

# 2023 Task Force on Climate-Related Financial Disclosures (TCFD) Entity Report

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Brown Advisory Limited

## Contents

<b>1. Introduction .....</b>	<b>3</b>
<b>2. Governance .....</b>	<b>7</b>
<b>3. Strategy.....</b>	<b>13</b>
<b>4. Risk Management .....</b>	<b>25</b>
<b>5. Metrics and Targets .....</b>	<b>30</b>
<b>6. Important Information.....</b>	<b>33</b>
<b>Appendix 1: Glossary and Abbreviations.....</b>	<b>34</b>
<b>Appendix 2: References .....</b>	<b>37</b>

# 1. Introduction

## Purpose

Brown Advisory Limited ('the Firm' or BAL) is an investment manager, authorised and regulated by the Financial Conduct Authority (FCA) in the United Kingdom (UK) and registered as an investment advisor with the U.S. Securities and Exchange Commission. This is the firm's first report issued in accordance with the TCFD recommendations, recommended disclosures and the FCA's regulatory Environmental, Social and Governance (ESG) sourcebook.

This document fulfils the regulatory requirements under chapters 2.11 and 2.22 of the FCA's ESG sourcebook, which outlines the requirement to prepare and publish a TCFD entity report containing climate-related disclosures consistent with the TCFD Recommendations and Recommended Disclosures<sup>3</sup>. This report sets out how BAL and, more broadly, Brown Advisory and its affiliates consider climate-related matters when managing assets on behalf of clients, encompassing disclosure of governance, strategy and risk management arrangements, including the integration of relevant climate-related metrics and targets. For the purposes of this report, the relevant companies are BAL and its United States (US) affiliates – particularly Brown Advisory LLC and Brown Advisory Investment Solutions Group LLC – which provide discretionary investment management services.

## Group Overview

BAL is part of the Brown Advisory group of companies (collectively, 'Brown Advisory', and referred to as 'we' or 'our'), which is headquartered in Baltimore, Maryland, with offices in the US, the UK, Germany, Japan and Singapore. Brown Advisory provides investment management to institutions, individuals, families, trusts and endowments around the world and distributes its investment strategies and funds globally.

The firm recognises that climate change causes significant risks to many aspects of the global economy over a variety of timeframes and that, without action from world leaders, governments, regulators, trade bodies and all businesses within the UK and overseas, these risks are likely to increase. As an investment manager, Brown Advisory understands that it has a responsibility to manage its own activities in a responsible way and to consider climate-related risks and opportunities in investment decision making in a manner that aligns with its fiduciary duty to all clients.

Brown Advisory recognises that understanding the impact of climate and other sustainability issues can be additive in determining how an investment may perform over a variety of time horizons. As investors, we seek to consider any data, factor, business tactic or strategy, economic or market condition – whether quantitative and qualitative – which we believe allows us to better understand the material challenges and opportunities facing a business or issuer. Every Brown Advisory investment strategy holds the fiduciary duty of delivering investment performance to clients as its highest obligation.

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<sup>1</sup> [ESG 2.1 Preparation of climate-related reports – FCA Handbook](#)

<sup>2</sup> [ESG 2.2 TCFD entity report – FCA Handbook](#)

<sup>3</sup> TCFD Recommendations and Recommended Disclosures is a reference to the TCFD report entitled 'Recommendations of the Task Force on Climate-Related Financial Disclosures' (the TCFD Final Report) published in June 2017. This reference also includes the Annex to the TCFD report entitled 'Implementing the Recommendation of the Task Force on Climate-Related Financial Disclosures', and specifically, section C (Guidance for all sectors) and part 4 section D (Supplemental Guidance for Asset Managers). [FINAL-2017-TCFD-Report.pdf \(bbhub.io\)](#)

## Basis of Preparation

This report has been prepared by BAL on a solo basis, as the sole UK FCA authorised and regulated firm within the Brown Advisory group of companies.

The BAL TCFD entity report adopts a 12-month reporting period that ends on 31 December of the year preceding the date of publication. This will be referred to as the 'reporting period' throughout the remainder of this report.

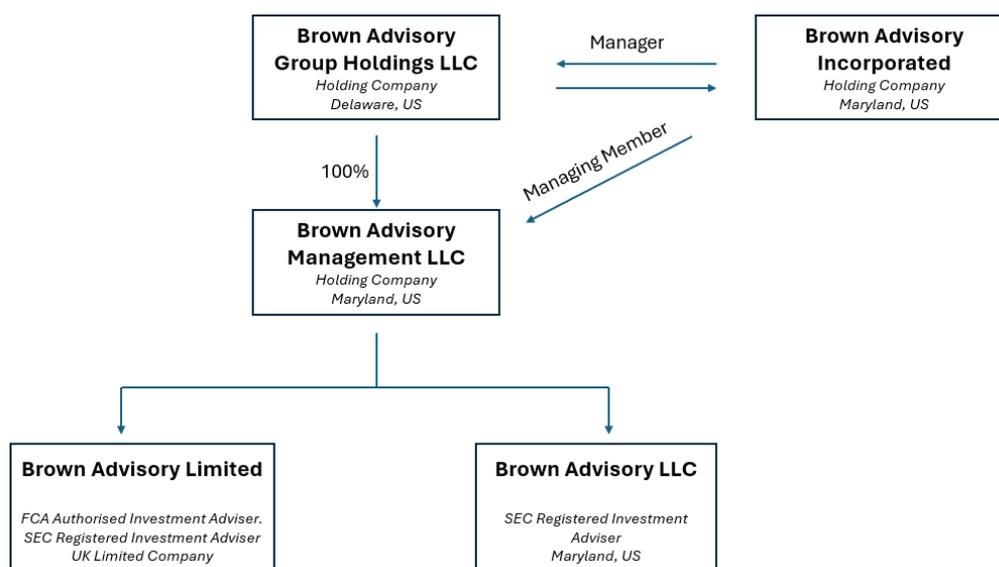
In line with the requirements outlined in the ESG sourcebook (1.14 and 1.25), the metrics reported on solely relate to the assets managed in connection with BAL's TCFD in scope business, which is limited to portfolio management activities (please refer to Section 5: Metrics and Targets).

Whilst this TCFD report has been prepared at a legal entity level, climate-related business activities are undertaken collaboratively, on a group-wide basis, and thus climate-related governance, strategy and risk management is predominantly considered at a group level. This report will therefore consider Brown Advisory where it is appropriate to consider more generally applicable matters and will refer to BAL where local considerations apply.

## BAL Overview

BAL is a UK limited company, authorised and regulated in the UK, working alongside other members of the Brown Advisory Group to manage and oversee operations outside the US, particularly in the UK. The Firm is governed by a Board of Directors.

In terms of the group structure (as shown in the simplified diagram below), BAL is a wholly owned subsidiary of Brown Advisory Management LLC, which in turn is wholly owned by Brown Advisory Group Holdings LLC. The holding company is owned predominantly by employees, with a minority interest from outside shareholders. No individual or entity holds 5% or more of the share capital of Brown Advisory<sup>6</sup>.



<sup>4</sup> [ESG 1.1 Purpose and application – FCA Handbook](#)

<sup>5</sup> [ESG 1.2 General application – FCA Handbook](#)

<sup>6</sup> As of 31 December 2023.

BAL was established in 2008 with the opening of a London office to support Brown Advisory's growing global client base. The Firm has a straightforward business model, and its activities include:

- (i) the marketing of Brown Advisory investment strategies through Brown Advisory's Undertakings for the Collective Investment in Transferable Securities (UCITS) funds – Brown Advisory Funds plc (the **Funds**) – and separate account mandates (**Institutional Marketing**);
- (ii) the provision of discretionary investment management solutions to individuals, families, trusts, charities and endowments (**Private Client Business**);
- (iii) sub-advising Brown Advisory investment strategies and managing separately managed accounts for institutional investors in those strategies (**Institutional Investment Management**); and
- (iv) client servicing for international clients of the Brown Advisory group.

Whilst feeding into the group-level governance structure, BAL considers and maintains its own effective procedures to identify and report on business and operational risks it is or might be exposed to and reports to the Board of Directors accordingly. In respect of climate-related risks in particular, this report will cross-refer to group-wide initiatives and to the activities of other group members, particularly the firm's US affiliate, Brown Advisory LLC. Brown Advisory thinks about climate holistically and has established a global business division focused on sustainable investing and a Sustainable Investing Advisory Board. This Board operates in an advisory capacity, providing guidance on integrating sustainable investing factors into investment practices and contributing to the group's overall sustainable investing strategy<sup>7</sup>.

## **Governance Overview**

Effective governance allows Brown Advisory to fulfil its responsibilities to its clients and create long-term value for stakeholders, which is reflected by the commitment from the leadership and oversight from Brown Advisory's Board and senior management. Brown Advisory recognises that having effective corporate governance is important for executing its overarching strategy to identify, mitigate and manage its exposure to climate-related matters.

## **BAL's Role in the Management of Climate Risks and Opportunities**

BAL's considerations around climate risks and opportunities are largely informed by the wider practices and policies of the Brown Advisory Group. The TCFD report will therefore articulate Brown Advisory's holistic and collective approach to climate-related issues.

The integration of climate risks and opportunities into the operational management of Brown Advisory is undertaken across various teams and offices, prioritising efficiency and cost reduction and seeking to ensure it does not create hardship in the communities in which it operates. In many ways, Brown Advisory seeks to contribute positively in these communities. The assessment and integration of climate-related risks and opportunities across investments in managed portfolios is undertaken by the

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<sup>7</sup> The Sustainable Investing Advisory Board meets quarterly, where stakeholders from the group's Sustainable Investing Business report on performance and developments and engage Board members in discussion on topics where strategic input would be beneficial. The Board includes members from Brown Advisory as well as external sustainable investing experts. Please see biographies provided [here](#).

relevant investment management entity, applying an approach aligned with Brown Advisory's established approach to investment. Specifically, our investment approach is to seek to consider any data, factor, business tactic or strategy, economic or market condition – whether quantitative and qualitative – which we believe allows for better understanding of the material challenges and opportunities facing a business or issuer. Every Brown Advisory investment strategy holds the fiduciary duty of delivering investment performance to clients as its highest obligation. Sustainable Investing strategies apply an active and documented investment decision-making framework that emphasises the materiality of the risks and/or opportunities that arise from natural resource, social and economic, climate, and/or governance issues in their underwriting of an investment.

The climate-related practices at BAL are reflective of Brown Advisory's global integration of sustainability across its core business and operations.

### **Group Shareholder Breakdown and Ownership Structure**

Brown Advisory's ownership structure is designed to closely align with its clients' interests and support a long-term perspective in its business operations. Brown Advisory is privately held, and its ownership is distributed primarily amongst its employees. Approximately 70% of the holding company is owned by its colleagues, and no single individual or entity owns more than 5% of the firm. This enhances the sense of personal investment and commitment to the firm's success while fostering an inclusive and balanced ownership structure. The remaining 30% is owned by select outside investors who provide insight, perspective and stability.

Brown Advisory believes this approach ensures that it has an inclusive and balanced ownership structure and that its colleagues' interests are aligned with those of its clients. This 'ownership mindset' is essential to our culture. The management of risks to the business and to clients – including climate-related risks – is therefore a concern for all employees, irrespective of their role, as all employees have an investment in the future of the business.

### **Compliance Statement**

I can confirm that the disclosures contained in this report comply with the ESG sourcebook TCFD entity reporting requirements. This compliance statement should be read in conjunction with the above section on basis of preparation of this report. BAL will ensure that it maintains a robust internal compliance and governance control framework that underpins this compliance statement.

*Richard Thomason*

**Richard Thomason, Director of BAL and Head of Compliance, International Business**

## 2. Governance

BAL maintains its own Board of Directors, which oversees activities in, and from, the UK and has oversight of international (i.e. non-US) operations in general. The Board ensures that the firm aligns with Brown Advisory's overall mission while addressing the specific regulatory and market environments of the regions in which it operates. The BAL Board has chartered three committees to support the oversight of the international business: the International Investment Committee, the Risk and Compliance Committee and the International Operations Committee.

The governance structure of Brown Advisory, including BAL, is designed to ensure that it operates with a clear focus on serving its clients' interests while adhering to its core values and strategic goals. The governance framework is multilayered, incorporating various levels of oversight and decision-making bodies that work together to manage the firm's operations effectively.

At the highest level, Brown Advisory is overseen by an independent Board of Directors, which consists primarily of non-executive members. The Brown Advisory Incorporated Board of Directors provides strategic guidance and accountability, ensuring that Brown Advisory carries out its mission and business strategy and always puts clients first. Its Directors come from diverse backgrounds who are experts in their respective fields, providing a wide range of perspectives on strategic issues.

The Board has chartered various committees to provide oversight of the business, including the Corporate Governance and Conflicts Committee, the Remuneration Committee and the Audit Committee. The oversight of Brown Advisory's investment risk is led by the Investment Risk Management Committee (IRMC), which comprises investment leadership and other business heads. The IRMC receives regular reporting from the investment risk team and investment teams, including sustainable investing, and is tasked with reviewing broader investment-related topics, including systemic risks. Investment activities across Brown Advisory are undertaken in a collegiate manner, with, for example, the global equity and global fixed income teams based in London (and employed by BAL) working collaboratively with US colleagues. Board oversight of investment activities therefore encompasses the whole of Brown Advisory, including BAL.

The Executive Team, led by Brown Advisory's President and Chief Executive Officer (CEO), Mike Hankin, is responsible for the day-to-day management of the group. This team includes leaders from key areas across the business and is charged with addressing any issues that may impact clients, colleagues, the firm's culture and the communities in which Brown Advisory operates.

Sustainable investing expertise and oversight is integrated across Brown Advisory's governance structures. For example, members of the sustainable investing team are members of the executive team as well as part of the IRMC. Brown Advisory also maintains a [Sustainable Investing Advisory Board](#) comprising internal and external sustainability and climate experts who provide advice and guidance to the business as it develops strategy related to sustainable investing, and climate more specifically. Brown Advisory's CEO is also a member of the Sustainable Investing Advisory Board.

All sustainable investing-related governance, oversight and leadership aims to ensure this investment objective aligns with Brown Advisory's overall approach to investing. Specifically, our investment approach is to seek to consider any data, factor, business tactic or strategy, economic or market condition – whether quantitative and qualitative – which we believe allows for better understanding of the material challenges and opportunities facing a business or issuer. Every Brown Advisory investment strategy holds the fiduciary duty of delivering investment performance to clients as its highest obligation. Sustainable Investing strategies apply an active and documented investment decision-making framework that emphasises the materiality of the risks and/or opportunities that arise from natural resource, social and economic, climate, and/or governance issues in their underwriting of an investment.

## Business Units/Groups/Functions

Brown Advisory's approach to implementing its climate strategy is integrated across various facets of the business, including operations, institutional and advisory solutions, portfolio management, and active engagement. The integration of sustainable investment research (including climate-related risks and opportunities) into investment decisions is conducted at the strategy level and in accordance with the fiduciary obligations to every client. As previously indicated, business activities undertaken by BAL are integrated into broader business lines that are managed across Brown Advisory, all of which integrate climate and other sustainability considerations on a case-by-case basis as appropriate to a given mandate.

Brown Advisory's CEO is ultimately responsible for overseeing climate-related risks and opportunities at Brown Advisory. The CEO, together with the Head of Sustainable Investing Business, Carey Buxton, and other senior members of the executive and Sustainable Investing teams, develops Brown Advisory's strategy for integrating climate risks and opportunities across the firm's investment and operational activities. The responsibilities of each of these individuals and groups are outlined in Chart 1 and Table 1 below.

Brown Advisory serves clients with sustainability related investment preferences across the Institutional and Private Clients, Endowments & Foundations (PCEF) business lines, seeking to deliver investment performance to clients as its highest obligation. While each business line has its unique needs, Brown Advisory's Head of Sustainable Investing Business has responsibility to oversee the implementation of sustainable investing across both business lines, ensuring high standards are maintained and resources correctly allocated to teams and strategic initiatives. The Head of Sustainable Investing Business collaborates closely with the Heads of Business and Chief Investment Officers (CIOs) across these business lines to ensure strong execution of investment work and performance. These colleagues include:

- [Charlie Constable](#), Head of U.S. PCEF Business
- [Erika Pagel](#), Co-CIO of PCEF
- [Sidney Ahl, CFA](#), Co-CIO of PCEF
- [Tim Hathaway, CFA](#), Co-Head of Institutional Business
- [Chris Bartlett](#), Co-Head of Institutional Business
- [Logie Fitzwilliams](#), Head of International Business
- [Christopher Hancock, CFA](#), CIO of International

The Head of Sustainable Investing business also collaborates closely with Karina Funk, CFA, Brown Advisory's Chair of Sustainable Investing, to set and execute the strategic direction and priorities for Brown Advisory's Sustainable Investing work and challenging our position and presence in the industry.

Brown Advisory's CEO, alongside its Head of Sustainable Investing Business, are responsible for ensuring that relevant sustainable investing issues and opportunities are discussed and addressed with the firm's various boards of directors. Sustainable Investment topics are routinely discussed at many board and committee meetings. For example, Erika Pagel, co-CIO of PCEF, reports on the performance of the Sustainable Investment CIO portfolio and the recommended Sustainable investing strategies

individually to Brown Advisory's Investment Committee<sup>8</sup> as part of their oversight of Brown Advisory's investment programme.

Brown Advisory has over 25 colleagues who are either wholly or largely dedicated to the sustainable investing practice. Within each business line are many investment professionals focused on delivering sustainable investment solutions to our clients. The following colleagues play senior leadership roles on the Sustainable Investing team:

- [Carey Buxton](#), Head of Sustainable Investing Business
- [Karina Funk, CFA](#), Chair of Sustainable Investing, Portfolio Manager
- [Katherine Kroll](#), Director of Equity Research, Sustainable Investing
- [Amy Hauter, CFA](#), Portfolio Manager, Director of Sustainable Fixed Income
- [Lisa Fillingame Abraham](#), Director of Fixed Income Research, Sustainable Investing
- [Erika Pagel](#), Portfolio Manager, Co-CIO of PCEF

From an operational perspective, our sustainability strategy is implemented across various operational teams (e.g. real estate, security and technology). The primary focus of these teams' efforts is to reduce the risk that operational continuity might be disrupted by climate events and to put measures in place to reduce the negative impact that our business activities may have on the environment. Brown Advisory also provides transparency on its operational emissions each year, publishing metrics in the firm's annual report. As it relates to operational emissions, the Head of Sustainable Investing Business is also responsible, along with the CEO, for ensuring that the carbon offsets purchased to offset certain operational emissions are of sufficient quality.

Please see Chart 1 below, which illustrates the different functions within Brown Advisory and how they oversee relevant climate-related work. Colleagues based in Brown Advisory's London office play a role in each of these functions. Table 1, which follows, provides a summary of the work undertaken by each group.

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<sup>8</sup> Brown Advisory's investment committee addresses broader investment issues, including risk management, resource and technology exploration, and best practices. It monitors investment activities and is responsible for providing guidance and support to the broader investment teams in these areas, without directly handling portfolio purchases and sales.

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**Chart 1: Governance and Climate**



**Table 1: Climate Across the Business**

	Function	Overseen by
<b>Corporate Sustainability</b>	Responsible for overseeing the integration of sustainability into Brown Advisory's operating activities such as real estate, physical security and travel.	CEO Head of Sustainable Investing Business COO CFO CTO
<b>Sustainable Investing Business</b>	Responsible for establishing the standards for the firm's Sustainable Investing strategy and operations across Brown Advisory's business lines. In particular, the Business ensures that all work aligns with Brown Advisory's long-established approach to Sustainable Investing, and that the communication of this work maintains a consistent message to all stakeholders.  Additionally responsible for developing governance and oversight for the firm's sustainable investing commitments.	Head of Sustainable Investing Business (reports to the CEO)
<b>Institutional Business</b>	Responsible for overseeing the development of performance-driven Sustainable Investing solutions to serve institutional clients and the management of a team of Sustainable Investment research analysts.  Additionally responsible for investment research and the selection of data providers that can inform research and enhance investment due diligence.	Heads of Institutional Business Director of Equity Research, Sustainable Investing Director of Fixed Income Research, Sustainable Investing
<b>PCEF</b>	Responsible for identifying and providing Sustainable Investing solutions for Brown's Advisory's balanced portfolios, including the approval of external managers that are using sustainable investment research to enhance performance.  Additionally responsible for developing tools to measure and monitor various sustainability exposures across client portfolios.	Head of PCEF Co-Chief Investment Officers of PCEF Head of International Business CIO International
<b>IRMC</b>	Responsible for reviewing sustainable investing reporting on a quarterly basis and conducting a review of the firm's net zero commitment at least annually.	Head of Investment Risk
<b>Sustainable Investing Advisory Board</b>	Responsible for providing advice and accountability of Brown Advisory's sustainable investing strategy and practices across business lines.	Chair of Sustainable Investing Head of Sustainable Investing Business

## **Training**

To help our colleagues understand sustainable investing and to equip them to articulate Brown Advisory's approach towards it, we run an internal development programme called Sustainable Investing Subject Matter Experts. Colleagues from across the business participate in this programme, including, though not limited to, investment professionals and client-facing team members. A number of Brown Advisory's leadership team have participated in it, and approximately 40% of colleagues have completed the programme.

## **Remuneration**

Brown Advisory implements a Remuneration Policy at the firm, group, and individual level to ensure that compensation practices are fair, strategic, and aligned with the group's objectives. This section outlines the governance structure that underpins the overarching approach to compensation, the philosophy guiding compensation decisions, and the integration of sustainable investing considerations into executive remuneration and partner promotions. It should be noted that BAL is required to comply with FCA rules relating to remuneration and other remuneration requirements – for example under the UCITS Directive – that are also applicable. The group-level policy, as a statement of principle, is aligned with these requirements.

## **Compensation Philosophy**

Brown Advisory's Compensation Committee, comprised of select Board members, is tasked with the governance of employee compensation. This committee determines the compensation pool each year. The Human Resources team in coordination with Business Heads, determines annual compensation for all employees and manages fiduciary asset-related compensation issues. Regular meetings, held at least twice a year, ensure that compensation decisions are made with due diligence and strategic alignment. The Committee has oversight of compensation awarded to employees of BAL, in addition to all other Brown Advisory employees.

Brown Advisory's compensation is merit-based, and in awarding compensation to our colleagues we consider investment performance, teamwork, and the firm's overall profitability. Our compensation structure is designed to create a highly collaborative investment process rather than a star system.

Brown Advisory has held a consistent compensation philosophy since inception. There are two key tenets of our compensation philosophy. First, we seek to be competitive with the market and pay fairly for outstanding performance, supporting a culture of meritocracy. Secondly, equity is an important component of compensation, increasingly so for Principals and Partners, and underpins the firm's culture and competitive advantage.

## **Compensation Governance and Executive Team Goal Setting**

Brown Advisory's Compensation Committee, comprised of select Board members, is charged with the responsibility for overseeing the firm's compensation philosophy and for determining how the Chief Executive Officer of the firm is compensated with salary, supplemental, and incentive income and benefits that are equitable, competitive, and consistent with such philosophy.

There is an extensive goal setting and planning process that is completed at the start of each calendar year, including goals for the Chief Executive Officer and all business and group heads. The framework for these goals includes a variety of key firm initiatives inclusive of a requirement to advance our Sustainable Investing business, which includes the focus areas listed in the prior response. Each business line's goals related to sustainable investing and sustainability are articulated in the annual planning process and shared broadly across the management team, with the CEO and the Head of Sustainable Investing. These are also shared in the annual plans delivered to the Board with progress on plans reported to the Brown Advisory Incorporated Board on a quarterly basis.

While climate-related considerations are not specifically included in compensation at this time, performance metrics are periodically reviewed and, as BAL's approach to TCFD develops, we may consider adding this as a specific metric in the future.

### 3. Strategy

#### Introduction

As we described in Section 1, Brown Advisory considers climate-related decisions as part of its fiduciary responsibility to clients. BAL's considerations around climate risks and opportunities are largely informed by the wider practices and policies of the Brown Advisory Group. This section will consequently describe the collective approach of Brown Advisory.

Brown Advisory recognises that understanding the impact of climate and other sustainability issues can be additive in determining how an investment may perform over a variety of time-horizons. As investors, we seek to consider any data, factor, business tactic or strategy, economic or market condition – whether quantitative and qualitative – that we believe allows us to better understand the material challenges and opportunities facing a business or issuer. Every Brown Advisory investment strategy holds the fiduciary duty of delivering investment performance to clients as its highest obligation.

In this section, Brown Advisory's approach to addressing climate-related risks and opportunities is considered through both its operational strategies and its investment strategies. The operational strategies section outlines Brown Advisory's internal efforts surrounding its corporate emissions and environmental footprint, as well as the sustainability-focused practices it is seeking to adopt in its operations. The investment strategies section includes a description of how the group seeks to integrate climate considerations into its investment decision-making processes. This includes the research methodologies, product offerings, and engagement processes used by our investment team, each of which is designed to enhance performance and as part of our fiduciary responsibility to our clients.

#### Investment Risks and Opportunities

Brown Advisory's overall strategy as it relates to climate risks and opportunities is focused on its investment activity as this is the aspect of the business where climate is deemed to be most relevant. Brown Advisory's strategic priorities are always aligned with ensuring that we can provide the best performance, advice, and service to our clients. Therefore, Brown Advisory has prioritised the following to ensure that we are strategically positioned to navigate climate related risks:

1. **Research tools to inform investment decisions:** Climate change has the potential to disrupt economies and industries, leading to increased market volatility and influence over the

performance of investment portfolios. We have developed tools to help with the evaluation of these risks and will continue to innovate in this area as policy and technology evolves.

2. **Product development to meet client needs:** Many of Brown Advisory's clients seek investment solutions that integrate sustainable investment considerations as a core part of their investment philosophy. We have developed a suite of solutions, tools and strategies that seek to meet these evolving client demands.
3. **Expertise to deliver outcomes:** Understanding climate risks and opportunities requires a specialised skill set, and Brown Advisory has prioritised the expansion of its Sustainable Investing team over the last few years. This team of professionals, and a growing number of colleagues who have participated in our internal sustainable investing programme, are well equipped to deliver investment solutions and strategic advice to clients for whom climate risks and opportunities are relevant.

### **Business Risks and Opportunities**

As specified by the TCFD<sup>9</sup>, climate-related risks fall into two categories – transition risks and physical risks. Transition risks relate to the transition to a low-carbon economy while physical risks relate to the physical impacts of climate change.

These climate-related risks and opportunities may materialise over various timeframes and with various outcomes. Some short-term risks may escalate in their impact and importance over time while others may not emerge for decades to come. We have prepared a table to illustrate the climate-related risks that could potentially influence Brown Advisory's investment products, asset allocation strategies and business operations, which are evaluated across different time periods. These have been classified as either short-term risks (within one year), medium-term risks (one to five years) or long-term risks (more than five years).

We believe it is important to consider the different time horizons of climate risks and opportunities within Brown Advisory's strategic planning. By doing so, we can develop proactive strategies that not only mitigate risks but also position them to take advantage of the emerging opportunities associated with the transition to a more sustainable and climate-resilient economy. Additionally, recognising the varying timeframes of climate-related impacts allows for better long-term planning and risk management.

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<sup>9</sup> [Recommendations of the Task Force on Climate-Related Financial Disclosures](#)

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**Table 2: Climate-Related Risks Matrix**

Type	Time Horizon	Climate-Related Risks	Potential Impacts
<b>Transition Risk</b>	Short, Medium	<b>Regulatory Risk</b> Increasing and divergent regulatory requirements for climate disclosures across jurisdictions	Operational disruptions that create downtime, compliance costs, barriers to market entry that deter growth
	Short, Medium	<b>Reputational Risk</b> Negative perceptions due to the firm's actions or inactions on climate issues, damaging brand value	Loss of talent due to weakened brand, difficulty attracting new talent, loss of confidence from clients leading to asset outflows
	Short, Medium	<b>Investment Risk</b> Mispricing climate-related investment risks or opportunities, impacting asset values	Negative performance due to mispriced climate risk
	Short, Medium	<b>Client Preferences (Product Offering)</b> Shifts in client preferences leading to reduced demand for the firm's solutions that do not align with climate-related expectations; unsuccessful efforts to develop products to meet these preferences could negatively affect business	Capital outflows, competitive pressures, reduced revenues
	Long	<b>Client Preferences (Portfolio Exposure)</b> Decreased client risk tolerance for investments in regions prone to climate risks	Capital outflows, potentially in products exposed to high-risk geographies
	Medium, Long	<b>Carbon Taxes</b> International and/or national implementation of carbon taxes affecting global business operations	Increased operational costs for issuers and in firm-wide cost (e.g. travel, office construction, energy use)
<b>Physical Risk</b>	Medium, Long	<b>Climate Events</b> Exposure of certain offices to chronic or acute climate risks (e.g. extreme weather events, sea level rise, water shortages)	Property damage (e.g. data centres), insurance costs, disruption of technology leading to trading downtime

	Short, Medium	<b>Investment Risk</b> Mispricing climate-related investment risks or opportunities, impacting asset values	Negative performance due to mispriced climate risks and opportunities
	Long	<b>Health Impacts</b> Adverse health effects due to extreme heat and other long-term climate conditions	Productivity decline, attraction and retention of talent, increased costs

## Opportunities

Following the same format as the table above, Brown Advisory has also considered the climate-related opportunities that may affect its investment products, asset allocation strategies and business operations:

**Table 3: Climate-Related Opportunities Matrix**

Type	Time Horizon	Climate-Related Opportunities	Potential Impacts
<b>Products and Services</b>	Medium, Long	<b>Investment Performance</b> Accessing high-quality sources of climate-related data and information and accurately integrating it into investment analysis and decisions	Potential improvements in absolute/relative investment performance, asset growth
	Medium, Long	<b>Product Range</b> Development of new and innovative investment products within underserved asset classes (e.g. venture capital, private equity and real estate)	Diversification of revenue streams and product offerings, asset growth
	Medium, Long	<b>Investor Sentiment</b> Shifts in investor sentiment towards sustainable investing and integration of climate-related factors within investment products	Client diversification, asset growth
	Medium	<b>Expert Partnerships</b> Collaboration with sustainable advisory and international experts to enhance investment expertise and capabilities	Improved research and advisory capabilities, potential improvements in absolute/relative investment performance

<b>Operations</b>	Medium	<b>Reputational Enhancement</b> Publishing high-quality research on sustainable investing and climate change and positioning Brown Advisory as a thought leader and positively influencing brand perception	Improved talent acquisition and retention, deepened client trust leading to asset growth
	Medium	<b>Regulatory Monitoring and Positioning</b> Proactive adaptation to and anticipation of regulatory changes, positioning the firm to capitalise on these shifts	Improved operational risk management

### Transition Plans and Operational Carbon Footprint

Because Brown Advisory does not manufacture or physically distribute tangible products, we do not consume significant amounts of natural resources, produce large amounts of waste or generate notable point-source toxic pollution. The group’s primary operational impact on the environment is through the carbon dioxide equivalent (CO<sub>2</sub>e) emissions that stem from our operations. Brown Advisory’s Scope 2 and 3 emissions stem primarily from office energy use and business travel.

From an operational perspective, Brown Advisory focuses on monitoring and reducing emissions and contributing financially to climate-positive projects that can help offset emissions that are unavoidable while serving our clients. We have implemented numerous practices to reduce this impact, such as energy-efficient office designs and operations, and all newly developed office space must meet Leadership in Energy and Environmental Design (LEED) ‘Silver’ and Building Research Establishment Environmental Assessment Methodology (BREEAM) ‘Very Good’ certifications. We have described these implementations in more detail below.

The year 2020 marked Brown Advisory’s first effort to calculate and report on its carbon footprint. At the time, this was a learning experience that required collaboration across the business, including the accounting and finance teams for business travel data, the information technology team for data centre energy usage and the operations team for electricity and heating data sourced from landlords and utility companies around the world.

As a group, Brown Advisory has sought to balance its electricity-related Scope 2 emissions by purchasing Renewable Energy Certificates and investing in offset projects for its Scope 3 emissions. We also prioritise a diverse array of high-quality, scientifically robust projects that offer additional benefits, such as enhancing biodiversity and human health. Brown Advisory has contributed to several climate-positive efforts, with examples provided below.

- **Seeing the Forest for the Trees:** This initiative combats deforestation in Mexico by involving the local community in sustainable forest management to conserve forests, increase biodiversity and provide education and employment.

- **Doo Doo Does More:** In rural India, this project replaces inefficient wood-burning stoves with biogas plants in homes, using cow dung to produce clean methane gas for cooking. This prevents deforestation and reduces methane emissions from decomposing waste.
- **The Giving Trees:** Supporting reforestation and sustainable practices among smallholder farmers in Kenya, Uganda, Tanzania and India, this project helps combat the vicious cycle of deforestation, drought and famine. The sale of carbon offsets funds further tree planting, the creation of leadership roles for women and income for tackling issues such as agricultural productivity, nutritional gaps, HIV/AIDS, clean cooking and fuel scarcity.

The group has implemented multiple practices to improve our firm-wide environmental impact in addition to committing to offset and reduce its operational emissions. Some examples follow:

- New office space built to a minimum of LEED Silver/BREEAM Very Good standards
- All current and future data centres are/will be a minimum of LEED Silver certified
- Automatic lighting controls, with time clock, motion and daylight sensors
- Automatic and timed HVAC/temperature controls
- Low-flow plumbing fixtures with automatic sensor operation
- Battery recycling
- Use of green cleaning products
- Sustainability requirements for food service vendors
- On-site recycling and composting collection

In addition, as we acquire new office space or renovate existing facilities, we consider several sustainable strategies to reduce our environmental impact, including but not limited to:

- Use of natural daylighting via glass office fronts
- Highly efficient LED lighting
- Highly recycled materials, including carpet tiles, acoustic ceiling tiles and steel framing
- Reused/repurposed building materials and fixtures
- Use of rapidly renewable materials (bamboo counters, cork-backed flooring)
- Blackout shades to moderate seasonal temperatures
- Low-VOC paints and adhesives
- A significant percentage of construction debris diverted from landfills

## **Financial Planning and Performance**

The consideration of environmental factors and the potential impact of climate change on financial performance is delegated to Brown Advisory LLC. To date, Brown Advisory's Accounting & Finance team has not identified climate to be a material risk for the business's operations. It will continue to monitor this, and should a risk be identified, would further evaluate the potential financial impact. As part of Brown Advisory's annual planning process, if an incremental cost was identified, it would be factored into the annual financial target.

## **Investment Strategies**

Brown Advisory recognises that the carbon footprint associated with its investments is considerably greater than the footprint of its operational emissions. We also recognise that, as fiduciaries, our clients have mandated us to deliver financial performance. As such, Brown Advisory has not established a binding Scope 3 net zero target that could supersede this fiduciary duty and the requirement to manage risk and deliver financial returns to our clients. We have sought to manage risk by integrating climate and other factors related to natural capital into our sustainable investment research and analysis, ultimately for the purpose of enhancing investment performance. We have provided an overview of the investment team's integration of climate-related factors into its investment research below.

## **Investment Philosophy and Climate Considerations**

Brown Advisory integrates sustainable investing as a core element of its investment philosophy, aligning it with the fiduciary duty to deliver investment performance to our clients. We seek to deliver performance through integrating the evaluation of a wide variety of data and information – qualitative and quantitative – into investment decisions.

Many institutional strategies at Brown Advisory have committed to explicitly integrating sustainable investment considerations (including material climate and natural capital considerations) within their investment approach. No two strategies at Brown Advisory are alike, and this is true for sustainable investing strategies as well. Each strategy's approach will reflect the Portfolio Manager's autonomy to invest in a manner they believe generates long-term performance for clients formalised through its investment philosophy and principal investment strategy. While all strategies retain financial performance as their primary objective, many of our investment solutions include specific sustainability parameters as part of their principal investment strategy.

This section includes an overview of the sustainable investing products that Brown Advisory offers, a description of how sustainable investment considerations are integrated across Brown Advisory's institutional business (comprising equity and fixed income strategies) and its private client business, respectively, and an overview of the net zero targets adopted by the business as part of its commitment to the Net Zero Asset Manager Initiative (NZAMi).

## Product Development and Client Solutions

Brown Advisory offers a range of sustainable investing strategies that are diversified across asset class, market capitalisation and sector, aiming to cater to various client needs. These strategies include:

Strategy	Investment Universe	Inception Date	Asset Class
Global Leaders	Global Equity	May 2015	Equity
Sustainable International Leaders	Global ex-U.S.	Sep. 2021	Equity
U.S. Large-Cap Sustainable Growth	U.S. Large-Cap	Dec. 2009	Equity
U.S. Sustainable Small-Cap Core	U.S. Small-Cap	Jun. 2017	Equity
U.S. Large-Cap Sustainable Value	U.S. Large-Cap	Sep. 2022	Equity
Global Sustainable Total Return Bond	Global Multi-sector	Feb. 2022	Fixed Income
U.S. Sustainable Core	U.S. Multi-sector	Sep. 2014	Fixed Income
U.S. Sustainable Short Duration	U.S. Short-Duration	Jan. 2017	Fixed Income
U.S. Tax-Exempt Sustainable	U.S. Municipal	Sep. 2014	Fixed Income

## Integrating Climate-Related Research

Brown Advisory's institutional research team employs a rigorous, bottom-up approach to identifying material sustainability-related investment risks and opportunities across sectors and asset classes. Our research team conducts deep due diligence using a combination of primary research and third-party data sources to fully understand the investment risks and opportunities associated with a given investment. This research is leveraged for portfolio decisions as well as engagement dialogue with companies, bond issuers and other stakeholders.

Brown Advisory's Sustainable Investment Research Analysts are embedded within the institutional equity and fixed income research teams. They are responsible for the integration of sustainable investing considerations, including considerations around climate and natural capital as part of the investment analysis for the securities considered for our investment strategies.

Climate change has long been a top priority for our Sustainable Investment team. The team employs a robust framework for identifying, assessing and managing climate-related risks and opportunities as part of the sustainable investment research assessments the analysts produce for sustainable investment strategies. Beyond the sustainable investing strategies, other Portfolio Managers also consider sustainability-related investment risks as part of their investment due diligence and monitoring where consistent with the product's investment policy.

This research includes the evaluation of multiple potentially material climate-related metrics and characteristics that may impact the financial performance of companies and issuers. Many climate-related criteria are assessed during this process, which may include, but are not limited to, those described in the table below.

<b>Climate-Related Metrics &amp; Characteristics – Examples</b>	
<b>Transition Risks</b>	<b>Physical Risks</b>
<ul style="list-style-type: none"> <li>• Greenhouse gas (GHG) emissions and management</li> <li>• Emission reduction targets</li> <li>• Energy efficiency strategy</li> <li>• Energy mix</li> <li>• Compliance with environmental regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Risk of exposure to extreme weather events</li> <li>• Water availability/usage</li> <li>• Weather condition effects on productivity</li> <li>• Supply chain resiliency</li> </ul>

### **Stewardship and Engagement**

Engagement is a foundational part of Brown Advisory’s investment research and ongoing monitoring across all strategies. As active managers, primary discussions with a company’s management team, its customers, its critics and experts on material issues that inform our investment conviction are critical to delivering performance for clients. As part of Brown Advisory’s engagement programme, climate change has been identified as a priority engagement issue across its institutional platform.

As part of Brown Advisory’s wider engagement programme, our Sustainable Investment Research Analysts seek to understand how our investments are addressing climate-related risks and their involvement in the transition to a low-carbon economy where this is deemed material to the investment.

The team believes that transparency and disclosure underpin an investor’s ability to assess governance quality and sustainability-related risks and opportunities and track their developments – all of which may affect long-term investment performance. As a means of challenging or reinforcing an investment thesis, the team will leverage an array of engagement tools, such as direct communication, proxy voting and collaborative efforts, as part of its engagement strategy. The overall aim is to ensure that these issuers are transparent about their climate policies and practices, which Brown Advisory believes can affect long-term value.

To drive down climate risk over time, the research team has also focused on increasing the adoption of Science-Based Targets (SBTs) across its Sustainable Investing strategies. Such targets do not allow companies and other issuers to merely ‘cancel out’ their emissions through the purchase of offsets or credits but require that they actively reduce the net emissions from their operations. The team recognises that SBTs are not the only way for an entity to pursue a net zero strategy, but they are considered a robust starting point. Brown Advisory’s investment team already prioritises engagements based on this factor and seeks to engage on climate with entities that do not have SBTs in place before engaging with those that do.

## **Engagement Outcomes**

All of Brown Advisory's engagement activities are intended to support the performance objectives of our respective strategies. As a result, the investment team seeks outcomes aligned with improving or reinforcing an investment thesis that is aligned with that objective. Indirect outcomes that may occur as a result of our engagements include, for example, improved disclosure, more robust sustainability-related policies and improved corporate practices that benefit climate, natural capital, communities or governance practices.

## **Approach to Climate-Related Scenario Analysis**

Brown Advisory does not currently implement quantitative climate-related scenario analysis as a required part of its investment process. Our investment teams believe that the best approach to integrating climate risks and opportunities is through bottom-up analysis rather than combining multiple variables into methodologies that may produce unpredictable outcomes, resulting in concerns around both accuracy and reliability. Through a case-by-case evaluation, our investment teams seek to ensure that climate risk and opportunity considerations are integrated into analysis in a manner consistent with the relevant investment objectives and specific conditions relevant to each security considered for inclusion in one of our investment strategies.

## **Investment Solutions Group**

Within Brown Advisory's private client business in the UK and across the group, the Investment Solutions Group (ISG) is a specialised team tasked with manager research and asset allocation. The group is responsible for creating and maintaining Brown Advisory's Approved Manager List and Model Portfolios, both of which are essential to the private client business. ISG's role involves a detailed assessment of potential investment managers to ensure that they meet its standards for performance and process. By conducting this due diligence, ISG helps ensure that clients are presented with a vetted selection of external managers for their investment portfolios. This due diligence includes consideration of the approach to sustainable investing of external managers with a view to assessing their alignment with Brown Advisory's philosophy and values.

ISG maintains a 'sustainable investing CIO portfolio' and is rigorous in its selection of external managers who integrate sustainability considerations as a core part of their research. This approach is not about defining what sustainability means for their clients but rather finding managers who can better evaluate companies and manage portfolios by considering the risks and opportunities presented by climate change and other sustainable investment factors. Their evaluation of sustainable managers extends the standard process with a matrix designed to assess how these managers integrate sustainability into their investment decisions. This includes examining the depth of the managers' sustainability analysis, their use of unique data, their ability to report on and achieve sustainability outcomes as well as the sustainability credentials of the firm itself. As with our institutional investment business, the ISG team values engagement and prefers managers who actively work with companies to improve sustainability practices, which may include the management of climate-related risks and opportunities.

Managers approved to ISG's sustainable platform are subject to the same level of fundamental analysis as those on our traditional platform but are also subject to an additional level of scrutiny around their approach towards sustainability. This includes meetings with dedicated ESG/sustainability professionals, issuer analysis of climate risks and opportunities and deepening their understanding of the manager's approach towards engagement and proxy voting. This investment process is rooted in

bottom-up fundamentals, which is extended to an analysis of sustainability and climate – and the ISG team’s analysts would look to walk through individual holdings with external managers to understand how they were approaching climate risks and opportunities and would follow up on these holdings with the managers on a quarterly basis once approved.

### Decarbonisation and Net Zero

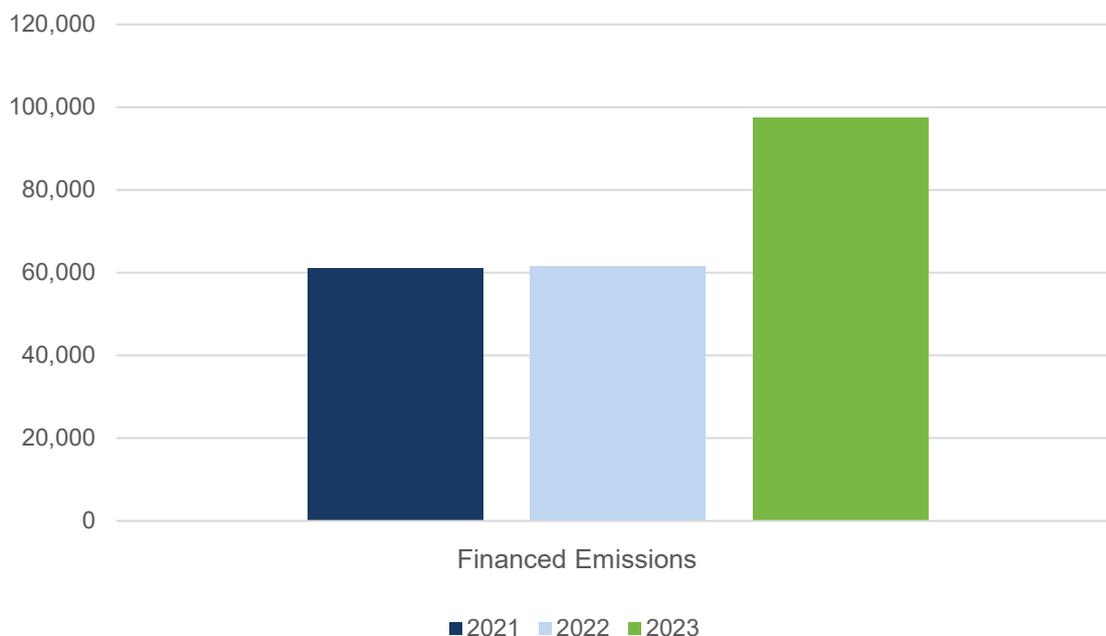
Brown Advisory joined the NZAMi in late 2021 and set an accompanying net zero target for an aggregated portfolio of various Brown Advisory assets pursuing net zero GHG emissions by 2050. Brown Advisory initially committed \$18.9 billion, equivalent to 20% of its total assets under management (AUM) at the time.

We believe that Brown Advisory’s participation in the NZAMi is an outcome of its investment philosophy, which has long considered sustainable practices, with an investment decision-making framework that emphasises the materiality of the risks and/or opportunities that arise from natural resource, social and economic, climate and/or governance issues in its underwriting of an investment.

Brown Advisory has published specific targets that detail how it expects to reduce GHG emissions in its aggregated portfolio being managed to net zero by 2050. More detail on our NZAMi commitments can be found [here](#).

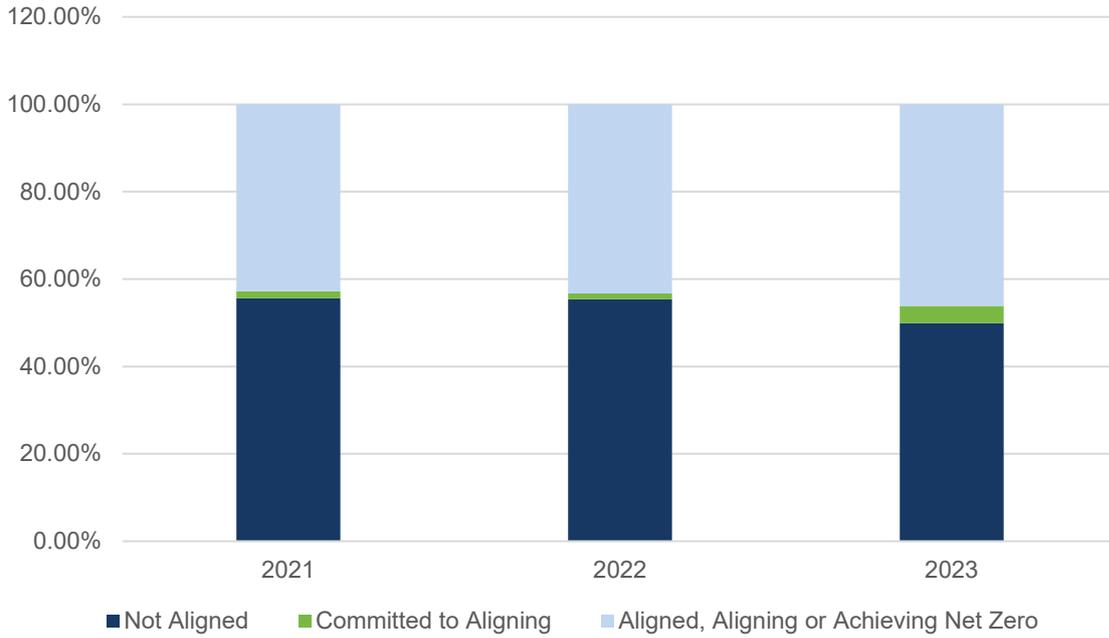
We have committed to reporting emissions data and progress towards these targets, and we have included the progress of our aggregated portfolio below.

**Chart 1 | Emissions Reduction**



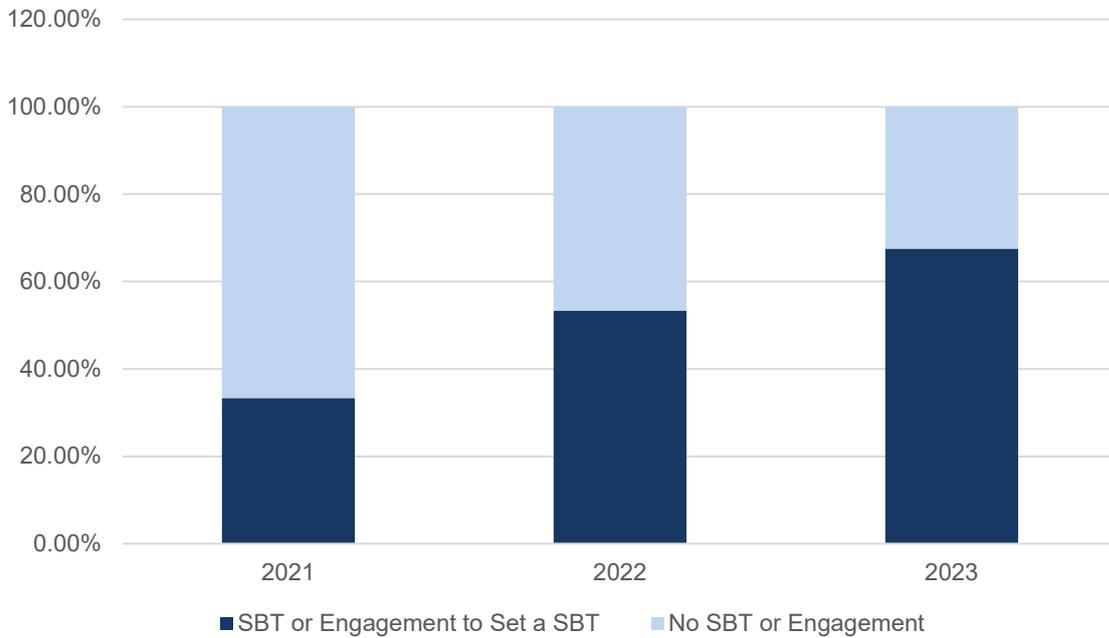
*Across the aggregated portfolio, achieve a 50% reduction in CO<sub>2</sub>e emissions (Scope 1 and 2) by 2030, with the eventual goal of achieving net zero emissions by 2050. Data as of 31 December of each reported year.*

### Chart 2 | Alignment Target



**2026 Goal:** 15% increase in AUM in companies that are Net Zero, Aligned to Net Zero or Aligning to net zero. Data as of 31 December of each reported year.

### Chart 3 | Engagement Target



**2030 Goal:** 90% of AUM in companies with an approved SBT or companies subject to direct or collaborative Brown Advisory engagement regarding setting SBTs. Data as of 31 December of each reported year.

We acknowledge the significant challenges that lie ahead. Signatories of the NZAMi have committed to the initiative with an understanding that its progression may be variable. For example, if there are significant swings in the size of the market value of the assets included in the aggregated portfolio, this may lead to an increase or decrease in emissions, but this does not necessarily represent actual change in emissions for investee company operations. While financed emissions may vary quite significantly over the course of the next few decades, we hope to continue to make steady progress towards our second and third targets (Charts 2 and 3 above). Progress on these targets over time will, we believe, eventually bend the arc of the financed emissions towards a lower-emission outcome over time.

## Industry Engagement and Initiative Participation

Brown Advisory engages with a number of organisations, member groups and initiatives to support its investment research and analysis of climate-related risks within its investment portfolios and enhance its investment stewardship. Some examples of these organisations are provided below:

- **NZAMi:** A group committed to supporting the goal of net zero GHG emissions by no later than 2050, through which Brown Advisory is a signatory and utilises its Net Zero Investment Framework to certain relevant investment portfolios with its targets.
- **Ceres:** An organisation that provides investors and companies with access to a network of climate experts and climate research that can inform investment decisions and help develop investment frameworks.
- **Climate Action 100+:** An investor initiative that seeks to ensure that the world's largest corporate GHG emitters take the necessary action on climate change in order to mitigate financial risk and to maximise the long-term value of assets.
- **Emerging Markets Investors Alliance:** An organisation focused on sustainable investment in emerging markets, where Brown Advisory engages to enhance its sustainable investment research and investment analysis.
- **CDP:** A platform for environmental disclosure, which Brown Advisory uses to inform its investment strategies and advocate for greater transparency from portfolio companies and municipal issuers.
- **Principles for Responsible Investment:** An organisation that encourages and supports the use of responsible investment techniques, including the consideration of climate in investment decisions.

## 4. Risk Management

At BAL and at the group level, we believe that a robust approach to risk management is integral to the provision of high-quality investment management services. This section provides details specific to BAL's approach to risk management; however, it predominantly describes how Brown Advisory approaches risk management at the group level, including risk identification, assessment and the monitoring processes adopted. In addition to the group-level approach described below, BAL also maintains an entity-level risk control framework, subject to the oversight of the Risk and Compliance Committee, a Board committee of BAL.

## Operational Risk Governance

Brown Advisory's Legal, Compliance and Internal Audit department is responsible for the integrity of the control environment. The department includes members from BAL and the wider group and oversees legal matters, regulatory compliance, internal audit and risk management. It conducts periodic, detailed reviews of Brown Advisory's operations, risk assessments on an annual and as-needed basis and a comprehensive testing programme covering business lines and service providers. The Legal, Compliance and Internal Audit department does not have any investment management-related responsibilities and is distinct from our research and investment functions.

## Investment Risk Governance

Brown Advisory employs an independent and comprehensive investment risk management programme to proactively identify, monitor and manage risk. It employs several pillars of defence in its approach to managing risks, including climate-related risks where relevant, in clients' investment portfolios.

Group	Responsibility
<b>Portfolio Managers</b>	As lead decision makers, Portfolio Managers are accountable for the performance and stock-specific risks of their portfolios as well as alignment with goals.
<b>Investment Risk Team</b>	Brown Advisory's independent risk team includes a group of dedicated analysts who provide investment risk oversight and reporting for Portfolio Managers and other Brown Advisory leaders.
<b>IRMC</b>	The IRMC comprises investment team leads and other business heads from across Brown Advisory and receives regular reporting from the investment risk team and focuses on broader investment-related topics.
<b>Compliance/Legal</b>	Compliance oversight ensures adherence to investment and regulatory guidelines. Brown Advisory has implemented automated pre- and post-trade compliance where possible.

Brown Advisory's first pillar of defence is our Portfolio Managers and our investment team, who are the primary risk owners of the securities in which it invests. The investment risk management team serves as the next pillar and is led by the Head of Investment Risk, Sam Shah, CFA. This team includes a group of dedicated analysts who provide investment risk oversight and reporting to the Portfolio Managers. The Head of Investment Risk is a member of the executive team who reports directly to the COO and has reporting obligations to the Brown Advisory Board of Directors, Brown Advisory Funds (mutual funds) and Brown Advisory Funds plc (UCITS funds).

The third pillar is Brown Advisory's IRMC, comprising investment team leads and other business heads from across the business. The IRMC receives regular reporting from the investment risk management team and additionally focuses on broader investment-related topics across Brown Advisory's Institutional and Balanced Portfolio Management Platforms. Consistent with our culture and the collaborative nature of our investment team, the Committee and respective investment team leads engage in a dialogue, when necessary, to understand any potential source of unintended risk and any necessary mitigation. The IRMC meets formally every quarter and on an ad hoc basis.

The final pillar is compliance team oversight to check Brown Advisory's adherence against all investment and regulatory guidelines.

Climate-related risk is integrated throughout this process. For example, Sustainable Investment Research Analysts provide the Portfolio Managers of our internally managed strategies an analysis of climate risks facing their investments. The Portfolio Managers in Brown Advisory's PCEF business (which includes BAL's Portfolio Managers) have access to a tool that evaluates certain carbon and other climate-related exposures. Additionally, the IRMC receives reporting on certain sustainable investing and climate-related metrics, including Brown Advisory's progress towards achieving its NZAMi commitment, as outlined above.

### **Identifying and Assessing Climate-Related Risks**

The identification and assessment of climate risk is led by our Sustainable Investment research team, which includes 11 research analysts who cover stocks and bonds in close collaboration with fundamental research analysts and Portfolio Managers. The Sustainable Investment research team includes two research analysts based in Brown Advisory's London office. Monitoring the impact of climate change on an investment's performance is a key factor within our sustainable investing research, with specific examples of our integration described in the strategy section above.

We believe that the implementation of our sustainable investment philosophy will result in the reduction of emissions over time as a result of the risk management practices of the issuers we invest in as well as the products and services they provide that aim to reduce their customers' emissions. Many of Brown Advisory's sustainable investment strategies focus on investing in issuers that are not just reducing emissions but are also actively addressing climate challenges to drive business success globally.

Secondly, stewardship is a critical tool used by the research team. It can help to encourage transparency from the issuers in which we invest and help our investment team manage sustainable investment risks more effectively. By engaging with management teams, customers, competitors and experts, our Sustainable Investment Research Analysts gain a clearer picture of how issuers are managing climate-related risks and their progress on sustainability objectives. In certain instances, an outcome of our engagements may include changes in corporate behaviour or disclosures.

Finally, Brown Advisory's investment risk team is equipped with a market event playbook that serves as a protocol for assessing various market events, which can include climate-related incidents. This playbook allows the team to evaluate the potential impact of systemic events and guide the firm's actions accordingly. The investment risk team is continually assessing its processes and considering the best way to leverage specific climate risk systems as part of the firm's risk management programme in future.

## Monitoring of Climate-Related Risks

Brown Advisory's Sustainable Investment research team seeks to monitor the companies and other issuers in their coverage on an ongoing basis. This includes reviewing sustainability-related disclosures, monitoring news sites and engaging with experts. Our analysts will note material updates pertaining to the risks or investment opportunities and share these with the relevant investment teams.

## Climate-Related Risk Management Tools

Our Sustainable Investment Research Analysts have developed a range of tools to support our investment team in their decision making. These are described below:

Institutional Business	Private Client Business
<p><b>Carbon Footprint Analysis</b></p> <p>Carbon footprint data is available to the Portfolio Managers of Brown Advisory's strategies who wish to understand the carbon intensity of their portfolios and holdings over time.</p>	<p><b>ARIS Analytics</b></p> <p>Alignment, Risk, Impact and Sustainability (ARIS) is an in-house, cloud-based reporting and asset allocation tool designed to help Portfolio Managers in Brown Advisory's Private Client Business analyse and report on sustainability-related exposures in client portfolios, incorporating primary research and third-party data. Portfolio Managers use ARIS to model proposed portfolio changes and generate custom analyses for clients, including investment allocation, exposure to controversies and carbon footprint comparisons with market indexes and over time.</p>
<p><b>Climate Transition Analysis</b></p> <p>Brown Advisory's research analysts use a structured approach to evaluate a company's or other issuer's preparedness for the aspects of climate transition relevant to each sector.</p>	
<p><b>Engagement</b></p> <p>Brown Advisory's Sustainable Investment Research Analysts seek to engage with issuers to encourage practices that can contribute to climate change mitigation and adaptability.</p>	

As an example, Brown Advisory's sustainable investment research analysts compile and distribute reports to equity Portfolio Managers of our sustainable investment strategies every quarter, which leverage the tools above to provide sustainable investment data, engagement activities and other relevant information. Additionally, Brown Advisory's fixed income research team holds at least five different team meetings each week in which Sustainable Investment Research Analysts participate and address sustainable investment-related topics and activities on a regular basis.

## **Data Providers at Brown Advisory**

Brown Advisory conducts thorough due diligence when selecting data providers, seeking Requests for Proposals and/or demonstrations from multiple providers before taking part in trials to test the appropriateness of the solution for our needs. The thoroughness of the due diligence process is particularly important for sustainable investing, as the reliability and availability of applicable data varies depending on the characteristic in question or the asset class. Understanding how data providers source and/or estimate data is very important in ensuring that data is used appropriately in the investment decision-making process.

Please note that although the investment teams have access to third-party rating systems, the analysts do not lean on external ratings to determine whether an issuer is an appropriate fit for each investment strategy, given that the methodology ratings providers use are not totally aligned with the priorities and requirements of Brown Advisory's strategies. We believe that primary research is the only way to consistently arrive at well-informed investment decisions. Examples of service providers follow.

### **MSCI**

MSCI is a data provider that provides a variety of resources, such as climate data, controversy monitoring, issuer-level research reports and tools for implementing exclusionary screens. The sustainable investing team and research analysts are in regular communication with MSCI, learning more about the expanding nature of its product offerings and addressing discrepancies as present for issuers under the team's and MSCI's coverage where additional information may be gleaned by the research analyst's primary research. Brown Advisory also leverages MSCI for negative screening activity, ensuring alignment with client values as appropriate. The investment team does not use screens as a tool in the investment process, although screens are leveraged on the back end of the investment process as necessary to meet certain client or investment policy restrictions on sector exposures or other issues.

### **GeoQuant**

GeoQuant is a data provider that provides real-time insights on country-level political risks and underlying ESG factors that help us continuously monitor our sovereign bond holdings, the broader geopolitical landscape and the associated implications across other asset classes (e.g. corporates). By aggregating news sources from around the world (including local news sources) and through its proprietary analytical models, the investment team gains deeper insights into current events and how they may compound to increase or decrease risk in a particular country over time. This has become a helpful component to the team's sovereign research framework, given that much of the country-level sustainability data available is static, often lagging and lacking the qualitative context of the reality on the ground.

### **Other Third-Party Providers**

The Sustainable Investing team and research analysts periodically undertake a review of data providers to assess the quality of providers and the evolution of capabilities in the market. While third-party research is not a substitute for primary research, the proliferation of sustainability-related data and tools has benefitted the research process and continues to have the potential to impact the way sustainable

investors leverage historically unstructured data in investment analysis. The team maintains regular connectivity with third-party providers and makes connections with emerging providers to have an early understanding of where tools are going and provide input in the development process. An example of such collaboration is with ICE Sustainable Finance on its sustainable finance packages for mortgage-backed securities (MBS) and municipals. When ICE was beginning the development of certain datasets within its municipal and MBS offerings, our team provided input, helping to share a perspective on how the datasets could be developed in a manner that would be decision-useful for investors.

## 5. Metrics and Targets

In this section, we have provided the entity-level climate metrics for BAL's assets under management.

Climate-related data and analysis allow our investment teams to integrate relevant sustainable investment factors into their research process and monitoring. This data is sourced from a range of providers, including MSCI, which provides our teams with a variety of resources, such as climate data, controversy monitoring, issuer-level research reports and tools for implementing exclusionary screens. We are in regular communication with MSCI, learning more about the expanding nature of its product offerings and seeking assistance with challenges we encounter.

The diagram below outlines the key metrics that are available to our investment team.

### GHG Emissions at BAL

#### Scope 1–2

	Unit	Scope 1–2	Coverage
Financed Scope 1–2 carbon footprint	tCO2e/\$m AUM	15.3	99.2%
Total Financed Carbon Emissions	tCO2e	119,637.0	99.2%
Weighted Average Carbon Intensity (WACI)			
WACI (corporate constituents)	tCO2e/\$m Revenue	34.6	99.3%
WACI (sovereign constituents)	tCO2e/PPP adjusted GDP	168.0	99.4%

### Scope 3

	Unit	Scope 3	Coverage
Financed Scope 3 carbon footprint	tCO2e/\$m AUM	249.3	99.2%
Total Financed Carbon Emissions	tCO2e	1,950,262.2	99.2%
Weighted Average Carbon Intensity (WACI)			
WACI (corporate constituents)	tCO2e/\$m Revenue	804.7	99.3%
WACI (sovereign constituents)	tCO2e/PPP adjusted GDP	73.1	99.4%

### Formulas for Metrics

The diagram below outlines the formulas employed to provide the data above.

Formulas	
Weighted Average Carbon Intensity	
Corporates (tons CO2e/\$M sales)	$\sum_n^i \left( \frac{\text{current value of investment}}{\text{current portfolio value}} \times \frac{\text{issuer's GHG emissions}_i}{\text{issuer's \$M revenue}_i} \right)$
Sovereigns (tons CO2e/\$M PPP GDP)	$\sum_n^i \left( \frac{\text{current value of investment}}{\text{current portfolio value}} \times \frac{\text{sovereign issuer's GHG emissions}_i}{\text{sovereign issuer's \$M PPP GDP}_i} \right)$
Total Financed Carbon Emissions (tCO2e)	
Corporates	$\sum_n^i \left( \frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's GHG emissions}_i \right)$
Sovereigns	$\sum_n^i \left( \frac{\text{current value of investment}_i}{\text{sovereign issuer's PPP GDP}_i} \times \text{sovereign issuer's GHG emissions}_i \right)$

Financed Carbon Footprint (tCO2e/\$M invested)	
Corporates	$\frac{\sum_n^i \left( \frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's GHG emissions}_i \right)}{\text{current portfolio values (\$M)}}$
Sovereigns	$\frac{\sum_n^i \left( \frac{\text{current value of investment}_i}{\text{sovereign issuer's PPP GDP}_i} \times \text{sovereign issuer's GHG emissions}_i \right)}{\text{current portfolio values (\$M)}}$

### SBT alignment of assets at BAL

The tables presented above do not represent any fixed targets employed specifically by BAL. This is due to the nature of the investments it holds, the investment objective of the products it offers to its clients and the availability of climate-related data. Brown Advisory Group has focused on integrating climate-related considerations into our investment research and considering these factors in our investment decisions where they are deemed material rather than mandating top-down targets.

Brown Advisory has set a net zero target for a certain portion of its assets, however. As described above, we joined the NZAMi in late 2021 and set an accompanying net zero target for an aggregated portfolio of various Brown Advisory assets. We initially included \$18.9 billion (equivalent to 20% of total AUM at the time) as part of the aggregated portfolio to be managed in line with net zero. More detail on Brown Advisory's NZAMi participation can be found [here](#). As described in Section 3 above, we believe that Brown Advisory's participation in the NZAMi is an outcome of our investment philosophy, which has long considered sustainable practices, with an investment decision-making framework that emphasises the materiality of the risks and/or opportunities that arise from natural resource, social and economic, climate and/or governance issues in its underwriting of an investment.

### Remuneration Metrics

The firm's approach to remuneration is one that aligns with our philosophy of putting clients first. Remuneration is therefore evaluated based on the firm's progress in achieving its business goals and the contributions of its colleagues to these objectives. Sustainable investing is a key business capability present across all of our investment teams and client bases. Sustainability is also important to our culture and business operations and as such considered as part of remuneration. However, our approach to remuneration at BAL, and across our wider group, does not explicitly include climate change-related performance metrics.

## 6. Important Information

Certain information contained in this report represents or is based upon forward-looking statements or information. Forward-looking statements are inherently uncertain, and changing factors, such as those affecting the markets generally, or those affecting particular industries or issuers, may cause events or results to differ from those discussed.

References to funds or individual securities or issuers are intended to illustrate the application of Brown Advisory's investment process only and should not be viewed as a recommendation of any particular fund, security or issuer. This report is provided for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to purchase any security or any interest in any investment vehicle. Any such offer or solicitation will be made only pursuant to a prospectus.

Sustainable investment 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. Sustainable investment analysis may not be performed for every holding across relevant strategies. Sustainable investment considerations that are material will vary by investment style, sector/industry, market trends and client objectives. Relevant strategies seek to identify companies that it believes may be desirable based on our analysis of sustainable investment related risks and opportunities, but investors may differ in their views. As a result, relevant strategies may invest in companies that do not reflect the beliefs and values of any particular investor. The relevant strategies may also invest in companies that would otherwise be excluded from other funds that focus on sustainable investment risks. Security selection will be impacted by the combined focus on sustainable investment research assessments and fundamental research assessments including the return forecasts. Brown. Strategies incorporate data from third parties in its research process but does not make investment decisions based on third-party data alone. 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.

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## Appendix 1: Glossary and Abbreviations

### Glossary

**TCFD (Taskforce on Climate-Related Financial Disclosures):** Created by the Financial Stability Board to explore and propose recommendations to facilitate effective climate-related disclosures by companies and other organisations, with the goal of allowing investors to make more informed decisions and providing a better platform for companies to incorporate climate-related risks and opportunities into their own risk management and strategic planning operations.

**TCFD recommendations:** A list of 11 recommendations proposed by the TCFD, comprising suggestions for climate-related disclosures that should be made by companies and other organisations. These can be split broadly between governance, strategy, risk management and metrics and targets. More information can be found at [Recommendations | Task Force on Climate-Related Financial Disclosures \(fsb-tcfd.org\)](https://www.fsb-tcfd.org).

**CDP:** A global non-profit providing an environmental disclosure system for organisations including capital markets, companies, cities and governments to assess their environmental impact.

**Climate scenarios:** Climate scenarios are plausible representations of the Earth's future climate based on its current observed state and different GHG emissions scenarios.

**Climate risk:** Climate risk refers to the potential negative impacts of climate change on an organisation. Physical risks arising from climate change can be event driven (acute), such as increased severity of extreme weather events (cyclones, droughts, floods and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (sea level rise). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses and reputational considerations.

**Transition risk:** This risk captures the risk/opportunities to the portfolio as a result of the transition to net zero carbon emissions.

**Physical risk:** This risk captures the risk to the portfolio as a result of significant weather events anticipated by the climate scenario model chosen for the exercise.

### **GHG Scope Levels:**

- Scope 1 refers to all direct GHG emissions.
- Scope 2 refers to indirect GHG emissions from the consumption of purchased electricity, heat or steam.
- Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (transmission and distribution losses), outsourced activities and waste disposal.

**Science Based Targets initiative:** Defines and promotes best practices in emissions reductions and net zero targets in line with climate science.

**Transition plan:** This refers to an aspect of an organisation's overall business strategy that lays out a set of targets and actions supporting its transition towards a low-carbon economy, including actions such as reducing its GHG emissions.

**Natural capital:** The stock of renewable and non-renewable natural resources (e.g. plants, animals, air, water, soils and minerals) that combine to yield a flow of benefits to people.<sup>10</sup>

**Sustainable Investing Advisory Board:** A group comprising internal and external individuals with expertise in various areas related to sustainable investing that provides counsel and support to our sustainable investment team in forming our strategic direction and challenges us to set high standards and develop industry-leading capabilities.

## **Abbreviations**

**ARIS:** Alignment, Risk, Impact and Sustainability

**AUM:** Assets Under Management

**BAL:** Brown Advisory Limited

**BAM:** Brown Advisory Management LLC

**BREEAM:** Building Research Establishment Environmental Assessment Methodology

**CEO:** Chief Executive Officer

**CIO:** Chief Investment Officer

**CO<sub>2</sub>:** carbon dioxide

**CO<sub>2</sub>e:** carbon dioxide equivalent

**ESG:** Environmental, Social, Governance

**FCA:** Financial Conduct Authority

**FSB:** Financial Stability Board

**GHG:** greenhouse gas

**IRMC:** Investment Risk Management Committee

**ISG:** Investment Solutions Group

**PRI:** Principles for Responsible Investment

**LEED:** Leadership in Energy and Environmental Design

**MBS:** Mortgage-Backed Security

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<sup>10</sup> Source: TNFD, [https://tnfd.global/wp-content/uploads/2023/09/Glossary\\_of\\_key\\_terms\\_v1.pdf?v=1702506695](https://tnfd.global/wp-content/uploads/2023/09/Glossary_of_key_terms_v1.pdf?v=1702506695)

**NZAMi:** Net Zero Asset Management Initiative

**RECs:** Renewable Energy Certificates

**RFP:** Request for Proposal

**SBTs:** science-based targets

**SBTi:** Science Based Targets initiative

**TCFD:** Task Force on Climate-Related Financial Disclosures

**UCITS:** Undertakings for the Collective Investment in Transferable Securities

**WACI:** Weighted Average Carbon Intensity

## Appendix 2: References

- FCA ESG sourcebook 2.1, 'Preparation of climate-related reports': [ESG 2.1 Preparation of climate-related reports – FCA Handbook](#)
- FCA ESG sourcebook 2.2, 'TCFD entity report': [ESG 2.2 TCFD entity report – FCA Handbook](#)
- TCFD Recommendations and Recommended Disclosures is a reference to the TCFD report entitled 'Recommendations of the Task Force on Climate-Related Financial Disclosures' (the TCFD Final Report) published in June 2017. This reference also includes the Annex to the TCFD report entitled 'Implementing the Recommendation of the Task Force on Climate-Related Financial Disclosures', and specifically, section C (Guidance for all sectors) and part 4 section D (Supplemental Guidance for Asset Managers). [FINAL-2017-TCFD-Report.pdf \(bbhub.io\)](#)
- The 2017 TCFD "Annex" provides both general and sector-specific guidance on implementing the Task Force's disclosure recommendations. The 2017 version has been superseded by the 2021 Annex. [FINAL-TCFD-Annex-Amended-121517.pdf \(bbhub.io\)](#)
- FCA ESG sourcebook 1.1, 'Purpose and Application': [ESG 1.1 Purpose and application – FCA Handbook](#)
- FCA ESG sourcebook 1.2, 'General Application': [ESG 1.2 General application – FCA Handbook](#)
- The United Nations 17 Sustainable Development Goals: [THE 17 GOALS | Sustainable Development \(un.org\)](#)
- The 'net zero' target refers to the UK Government's commitment to ensure that the UK reduces its GHG emissions by 100% from 1990 levels by 2050. If met, this would mean that the amount of GHG emissions produced by the UK would be equal to or less than the emissions removed by the UK from the environment. Read more here: [Net Zero Strategy: Build Back Greener – GOV.UK \(www.gov.uk\)](#)