

BROWN ADVISORY

INSTITUTIONAL SUSTAINABLE INVESTING CORPORATE ENGAGEMENT POLICY

Engagement is a foundational part of investment research and monitoring for Brown Advisory's sustainable investment strategies.



Engagement is a foundational part of investment research and monitoring for Brown Advisory’s sustainable strategies. As an active manager, 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 to clients. This document describes the approach Brown Advisory’s sustainable investing strategies take when engaging with corporate issuers on sustainability-related risks and opportunities that may affect an investment’s performance.

Our engagement activities, as discussed in this policy, are designed to inform investment decisions, foster constructive dialogue, and support long-term value creation for the firm’s clients, consistent with our fiduciary duty. While the firm’s investment team may share perspectives or raise questions with company management, these interactions are intended to enhance understanding and are generally not undertaken with the objective of exerting control, individually or with other stakeholders.

Investment Philosophy

Our sustainable investing philosophy is underpinned by the fact that as investors, we will consider any data, factor, business tactic, or strategy, economic or market condition—whether quantitative or qualitative—that might allow us to better understand the material challenges and opportunities facing a business or issuer. These considerations include an emphasis on the risks and opportunities that arise from the effects of natural resources, climate, human capital, and governance on the securities in which we invest, and their influence on investment returns.

The investment team’s engagement approach mirrors its investment approach: performance driven, long-term in nature, and collaborative. All of Brown Advisory’s engagement work seeks to inform investment decisions that promote long-term financial performance. Investment research aims to identify “sustainable drivers,” which are defined as sustainability-related activities such as, responsibly managing resources, building a more resilient economy, and contributing to fair and stable societies, in a manner that drives improved financial outcomes or a competitive advantage for the investment. This is all aligned with our fiduciary duty of delivering investment performance to clients and reflected in engagement execution, where research analysts and portfolio managers seek to:

1. Prioritize understanding the improved financial outcomes or competitive advantages of sustainable drivers.
2. Address pecuniary factors in the context of our investment time horizon.
3. Work alongside stakeholders with specific expertise and perspectives to improve our investment decision making.

Engagement is often discussed in tandem with outcomes. Long-term financial performance is the most credible and appropriate outcome to which the research team’s engagement work seeks to contribute. More specifically, the research team’s engagement efforts focus on stress testing the underlying investment thesis to understand if it remains intact or is evolving. From time to time, engagement may include sharing perspectives or suggesting potential areas for improvement, always with the aim of fostering constructive dialogue, improving performance and creating an environment in which an investment thesis materializes.

Outcomes

Brown Advisory's engagement activities are intended to support each investment strategy's investment performance objectives. As a result, the investment team seeks outcomes aligned with improving or reinforcing an investment thesis that is congruent with the strategy's performance objective. Indirect outcomes that may occur as result of our engagements include, for example, improved disclosure, more robust sustainability-related policies, adjustments in capital allocation or strategic priorities, and improved corporate practices that benefit climate resilience, human capital, or governance practices.

There are four outcomes and associated investment actions that may occur as result of engagement. The decision on which action to take rests solely with a strategy's portfolio manager, who will determine the best step that they believe will align with the achievement of the investment performance objective of the strategy. Outcomes and associated actions include:

1. The thesis is **maintained**.
 - Possible actions:
 - The engagement strategy stays in place.
 - The investment position size may be increased in the portfolio.
2. The thesis is **weakened**.
 - Possible actions:
 - The engagement strategy may escalate.
 - Escalation may include widening the scope of stakeholders interviewed and consulted, engaging with strategic decision makers within the company, increasing research touch points, and voting proxies promoting change that we believe will create long-term shareholder value¹.
 - The investment position size may be reduced in the portfolio.
3. The thesis is **broken**.
 - Possible actions:
 - The investment position may be exited.
 - If applicable, the investment is no longer considered to exhibit a "sustainable driver" but continues to be held if a company's risk mitigation efforts are determined to be sufficient, provided no other aspects of the investment policy have been breached.
4. The thesis is **strengthened**.
 - Possible actions:
 - Escalation that may include widening the scope of stakeholders interviewed and consulted, engaging with strategic decision makers within the company, increasing research touch points, and voting proxies aimed at reinforcing the conditions for the company to out-perform.
 - The investment may be initiated, or the position size may be increased².

¹ Brown Advisory will generally not condition its support of ballot proposals on the company's adoption of its recommendations but rather will inform management of its views and how they may impact voting decisions.

² Please see above.

Approach

When conducting engagement, the research analysts use three different approaches:

- **Due diligence:** Engagement is used as a primary source of information to inform and test a sustainable investment thesis, including the identification, assessment, and monitoring of sustainability-related risks and opportunities that may be material to long-term value creation. This type of engagement may occur at any stage of the investment process—from pre-investment due diligence, during ownership, and where relevant, after exit.
- **Tailored engagement:** Some companies require a more tailored engagement approach based on their specific risk or opportunity profile. These engagements are guided by Key Performance Indicators (KPIs) set by the portfolio manager and research analyst to assess the strength and resilience of the investment thesis and the company's progress against it.
- **Engagement on sector themes and macro risks:** For systemic or sector-wide issues, engagement on strategic areas of focus such as climate conditions and disclosure can be approached using a top-down view and applied to the investment analysis. Research analysts with domain expertise help translate these broader trends into insights relevant to specific issuers, supporting more informed dialogue and deeper investment analysis. This also enables Brown Advisory to collaborate with the company as it seeks to navigate these issues and opportunities. The selection of these issues is based on the make-up of the institutional platform's investment universe and, as such, the issues the team focuses on may change over time. Nevertheless, the team seeks to engage broadly within industries and across the sustainable investment industry to remain abreast of evolving issues and deepen understanding of issues faced by our companies today.

Engagement Tactics

The investment team has access to several tools that they may use to engage with a company or its stakeholders. These tactics can be used in different combinations to test an investment thesis and/or to escalate the importance of an issue over time. These tools are used at the discretion of the specific research analyst and/or portfolio manager. They include:

- **Direct Dialogue:** This tactic includes conversations that take place between the investment team and representatives from the company or its stakeholders. These conversations may take place, for example, in person, through a virtual meeting, phone call, or via email.
- **Letter Writing:** This tactic may involve sending formal letters to companies to share the investment team's perspectives, suggest areas for improvement, or highlight specific concerns. These communications are intended to foster constructive dialogue rather than demands for action.
- **Proxy Voting:** The firm casts all of its proxy votes in line with what the portfolio manager believes is most appropriate for shareholders. A portfolio manager may vote against management to indicate support for, or concern with, a specific issue. In the event that the investment team seeks to vote against management, they will generally seek to have dialogue with the company before such votes are cast. For further information about Brown Advisory's approach to proxy voting, please see the Brown Advisory [Proxy Voting Policy](#).

- **Collaboration:** The firm, institutional business, and/or our investment team members may join initiatives that seek to bring together investors around specific investment issues where we believe collaboration will benefit the efficacy of our evaluation and monitoring of an investment thesis. Collaborative initiatives often help to enhance due diligence by providing access to experts, working groups, or other resources on topics with potential material relevance to investments. They can also act as a mechanism to raise topics that the investment team believes may materially impact long-term performance more successfully with company management. Such collaboration is limited to the exchange of perspectives and information. The firm does not agree with other participants on investment strategies, securities transactions, or voting decisions, and does not act jointly or in concert with other investors through these initiatives.
- **Investment actions:** The investment team prefers to engage with companies over the long-term, appreciating that trust and rapport with management teams is established over time, and that actions may take time to materialize into results. However, should material risks be identified that indicate the investment thesis has been damaged or broken, a portfolio manager may consider more immediate action, such as reducing or eliminating their position.

Significant Engagements

Brown Advisory defines a significant engagement as an interaction with a company or issuer that is strategic, deliberate, and materially relevant to the investment thesis. These engagements go beyond routine dialogue and typically meet two or more of the following criteria:

1. They address sustainability-related issues directly tied to long-term value creation
2. They are initiated and led by research analysts with a focus on sustainable investing
3. They have a clear objective to gain specific, defined insights or share perspectives on topics the research team believe are pertinent to the investment thesis
4. They involve in-depth, two-way dialogue rather than one-off communications such as standalone letters.

Significant engagements are intended to inform or reinforce investment decisions and demonstrate the firm's commitment to purposeful, performance-driven stewardship.

Engagement in other asset classes

For further information on Brown Advisory's approach to engagement in non-corporate fixed income asset classes, please see the [Institutional Sustainable Fixed Income Policy](#).

Disclosures

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

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

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 in every strategy. Sustainable investment considerations that are material will vary by investment style, sector/industry, market trends and client objectives.

Certain strategies seek to identify companies that we believe may be desirable based on our analysis of sustainable investment-related risks and opportunities, but investors may differ in their views. As a result, these strategies may invest in companies that do not reflect the beliefs and values of any particular investor. Certain 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. These strategies incorporate data from third parties in their research process but do not make investment decisions based on third-party data alone.

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

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

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