

BROWN ADVISORY

INSTITUTIONAL FIXED INCOME SUSTAINABLE INVESTMENT POLICY

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



This document provides an overview of how Brown Advisory integrates sustainable investment research into the investment process across its internally managed sustainable fixed income strategies. It is a supplement to Brown Advisory's overarching [Institutional Sustainable Investing Policy Statement](#), that provides a broader explanation of the principles and philosophies that guide the firm's sustainable investing work. Both policies are available on our website.

Investment Philosophy

Our [sustainable fixed income strategies](#) seek attractive, risk-adjusted returns by integrating sustainable investment and fundamental research to provide a more complete picture of the risks and opportunities associated with an investment.

Sustainable Investing Research Process

Brown Advisory's sustainable investment research analysts are embedded within the firm's broader fixed income research team. They partner with fundamental credit analysts to identify, analyze, and monitor investments. Furthermore, the sustainable investment research analysts work collaboratively with their equity research counterparts to share insights and best practices, collaborate on sustainability related investment issues, and debate specific investment opportunities.

Our overarching [Institutional Sustainable Investing Policy Statement](#) outlines the various research tools that the institutional business' sustainable investment research analysts employ. These tools include the use of bottom-up research which is complemented by third-party data to understand the risks and opportunities associated with our investments.

While our approach to integrating sustainable investment considerations is similar across fixed income asset classes, the specific considerations within each asset class often vary, save for labeled bonds. Regardless of asset class, we aim to conduct a labeled bond assessment to ensure adherence to best practices, including voluntary guidelines produced by organizations such as the International Capital Markets Association (ICMA), among others.

Similarly, engagement is a tool that we use across asset classes. Creditors and bondholders play a key role in the capital structure of issuers. Therefore, 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. We find that issuers are often open to meeting investors from whom they may seek additional debt funding in the future.

Some asset classes tend to be associated with lower levels of available data and disclosure, which is particularly important for our due diligence. Our team may consequently use engagement as a tool to uncover relevant information and better understand the sustainability-related risks or opportunities associated with issuers in that asset class. The firm's [Corporate Engagement Policy](#) outlines our approach to corporate issuers, and while many of the same principles apply, there are important distinctions by asset class.

Considerations Across Fixed Income Asset Classes

This section summarizes our sustainable investment research approach for each fixed income asset class. We clarify our research and engagement approaches, as well as the underlying data guiding that research. The quantity and quality of sustainable investment related data available may vary significantly by asset class and characteristics of

the underlying issuer (e.g., size, geography).

Corporate Bonds

Research approach: We produce assessments on corporate bonds at the issuer level, which includes distinct risk and opportunity assessments. While these assessments are largely qualitative, an issuer is allocated a numerical rating (also split by risk and opportunity respectively), as described in Brown Advisory's [Institutional sustainable investing policy statement](#).

Engagement approach: When practical and relevant to our investment thesis, we may engage directly with company management or indirectly through collaboration with other industry stakeholders as a key part of our due diligence process. See [corporate engagement policy](#) for more details.

Data sources: Our sources may include official statements and supporting bond documents; company filings and reports; third party audits; sustainability disclosures (e.g., CDP); third-party data providers (e.g., MSCI, Institutional Shareholder Services (ISS)); credit rating agencies (e.g., Moody's); public/private databases; and industry journals/business publications.

Municipal Bonds

Research approach: For municipal bonds, we have sector frameworks that outline our views on the most material risks and opportunities associated with the municipal sectors in which we invest. This sector-based approach is predicated on the belief that issuers in the same sectors generally face similar risks and opportunities. The frameworks help to inform the level of due diligence required for issuers, obligors and/or securities which allow our research team to scale our research more efficiently. We prioritize issuer- or obligor-level assessments based on the considerations laid out in the sector frameworks, as well as other factors, including credit quality, size, and structure of the bonds. This is determined in collaboration between the sustainable investment and credit research analysts, and with input from the portfolio managers.

Engagement approach: When practical and relevant to the investment thesis, we may engage directly with municipal issuers/obligors or indirectly through collaboration with other industry stakeholders as a key part of our due diligence. Unlike companies, municipal issuers do not always have a clear point of contact for engagement, and this also varies by municipal sectors. In these circumstances we find it particularly valuable to collaborate with other investors or industry groups (e.g., CDP).

Data sources¹: Our sources may include official statements and supporting bond documents; entity websites and reports; credit rating agencies (e.g., Moody's); news aggregators (e.g., Bitvore); and public/private databases.

Securitized Bonds

Research approach: For securitized products, we assess risks and opportunities at both the issuer/sponsor level, as well as the underlying collateral. We have sector frameworks that guide our thinking across the various sub-sectors within the securitized bond market. Depending on the sub-sector and nature of the

¹ Any data sources named are correct as of the time of publication. Brown Advisory will, from time to time, add or remove data providers and therefore those providers used may vary over time.

securitization, our assessments may be at the issuer/sponsor, shelf, or deal level with a determination consistent with that of other asset classes.

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

Data sources²: Our sources may include official statements and supporting bond documents; issuer/sponsor-reported information; credit rating agencies; public/private databases; third-party data providers (e.g., ICE Sustainable Finance); and industry journals/business publications.

Sovereign Bonds

Research approach: When evaluating sovereign issuers, we combine a quantitative scoring methodology developed in-house by our sustainable investment research analysts alongside a qualitative analysis to provide a holistic assessment of a country's risks and opportunities. The quantitative score provides an initial indication of a country's sustainability performance on up to dozens of indicators across many different sustainability characteristics and economic factors. The score is assessed against certain peer groups including income level, region, and emerging/developed market classification— to better contextualize each country's performance. This analysis also includes a 'momentum score' that demonstrates improvement over the last five- and ten-year periods (where data is available). This is supported by a qualitative and quantitative analysis of recent trends, policy developments, and relevant geopolitical or other events.

Engagement approach: When practical and relevant to the investment thesis, we may engage directly with sovereign issuers or indirectly through collaboration with other industry stakeholders, as a key part of our due diligence process. Unlike companies, there is not always a clear point of contact for engagement, and we may engage with a variety of stakeholders, including debt management offices, government ministries, and other members of civil society.

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

Data sources³: Our sources may include official statements and supporting bond documents; credit rating agencies (e.g., Moody's); public/private databases (e.g., World Bank, United Nations, World Health Organization, International Labor Organization, Food and Agriculture Organization, Transparency International, Freedom House, International Energy Agency, Climate Action Tracker, and Notre Dame Global Adaptation Initiative); and news aggregators (e.g., GeoQuant).

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³ Ibid

Supranational Bonds

Research approach: When evaluating supranational issuers, our assessment starts with understanding both the structure of the quasi-government entity and the associated sovereign research assessments of the primary stakeholders. This is important in determining the strategic objectives of the entity and its overarching risk profile. Once there is an understanding of the entities involved, then risk and opportunity assessments may be structured similarly to a sovereign assessment or a corporate assessment depending on the nature of the supranational entity.

For example, the assessment of the European Union is aligned with our framework for a sovereign assessment, whereas the assessment of a development bank may be structured more similarly to corporate assessments for a financial institution.

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

Data sources⁴: Our sources may include official statements and supporting bond documents; entity websites and reports; and credit rating agencies (e.g., Moody's).

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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.

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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