

# Institutional Sustainable Fixed Income Investment Policy

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*Policies and concepts that guide the management of  
Brown Advisory's sustainable fixed income strategies*

*This document provides a discussion of how we integrate environmental, social and governance (ESG) research into our overall investment process across the firm’s internally managed sustainable fixed income strategies. For a broader explanation of the principles and philosophies that guide our firm’s sustainable investing work, please refer to our overarching [Institutional Sustainable Investing Policy Statement](#), which is available on our website or upon request.*

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## Investment Philosophy

Our [sustainable fixed income strategies](#) seek attractive, risk-adjusted returns while also seeking to produce positive environmental and social impacts. We believe integrating ESG and fundamental research provides higher information content that improves risk-adjusted return while enhancing our ability to uncover ESG risks and identify sustainable opportunities which help to solve key environmental and/or social challenges. For further information on how we define ESG risks and sustainable opportunities, please see our [Institutional Sustainable Investing Policy Statement](#). Our team pursues a wide range of investment opportunities across the global fixed income universe.

## ESG Research Process: Considerations Across Fixed Income Asset Classes

Brown Advisory’s ESG fixed income research analysts are a core component of the broader fixed income investment team, partnering with fundamental credit analysts to identify, analyze, and monitor investments. Furthermore, the ESG fixed income research analysts work collaboratively with ESG equity research analysts to develop ESG tools, frameworks, as well as thematic and overlapping issuer research.

Our overarching [Institutional Sustainable Investing Policy Statement](#) outlines the various ESG research tools that the ESG research analysts make available to the investment team. Our ESG research analysts use a combination of proprietary research and third-party data sources, in an effort to understand the ESG risks and sustainable opportunities associated with an investment.

While our approach to ESG integration is similar across various fixed income asset classes, the specifics within each asset class often vary. One area where our approach to analysis is consistent across asset classes is for the assessment of labeled bonds. Regardless of asset class, we aim to conduct a labeled bond assessment in order to ensure adherence to best practices, including voluntary guidelines produced by organizations such as the International Capital Markets Association (ICMA), among others.

Below, we summarize some of the unique aspects of these asset classes as they relate to the assessment approach and data sources used. The quantity and quality of ESG data available may vary significantly by asset class and characteristics of the underlying issuer (e.g. size, geography).

### **Corporate Bonds**

**Assessment approach:** We conduct ESG assessments on corporate bonds at the issuer level, including an ESG risk assessment as well as a sustainable opportunity assessment. These assessments are largely qualitative, but they include numerical ESG risk and sustainable opportunity ratings, to help quantify the degree to which ESG risks affect the business and the extent the business is able to solve for environmental and social challenges that may position it to be more resilient over the long-term.

When practical and relevant to the investment thesis, we may engage directly with company management or indirectly through collaboration with other industry stakeholders as a key part of our due diligence process.

**Data sources:** We may use a variety of data sources when available, such as: official statements and supporting bond documents; company filings and reports; 3rd party audits; sustainability disclosures (e.g., CDP); third-party data providers (e.g., MSCI, Institutional Shareholder Services (ISS)); credit rating agencies (e.g., Moody’s); public/private databases; and industry journals/ business publications.

## Municipal Bonds

**Assessment approach:** For municipal bonds, our ESG assessments are guided by proprietary sector frameworks that outline our views of the key ESG risks and sustainable opportunities for the primary municipal sectors in which we invest. These sector frameworks help to inform the level of due diligence required for issuers, obligors and/or securities that help us to more efficiently scale our ESG research given that there is high correlation of risks and opportunities amongst issuers in the same sector. We prioritize issuer- or obligor-level research for those sectors where we believe there may be heightened ESG risks or more variation in sustainable opportunity. This includes an ESG risk assessment as well as a sustainable opportunity assessment. These assessments are largely qualitative, but they include numerical ESG risk and sustainable opportunity ratings, when available, to help quantify the degree to which ESG risks affect the issuer or obligor and to the extent they are able to solve for environmental and social challenges that may position it to be more resilient over the long-term. Not all municipal bonds will have an ESG assessment conducted at the issuer/obligor level, but will be evaluated based on a number of factors, including, but not limited to: sector-level risks and opportunities, position size, and credit profile.

When practical and relevant to the investment thesis, we may engage directly with municipal issuers/obligors or indirectly through collaboration with other industry stakeholders (e.g., CDP) as a key part of our due diligence process.

**Data sources:** We may use a variety of sources when available, such as: official statements and supporting bond documents; entity websites and reports; credit rating agencies (e.g., Moody's); news aggregators (e.g., Bitvore); and public/private databases.

## Securitized Bonds

**Assessment approach:** For securitized products, we assess ESG risks and sustainable opportunities at the issuer/sponsor and/or collateral levels. Depending on the nature of the securitization, our assessments may be at the issuer/sponsor, shelf, or deal level.

When practical and relevant to the investment thesis, we may engage directly with securitized issuers/sponsors or indirectly through collaboration with other industry stakeholders as a key part of our due diligence process.

**Data sources:** We may use a variety of data sources when available, such as: official statements and supporting bond documents; issuer/sponsor-reported information; credit rating agencies; public/private databases; third-party data providers (e.g., Level 11 Analytics); and industry journals/business publications.

## Sovereign Bonds

**Assessment approach:** When evaluating sovereign issuers for inclusion in one of our sustainable portfolios, we combine a proprietary quantitative ESG scoring methodology with qualitative analyses to provide a holistic assessment of a country's ESG risks and opportunities. The quantitative ESG score provides an initial indication of a country's ESG performance on up to dozens of indicators across a number of different ESG factors. The score is assessed against certain peer groups—income level, region, and emerging/developed market classification—to get a better contextual understanding of a country's ESG performance. We also calculate a momentum score that demonstrates improvement over the last five- and ten-year periods, when data is available. This is supported by a qualitative and quantitative analysis of recent trends, policy developments, and current events.

When practical and relevant to the investment thesis, we may engage directly with sovereign issuers or indirectly through collaboration with other industry stakeholders as a key part of our due diligence process.

**Note:** Where a strategy invests in derivative instruments (e.g., interest rate futures, currency forwards), an ESG Assessment will be conducted on the underlying sovereign. When taking a long position, the ESG Assessment analyzes whether the issuer has appropriate levels of ESG risk management and that a sustainable opportunity exists. In circumstances where portfolio managers choose to short a position, the thesis may be associated with heightened ESG risks.

**Data sources:** We may use a variety of data sources when available, such as: official statements and supporting bond documents; credit rating agencies (e.g., Moody's); public/private databases (e.g., World Bank, United Nations, World Health Organization, International Labor Organization, Food and Agriculture Organization, Transparency International, Freedom House, International Energy Agency, Climate Action Tracker, and Notre Dame Global Adaptation Initiative); and news aggregators (e.g., GeoQuant).

## Supranational Bonds

**Assessment approach:** When evaluating supranational issuers, our assessment starts with understanding both the structure of the quasi-government entity and the associated sovereign ESG assessments for the primary stakeholders, as this plays an important role in the strategic objectives of the entity, as well as the overarching risk profile. Once there is an understanding of the involved entities, then the assessment of ESG risks and sustainable opportunities may be structured similarly to a sovereign ESG assessment or a corporate ESG assessment depending on the nature of the supranational entity. For example, the assessment of the European Union will be more similar to a sovereign assessment; whereas the assessment of a development bank may be structured more similarly to a corporate assessment for a financial institution.

**Data sources:** We may use a variety of data sources when available, such as: official statements and supporting bond documents; entity websites and reports; and credit rating agencies (e.g., Moody's).

## Engagement

Creditors and bondholders play a key role in the capital structure of issuers. Therefore, as investors we seek to use engagement when possible and material to an investment decision to communicate our thinking and to gather information that informs our investment decisions, and we find that many investors are open to discussions with issuers from whom they may seek additional debt funding in the future. Engaging with issuers in asset classes that tend to have lower levels of ESG data and disclosure is particularly important for our due diligence, as it may help us to uncover unknown ESG risks or sustainable opportunities.

We also collaborate with underwriters and other stakeholders to help provide the sustainable debt market with our insights regarding ESG, offering our perspective and our expectations with regard to best practices.

We find these conversations to be particularly important and helpful in establishing the credibility of the labeled bond market—there is no official governing body to provide oversight and accountability to issuers, so we believe investment firms need to be proactive in holding issuers accountable. Our aim in these conversations is to encourage integrity and transparency in the financing of sustainability projects, thereby enabling wider participation and capital inflows.

Our approach to engagement is articulated in more detail in Brown Advisory's [ESG Engagement Policy Statement](#), and we report annually on ESG engagement activity in our strategy-level impact reports.

## Impact as an Outcome

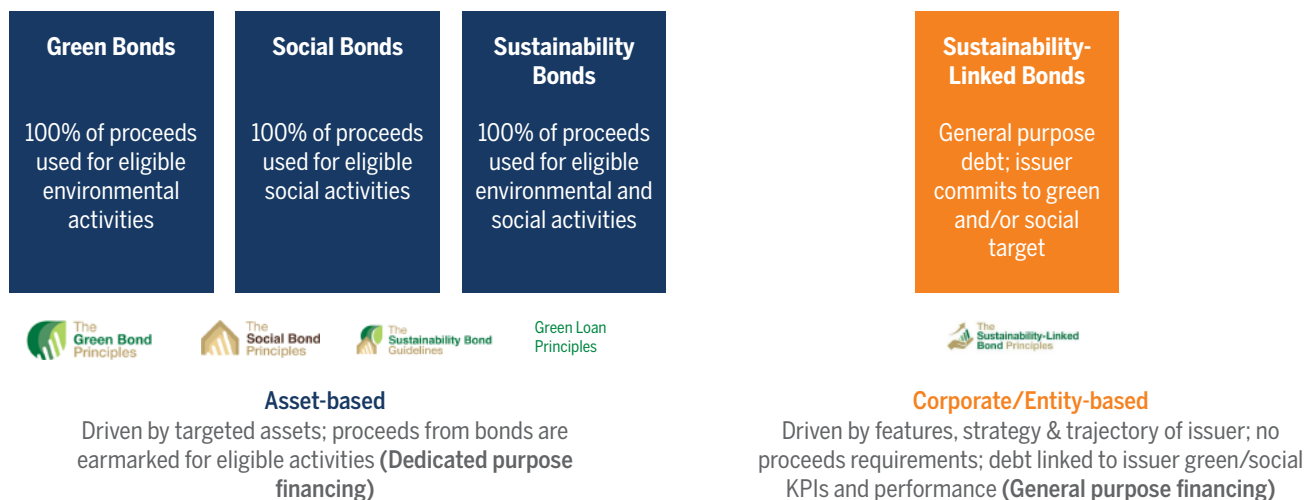
An outcome of seeking investments with demonstratable sustainable opportunities is a range of positive environmental or social impacts. Across our sustainable fixed income strategies, we do not target a specific impact mix or favor one type of impact over another; rather, our investment approach has naturally resulted in a diversified portfolio that touches on many impact themes. We strongly believe in being transparent with regard to the impact we believe our portfolios are having, and to that end, we seek to provide a variety of impact reporting materials on a quarterly and annual basis. Here, we describe our general approach to impact across several asset classes, followed by the tailored approach we use when evaluating sovereign bonds.

### Approach to Impact for Corporate, Supranational, Municipal, and Securitized Asset Classes:

We categorize impact in two primary ways: “impact source” and “impact theme.”

**Impact Source:** One way in which we classify our portfolio holdings is by “impact source”—by this, we mean the manner in which a given bond generates impact, whether from the projects funded by the bond’s proceeds, the general activities of the issuer or a combination of both. We categorize impact source as follows:

- **Labeled Bonds:** Investments where the issuer has committed to financing or attaining specific environmental and/or social objectives, including but not limited to those listed below based on the



main labels of bonds issued to date, including those recognized by ICMA.

- **Targeted Use of Proceeds:** Bonds that are not officially labeled but are still funding environmental and/or social projects that meet our criteria for investment.
- **Impactful Issuer:** Bonds from an issuer that, in our view, is generating positive environmental or social impacts through their operations or product/service offerings.

**Impact Theme:** Our impact theme frameworks cover a wide range of categories of environmental and social progress, from climate change mitigation and sustainable technology innovation, to education and health care.

Our impact themes are aligned with certain impact frameworks that exist in the market today, including the Sustainable Development Goals (SDGs) established by the UN General Assembly in 2015, as a blueprint to achieve a better and more sustainable future. In our view, the SDG categories are highly interdependent, and so we view our internal impact themes as being a clearer way to communicate the specific tangible impact our investments are having, especially given the fact that most investments hit on multiple SDGs.

### Economic Development & Social Inclusion

Affordable housing	
Economic mobility & community development	
Education	
Diversity, inclusion, equality	

### Health & Well-Being

Health & wellness	
Clean water & sanitation	

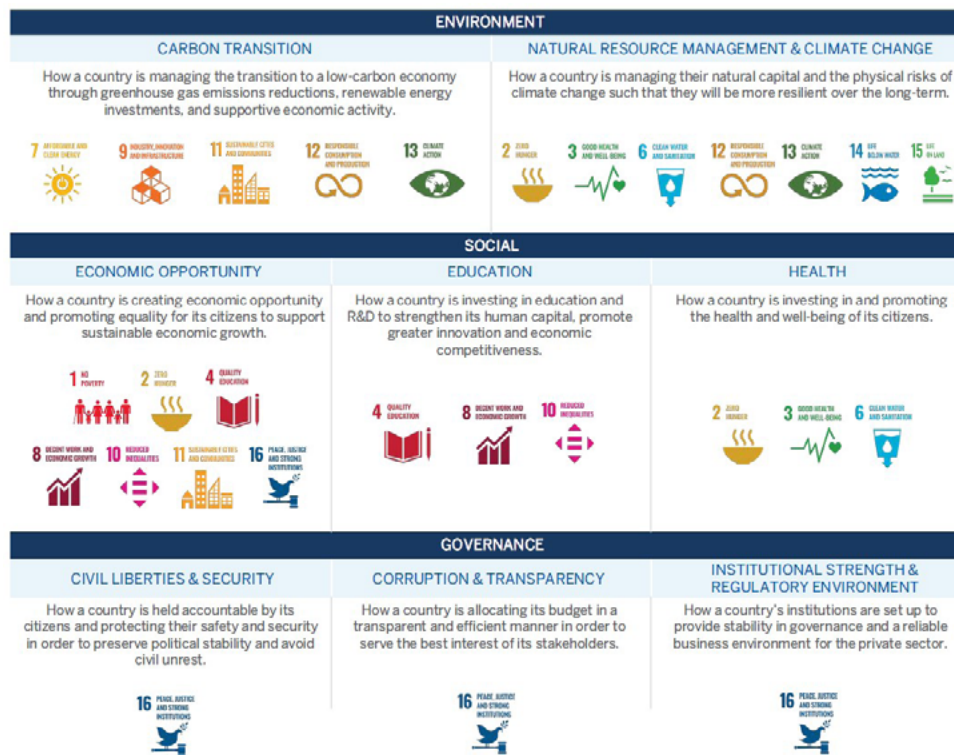
### Environment & Climate

Sustainable technology innovation	
Efficient production & conservation	
Clean energy	
Sustainable agriculture/ natural resource management	

## Approach to Impact for Sovereign Bonds:

Using our sovereign ESG research approach, we seek to identify sovereign issuers that we believe are demonstrably accelerating the carbon transition, investing in human capital, and promoting economic development. However, investing in sovereign debt can be a balancing act when thinking about impact as countries can have a wide range of impact, both positive and negative, on the world around them and within their own borders. We believe that our investment process leads us to invest in sovereign issuers that, in our view, are producing a net positive impact on society, and are driving progress on one or more of our impact themes.

With this context in mind, we believe it is too simplistic to map a sovereign to one specific impact theme, as we have traditionally done in other asset classes. Instead, we have mapped the key ESG factors from our sovereign ESG framework to the United Nations Sustainable Development Goals (SDGs) to provide a balanced view of how a sovereign is performing across environmental, social, and governance issues.



The views expressed are those of the author and Brown Advisory as of the date referenced and are subject to change at any time based on market or other conditions. These views are not intended to be and should not be relied upon as investment advice and are not intended to be a forecast of future events or a guarantee of future results. Past performance is not a guarantee of future performance and you may not get back the amount invested.

The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. The information contained herein has been prepared from sources believed reliable but is not guaranteed by us as to its timeliness or accuracy, and is not a complete summary or statement of all available data. This piece is intended solely for our clients and prospective clients, is for informational purposes only, and is not individually tailored for or directed to any particular client or prospective client.

ESG considerations are one of multiple informational inputs into the investment process, alongside data on traditional financial factors, and so are not the sole driver of decision-making. ESG analysis may not be performed for every holding in every strategy. ESG considerations that are material will vary by investment style, sector/industry, market trends and client objectives. ESG strategies seek to identify companies that they believe may have desirable ESG outcomes, but investors may differ in their views of what constitutes positive or negative ESG outcomes. As a result, the strategies may invest in companies that do not reflect the beliefs and values of any particular investor. The strategies may also invest in companies that would otherwise be screened out of other ESG oriented funds. Security selection will be impacted by the combined focus on ESG assessments and forecasts of return and risk.

Various Brown Advisory strategies intend to invest in companies with measurable ESG outcomes, as determined by Brown Advisory, and seek to screen out particular companies and industries. Brown Advisory relies on third parties to provide data and screening tools. There is no assurance that this information will be accurate or complete or that it will properly exclude all applicable securities. Investments selected using these tools may perform differently than as forecasted due to the factors incorporated into the screening process, changes from historical trends, and issues in the construction and implementation of the screens (including, but not limited to, software issues and other technological issues). There is no guarantee that Brown Advisory's use of these tools will result in effective investment decisions.

Brown Advisory does not engage with every company or issuer. We engage only when we believe engagement will be material to our investment decision making.