

Sustainable Core Fixed Income Strategy

REPORTING ON SUSTAINABILITY OUTCOMES

This report reflects our investment philosophy and our commitment to report on the sustainability outcomes of our strategies.

LETTER OF INTRODUCTION FROM THE PORTFOLIO MANAGERS



Amy Hauter

Amy Hauter, CFA
Portfolio Manager



Jason Vlosich

Jason Vlosich
Portfolio Manager

Dear Fellow Investors,

A lot has happened since we launched our Sustainable Core strategy a decade ago. We have seen the sustainable investing landscape mature, evolve, and be met with immense polarization and scrutiny. We have experienced a global pandemic, mounting geopolitical tensions, extreme and historic weather events, and humanitarian crises. There has been an evolving focus toward transition finance and a growing sophistication on several sustainability-oriented investment topics. Evolving regulatory frameworks have emerged that seek to enhance transparency and comparability on material issues.

2023 was marked by unparalleled events: persistent inflation, rising interest rates, a U.S. banking crisis, and supply chain disruptions have all posed significant obstacles for the economy and investors, igniting concerns over a potential global economic downturn. We saw immense technological developments and innovation, particularly within artificial intelligence. All of these events have investment implications, and as stewards of capital on behalf of our clients, it is imperative for us to continuously calibrate the materiality of evolving factors that affect risks and opportunities within our investment decisions.

Despite the rapid changes occurring within this space, we have not altered our investment process. We firmly believe that there does not have to be a trade-off between strong performance and investments that help address global sustainability challenges. Without both in combination, it will be difficult to amass the necessary capital required to address many large-scale systemic challenges the world faces today.

In the 10 years we have been managing this strategy, it has been incredibly rewarding to see the evolution in sustainable fixed income. The breadth and depth of fixed income markets presents opportunities across our many different asset classes, sectors, and structures. The rapidly growing labeled bond market continues to evolve and provides more targeted investment opportunities for investors, as well as dedicated financing for issuers looking to address a multitude of sustainability-oriented projects or challenges.

In 2023, we also added additional sector expertise to our research teams, to support our growing sustainable fixed income platform. As always, we thank our teammates, who work tirelessly to ensure that our investment decisions are informed by trustworthy data, and by clear viewpoints about what we can infer from that data.

This report includes a review of the sustainability outcomes of our strategy and how the depth of our research translates into a robust investment process. We hope you find this report informative, and we welcome a conversation with you about the work we are doing.

Sincerely,

Amy and Jason



SUSTAINABLE INVESTING AT BROWN ADVISORY

As active investors, our portfolio managers have the independence to apply their own experience, point of view and expertise to generate long-term performance for clients.

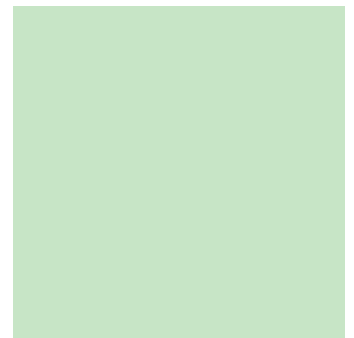
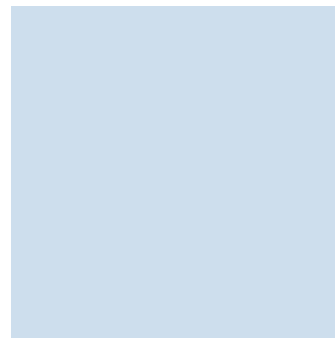
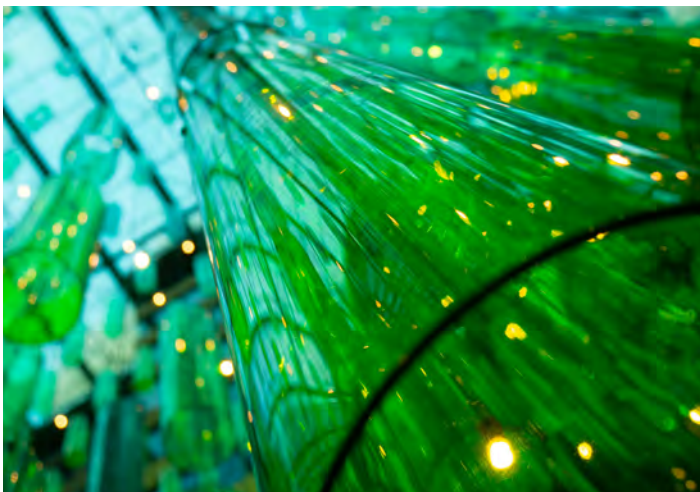
While each strategy is distinctive, across all our strategies financial performance is the core objective. Deep research and analysis is undertaken to provide a holistic understanding of the risks and opportunities associated with any given investment. By combining fundamental and sustainable investment research, we aim to uncover, assess and identify sustainable drivers that have a meaningful influence on financial performance.

In this context, the term sustainable reflects two things—firstly the durability of an investment and secondly, sustainable development more broadly. It is with that reflection in mind that our investment professionals look for sustainable drivers in every investment, those that improve financial outcomes, or competitive advantages through sustainability-related activities. These might include responsibly managing natural resources, facilitating the transition to a low-carbon economy, or contributing to equitable and inclusive societies.

Investment philosophy

We firmly believe there does not have to be a trade-off between strong performance and investments that help address global sustainability challenges. We find that a sustainability-oriented mindset is well-suited for fixed income investing—certainly as it relates to downside risk management, but also in the opportunities presented by the breadth of the fixed income markets. Through a unified due diligence process that combines fundamental and sustainable investment research, we aim to identify responsible and forward-thinking issuers to construct a portfolio that delivers attractive risk-adjusted returns.

The Brown Advisory Sustainable Core Fixed Income portfolio is made up primarily of bonds that have an identifiable 'sustainable driver', which we define as an investment that is deriving improved financial outcomes or a competitive advantage through sustainability-related activities. Through bottom-up primary research and stakeholder engagement, our sustainable investment research analysts seek to understand levers that can drive financial results. The levers that our team identify tend to fall into two broad categories, which we find transcend asset classes and sectors: Climate & Natural Capital and Community & Human Capital.



Investment process

We take an active and flexible approach to fixed income investing, seeking to offer investors access to an attractive stream of income and risk-adjusted returns while simultaneously generating positive outcomes on sustainability issues. We do this by incorporating sustainable investment research to strengthen both top-down and bottom-up credit-focused research, providing a deeper holistic risk profile of the issuers we evaluate. Our integrated investment analysis involves a complex balance of factors but is predominantly focused on two core characteristics, fundamental and sustainable investment research.

- **Fundamental research:** combining global macro assessment to determine overall portfolio risk and composition, with bottom-up analysis to model cash flows, duration, valuations and an issuer's ability to pay.
- **Sustainable investment research:** evaluation of sustainable investment risks and opportunities including specific use of proceeds and the issuer's ability to manage the project and risks.

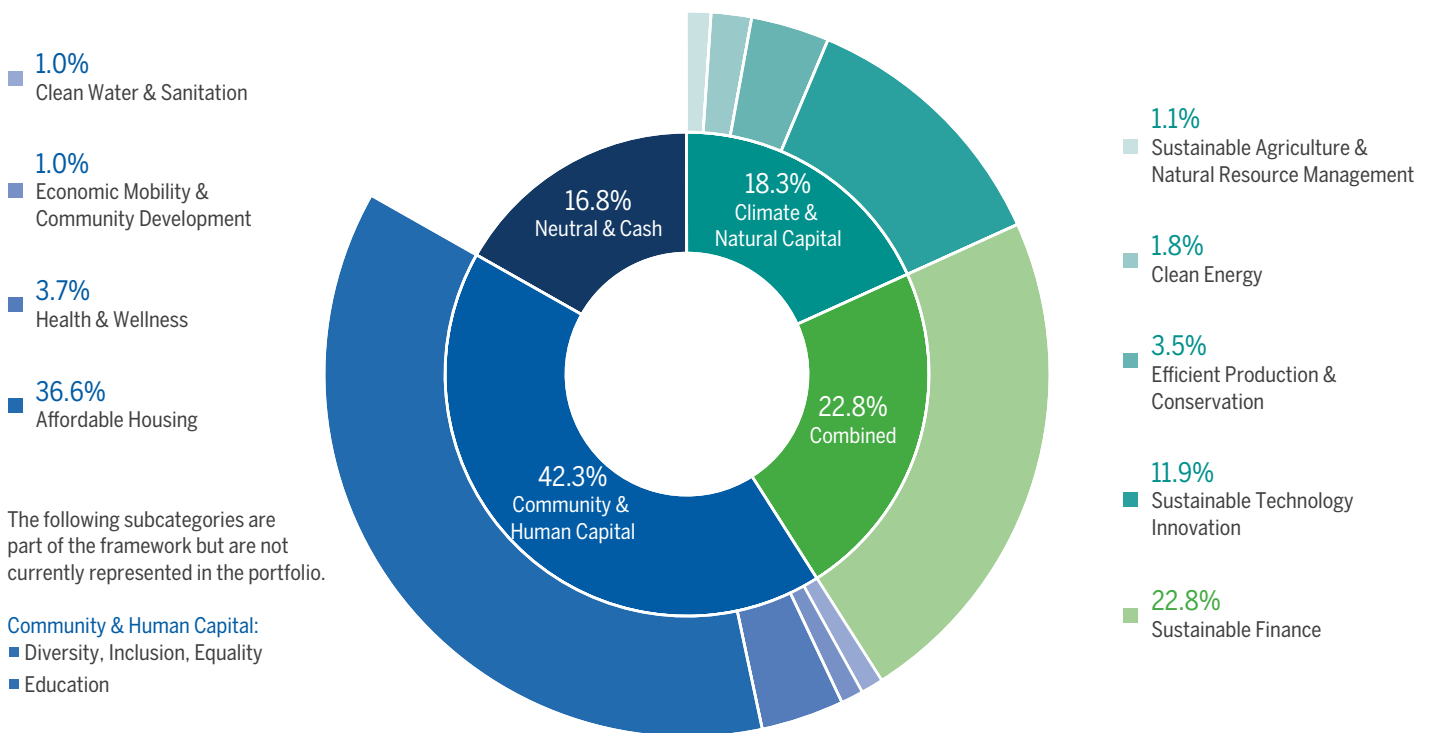
It is at the intersection of these key elements where we find an attractive investment. Only when an issuer meets our exact standards will they be considered candidates for inclusion into our sustainable bond portfolios. And our ongoing active and dynamic approach to asset allocation means we will reposition the portfolio in different market environments in an effort to help maximize return potential and mitigate risk for our investors.

SUSTAINABILITY INDICATORS

Our primary goal is to provide a diversified portfolio of investments that delivers both attractive returns and positive outcomes. We believe that our investment helps our portfolio drive progress in many different social and environmental areas. By breaking the portfolio out by sustainable investment themes, we can better demonstrate that diversification.

Diversification by themes

We do not target any particular theme or combination of themes as part of our investment thesis. That said, for the purposes of assessment and to recognize the positive outcomes associated with the activities of issuers in which we invest, we have a straightforward, internally created framework to illustrate the variety of challenges and opportunities our portfolios address.



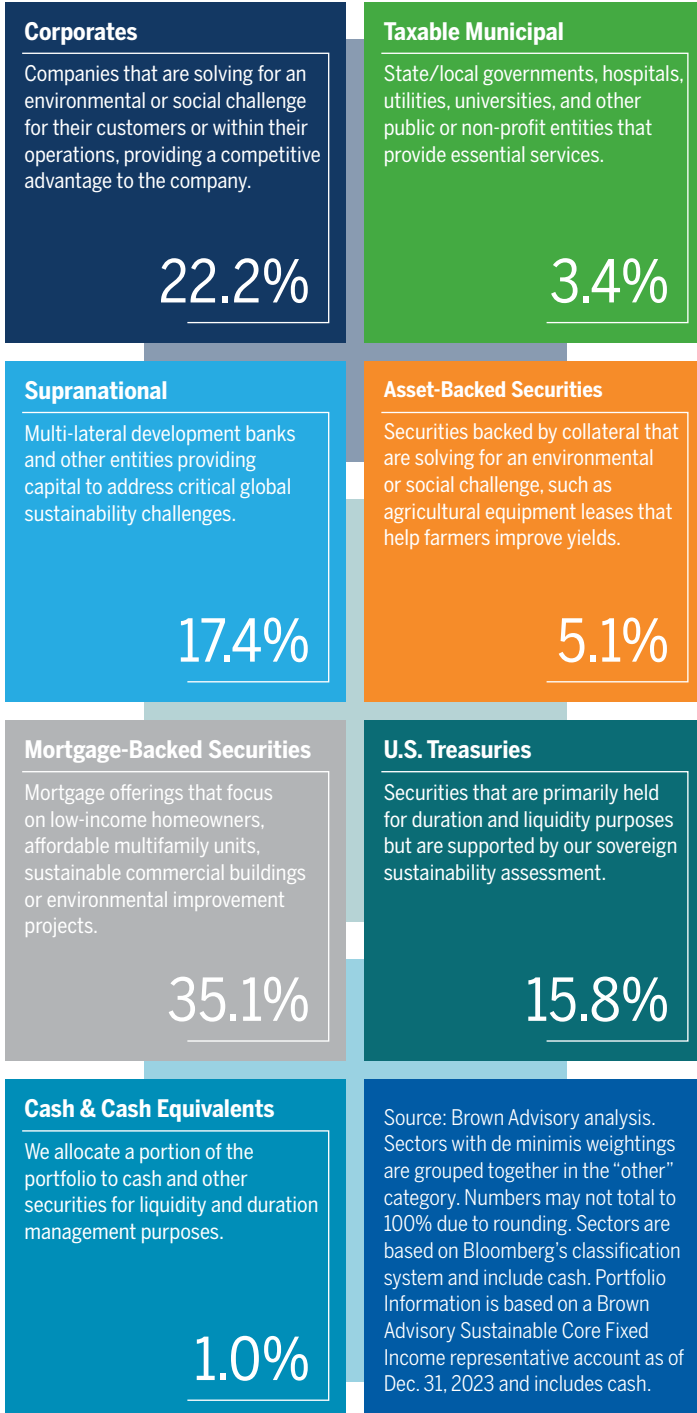
Source: Brown Advisory analysis. Numbers may not total to 100% due to rounding. Impact themes with de minimis weightings are grouped together in the "other" category. Portfolio information is based on a Brown Advisory Sustainable Core Fixed Income representative account as of Dec. 31, 2023, and includes cash.

A CLIENT-FOCUSED THEMATIC FRAMEWORK

The themes presented in the Brown Advisory framework above, Climate & Natural Capital and Community & Human Capital, have been developed with the sole purpose of explaining the potential sustainability outcomes of our investments. We work closely with our clients to help them translate our themes against their own tools or other internationally recognized frameworks, such as the U.N. Sustainable Development Goals (SDGs). Whilst we do not invest to achieve these goals, some clients have found it useful to show how our themes map against the SDGs to understand a strategy's investment outcomes.

Diversification by sector

We believe that a fundamentally diverse portfolio, spanning a full range of fixed income sectors, naturally increases the range of issues and themes present in the portfolio. Each sector offers a differentiated entry point to various types of sustainability issues.



Labeled bonds

Labeled bonds, such as green, social, sustainability, or sustainability-linked bonds are a tool used to finance specific environmental and/or social projects and objectives. Labeled bond issuance in 2023 was c.\$1 trillion, making it the second highest year for issuance on record. Green bonds are the most popular label, making up over 64% of total issuance.

While appealing, bond labels are no shortcut for the prudent investor due to a lack of standardization and independent verification. When assessing a labeled bond, it is important to understand how the labeled bond fits into an issuer's overarching sustainability strategy, including evaluating the use of proceeds and mechanisms for accountability. In particular, we examine how well these bonds align and adhere to the voluntary guidelines issued by ICMA and will support those that we believe are committed to delivering on positive sustainability outcomes.

We do not target a specific portion of the portfolio to be in labeled bonds, however we generally maintain some exposure at all times. The portion of the portfolio invested in different labeled bonds is presented below.

Percentage of Portfolio in labeled bonds

14.9%

Source: Brown Advisory analysis based on a Brown Advisory Sustainable Core Fixed Income representative account as of Dec. 31, 2023 and includes cash.



Case studies



CARRIER GLOBAL CORP

THEME:

Sustainable Technology Innovation

ISSUER SUMMARY:

Carrier Global Corporation is a market leader in HVAC and refrigeration,

making it strategically positioned to harness secular trends such as urbanization, food security, climate change, and the demand for energy-efficient systems. The company's HVAC segment, a significant source of revenue, provides advanced, energy-saving heating, cooling, and ventilation solutions that bolster sustainable building operations, potentially reducing energy consumption by up to 20%.¹ With the completion of the Viessman Climate Solutions acquisition in January 2024, Carrier has expanded its European residential market footprint, enriching its offering with heat pumps, solar photovoltaic systems, batteries, and integrated home energy management solutions. This strategic move positions Carrier to capitalize on the expanding heat pump market, delivering customers enhanced cost efficiency and robust sustainability benefits. In the refrigeration segment, Carrier is a pioneer in sustainable cold chain solutions, dedicated to reducing food waste and its associated greenhouse gas emissions by 10% with its transport refrigeration and digital monitoring technologies, thereby addressing financial losses and environmental damage stemming from supply chain inefficiencies.



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THEME:

Affordable Housing

ISSUER SUMMARY:

Throughout 2023, the strategy included

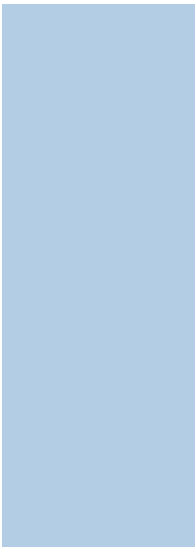
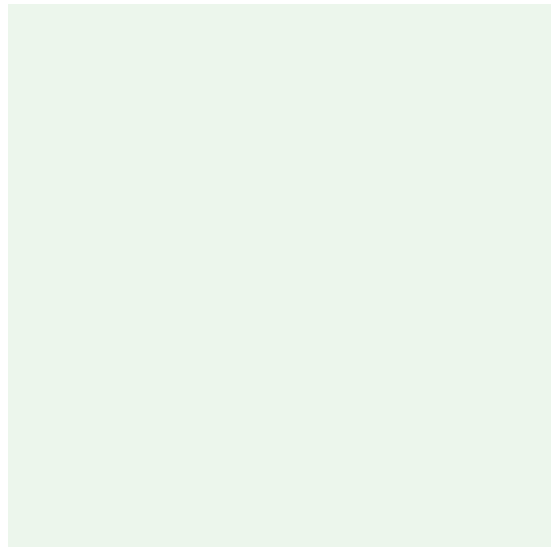
a significant allocation to mortgage-backed securities issued by key government-sponsored enterprises (GSEs) like Fannie Mae, Freddie Mac, and Ginnie Mae. These entities are instrumental in the U.S. housing market, particularly in facilitating access to affordable housing. They have crafted various programs targeting populations such as first-time homebuyers and low-income families, aiming to reduce the financial barriers to homeownership.

For instance, initiatives such as HomePossible offer flexible mortgage terms, including low down payments of just 3% and the allowance for non-resident co-borrowers to assist with qualification. GSEs also extend benefits to lenders by providing guarantees and credit protections, which incentivize them to offer loans to lower-income individuals at reasonable interest rates.

In addition to these programs, the cost of maintaining a home can go up if the energy management systems within the property are old or inefficient. By funding upgrades to energy management systems in homes, GSEs not only enhance the quality of living but can also lead to substantial savings on energy bills for homeowners, further contributing to the overall affordability of housing.

To gain a deeper understanding of how we incorporate factors like affordability and demographic trends into our investment analysis, our article '[The importance of evaluating social factors in mortgage bond analysis](#)' offers an overview.

¹ Carrier, Environmental, Social & Governance Report, Sept 2022.



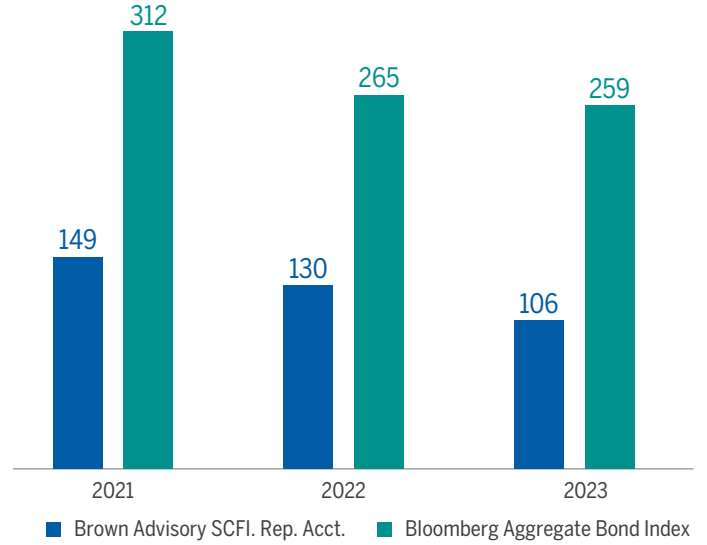
Source: Brown Advisory Research. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell or hold any of the issuers mentioned. It should not be assumed that investments in such issuers have been or will be profitable. To the extent specific issuers are mentioned, they have been selected by the author on an objective basis to illustrate the sustainable investment philosophy of the strategy, and do not represent all of the issuers purchased, sold or recommended for advisory clients. Portfolio information is based on a Brown Advisory Sustainable Core Fixed Income representative account.

Carbon emissions data

While climate change is a consideration for all asset classes within the portfolio, the data below is illustrative of corporate issuers only due to the availability and comparability of data. This represents 22.2% of the portfolio.

We believe the fixed income markets are poised to play an essential role in financing global effort to decarbonize our economy. As part of our investment assessments we consider an issuer's overall carbon footprint. Most large companies report in some form on carbon emissions and efforts for decarbonization but this is not consistently applied across all fixed income sectors. We continue to encourage issuers to make progress in this area and work with CDP and other investor groups on several multiyear initiatives aimed at creating reliable datasets for other fixed income asset classes.

WEIGHTED AVERAGE CARBON INTENSITY¹

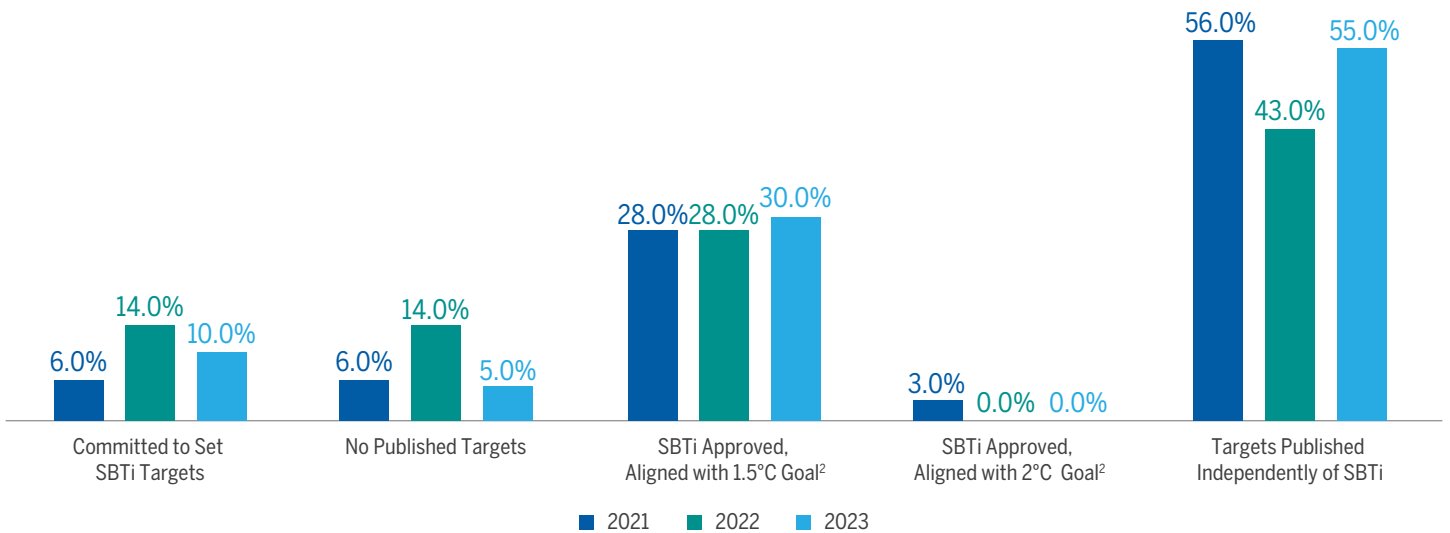


¹ Tons CO₂e/\$M revenue of portfolio holdings, adjusted based on relative weighting of each holding. Portfolio information is based on a Brown Advisory Sustainable Core Fixed Income representative account. Please see the end of this report for important disclosures and a complete list of terms and index definitions.

Source: MSCI ESG Manager.

Science-based targets progress

It is important to not just look at where a company's footprint is today, but also its forward-looking trajectory. Science-based targets are one way in which we assess a company's future commitments to emissions reductions. Many of our investments publish targets in line with recommendations from the Science-Based Target Initiative (SBTi) although some independently set targets from this initiative.



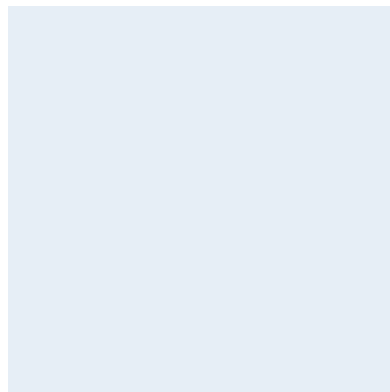
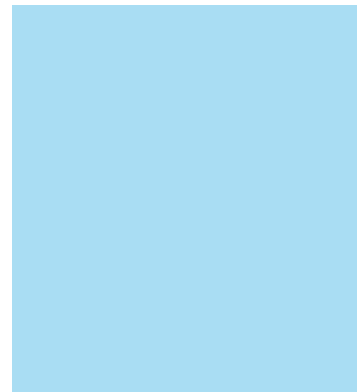
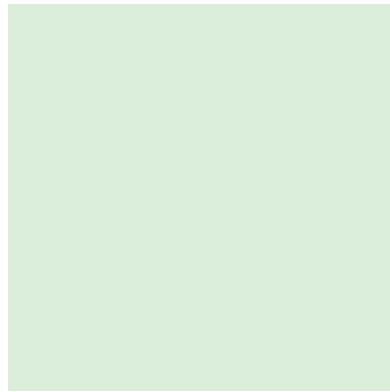
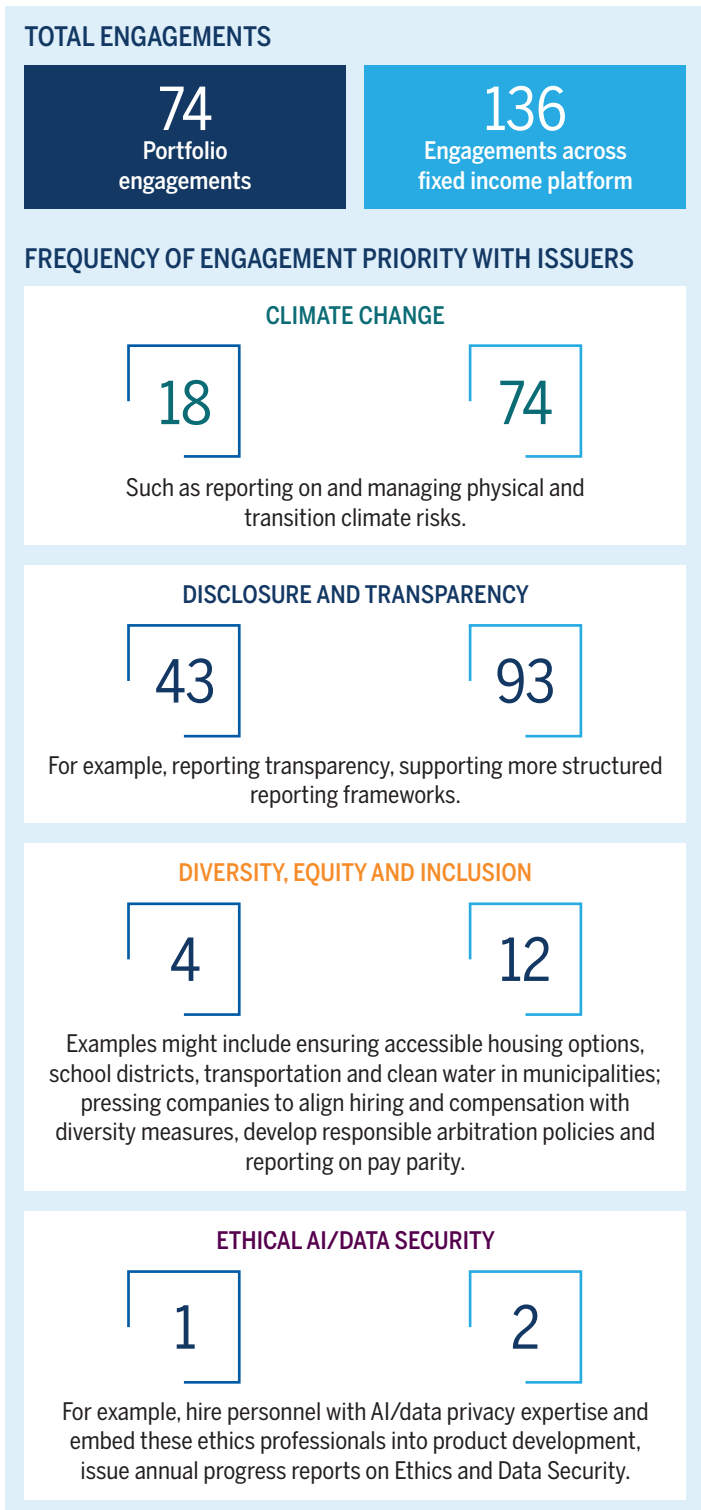
² SBTi approves targets that it believes are in line with meeting the goals of the Paris Agreement: limiting global warming to well-below 2°C above pre-industrial levels, and pursuing efforts to limit warming to 1.5°C. We do not engage with every issuer or company, we engage only when we believe it will be material to our investment decisions.

Source: MSCI ESG Manager and Brown Advisory analysis. Data reflects portfolio holdings as of Dec. 31, 2023. Portfolio information is based on a Brown Advisory Sustainable Core Fixed Income representative account as of Dec. 31, 2023. Please see the end of this report for important disclosures.

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 issuers are open to discussions with investors from whom they may seek additional debt funding in the future. Engaging with issuers in asset classes that tend to have lower levels of data and disclosure is particularly important for our due diligence, as it may help us to uncover lesser-known risks or opportunities.

Our engagement activity by the numbers



Source: Brown Advisory. Portfolio information based on a Brown Advisory Sustainable Core Fixed Income representative account. We do not engage with every company or issuer. We only engage when we believe engagement will be material to our investment decision-making. 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.

Notable engagements in 2023



U.S. AUTOMOBILE COMPANY

GOAL:

Understand the sustainability characteristics underlying a forthcoming asset-backed security deal

PRIORITY:

Climate Change and Disclosure

ACTIVITY:

During a recent engagement with a U.S. Automobile Company, our investment team gained valuable insights ahead of an asset-backed security (ABS) deal. Having followed this organization closely for years, especially regarding their electric vehicle (EV) build out, this interaction helped us to better understand the supply/demand constraints of EVs and how that feeds into the underlying collateral for auto ABS.

The engagement served as a checkpoint on the company's overall EV strategy. Even though the EV market is currently experiencing a dip in demand and production, our conversation provided assurance about their continued commitment to EVs and their ability to navigate through market demand fluctuations. This is crucial for our investment thesis, as it suggests that the share of green collateral within securitizations is likely to increase going forward.

Encouraged by these findings, our investment team made the decision to proceed with the investment in the ABS deal as part of our Sustainable Core Fixed Income Strategy.



MULTILATERAL DEVELOPMENT BANK

GOAL:

Understand the evolution of the role multilateral development banks play in climate finance

PRIORITY:

Climate Change and Disclosure

ACTIVITY:

We engaged with a large multilateral development bank to understand their sustainable finance framework. As part of the Bank's newly developed Climate Action Plan it has enhanced its approach to assessing the impact of climate-related factors in its lending and sustainable issuances as well as integrating social elements into climate financing. As part of the Plan, it commits to aligning all new financing operations with the objectives of the Paris Agreement, which started in 2023.

The conversation also provided an insight into how the Bank supports the climate agenda via innovations in capital markets. For example, in 2023, it issued an emission reduction-linked bond that provides investors with a return linked to the issuance of Verified Carbon Units that are expected to be produced by a project in a country in Southeast Asia. This innovative structure serves nascent carbon market development as well as sustainable in-country development.

Lastly, our ability to assess the environmental and social outcomes associated with our investments is key, and the bank was able to provide further detail on their reporting. They report carbon emissions annually and allow investors to measure the impact of their bonds through detailed KPIs for each loan.

Overall, this engagement strengthened our conviction in this investment and the overall role that multilateral development banks can play in climate finance and in our portfolios generally.

Engagement activity information is based on engagements related to the Brown Advisory Sustainable Core Fixed Income Strategy during 2023. One engagement may incorporate a number of different topics or approaches; as a result, engagements may be counted toward more than one type, priority or category. We do not engage with every issuer. We only engage when we believe engagement will be material to our investment decision-making. 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 issuers mentioned. Portfolio information is based on a Brown Advisory Sustainable Core Fixed Income representative account as of Dec.31, 2023. Please see the end of this report for important disclosures.

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The Bloomberg Aggregate Bond Index is an unmanaged, market-value weighted index comprised of taxable U.S. investment grade, fixed rate bond market securities, including government, government agency, corporate, asset-backed, and mortgage-backed securities between one and ten years.

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