s articulate their ESG philosophies and practices of incorporation. We have provided excerpts from four of our investment teams below to give an indication of how different teams incorporate ESG factors into their investment process.

### EXTRACTS FROM INVESTMENT TEAM ESG STATEMENTS

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<th>EQUITY TEAM</th>
<th>FIXED INCOME TEAM</th>
<th>FIXED INCOME TEAM</th>
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<td>‘We believe there are three alpha drivers critical to generating long-term performance: quality, intrinsic value growth and valuation. ESG is one of the seven dimensions of quality that we analyse in the first step of our research process. The goal of our ESG research is to identify the material risks and opportunities ESG factors present to a business. We define materiality as factors that will impact shareholder value over the long term. Our ESG research is tailored to each individual company, as ESG factors may present different levels of risks and opportunities, depending on the industry in which the business operates. We believe this is the most effective way to identify, research, and monitor ESG issues given our bottom-up investment process and...’</td>
<td>‘Our approach to ESG isn’t about exclusion. Some investors evaluate ESG performance to eliminate companies and whole industries from their portfolios. We compare a company’s ESG standing to the overall investment universe and to the other players within its industry. Even in industries like energy or utilities, which may face more ESG challenges than other parts of the market, there can be opportunities to find best-in-class issuers or companies whose ESG performance is on the upswing. Incorporating that assessment into our relative value decision making is the primary goal. We are long-term investors. In all of our work, we are focused on...’</td>
<td>‘Investment professionals on the team have access to a broad suite of ESG research and tools, allowing for analysis of specific issuers or of broad portfolio risk characteristics. External research from MSCI, Sustainalytics, and ISS allow for further analysis of a portfolio’s carbon footprint, transition pathway, and stranded-asset risk. We build upon the metrics of various external providers by incorporating the views and ESG scores of LS research to create forward-looking indicators of a company’s future ESG performance and relative value. For example, our assessment of financially-material ESG factors may cause us to sell a position outright, avoid a purchase, or reduce position sizing. At other times, an...’</td>
<td>‘Our proprietary seven-step research framework is the cornerstone of our investment decision-making process and drives our security selection. The research framework represents our long-standing insights about investing and is structured around three key criteria: Quality, Growth, and Valuation. With an owner’s mind set, we seek a deep understanding of the drivers, opportunities, and limits, including ESG criteria, for each company over a long investment horizon of at least five years, typically longer. The opportunities and risks associated with ESG matters are linked to business activities, which include management’s long-term strategic focus, the business model structure, and the productive allocation of capital. Therefore, ESG considerations can be structural to each step of our research framework and are integral to the analysis of business models, competitive advantages, operating efficiency, corporate management integrity, profitable growth, and valuation. Our goal is...’</td>
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the concentrated nature of our portfolio. Our ESG analysis is led by our team’s dedicated analysts and is driven by our own proprietary research. It includes an in-depth review of company financial statements and specific ESG reports (e.g., 10Ks, quarterly reports, sustainability and corporate responsibility reports), industry and competitor research, and third-party ESG reports and ratings, including MSCI and Sustainalytics. Engagement is a key component of our ESG research; we prioritize engagement based on what we believe are material ESG topics for a given company. Our customized engagement approach also aligns with our portfolio’s risk profile, where the largest risk tends to be stock-specific or idiosyncratic risk’.

Identifying the forces that will influence the value of a security over a period of years. When we identify potential ESG risks in the companies we follow, we address them with management. Ultimately, we prefer engagement to divestment. We want to see that companies take these matters seriously and are working to make the situation better. If both are true, we can be patient investors. If not, we may view the risks as too high and self’.

Assessment of ESG factors may lead us to purchase a bond if we see backward looking ratings metrics overstate the risk in a company that we believe has made significant improvement in their ESG performance. This may lead to opportunities to purchase bonds at higher spread levels when we feel the market is misestimating risk to the issuer’.

We prioritize different ESG issues in portfolio management decisions depending on the specific company, sector, geography and asset class in question. Analysts develop independent views of material factors impacting fundamentals in their valuation assessments of equity, credit, sovereign, municipal, and securitized assets. Consideration of these factors informs our engagement with companies and issuers, our proprietary fixed income ESG scores and, ultimately, portfolio management decisions. In addition, as indicated under Principle 6, where our clients have specific ESG requirements in connection with their portfolio, we are happy to incorporate these into their mandate. Common requirements include overlaying our template guidelines with negative ESG screens to exclude particular sectors or ‘worst-in-class’ issuers and companies that are not aligned with the client’s values. Recognizing our deep fundamental research skills, some clients who prefer engagement to divestment allow for an ‘exclude or explain’ process for companies that are screened out by client guidelines.

Each equity investment team integrates ESG research according to its philosophy and process. Each team’s dedicated research analysts are primarily responsible for this integration. As with financial criteria, the opportunities and risk associated with ESG matters are linked to business activities, which include management’s long-term strategy, business models, operating efficiency, management integrity, profitability and valuation. Through proprietary fundamental analysis, equity analysts assess material ESG and sustainability issues, as well as valuation perspectives over various time horizons and opportunity sets. Equity analysts are charged with identifying the companies within their coverage that they believe fit best with their team’s approach.

In fixed income, one of the tools we use is our sectoral materiality maps to identify the sustainability issues most likely to affect the financial performance of an issuer in a given sector. The diagram below is an illustrative example of how our materiality maps are used to produce an in-house ESG score for a metals and mining issuer. This is done by first identifying relevant sector-specific ESG factors and metrics, then assigning an appropriate weighting to each ESG factor, and finally benchmarking the issuer against the industry as a whole.
Examples above are provided to illustrate the investment process for the strategy used by Loomis Sayles and should not be considered recommendations for action by investors. They may not be representative of the strategy’s current or future investments and they have not been selected based on performance. Loomis Sayles makes no representation that they have had a positive or negative return during the holding period. Commodity, interest and derivative trading involves substantial risk of loss. This is not an offer of, or a solicitation of an offer for, any investment strategy or product. Any investment that has the possibility for profits also has the possibility of losses.

### Variation Across Asset Classes and Equity Teams

**EQUITY ISSUERS**

ESG materiality is determined by each investment team. The starting point for equity teams is the portfolio manager’s alpha thesis, which leads to a proprietary research and portfolio construction process. Through bottom-up fundamental research, ESG considerations are integral to each team’s analysis of long-term strategy, business models, competitive advantages, operating efficiency, management integrity, profitable growth and valuation. The equity investment teams develop a deep understanding of the drivers, opportunities and limits of each company, including material ESG elements.

**CASE STUDY: PRODUCT PACKAGING WHEN INVESTING IN A CONSUMER DISCRETIONARY BEVERAGE COMPANY.**

Over the continuous years of its investment, the equity analyst has engaged with the company on topics including governance practices, executive compensation, manufacturing inputs and sourcing, corporate culture, as well as reporting and transparency on environmental and social policies, data, and objectives. Building and sustaining brand strength is tied not only to effective marketing and responsiveness to changing consumer product preferences. It is also tied to a company’s overall reputation—the sum total of all customer perceptions and the public’s opinion of all corporate actions. Consumers increasingly want to understand the environmental impact of the companies and brands they support. These perceptions can eventually affect cash flow generation and long-term shareholder value creation. A key environmental consideration for this company is its product packaging. The company is committed to minimal plastics use. Aluminum is its preferred and primary drink packaging, which is 100% recyclable and accounts for about 95% of all products sold. Approximately 60%-73% of each can is sourced from a recycled can, which has increased from 42% over the last four years. From a long-term perspective, as the costs of recycling goes down, the costs of materials in the future will go down, improving company financials. The company generates high cash flow returns on invested capital and has a very strong
balance sheet with no debt outside of operating leases and total debt to equity of less than 1%. The company’s strong cash generation capability has allowed the company to fund its operations internally. Over time, we believe profits will grow faster than sales because a larger portion of each dollar in sales will fall to the bottom line. The team continues to own shares of the company and to engage on materials risks and opportunities, including key ESG topics, such as climate risk mitigation. Based on its long-term, bottom-up, fundamental analysis, the team believes the company’s share price embeds lower expectations for margins and growth for what it believes is one of the best businesses in the beverage industry. As a result, the company is selling at a significant discount to the team’s estimate of intrinsic value, offering an attractive reward-to-risk opportunity.

**CASE STUDY: DIVERSITY, EQUITY AND INCLUSION IN GLOBAL CONSUMER BUSINESSES**

As part of their quality assessment, diversity, equity and inclusion (DEI) is a key ESG issue analysed by one of our equity teams when monitoring investee companies. They believe there are businesses where a narrow scope of diversity may lack the breadth of thought and experience to effectively appeal to its consumer base and can therefore have a material impact on the long-term value of the company. The team understands that achieving diversity in a meaningful way requires time; in order to monitor progress in this area, diversity is a recurring topic of engagement with portfolio companies.

For example, the team is an investor in a multi-national manufacturer and marketer of prestige beauty products; they identified DEI as a material ESG topic for this company. The global nature of the company’s customer base and variations in beauty trends worldwide make representation and inclusion in all aspects of the business critical to long-term success. This company has created clear goals and a transparent strategy toward improving its diversity globally, which supports the team’s quality assessment of the business. As an example, the company has undertaken initiatives to hire more people of colour, increase sourcing from black-owned businesses, and invest in an expansion of its diversity training programs. The company has set measurable targets, such as its goal for the percentage of black employees to reach parity with the US population within the next five years (starting in 2020), at all levels of the organization. Additionally, the company is financially supporting a variety of organizations focused on racial equity.

The team supports the company’s DEI plans and encouraged management to go beyond some of its targets as part of their engagement activities. Focusing on diversity, equity and inclusion also helps companies recruit and retain talent, which the team believes is critical to the success of this business.

**FIXED INCOME**

The structural differences between the equity and fixed income markets are well known; however, we also recognize that there are vagaries even among the various fixed income asset classes, such as corporates, sovereigns and bank loans. While nuances exist, we do not believe that the structural differences across geographies are material. Our central Credit Research and Macro Strategies Teams have analysts located on three continents, North America, Europe and Asia, yet they all adhere to our consistent approach in reviewing each asset class regardless of the issuers’ location. This approach allows us to compare each issuer within a particular asset class regardless of its location or analytical assignment.

Our central Credit Research and Macro Strategies Teams serve all of the fixed income investment teams. They cover all fixed income asset classes (corporates, sovereigns, bank loans, and public finance) with the notable exception of securitized instruments, which are the responsibility of our Mortgage and Structured Finance Team. Our approach to incorporating ESG analysis through these asset classes and geographies is consistent with our long-time successful approach of conducting fundamental analysis – meaning our analysts are predominantly assigned by industry/sector or country. All are considered experts in their fields, with our most seasoned analysts having decades of experience.

Our fixed income analysts focus on material ESG factors, which have direct impacts on the scope and depth of their analysis and engagement. We have created our own proprietary materiality maps and an ESG Scoring System that are integrated into our proprietary portfolio construction tools, which are available to all of our investment professionals. Each fixed investment team has ready access to the central research teams’ ESG, fundamental and relative value view of the holdings in their respective
portfolios. The decision whether to include a particular asset class, geography, and issuer ultimately rests upon each team’s investment strategy and those of their individual investment mandates/accounts.

**CORPORATE DEBT ISSUERS**

Analysts develop independent views of material ESG factors impacting fundamentals in their valuation assessments of corporate debt issuers. For example, environmental risks may be critical for the automotive, energy and utility industries. Companies’ policies to reduce carbon footprints are assessed, including their progress versus competitors. Social factors may be material for apparel producers and the retail industry as they relate to the sourcing of products throughout the supply chain. The quality of labour relations is measured by a company’s safety record, frequency of job actions, turnover, diversity, and opportunities for advancement. As it relates to governance, our analysts may also assess the qualifications, tenure, and diversity of the board of directors.

**CASE STUDY: ESG CONCERNS AS THE DECISIVE FACTOR IN THE INVESTMENT CASE**

The team considered the subsidiaries and affiliates of a large electric utility, which are involved in the distribution, transmission, and generation of electricity, as well as other energy-related services.

The utility has undertaken significant measures to address corporate governance failures related to the actions of former executives that violated the company’s code of conduct, and led to allegations of illegal activity. Since dismissing the executives involved (including the former CEO), the company has entered constructive settlements with several regulatory authorities. Terms of the settlement include enhanced oversight of political activities; third-party audits and action plans; a review of the current executive team; a refresh of the board of directors; and further alignment of financial incentives with compliance measures for senior executives (among others). Further, the company has taken several steps to strengthen its balance sheet, including the sale of a minority interest in one of its businesses as well as an equity capital raise, which will enable debt reduction and accelerate investments within its smart grid and energy transition plans.

While we acknowledge that regulatory and legal challenges remain, the governance measures that have been adopted adequately address many of the concerns we had with investing in the issuer. Admittedly, it will take time for the current executives to establish a track record that reflects its renewed culture of ethical practices. Nevertheless, we believe the company has taken the necessary steps to regain the confidence of its stakeholders and is well-positioned from a fundamental perspective. For these reasons, the team has invested in this issuer; reversing its earlier position to avoid investing based on ESG concerns.

**SOVEREIGN DEBT**

Our sovereign analysts are members of the Macro Strategies team and focus on fundamental factors that drive both the credit quality as well as ESG factors affecting the sovereign. We utilize our proprietary ratings models and ESG materiality maps to determine the credit quality and ESG scores which underpin our analysts’ investment recommendations. Our analysts have developed a materiality framework based upon their extensive knowledge of both developed and emerging markets. We utilize data from government websites and independent sources to evaluate environment, social, and governance factors that the analysts feel are material. Our ESG process is a three-pronged approach; including data, trend analysis and analyst expertise. All of these factors are inputs into our materiality maps. Our analysts’ ESG views and trends are discussed during country reviews with investment teams. The materiality map below highlights some of the variables we consider when evaluating a sovereign but is not inclusive of all of the indicators we follow.
Source: Loomis Sayles

Examples above are provided to illustrate the investment process for the strategy used by Loomis Sayles and should not be considered recommendations for action by investors. They may not be representative of the strategy’s current or future investments and they have not been selected based on performance. Loomis Sayles makes no representation that they have had a positive or negative return during the holding period. Commodity, interest and derivative trading involves substantial risk of loss. This is not an offer of, or a solicitation of an offer for, any investment strategy or product. Any investment that has the possibility for profits also has the possibility of losses.

Engagement is an important part of our understanding and analysis on ESG factors. Our team engages with government officials whenever possible to access overall creditworthiness and evaluate key, material ESG factors driving our ESG scores. Our engagement occurs during roadshows, investor meetings and other group meetings.

CASE STUDY: SOVEREIGN REDUCING CIVIL LIBERTIES

Our analyst identified a sovereign as having increasing vulnerability stemming from ongoing consolidation of power and deterioration in rule of law, civil liberties and freedom of speech and press. These factors, along with unorthodox policymaking have impacted asset prices. The Loomis Sayles analyst has engaged with the issuer over several years regarding these factors. The analyst continues to adjust their ESG score in their materiality map accordingly.

STRUCTURED FINANCE

Governance is an important factor in the analysis of securitizations. We evaluate governance primarily as it relates to the alignment of interest between the sponsor and the investor. More specifically, we look at whether the sponsor is using securitization simply as a method of exit or risk transfer, or as a funding source in which they will continue to participate. We seek structures where there is strong alignment of interests.

With respect to social factors, we identify and avoid structures and programs that could be viewed as predatory toward consumers. For example, consumer finance companies often access the securitization market to finance their consumer loans. Our investment process includes a thorough analysis of the loans and the overall business models to gain insight into the loan origination and servicing practices of the finance companies. In general, we favour businesses that employ fair risk-adjusted pricing, aim to provide needed goods and services, and/or help rebuild the credit history of the consumer. We shun business models that systematically engage in predatory lending activities or overly aggressive loan collection practices.
The ESG process continues to evolve within the Bank Loan Team. Systematic ESG comparisons are generally lacking for loans given typical borrower size and limited ESG-factor disclosure, so we treat ESG factors as ad-hoc risks. Our team has assigned an ESG score to the portfolio issuers for now, but we expect that system to change as Loomis Sayles and third-party services increase their coverage of the bank loan universe over the next couple of years. The ESG score we have assigned reflects general industry perception regarding environmental factors, adjustments for unusual factors related to S and G, as well as the analyst scores to the extent they reflect the reality of the loan market vs. the public market. For example, private equity (PE) ownership is common in the loan market but not in the public market, so we do not downgrade loans for that factor even though analysts often do. In our view, PE ownership often improves governance risk versus the prior private control. As an overarching theme, our scores attempt to distinguish between factors we believe may jeopardize performance over the three-year average life of our loans due to fundamentals and/or technicals, including evolving market views on ESG factors. While most loans get an average rating at this point, we expect increased dispersion as both data and company efforts improve. Further, sensitivity to lender liability will guide our ESG engagement.

Service Providers

The integration of our stewardship and ESG practices are primarily handled in-house at Loomis Sayles. To the limited extent we use service providers to fulfill any activities on our behalf related to the integration of stewardship and ESG issues, we provide them with clear written instruction. For example, as detailed under Principle 12, Loomis Sayles uses the services of Glass Lewis to provide research and recommendations, and Institutional Services Inc. (‘ISS’) to provide proxy voting agent services for those accounts and funds for which Loomis Sayles has voting authority. We provide both of these vendors with written instructions on our proxy voting policies and procedures.

CASE STUDY: ONE EXAMPLE FROM 2021 THAT ILLUSTRATES HOW WE PROACTIVELY ASKED A VENDOR TO CHANGE THE WAY WE WERE BEING SERVICED RESULTED IN MORE ACCURATE DATA, MORE TIMELY AND CONSISTENT FEEDS AND BETTER SERVICE:

One of our ESG data vendors had historically been sending us data feeds in what is called horizontal files, which were difficult to integrate with Loomis Sayles systems and contained legacy fields. As ESG data grows, the vendor is constantly adding content to an ever-expanding universe of fields. Finding that working through one individual was not sufficient, we instigated a series of calls to be connected to the correct team and propose an alternate solution of receiving files in an alternate manner (vertically). This alternate approach brought resolution in many dimensions and created more standard content. We requested a dedicated contact who would follow the project through and hold accountability for responding in a timely manner. We also set up routine calls with our rep as well as new technical contact until there was resolution. File types have now been replaced and we in process of updating internally, re-pointing to new vertical feeds. This process updated stale data we were receiving that did not match current values in their web portal and is now in synch with their new data packages.

We use ESG research and/or scores from MSCI and Sustainalytics, as well as the credit rating agencies for fixed income issuers. We are conscious that many of the commercially available ESG ratings have limitations. For example, not all of the issuers and companies in which we invest are covered by even the largest data providers. Moreover, commercially available ESG ratings are typically backwards looking and do not reflect initiatives that companies are currently undertaking to mitigate adverse environmental and social impacts and address corporate governance issues.

As one equity team states:

“We believe the materiality and relevance of ESG considerations cannot be identified and understood by fixed rules and quantitative screens. Instead, we believe ESG issues must be viewed in the context of specific companies and industries and in relation to any potential impact on a company’s long-term competitive advantages, intrinsic value, and ultimately long-term investment performance. Loomis Sayles utilizes third-party ESG research which we evaluate independently. Ultimately, we rely upon our independent, proprietary analysis to determine the materiality of ESG issues on a company-by-company basis”.

LOOMIS SAYLES
As a result, we tend to use ESG ratings as one tool amongst many for understanding the ESG characteristics of the portfolios. For example, an outlier ESG rating could be a trigger for engagement with management to better understand how they are addressing negative ratings rather than a trigger to divest. As long-term investors, we are more interested in the trajectory with respect to ESG than a company’s current ESG rating, which we generally gain information about via direct engagement.

We have been pleased to see credit rating agencies getting more involved in this space, including making ESG related observations in their reports. The ratings agencies generally have frequent access to management and take a similar approach as an investor would take in assessing the impact of ESG factors.

Loomis Sayles is committed to continually advancing our approach to ESG and integrating ESG considerations into the work we do every day. We collaborate with our clients to meet their investment needs, including the unique ESG guidelines or values they may have. These discussions provide important perspective and help focus our internal efforts on building expertise in key sustainability areas and develop custom tools and client solutions.
Signatories monitor and hold to account managers and/or service providers.

Our ESG Working Committee is responsible for sourcing and overseeing external ESG research, tools and training. We believe investment decisions are only as good as the data and assumptions they are based on and therefore we undertake a rigorous assessment of vendors and service providers prior to engagement and on an ongoing basis.

We also actively encourage high-quality and transparent third-party ESG services. For example, we attend many of the ESG conferences held by the sell-side and industry organizations and we have communicated with many vendors over the last year to provide feedback, ideas for enhancement, and ask questions about conflicting methodologies across the vendors to contribute towards efforts encouraging quality, standardisation and transparency of data and related research.

Loomis Sayles engages a vendor (the ‘Oversight Vendor’) to assist it in its vendor due diligence and oversight responsibilities. Loomis Sayles has leveraged the Oversight Vendor’s library of due diligence questionnaires through the Know Your Third Party vendor oversight program (‘KY3P Questionnaire’) to help aid Loomis Sayles in evaluating a vendor’s controls and procedures across all relevant areas of operations. In addition, the Risk Management Committee is charged with identifying, monitoring and managing the primary risks inherent in the firm’s business, including risks presented by its vendors. If necessary, the Risk Management Committee will recommend necessary steps to be taken to mitigate any risks presented by a vendor’s failure to satisfactorily perform its obligations.

**Data Vendors**

Like most asset managers, we depend on external data for certain elements of our investment decision making and client reporting. Often this data is used in proprietary models to generate both valuation insight and to produce performance attribution critical to investment decision making. The proper data to deploy and which models will be incorporated broadly in both investment team reporting and client reporting require broad oversight. The firm’s Data Management Committee is responsible for reviewing how external data and proprietary valuation models are deployed, particularly as they relate to external reporting and creating policies to ensure fair presentation.

We are conscious that there are limitations on practically all ESG data and ratings that are currently available. We primarily seek to understand what these limitations are and ensure that they are understood by portfolio managers and communicated effectively to clients. For example, as indicated above under Principle 7, while we find commercially available ESG ratings to be a useful analytical tool, our portfolio managers and research analysts understand that they are predominantly backward looking and are therefore not overly reliant on them when it comes to making long-term investment decisions.

In situations where we felt a vendor was not servicing us properly, we organized a call to share feedback and suggestions on how remedy the situation. Our constructive criticism included setting up a series of a calls with representatives from both Loomis Sayles and the vendor until a better working order was established. This has proven to be very effective and resulted in the level of service that we expect from all vendor relationships. We recognize that the field of ESG is growing rapidly, along with the volume of data and the companies to provide it. We continue to provide suggestions on what we see work with other non-ESG data providers to help guide these companies as they grow.
Proxy Advisors

In respect of our proxy voting procedures, the Proxy Committee is tasked with engaging and overseeing third-party vendors in relation to proxy voting, including, but not limited to:

- Determining and periodically reassessing whether the service provider has the capacity and competency to adequately analyse proxy issues. This assessment involves consideration of, amongst other matters, the adequacy and quality of the service provider’s staffing, personnel and technology.
- Providing ongoing oversight to ensure that proxies continue to be voted in the best interests of clients and in accordance with our policies and procedures. For example, the Proxy Committee regularly reviews cast votes in order to verify votes have been cast in accordance with our policies.
- In the event that the Proxy Committee becomes aware that a recommendation of the Proxy Voting Service was based on a material factual error (including materially inaccurate or incomplete information), it will investigate the error, considering the nature of the error and the related recommendation, and determining whether the Proxy Voting Service has taken reasonable steps to reduce the likelihood of similar errors in the future.

As key vendors, our proxy advisors are subject to the highest level of due diligence and ongoing monitoring that we apply to service providers. Each key vendor is assigned a Loomis Sayles employee as relationship owner. The relationship owner is responsible for completing appropriate due diligence and ongoing oversight. These relationships are reviewed and the list of key vendors is presented to the Risk Management and Audit Committees at least annually. This reflects the importance we place in exercising our proxy voting rights in a way that enhances the long-term value of our investee companies and protects the interests of our clients.
PRINCIPLE 9: ENGAGEMENT

Signatories engage with issuers to maintain or enhance the value of assets.

Whether investing in equity or fixed income securities, monitoring and engaging with investee companies is integral to Loomis Sayles’ investment processes. Our stewardship activities include engagement with current and prospective investee companies prior to investment and during the holding period. We consider this to be an essential component of the research process we use to evaluate companies.

Primary responsibility for engaging with investee companies and issuers lies with our research analysts, for both fixed income and equity, although they maintain a close dialogue with portfolio managers. With respect to our fixed income strategies, we have a centralised fixed income research function. For equity-based strategies, analysts are dedicated to each investment team.

Materiality is the key factor in prioritising our engagement activities. For fixed income teams, this is informed by our fixed income materiality mapping of sustainability issues, described under Principle 7, as well as the broader research our analysts produce. Equity teams typically determine materiality within the context of their specific investment process and on a company-by-company basis. Where an issue is deemed to be material, we will initiate a dialogue with management concerning the matter. Our focus on materiality is driven by our understanding, as described under Principle 1, that ESG engagement on material issues helps us achieve superior long-term investment results. Our engagement activities are generally not driven by client input, but rather by our fundamental research identifying material issues.

As a long-term investor, we are also particularly apt to engage on issues that affect companies over the long term. The relevant issues vary from company to company or from one industry to another, but include environmental issues such as climate transition plans and issues that could pose a risk to the brands of consumer-facing businesses. We also regularly encourage management to create incentive structures based around longer-term outcomes, for example, by linking remuneration to performance metrics over a longer time horizon than one year.

CASE STUDY: AN EQUITY TEAM’S APPROACH TO REMUNERATION

As an active manager with a long-term private equity approach to investing, we want to partner with corporate management teams who share our long-term perspective, manage the business with vision and integrity, and whose incentives are aligned with long-term shareholder interests. When ESG is viewed as a launch pad for innovation and continuous improvement, and thereby integral to a company’s long-term strategic decision-making regarding capital allocation and free cash flow growth, we believe it builds durability and resilience into the company’s business model.

Management incentives are crucial to meeting these objectives. We engage consistently and vigorously with company management to align its incentive structures with long-term shareholder interests. Ideally, compensation plans include a high percentage of variable compensation, long vesting periods of five years, performance goals tied to metrics such as free cash flow growth, as well as ESG metrics such as science-based climate targets. In 2021, we engaged in a series of calls with the board of a large-cap industrials company to encourage it to extend its vesting period for senior management variable compensation, including the CEO compensation. Recognizing the long product cycles inherent in the business, the company adopted a new compensation scheme for the CEO, which we view very favourably and is consistent with recommendations we had made. Starting in 2021, RSU (restricted stock unit) component of the CEO’s long-term compensation will be paid over 10 years following his departure as CEO, while the balance of long-term compensation will consist of premium-priced stock options, which the CEO may exercise but not sell while he remains as CEO. We believe these types of incentives can also drive share gains through such behaviours as leveraging scale – scale players are often best suited to lead industry-wide environmental and social changes, driving operational efficiencies and margin expansion, as well as nurturing talent to develop greater institutionalized knowledge, all of which can lead to and reinforce difficult-to-replicate competitive advantages. Short of these ideal structures, we look for a successful track record of capital allocation, requirements to hold company shares at a meaningful multiple of annual salary compensation, the percentage of insider ownership, and a willingness on the part of management to engage on these issues.
Engagement with Corporate Bond Issuers

Similar to how our credit analysts assess fundamental factors, they take a ‘top down’ and ‘bottom up’ approach when incorporating ESG factors into their analyses and investment recommendations. All of our analysts are industry experts and are intimately aware of the drivers of the material credit and ESG concerns. To that end, our analysts have developed a combined forty industry and emerging market materiality maps. Each of these maps identify the sectors’ ESG material factors, assigning weights to each of the factors. The factor scores are then rolled up to provide pillar scores for E, S and G, and a final issuer ESG Score. While these scores are used to identify potential risks and opportunities for our fixed income investment teams, they are also used to prioritize our ESG engagement, with a concerted emphasis on those with the lowest scores in each sector. Our analysts also engage with issuers of the firm’s largest fixed income holdings as well as, opportunistically, with issuers during new deal roadshows and non-deal roadshows.

Engagement on ESG criteria is an integral part of our fundamental analysis across all asset classes. We address material ESG issues with company management as a part of our regular interaction with them. Our engagement initiatives can include broad collaboration, thematic objectives, or requests for greater transparency. The goal is to influence companies on the material E, S, and G issues our investment professionals believe are most critical through engagement, not divestment. When our credit analysts engage with the issuers, they focus on those material factors that are of the most concern. Given the vagaries of each sector, engagement themes frequently vary, though common ones are apparent as well, such as the development of carbon transition strategies as well as seeking improved disclosure.

The first two case studies represent issuers possessing lower ESG Scores within their respective sectors. Meanwhile, the third study refers to a long-time large holding where we have engaged with senior management for some time, observing and encouraging the repositioning of their business model to meet the goal of transitioning to a low carbon economy.

**CASE STUDY 1 - OBJECTIVE: PRESSING FOR INCREASED DISCLOSURE**

Our metals & mining analyst team identified a low cost copper producer as being exposed to high social risks, particularly given its exposure to jurisdictions that exhibit significant water scarcity thereby impacting its ‘social license’ to operate. Our team views the company’s transparency in reporting ESG-related data and lack of concrete emissions and waste targets as weak when compared to its sector peers and provided specific examples to management where improvement was needed. This gap in transparency and concrete goals has also been cited by a major ESG scoring provider as a factor to their very low assessment. Our team reiterated these shortcomings in two meetings during 2021. Management responded by detailing mitigation steps, including incorporating ESG principles into its operating decisions and more closely aligning their annual sustainability reporting with international best practices. While the company remains a weaker credit from an ESG perspective, we view them as improving and highlighted to the management those areas where we still like to see further progress in 2022 and beyond.

**CASE STUDY 2 – OBJECTIVE: DE-RISKING LOAN BOOK OF THREE LARGE BANKS**

Our metals & mining analyst team identified a low cost copper producer as being exposed to high social risks, particularly given its exposure to jurisdictions that exhibit significant water scarcity thereby impacting its ‘social license’ to operate. Our team views the company’s transparency in reporting ESG-related data and lack of concrete emissions and waste targets as weak when compared to its sector peers and provided specific examples to management where improvement was needed. This gap in transparency and concrete goals has also been cited by a major ESG scoring provider as a factor to their very low assessment. Our team reiterated these shortcomings in two meetings during 2021. Management responded by detailing mitigation steps, including incorporating ESG principles into its operating decisions and more closely aligning their annual sustainability reporting with international best practices. While the company remains a weaker credit from an ESG perspective, we view them as improving and highlighted to the management those areas where we still like to see further progress in 2022 and beyond.
Japanese banks have historically been among the largest lenders to the coal industry, often sitting just behind Chinese banks as the top supporters of the industry. Coal is a major source of energy in Japan, providing nearly one-third of the total energy supply for the country. Nuclear energy had been a substitute source of energy in the past, but the Fukushima tragedy in 2011 severely impacted the country’s ability and desire to continue with this source of cleaner energy, while the use of renewable energy is limited by a lack of open space in a densely populated island country. The country is moving towards using cleaner coal procedures, but moving away from coal completely has proved more difficult. Coal is also a major factor for the country’s economy, exporting finance and development expertise to surrounding countries.

We’ve met with management teams from the three Japanese megabanks eighteen times since 2016, and in each meeting since 2018 we have documented in our engagement database our discussion surrounding our concern with their exposure to coal. While lending to the coal industry is an environmental concern, it is also a substantial credit risk. As the use of coal is phased out around the world, borrowers could see their sources of revenue decline and their ability to repay principal and interest would be impaired. Credit losses like this can ultimately have a material impact on financial performance and bond spreads. Given their home country’s reliance on coal, we expected only incremental changes over long periods of time, which is exactly what we have seen. Beginning in 2018 the banks began to put out frameworks that identified lending to the coal industry as problematic but typically stating only that loans would be evaluated on a case by case basis. Over the next three years, these banks have made numerous subsequent revisions, ultimately promising not to lend money for the production of new coal fired power plants and to reduce the outstanding credit balance for coal-fired power generation facilities to zero by 2040.

In December of 2020 and again in June of 2021, we had individual 1x1 meetings with all three banks and again discussed ways these banks could reduce exposure to coal by even more. In 2021, all three banks updated policies to exclude funding for even the expansion of existing coal fired power plants in addition to commitments to achieve net zero financed emissions by 2050. We’ve seen a similar progression in terms of coal mining, where banks first excluded lending for ‘mountain top removal’ of coal, a more environmentally challenged technique that uses explosives, and in 2021 committing to excluding all forms of coal mining in some cases. This is an ongoing change for these banks, which still have areas that need improvement. Large exceptions remain for cleaner versions of coal fired power plants and situations where coal use is essential, while corporate finance related activities related to coal companies are mostly left unchanged. These are areas that call for additional engagement.

While these banks still have room to grow, the positive improvement shown through our engagement over the past few years is encouraging and supportive of our continued, if not increasing, investment. In 2019, our combined holdings of the three megabanks totalled ~ $450 million. By the end of 2020 and 2021, our investment had increased by 50% and another 7%, respectively. As the group continues to de-risk its loan book by removing exposure to coal and other higher risk lending, spreads specifically associated with this ESG risk should recede. Our focus remains the same, we want to see continued progress in the risk reduction of the loan book.

CASE STUDY 3 - OBJECTIVE: LONG TIME ENGAGEMENT ACCOMPANIES STEADY PROGRESS IN REORIENTING BUSINESS MODEL

For decades, our credit analysts have met frequently with this major global automaker, where we have historically held a large position, to discuss material fundamental credit issues. Over the past seven years, material ESG factors have become an increasing part of the conversation. Initially, we met with senior finance management representatives and the investor relations team; over time, the company’s head of sustainability and other staff members joined the dialogue.

During our years of ESG engagement with this automaker, we have discussed governance practices such as the composition, qualifications, and selection of candidates to its board of directors. Our engagement has also addressed the company’s labour relations, with its massive unionized global workforce, as well as the robustness of its cyber security initiatives, which were designed to protect the company’s intellectual capital, facilities, and customer information. Not surprisingly, we have dedicated more time over the years to reviewing the automaker’s electric vehicle strategy as worldwide regulatory standards related to light vehicle tailpipe emissions and fuel economy tighten and consumers grow...
more concerned about climate change. Favourably, management also routinely schedules a ‘governance’ meeting, which includes its head of sustainability.

Environmental factors have grown more and more material to the investment thesis, and our engagement reflects that. Specifically, in recent years we have focused our efforts on monitoring the company’s compliance with 2020 and 2021 emissions requirements in Europe, as well as the company’s increased disclosures, including the SASB Transportation Standards and the Tax Force on Climate-related Financial Disclosures TCFD Climate Change Scenario Report.

On four separate occasions in 2021, we continued to engage with management regarding its growing commitment to electrify the fleet and reduce reliance on producing vehicles with internal combustion engines. In 2021, the company announced accelerated investment in the development of new electric vehicles in order to meet CO2 emissions requirements and expected consumer demand. Consequently, the company increased its planned investment in vehicle electrification to $30+ billion by 2025, including a $7 billion clean manufacturing/battery plant in the US.

The company has launched new hybrid and fully electric versions of its most popular models and expects 40-50% of its global sales to be all-electric by 2030 (100% in Europe). It is also on a path to double annual battery electric vehicle (BEV) capacity to 600,000 by 2023 and to achieve 240GWh in global battery capacity by the end of the decade.

The automaker has committed to carbon neutrality no later than 2050 and has achieved a 30% reduction in CO2 per vehicle since 2017 with goal of a further 18% reduction by 2023. It has committed to following a 2-degree CO2 stabilization glide path consistent with the Paris Climate Accord and has announced an agreement with California to regulate vehicle CO2 through 2026 with increasing annual standards.

In 2021, the company launched a new Sustainable Financing Framework and issued its first Green bonds to finance projects related to clean transportation and manufacturing.

Over the years, we have recognized significant improvement in the company’s ESG-related disclosures, though we believe that this progress accelerated in 2021. We believe our engagement and that of other investors prompted the company to bring its disclosures in line with market best practices. We have also seen changes in the composition of the company’s board, to include additional expertise on new areas of the business. Additionally, our regular and vigorous engagement has allowed us to objectively measure the progress that the automaker has achieved in transitioning its business model to electric vehicles to address climate change concerns. Our current internal ESG Score for this issuer is higher than the one assigned by a leading ESG rating service, reflecting our opinion that significant progress is underway. We believe that the frequency of our discussions with the company, which are held at least quarterly, allows us to accurately track the progress and efficacy of their carbon transition strategy and other material ESG factors versus its peers. Our plan is to continue this intense engagement through 2022 and beyond.

**Topics of Engagement**

The majority of our engagement throughout 2021 was conducted through regular discussions with management. In these meetings, discussions could range from an aspect of a company’s strategy (e.g., business strategy, environmental strategy, social strategy, etc.), to performance, to the management of the company’s risks, among others. Because these meetings occur regularly over the course of time, they permit follow up on previously discussed items. During 2021, Loomis Sayles analysts engaged with investee companies on a range of ESG issues, including management structure and compensation, corporate culture, energy efficiency and recycling, diversity, and social welfare.
ENVIRONMENTAL ENGAGEMENT CASE STUDY: CLIMATE CHANGE CONSIDERATIONS FOR A LARGE INDUSTRIAL GAS COMPANY

This company is one of the largest industrial gas companies in the world. Its gases are used across industries – from supplementary oxygen kits in healthcare to natural gas liquefaction plants in the energy sector.

A Loomis Sayles equity team believes Green House Gas (GHG) emissions reduction is a material ESG opportunity for the company. It continues to lower its carbon footprint internally, and most importantly, we believe it also has an opportunity externally as the company continues to expand its hydrogen portfolio that can help lower the carbon footprint of its customers.

While the company does have a high carbon footprint, we believe this is more than offset by the carbon savings it offers its customers (currently it allows its customers to avoid more than two times its own emissions.)

The company recently expanded its targets, announcing an aggressive ‘35 by 35’ goal: a 35% absolute reduction in GHG emissions by 2035 (from 2021); the company also aims to be carbon neutral by 2050. The company’s ambitious targets are aligned with the Paris Accord. We believe the company is committed to pursuing these goals and has provided transparent disclosures, allowing the team to monitor its progress.

While the company’s hydrogen portfolio is still a small percentage of its revenues, the team believes it has a substantial opportunity to grow this end market over the long term. In doing so, the team expects it will provide direct financial benefit to the company while also positively impacting its customer’s carbon emissions.

The team has engaged with the company several times over the past year, with a focus on its hydrogen opportunities as well as its emissions targets and reporting. Through our discussions, we learned that the company is part of a working group helping SBTi (The Science Based Targets initiative) to develop standards for their industry. We support the company’s leadership role in developing these resources (we encourage all of our portfolio companies to be aligned with SBTi emissions targets). Engagement with the company is ongoing; we continue to monitor changes in the company’s carbon emissions to assess their progress toward emission-reduction goals, as well as a better understanding of the rapidly evolving business environment for hydrogen across its diverse client end markets.
As a long-term investor, it is important for us to track issues on which we engage over multiple years. We use an internally developed engagement database to track engagement with issuers to facilitate progress on material issues. We request that our investment professionals document in the database whether they discussed Environmental, Social or Governance issues in each engagement. This database has proved an effective and essential tool as it allows us to monitor the impact we may be having on issuers and also allows us to measure our engagement practices at a firm-wide level in order to improve where necessary.

### Variation Across Asset Classes

Who we engage with, when we engage, and how effective our engagement is can vary across asset classes. In the case of fixed income strategies, investors do not have proxy voting rights, and therefore our ability to directly influence issuers is more limited than in the case of our equity strategies. Nonetheless, we do engage with issuers on matters that we deem to be material. Fixed income engagement tends to be more focused on the pre-issuance period, for example, during investor roadshows, as this is when we have greatest access to issuers. In the case of large frequent issuers, engaging pre-issuance can also be difficult as these deals can become fully subscribed in a very brief window after the announcement. We also engage with issuers during the holding period, although our interaction is typically with finance teams rather than the executive management team as is more commonly the case in our equity strategies.

Our ability to exercise influence when we invest in fixed income instruments is also highly dependent on the market context. We have greater influence when credit conditions are tighter, which can enable us to better secure engagement outcomes or additional covenants. For a number of years now, market conditions have been highly favourable to borrowers. We are working through the Credit Roundtable, an industry body chaired by our Director of Credit Research, to enhance the rights available to bondholders and make improvements to the market, particularly in connection with new issuances. Further description of this work can also be found under Principles 4 and 10.

Structured finance is also an area where engagement activities are less developed. Securitization structures can involve lending to a widely diversified group of participants and does not typically offer the opportunity to be selective with regard to recipients. As a lender, we have no direct connection to, or influence over, the use of funds.

In the case of our equity investing, engagement is structured by each team in alignment with its investment philosophy and process, which can lead to some variation in the focus of our engagement with companies. As one team puts it, because we invest like a business owner, not like a short-term stock trader, we develop a long-term constructive relationship and dialogue with management teams. Our position as a long-term investor can often influence our access and ability to engage. All of our equity teams use our proxy voting rights to express our concerns or support for management or shareholder resolutions.

While we generally do not vary our engagement practices across geographic regions, we do note some variation with respect to equity engagement with companies in emerging markets. Our emerging markets equity team explains that while the environmental, social and governance topics are mostly the same as in developed markets, the team tends to encounter cultural differences that might be unacceptable in Western society, especially in the context of certain state and family-run entities.

Examples include:

- Family-run businesses in India can function quite well, surviving decades of political cycles with resiliency, even though looked down upon from a Western point of view.
- Saudi Arabian companies typically will not have gender diversity on boards.

Engagement was one of our key focus areas in 2021. We created an ESG engagement subcommittee to enhance our practices. Committee members include participants from across the firm, and they assessed topics including enhanced stewardship work across our investment teams, opportunities for collaborative engagement, focus of Loomis Sayles engagement on fixed-income issuers, and enhancements to our proprietary engagement database.
PRINCIPLE 10: COLLABORATION

Signatories, where necessary, participate in collaborative engagement to influence issuers.

The decision to engage collectively will be made on a case-by-case basis. Loomis Sayles may engage collectively with an issuer with a view to protecting and enhancing shareholder or bondholder rights, which can be affected by ESG-related matters, such as contract enforcement or questionable behaviour by management that could negatively impact investors.

We are mindful of our obligations under antitrust law and we are therefore cautious about communicating directly with other investment managers in respect of particular issuers where this could give rise to the impression of competition law infringements. This is a particular issue in fixed income investments, where the ability to influence issuers tends to be greatest in the pre-issuance phase. However, any attempt to work with other investors to move terms against a borrower, for example, by securing additional covenants, could be regarded as collusion in a number of jurisdictions. In order to avoid any appearance of market abuse or competition law issues, Loomis Sayles generally seeks to engage in collaborative engagement via industry initiatives or organisations such as Climate Action 100+ that are designed to facilitate collaborative engagement in a way that complies with market abuse and competition law.

Loomis Sayles is actively engaged with other market participants through its participation in a range of industry bodies and working groups and participates in initiatives to encourage responsible investment practices across the industry. Senior leaders across our business play an active part in industry groups and bodies that attempt to influence issuers and improve the functioning of financial markets:

- **CFA**: In 2019, we signed on to be an ‘Experimental Partner’ for a two-year period through a diversity and inclusion (D&I) program designed and offered by the CFA Institute. Loomis Sayles, along with many of our investment peers, volunteered to participate in the CFA D&I program and has worked closely with the CFA. Each company chooses their own specific areas of focus, and we have focused on recruitment and hiring as well as communication.

- **Credit Roundtable**: Our Director of Credit Research chairs the Credit Roundtable, which attempts to address market wide and systemic risks of particular relevance to bondholders. Through the Credit Roundtable, we have worked with other participants in fixed income markets to improve bondholder rights. This work has included the development of standardised covenants for investment grade bonds and proposing a best practice framework for the issue process in connection with investment grade bonds.

During 2021, there were multiple corporate actions where the Credit Roundtable engaged with issuers on various tenders and consents thought to be unfavourable to bondholders. While the companies didn’t necessarily change their behaviour this time, the organization is hopeful that when these matters arise in the future that: 1) the companies and their advisers will be more aware and sensitive; and 2) bond investors will be more savvy and informed, and will individually and collectively push back.

The Roundtable also completed a ‘White Paper 2.0’ regarding model covenants that strike a balance between preventing egregious actions by issuers that are injurious to bondholders’ claims while still providing issuers with reasonable financial flexibility.

Its ESG Committee is partnering with other like-minded industry groups to have issuers provide better disclosure when raising new debt in the capital markets so that investors have better information to make informed decisions around the various risks, e.g., environmental exposure and carbon emissions, as well as covenants, etc. The ESG Committee also submitted a comment letter to various regulators, such as the SEC and other industry groups on climate disclosure, including the need for better and more consistent, comparable and reliable data.

During the year, the Roundtable drafted and posted a letter on equity clawbacks and make-whole calls for outstanding bonds in an attempt to raise awareness while simultaneously advocating for more consistent language that doesn’t disadvantage bondholders, including transferring value from creditors to equity holders.
In 2021, the Roundtable continued working on a project that includes enhancing the new issue process, taking advantage of new technology to improve disclosure and provide reference data. Notably, the SEC in its annual report cited the Credit Roundtable for its identification of shortcomings in the new issue process and for publishing a proposed framework around best practices in the new investment grade new issue process.

- **Association of Institutional Investors**: Our COO, in his capacity as President of the Association of Institutional Investors, helped lead a coalition that developed a comprehensive ESG/SRI-related RFP, RFI, DDQ and questionnaire, called GOODquestions. The coalition consisted of more than 50 institutional investment managers, industry utilities, index providers, stock exchanges and others. GOODquestions has since been adopted by more than 80,000 investment plan sponsors and pension consultants.

In 2021, The Association of Institutional Investors worked on two additional initiatives, GOODbenchmarks and GOODworkplace. GOODbenchmarks, a comprehensive factors-based financial benchmarking framework, is being developed in conjunction with the world’s leading standards boards, index providers, market utilities and stock exchanges. GOODworkplace, an innovative partnership that brings together asset managers, service providers and asset owners who espouse a commitment to good stewardship, is creating a common framework of corporate stewardship that reflects broader wellness and environmental concerns and has an acute focus on sustainability, social justice, diversity, equity, and inclusion. Participants in GOODworkplace collaborate and share insights on practical, repeatable efforts to reimagine and reshape our collective impact on human, natural and financial resources.

- **Structured Finance Association**: We are actively engaged in the work of the Structured Finance Association (SFA) and sit on its ESG committee.

- **Fixed Income Investor Network**: We have also been involved in the establishment of the Fixed Income Investor Network, which aims to provide a forum for education and thought leadership in fixed income and structured finance marketplace.

- **Financial Services Women’s Executive Alliance (FSWE)**: We are also involved in FSWE, an alliance of Boston-based women in financial services, focused on using members’ collective power to aggregate and share best practices that solve for key pain points and help women in financial services advance their careers. Focus has evolved from initial projects of identifying roadblocks that keep mid-level women from advancing, to research on sponsorship and men as allies.

### CASE STUDY: LOOMIS SAYLES IS A PARTICIPATING SIGNATORY OF CLIMATE ACTION 100+

In 2021, Loomis Sayles signed on to Climate Action 100+, the largest-ever global investor engagement initiative on climate change. Over 600 investors, representing more than $55 trillion in assets under management, currently participate in Climate Action 100+. The global initiative has established a common high-level agenda for company engagement: to achieve clear commitments to cut emissions, improve governance and strengthen climate-related financial disclosures. Participating asset managers commit to engaging with at least one of the focus companies to:

- Implement a strong governance framework which clearly articulates the board’s accountability and oversight of climate change risk;
- Take action to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement’s goal of limiting global average temperature increase to well below 2 degrees Celsius above pre-industrial levels, aiming for 1.5 degrees. Notably, this implies the need to move toward net-zero emissions by 2050 or sooner; and
- Provide enhanced corporate disclosure in line with the final recommendations of the TCFD and sector-specific GIC Investor Expectations on Climate Change guidelines (when applicable), to enable investors to assess the robustness of companies’ business plans against a range of climate scenarios, and to improve investment decision-making.

While Loomis Sayles is only recently involved in Climate Action 100+, the company we have focused on for our engagement has been responsive to the Climate Action 100+ led engagement and is making good progress on their disclosures and greenhouse gas emissions targets.

We have had several organizational calls with the lead investor during 2021 to identify next steps in the engagement and action items for Loomis Sayles. We anticipate the next opportunity for the group’s engagement with the focus company to be in early 2022.

We will continue to look for additional opportunities for productive collaborative engagement.
PRINCIPLE 11: ESCALATION

Signatories, where necessary, escalate stewardship activities to influence issuers.

Loomis Sayles' research analysts across all asset classes are responsible for identifying and reporting on incidents that occur within portfolio companies as part of their coverage of those companies. We consistently monitor analysts' views relative to outcome.

Issues that are more likely to prompt escalation are lack of transparency, or a change in the level of transparency, and questionable or objectionable governance practices. For equity analysts, we may escalate our concerns by, for example, voting against a management proposal, supporting a shareholder proposal, or by conducting additional face-to-face meetings with company management. We do not vary our approach to escalation relative to the geographic location of a company.

CASE STUDY: SUPPORTING A SHAREHOLDER PROPOSAL

In 2021, we voted in favour of a stockholder proposal seeking to lower the ownership threshold required to call a special stockholder meeting from 25% to 10%. Management had recommended voting against the proposal. The stockholder proposal received 50.56% support. Subsequent to the vote, the company reached out to us for our input as one of the 18 largest institutional investors in the company. In December 2021, the company’s board of directors amended and restated the by-laws to change the ownership threshold required to call a special stockholder meeting to 15% from 25%, which we view favourably.

As a long-term investor, we insist on high conviction in our investee companies. This requires that issuers must generally meet a high threshold in terms of quality. Were serious problems to arise with an issuer or company, this may undermine the investment case and we may opt to sell a security rather than escalate our engagement activities.
Proxy Voting

The Loomis Sayles Proxy Voting Policies and Procedures (‘PVPPs’) direct the Proxy Committee on how to vote on the most common proxy proposals. Topics covered include the Board of Directors, Proxy Contests and Defences, Auditors, Tender Offer Defences, Governance Provisions, Capital Structure, Executive and Director Compensation, State of Incorporation, Mergers and Corporate Restructurings, Mutual Fund Proxies, and Social and Environmental Issues. We do not vary our approach to proxy voting relative to the geographic location of a company. The PVPPs are published on our website.

However, our default position under the proxy voting policy can be overridden if we believe this to serve the best interests of long-term shareholder value creation. Loomis Sayles will not vote in favour of a particular resolution that it believes is not in the best interests of its clients. This is true for resolutions proposed by management of investees, as well as outside parties. We have provided some examples below where we have voted contrary to the default position in our PVPPs policies.

<table>
<thead>
<tr>
<th>Proposal Categories</th>
<th>Number of Proposals in 2021</th>
<th>Number of Proposals in 2020</th>
<th>% Voted with Management</th>
<th>% Voted with Glass Lewis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Proposal</td>
<td>111</td>
<td>113</td>
<td>48%</td>
<td>88%</td>
</tr>
<tr>
<td>Shareholder Rights</td>
<td>89</td>
<td>85</td>
<td>38%</td>
<td>98%</td>
</tr>
<tr>
<td>Board-Related</td>
<td>77</td>
<td>62</td>
<td>43%</td>
<td>81%</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>25</td>
<td>19</td>
<td>64%</td>
<td>92%</td>
</tr>
<tr>
<td>Climate-Related</td>
<td>22</td>
<td>6</td>
<td>41%</td>
<td>91%</td>
</tr>
<tr>
<td>Compensation</td>
<td>15</td>
<td>14</td>
<td>73%</td>
<td>93%</td>
</tr>
<tr>
<td>E&amp;S Proposal</td>
<td>13</td>
<td>19</td>
<td>62%</td>
<td>77%</td>
</tr>
<tr>
<td>Environmental Proposal</td>
<td>12</td>
<td>12</td>
<td>42%</td>
<td>92%</td>
</tr>
<tr>
<td>Proxy Contest</td>
<td>12</td>
<td>10</td>
<td>83%</td>
<td>92%</td>
</tr>
<tr>
<td>Auditor-Related</td>
<td>11</td>
<td>7</td>
<td>0%</td>
<td>100%</td>
</tr>
</tbody>
</table>

SHAREHOLDER PROPOSAL OF AN AUDITED REPORT ON NET ZERO EMISSIONS BY 2050 SCENARIO ANALYSIS FOR AN ENERGY COMPANY

MANAGEMENT – AGAINST
LOOMIS SAYLES VOTE – FOR

The company, through its subsidiaries, engages in integrated energy, chemicals, and petroleum operations worldwide. At the 2021 Annual Shareholder Meeting, a shareholder proponent put forth a proposal to be voted that the company issue an audited report on the impacts of the IEA Net Zero 2050 scenario. Management recommended a vote against this proposal, and as a consequence, we sent this proposal to the firm’s Proxy Committee for special consideration. After an examination of the proposal, the Committee determined that the information that long-term shareholders could gather with regard to climate-risk-related information that might impact the investment decision-making process outweighed the costs associated with providing it. We subsequently voted for this proposal and in opposition to the management recommendation. This proposal was eventually rejected with 52% voting against it.
SHAREHOLDER PROPOSAL OF A REQUEST ON RACIAL EQUITY AUDIT AT A BANK

MANAGEMENT – AGAINST

LOOMIS SAYLES VOTE – FOR

The Company, through its subsidiaries, provides banking and financial products and services for individual consumers, small- and middle-market businesses, institutional investors, large corporations, and governments worldwide. At the 2021 Annual Shareholder Meeting, a shareholder proponent put forth a proposal that the bank’s Board of Directors oversee a racial equity audit analysing the company’s adverse impacts on non-white stakeholders and communities of colour. Management recommended a vote against this proposal, and as a consequence, we sent this proposal to the firm’s Proxy Committee for special consideration. After an examination of the proposal, the Committee determined that the requested audit could aid long-term shareholders in identifying potentially significant risks that outweighed the projected costs associated with providing this information. We subsequently voted for this proposal and in opposition to the management recommendation. This proposal was eventually rejected with 73% voting against it.

SHAREHOLDER PROPOSAL OF A REPORT ON CLIMATE CHANGE FROM TRANSPORTATION COMPANY

MANAGEMENT – AGAINST

LOOMIS SAYLES – FOR

The Company provides letter and package delivery, specialized transportation, logistics, and financial services. At the 2021 Annual Shareholder Meeting, a shareholder proponent put forth a proposal that the company report on its plans to reduce its total contribution to climate change and align its operations with the Paris Agreement. Management recommended a vote against this proposal, and as a consequence, we sent this proposal to the firm’s Proxy Committee for special consideration. After an examination of the proposal, the Committee determined that increased disclosure would allow long-term shareholders to better understand how the company is ensuring resilience to climate-related disruptions. We subsequently voted for this proposal and in opposition to the management recommendation. This proposal was eventually rejected with 62% voting against it.

SHAREHOLDER PROPOSAL TO AMEND BANK’S CERTIFICATE OF INCORPORATION TO BECOME A PUBLIC BENEFIT CORPORATION

MANAGEMENT – AGAINST

LOOMIS SAYLES VOTE – AGAINST

The Company is a diversified financial services holding company that provides various financial products and services to consumers, corporations, governments, and institutions worldwide. At the 2021 Annual Shareholder Meeting, a shareholder proponent put forth a proposal the Board of Directors approve an amendment to the company’s Certificate to become a Public Benefit Corporation and submit it to shareholders for approval. Management recommended a vote against this proposal, and in this instance, we did not feel we were in a position to supplant the judgment of the board and management team. We subsequently voted against this proposal and in alignment with the management recommendation. This proposal was eventually rejected with 96% voting against it.
SHAREHOLDER PROPOSAL REGARDING REPORT ON CLIMATE-RELATED ACTIVITIES FROM AN ENERGY COMPANY

MANAGEMENT – AGAINST

LOOMIS SAYLES VOTE – AGAINST

The Company operates as an energy company primarily in Michigan. At the 2021 Annual Shareholder Meeting, a shareholder proponent put forth a proposal that the company publish an annual report of costs and benefits of the company’s voluntary climate-related activities with the aim of limiting any climate-related activities that are voluntary and exceed government regulatory requirements. While not disclosed by the company, we believe this proposal was put forth by an outside organization that purports to be a ‘pro-coal electric utility shareholder activist group dedicated to promoting the increased use of coal as a fuel for electricity generation’ and was established to be ‘an activist shareholder to persuade electric utilities that burning more coal is best for their shareholders, ratepayers and the environment’. Management recommended a vote against this proposal, and in this instance, we did not feel we were in a position to supplant the judgment of the board and management team. We subsequently voted against this proposal and in alignment with the management recommendation. This proposal will be coded and counted as a part of Loomis Sayles’ vote record regarding environmental shareholder proposals, but is demonstrative that the context behind the vote provides a better understanding of the firm’s approach to such matters. In this case, we feel confident that a vote against providing more than the bare-minimum required environmental mitigation efforts was in the best interest of long-term shareholders and our clients. This proposal was eventually rejected with 98% voting against it.

During 2021, over 99% of all shares for accounts that granted Loomis Sayles proxy voting authority were voted. A small percentage of ballots received were not voted when, in our best judgment, the costs or disadvantages resulting from voting outweighed the economic benefits of voting, or when ballot delivery instructions had not been processed by a client’s custodian, or when a ballot was not received in a timely manner, and under other circumstances beyond Loomis Sayles’ control. The firm voted with management 85% of the time, and 15% of the time we voted contrary to the management recommendation. During 2021, the firm voted on 404 shareholder proposals, as shown:

<table>
<thead>
<tr>
<th>2021 Shareholder Proposal Breakdown</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Proposals</td>
<td>111</td>
</tr>
<tr>
<td>Shareholder Rights Related Proposals</td>
<td>89</td>
</tr>
<tr>
<td>Board-Related Proposals</td>
<td>77</td>
</tr>
<tr>
<td>Corporate Governance Proposals</td>
<td>25</td>
</tr>
<tr>
<td>Climate-Related Proposals</td>
<td>22</td>
</tr>
<tr>
<td>Compensation Related Proposals</td>
<td>15</td>
</tr>
<tr>
<td>Environmental Social Proposals</td>
<td>13</td>
</tr>
<tr>
<td>Environmental Proposal</td>
<td>12</td>
</tr>
<tr>
<td>Contested Proxy Meeting</td>
<td>12</td>
</tr>
<tr>
<td>Miscellaneous Proposals of a Unique Nature</td>
<td>11</td>
</tr>
<tr>
<td>Auditor-Related Proposals</td>
<td>11</td>
</tr>
<tr>
<td>Director Election Proposals</td>
<td>4</td>
</tr>
<tr>
<td>Severance Agreement Proposals</td>
<td>2</td>
</tr>
</tbody>
</table>
Loomis Sayles does not outsource decision making on voting proxies for those accounts and funds for which it has voting authority. However, Loomis Sayles uses the services of Glass Lewis to provide research and recommendations, and Institutional Services Inc. (‘ISS’) to provide proxy voting agent services for those accounts and funds for which Loomis Sayles has voting authority. All issues presented for shareholder vote will be considered under the direction of the Proxy Committee and, when necessary, the equity analyst following the company. The PVPPs specify matters with respect to which Loomis Sayles will:

1. Generally vote in favour of a proposal (e.g., for a proposal that prohibits one individual from holding the Chairman of the Board and CEO positions);
2. Generally vote against a proposal (e.g., against a proposal to prohibit shareholder ability to call special meetings);
3. Generally vote as recommended by Glass Lewis (e.g., for a proposal to implement a 401(k) benefit plan); and
4. Specifically consider its vote for or against a proposal (e.g., environmental and social issues, asset sales, corporate or debt restructurings).

The Proxy Committee may use its discretion to conduct a review of any material conflict of interest Loomis Sayles may have and, if any material conflict of interest is found to exist, exclude anyone at Loomis Sayles who is subject to that conflict of interest from participating in the voting decision in any way. In the event a client believes that its interest requires a different vote than that determined by the Proxy Committee to be in the client’s best interests, Loomis Sayles shall vote as the client instructs. If the Proxy Committee were to become aware of special circumstances that might justify casting different votes for different clients with respect to the same matter, the Proxy Committee would take such circumstances into account in casting its votes. In addition, clients may direct Loomis Sayles on the voting of their proxies. Please see the table of potential conflicts above, for a further discussion on Loomis Sayles’ approach to handling this potential conflict.

Loomis Sayles monitors asset holdings for all clients that have granted proxy voting authority to the firm for upcoming shareholder meetings on a global basis. We work in tandem with our proxy voting vendor, on a best efforts basis, to obtain all possible ballots from our client’s custodians in advance of a shareholder meeting. Reports are run by the firm’s proxy voting team for all meetings to match shares held on a record date to the ballots received from the custodians. Should a ballot not be received for a meeting, the custodian is contacted and Loomis Sayles will work to resolve the situation going forward. A report of missed ballots and the efforts made to resolve them is made on an annual basis to the firm’s Proxy Committee.

Our proxy voting records are available on our website. Clients may also receive a report of their account’s proxy voting activities upon request.

Loomis Sayles does not engage in securities lending on behalf of its client portfolios, however certain subadvised funds for which we provide investment advisory services may engage in securities lending. We have engaged Glass Lewis to monitor the portfolio securities of those funds for material issues that may come to a vote. While we will not recall on routine issues, we will request that the subadvised fund’s custodian recall securities in order to vote proxies on material issues.

**Fixed Income**

Prior to investing in a fixed income asset we conduct in-depth research and credit quality assessments on the issuer pre-issuance, which includes reviewing prospectuses and transaction documents. We are working through the Credit Roundtable to encourage issuers to make information and transaction documents available to the market in a more timely and consistent manner to facilitate due diligence. This is in response to our experience in the primary investment grade bond markets with new issuances becoming priced and fully subscribed within an extremely brief window following their announcement.

We subscribe to a third-party covenant analysis service that helps identify and understand key issues and risks in the terms. We also solicit the opinions of our legal advisors who will give expert opinion on whether terms are in line with the market. Where possible we attempt to negotiate more favourable terms, however, as indicated above under Principle 9, our ability to achieve this depends heavily on market conditions and the availability of credit. Although current market conditions afford borrowers more negotiation leverage than lenders, we succeeded in negotiating terms in a recent case. There, an issuer was looking to do away with reporting requirement covenants. Along with a number of other investors, we were able to push back on this and require that the covenant remain in place.
Since establishing our ESG Committee in 2012, Loomis Sayles has made great strides to formalise our approach to ESG and stewardship. Our commitment to the integration of ESG and stewardship extends to four key areas: within our firm, with issuers and companies, with our peers and the wider industry, and with technology. Each year, we identify key priorities and initiatives related to these areas. In 2021, our key priorities included engagement, regulation and reporting.

During the year, we created a new subcommittee under the ESG Working Committee of individuals from across the organization to lead the effort to enhance our proprietary engagement database, streamline our engagement documentation process, and collaborate with various industry groups on engagement. This group’s efforts led to our involvement in Climate Action 100+ as well as additional reporting functionality for our engagement database. Our efforts to meet new regulation requirements involved significant contributions from across the organization. To bring our products into compliance with the EU’s Sustainable Finance Disclosure Regulation (SFDR) involved contributions from many of our investment teams, as well as our legal and marketing teams. We are proud that we were accepted by the Financial Reporting Council, to continue as a signatory of the UK Stewardship Code. Our sustainability report for the 2021 period was also significantly more robust and included a section with our first climate disclosures, in line with the TCFD recommendations.

Our initiatives for 2022 focus on:

- Engagement
- Enhancements to technology

With respect to engagement, we will be looking at best practices for engagement with corporate issuers. Our credit research department in coordination with the ESG Working Committee will seek to develop guidelines for analysts’ engagement with company management on ESG topics that will be helpful to portfolio teams in meeting client requirements. We will also consider thematic engagement activities, and how to Loomis Sayles can undertake engagement on themes like climate change disclosure in a way that is consistent with our focus on materiality. We will also explore participation in the CDP’s coordinated engagement campaign; requesting climate disclosure from U.S. and Canadian cities, counties, states, provinces, crown corporations, and public authorities.

With respect to technology, we will be making enhancements to tools and data that will better support ESG needs of analysts, portfolio managers and client service personnel. Our fixed income analysts’ proprietary materiality maps will be integrated into portfolio management systems to make the information more seamlessly available to our investment teams. We will also work with each investment team to ensure the indicators they are following to promote environmental and social characteristics in their investments are reported to investors, consistent with the requirements of The SFDR.

During 2022, we also look forward to new leadership on ESG within Loomis Sayles. At the time of our finalizing this report, we have just finished an exhaustive search for a new Head of ESG. This leader will bring their own ideas around our ongoing commitments to ESG integration and Stewardship at Loomis Sayles and we will enthusiastically support them.