Brown ADVISORY
Thoughtful Investing.

2020 SUMMARY REPORT ON ENGAGEMENT

We are pleased to present our 2020 Summary Report on Engagement, which contains an overview of our ESG-related engagement activity throughout the past year, and offers a view into the issues where we have focused our engagement efforts.

We regularly interact, or "engage," with various stakeholders who have an interest in the equity and fixed income securities we hold, including the companies and issuers themselves. Sometimes our goal in these engagements is to inform our investment thesis, and other times we seek to elicit a specific response to ideas, suggestions, or perceived risks.

Engagement has always played an important role in our fundamental due diligence. We believe that good fiduciaries and stewards of client capital have a responsibility to maintain consistent dialogue with the companies and bond issuers in which they invest. Engagement is also an essential component of our ESG research work; we aim to **enhance due diligence; identify risks and encourage companies/issuers to responsibly manage them; encourage companies/issuers to embrace sustainable and/or impact opportunities;** and **advise third-party stakeholders regarding actions that can positively affect material and salient ESG issues.**

If you are interested in learning more about our approach to engagement and the principles and processes that guide our engagement work, please refer to our ESG Engagement Policy Statement on our website.

In 2020, we implemented a number of enhancements to our engagement approach. These included more comprehensive tracking of engagement activity, and leveraging a broader range of tools such as letter-writing and an increased level of participation in investor engagement memberships to complement our ongoing in-person dialogues with companies, bond issuers and stakeholders. These enhancements were particularly helpful to our work in a year when the possibility of in-person meetings was all but eliminated due to the COVID-19 pandemic.

While we have actively engaged in dialogue with companies and bond issuers for many years, we put focused effort in 2019 and 2020 toward formalizing and documenting our engagement process and improving our tracking and reporting of activity and results. We were pleased to see these efforts recognized in our 2020 PRI Assessment, in which we received the highest-possible rating (an "A+" score) in the "Listed Equity – Active Ownership" category.

ACTIVITY BY ENGAGEMENT TYPE

Our research teams typically engage in hundreds of discussions each year, with management teams and other stakeholders, as part of their overall research process, and most of these conversations include some discussion of environmental, social or governance matters. **In 2020, 119 of these engagements qualified in our estimation as "true" ESG-related engagements**, with active involvement from our ESG analysts and with one or more ESG topics elevated to a primary focus of the engagement.

Our engagements fall into four categories: **ESG due diligence, collaboration, impact,** and **advisory**. Each of these engagement types are important for different reasons.

Most of our engagements are for the purpose of ESG research or encouraging a company or issuer to take action. Additionally, we are big believers in the effectiveness of multiparty collaborative engagement. In 2020, we formalized our support of the Interfaith Center for Corporate Responsibility (ICCR), a leader in shareholder engagement, and partnered with CDP on its project to engage with municipal bond issuers. These steps are additive to a number of ongoing collaborative projects from prior years, including our work to help evolve third-party data ratings, and our support of Climate Action 100+.

Finally, we have seen a growing number of bond issuers reach out to us for thoughts and guidance as they consider their options for structuring impact-oriented bond deals, and our team uses those opportunities to further advocate for best practices in impact-oriented issuance.

2020 ENGAGEMENT PRIORITIES

2020 marks the second year where we have focused our engagement energy on a short list of four key priority areas: climate change; diversity and inclusion; AI ethics/data security; and general disclosure and transparency efforts. We have found this approach to be both efficient and effective, and our efforts to tackle a few issues strategically appears to be generating good initial progress in many of our engagements. On pages 4-7 of this report, we offer some background on why we are prioritizing each of these issues, as well as examples of our 2020 engagements in each issue area.

2020 ENGAGEMENT ACTIVITY IN BRIEF

Note that the totals below represent the frequency of each engagement type across the approximately 119 ESG engagements in 2020. In other words, 84 of our 119 engagements focused on ESG due diligence, 79 focused on impact, etc. Because any given engagement can (and often does) address multiple goals, the numbers below include double- and triple-counting (e.g., one engagement may be counted as an ESG due diligence engagement, an impact engagement and a collaboration engagement). The same can be said for the engagement counts on pages 4-7; many of our engagements with companies and issuers tackled more than one of our 2020 high-priority issues.

Type of Engagement	Number of 2020 Engagements	Description
ESG Due Diligence	84	Discussions with companies/issuers to inform our investment decisions. A standard component of our ESG research process, for both initial vetting of potential holdings, and for monitoring existing holdings in our portfolios.
Multiparty Collaboration	16	Discussions in partnership with investor groups and NGOs to advance salient sustainability issue, enhance industry-wide tools and research methods, and bring important, timely issues to light.
Impact	79	Discussions with companies/issuers and stakeholders to advocate for improved ESG practices. (Note: Proxy voting—an important tool for signaling our views on desired ESG practices—is covered in further detail in Proxy Voting at Brown Advisory.)
Advisory	22	Offer our perspective to stakeholders (when asked) on how to enhance ESG risk management and reporting, and specifically to bond issuers and underwriters with regard to structuring options for impact-oriented bond deals. (We do not act in any formal capacity as an advisor or consultant in these engagements.)

63 engagements in 2020

RATIONALE FOR PRIORITIZATION	Climate change is widely recognized as an existential threat to human civilization; the current and potential costs of extreme weather disasters, homelessness, health pandemics, environmental injustice, quality and availability of essential resources, biodiversity declines and other climate-related problems are all well-documented. Companies, municipalities and other bond issuers are major contributors to climate change and also directly exposed to potential losses from climate change. We believe all investors should therefore be strongly motivated to encourage transition to a low carbon economy, and to seek assurance that steps are being taken to mitigate the damage from climate change that we are already feeling today.
REQUESTS WE FREQUENTLY MAKE DURING ENGAGEMENTS	**Report on and manage physical and transition climate risk** **Align lobbying and political spending with climate goals** **Continue participation in the Climate Action 100+** **Set science-based targets for reducing GHG emissions**

Engagement Example:

Through its involvement in the collaborative Climate Action 100+ engagement initiative, Brown Advisory has engaged with a large energy company (we exclude its name out of courtesy) for the past two years, through which the company was encouraged to implement a strong climate governance framework, take action to reduce GHG emissions across its value chain, and provide enhanced reporting in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

This company has acknowledged the key role of Climate Action 100+ in driving it to make improvements in its approach to climate change; its recent steps have included the release of its 2020 Climate Risk and Resilience Report, which offers in-depth discussion of its plans to mitigate climate change risks, and quantifies its opportunities to accelerate society's transition to a low-carbon economy. When implemented, the strategy laid out in the report should help this company achieve alignment with a "2-degree increase" climate scenario.

63 engagements in 2020

RATIONALE FOR PRIORITIZATION	Rigorous company/issuer disclosure is necessary for investors to make informed, thoughtful decisions. Additionally, investment firms are increasingly incorporating data from third-party ESG research firms in their processes, and companies/issuers with inadequate or unclear disclosure run the risk of receiving poor and/or inaccurate evaluations from these third-party providers, which could negatively impact stock price, credit ratings and other key valuation metrics.
REQUESTS WE FREQUENTLY MAKE DURING ENGAGEMENTS	**Improve material ESG disclosures in reporting** **Provide updates on progress of efforts to improve transparency** **Support more structured reporting frameworks**

Engagement Example:

In recent years, we engaged numerous times with a leading U.S. materials company. Our engagement included ESG-focused calls with investor relations staff and direct conversations with senior leaders at the company including the CEO.

The trust built from these conversations led to the company asking us for input as it worked to produce a new, more robust corporate sustainability report. Among other things, we suggested that the report should seek to quantify the revenue growth and cost savings generated by the company from its sustainable products and operations.

We were pleased to see that the company incorporated this, and other suggestions we made, in its 2020 report.

48 engagements in 2020

RATIONALE FOR PRIORITIZATION	The importance of issues like equal opportunity, representation and equal access to natural and social resources has been well understood for decades, and the intense and much-needed focus in recent years on gender and racial inequity and sexual misconduct offers a powerful opportunity to drive lasting change. Research has suggested for years that corporate performance can improve from diverse and inclusive environments. We believe that excellence in diversity and inclusion programs should be seen as a requirement of responsible companies, not just a benefit to financial performance. We also believe that municipalities and providers of essential services like clean water and education need to incorporate diversity and inclusion metrics in their planning, in order to make progress toward offering equal and inclusive access to high-quality public benefits.
REQUESTS WE FREQUENTLY MAKE DURING ENGAGEMENTS	**Ensure accessible housing options, school districts, transportation, and clean water by state and local governments** **Align hiring and compensation with diversity measures** **Develop responsible arbitration policies** **Report on pay parity**

Engagement Example:

In early 2020, as the COVID-19 pandemic spread rapidly across the world, we engaged with a number of our fixed income holdings in the securitized sector, about their exposure and lending practices related to low-income or more vulnerable populations.

We spoke with these lenders—ranging from smaller lenders to government agency mortgage lenders—about their plans to help consumers through the economic hardship facing millions of Americans due to the pandemic.

While we have limited data regarding the ethnicity of these lenders' borrower populations, we know that underserved communities are experiencing disproportionate job losses and financial distress from the pandemic, so it has been important to us to evaluate the programs lenders are putting into place to help borrowers reschedule payments or otherwise avoid default.

18 engagements in 2020

RATIONALE FOR PRIORITIZATION

The UN classifies data privacy as a human right. Data privacy risks, and the risks of unethical implementation of AI capabilities (such as surveillance technology and predictive algorithms), are not well understood by investors and the broader public, partly due to the limited transparency that is required from companies on these topics. Regulation and risk management in this arena is widely recognized as being far behind the pace of AI development and deployment.

Additionally, the dense, complex nature of legal privacy policies and other disclosures means that these policies are rarely read by those who are affected by them, so the public is rarely providing fully-informed consent to the use of their data or the relinquishment of their privacy. The muddiness of these waters has the potential to breed massive legal action, regulatory correction, heavy damage to corporate reputations and potentially irreversible damages to private citizens.

REQUESTS WE FREQUENTLY MAKE DURING ENGAGEMENTS

Encourage the hiring of personnel with AI/data privacy expertise and embed these ethics professionals into product development

Improve public and investor transparency with regard to use of AI technology and personal data

Issue annual progress reports on AI ethics and data privacy

Engagement Example:

We are in ongoing engagements with several large technology companies that are first-movers in the AI technology space, and whose decisions and actions have broad implications for how AI and data privacy issues evolve. These conversations have helped us sharpen our expectations regarding responsible AI best practices.

In particular, we have been able to express our concern about the potential negative impact of emerging surveillance technology on society and especially on underserved communities of color. This issue came under the spotlight in 2020, as part of the strong societal backlash to police violence in the U.S., and many of these technology companies announced that they would pause the sale of facial recognition software to police departments until a national law grounded in human rights governs its use.

While companies' decisions to suspend sales to police departments generally occurred before most of our specific engagement discussions with these companies in 2020, those decisions were in line with the longer-term priorities we and other investors have been expressing to these technology firms over the past few years.