

BROWN ADVISORY

INSTITUTIONAL SUSTAINABLE INVESTING POLICY

Policies and concepts that guide Brown Advisory's approach to sustainable investing across the firm's global institutional equity and fixed income platform.

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This document describes the philosophy and tools that guide Brown Advisory's approach to sustainable investing across the firm's global institutional equity and fixed income platform. We acknowledge that many jurisdictions in which Brown Advisory operates have adopted laws or regulations related to sustainable investing and we are committed to working with clients to help them understand our long-standing approach to sustainable investing in relation to an evolving regulatory landscape.

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.

Investment Strategy

Every Brown Advisory investment strategy is managed with the fiduciary duty of delivering investment performance to clients as its highest obligation. We seek to deliver performance by incorporating the evaluation of a wide variety of data and information – qualitative and quantitative – into investment decisions. Over the years, we have found that incorporating sustainable investment-related considerations like climate conditions, natural resources, human capital, and culture into our research can enhance investment analysis. By broadening the assessment of investment's risks and opportunities, we seek to identify those investments that are likely to thrive in the face of disruptions affecting the environment, society, and economy.

Many strategies at Brown Advisory commit to explicitly incorporate sustainable investment considerations as part of their investment philosophy and principal investment strategy. Each strategy at Brown Advisory is unique, and this is true for sustainable investing strategies as well. Each strategy's investment objective is to deliver financial performance, but each formalized approach will reflect the portfolio manager's autonomy to invest in a manner they believe generates long-term performance for clients. Brown Advisory uses the following categories to clarify how its institutional strategies approach sustainable investment considerations¹:

- **Sustainable Investing Strategies:** Brown Advisory defines Sustainable Investing Strategies as those that consider sustainable investment risks and opportunities in their investment decision-making process where that research is considered to be material to long-term performance. In addition, sustainable investing strategies commit to investing a significant majority or greater of the assets they manage on behalf of clients in investments with “sustainable drivers”. Investments with sustainable drivers are defined as those engaged in sustainability-related activities, such as responsibly and efficiently managing resources, enabling a more stable economy, and contributing to fair and stable societies in a manner that drives improved financial outcomes or a competitive advantage for the investment.
- **Strategies with Formal Sustainable Investing Risk Management:** Brown Advisory also manages strategies that do not have a dedicated sustainable investing mandate but nonetheless incorporate certain sustainable investment research where it is considered material to investment risk and return. In these

¹ Not all Brown Advisory strategies fit into one of these two categories. These categories only pertain to those strategies that have an established process about the incorporation of sustainability-related considerations.

strategies, such considerations are primarily applied through formal risk management processes, including the identification, monitoring, and management of material sustainability-related risks at the security and portfolio level. Exposure to investments with sustainable drivers may occur, but such exposure is not required. Many of these strategies have Irish-domiciled UCITS vehicles that meet the Article 8 criteria of the European Sustainable Finance Disclosure Regulation, reflecting a commitment to integrating sustainable investment considerations to enhance risk management and support long-term investment outcomes.

Sustainable Investment Research

Brown Advisory's global equity and fixed income research teams include research analysts that specialize in sustainable investment research. These analysts are primarily responsible for understanding the sustainability-related risks and opportunities that may impact the financial performance of a company or issuer.

Brown Advisory's research approach is characterized by bottom-up, primary research. While each research analyst has sector and/or issue-specific expertise, the research team begins analysis of each investment from the bottom up, with a focus on understanding the specifics of a company or issuer's structure, fundamental, and sustainability-related characteristics. While there are many levers that can affect financial results, there are two broad categories that permeate and transcend asset classes and sectors. These are *Climate Conditions & Resource Access* and *Culture & Human Capital*. Through a sustainable investing framework focused on these categories, and underpinned by governance, the research team identifies both bottom-up and top-down sustainability considerations that it believes may impact an investment's performance.

Climate Conditions & Resource Access: Economies are highly influenced by climate conditions and the availability of resources, which pose risks and opportunities for companies, governments, and other stakeholders. We seek to identify the financial implications of building a more resilient economy, managing losses associated with physical climate risk and biodiversity loss, and operating in an increasingly resource-constrained environment.

Culture & Human Capital: People are a critical driver of long-term economic value. As employees, consumers, and members of the communities in which companies operate, people can materially influence productivity, innovation, brand strength, and social license to operate. We therefore focus on identifying investments that demonstrate effective human capital management, foster healthy organizational cultures, contribute to fair and stable societies, and respect internationally recognized human rights standards—factors we believe are important to sustaining competitive performance over time.

Brown Advisory's sustainable investment research is underpinned by a focus on sound governance. Careful assessment of how leadership, whether it be a company's management team or government organization, serves the needs of its stakeholders is important in assessing an investment's ability to deliver positive outcomes, including those related to levers described above. Furthermore, we seek investments where appropriate transparency and accountability structures are in place to enable durable operations and management. For example, our analysis seeks to identify strong board oversight, internal risk management, measurable targets to which compensation is appropriately tied, and/or adherence to industry-wide frameworks and best practices for operating and reporting.

Sustainable investment research process for sustainable investing strategies

Our research team conducts deep due diligence, predominantly leading with primary research, while also considering third-party data and information. The objective of due diligence is to understand the risks and

opportunities associated with a given investment, which is then leveraged for portfolio decisions and engagement dialogue with companies, bond issuers and other stakeholders. The final assessment varies slightly from one asset class to another, the nuances of which can be found in Brown Advisory's [Sustainable Fixed Income Investment Policy](#).



Sustainable Investment Research is available to portfolio managers in four primary formats:

Risk Assessment: This assessment seeks to produce a view on a broad set of potential material sustainability-related risks associated with an investment, identifying and documenting exposure to controversial activity, and analyzing the possible materiality of these risks on investment performance. Examples of sustainability-related risks include those associated with climate change, resource constraints, or human capital management.

Opportunity Assessment: This assessment aims to identify investments with sustainable drivers, defined as investments that are deriving improved financial outcomes or a competitive advantage through sustainable activities. This can include responsibly managing resources, building a more resilient economy, and contributing to fair and stable societies.

Labeled Bond Assessment: This assessment is specific to fixed income assets and seeks to examine and, where possible, quantify, the positive or negative outcomes connected to climate conditions, resource access, culture, or human capital of any projects that a labeled bond may be funding. The assessment seeks to ensure adherence to best practices, including voluntary guidelines produced by International Capital Market Association (ICMA).

Thematic and Sector-Focused Research: To supplement our bottom-up approach to investment research, the research team examines broader issues and themes that have the potential to reverberate across multiple sectors. For example, this could include technologies with wide-ranging impacts (e.g. Artificial Intelligence) or regulatory developments that may affect investments across industries. When such trends are identified, the team produces further analysis that may involve in-depth stakeholder interviews, systematic document review and other techniques.

Engagement

Maintaining active dialogue with investments and stakeholders is often part of our investment research and monitoring of securities under the research team's active coverage. Brown Advisory's engagement approach mirrors the broader investment approach: performance driven, long-term in nature, and deliberate. Importantly, engagement will vary across different asset classes due to the investment structure, governance controls, sector nuances, and varying stakeholders involved. As such, a set of guidelines is tailored to each. For more information on the approach to engagement with corporate issuers, please see the Brown Advisory's [Institutional Corporate Engagement Policy](#). For our approach to engagement in other asset classes, please see [Institutional Sustainable Fixed Income Investment Policy](#)

One form of carrying out engagement and fiduciary responsibility to clients is through proxy voting. The institutional research and proxy voting decision-making processes are aligned in philosophy and approach. Please see [Brown Advisory's Proxy Voting Policy](#) for further information on these activities.

Brown Advisory Corporate Sustainable Investment Ratings²

While sustainable investment research is largely qualitative, the research analysts assign two quantitative ratings to an investment as an outcome of each assessment. These ratings include a "Risk Management" Rating and an "Opportunity" Rating and serve as a communication tool only. The ratings use a scaled one-through-five system, with a "1" signifying investments with strong characteristics in terms of risk or opportunity, and a "5" signifying a meaningful risk, or the lack of any meaningful exposure to sustainable drivers³. A "+" or "-" may also be assigned when rating an investment (e.g., a "2+" rating), which is designed to indicate its trajectory, i.e. progression or regression.

The act of assigning ratings inherently runs the risk of implying an unwarranted level of precision. Available data is imperfect, and as with much financial data, its interpretation necessitates a degree of subjectivity. While this rating system is used to communicate a high-level view of an investment's sustainability-related risks and opportunities, the research analysts use their assessments to provide more detailed analysis. This dual-rating approach differentiates between investments characterized with strong risk management, and those investments that also have sustainable drivers.

These ratings are designed to function as a communication tool and offer grounds for further discussion amongst our portfolio managers, the broader investment team, the investment risk management team, and with senior leadership responsible for sustainable investment oversight.

These ratings are described in more detail below.

² For information on the approach in other asset classes, please see Brown Advisory's [Sustainable Fixed Income Policy](#).

³ Sustainable drivers are measured via financial metrics such as revenue, market share, cost advantages, intangible assets, and capital allocation.

Brown Advisory Corporate Sustainable Investment Ratings Framework

RISK MANAGEMENT ⁱ		OPPORTUNITY ⁱ	
RATING	CRITERIA	RATING	CRITERIA
1	NET POSITIVE Investment effectively manages all material sustainability-related risks, going beyond best practices and potentially leading to a competitive advantage. Generally, does not have major controversies.	1	NET POSITIVE Sustainable drivers are meaningful to the investment and demonstrably contribute to competitive advantage.
2	SLIGHTLY POSITIVE Investment has adequate sustainability-related risk management systems, such that performance is unlikely to be compromised. May have a small number of minor controversies.	2	SLIGHTLY POSITIVE Sustainable drivers are meaningful to the investment.
3	NEUTRAL Investment has basic sustainability-related risk management systems, but there is not enough information to evaluate impact on performance. May have a moderate number of minor or moderate controversies.	3	NEUTRAL Sustainable drivers are not meaningful to the investment.
4	SLIGHTLY NEGATIVE Minimal sustainability-related risk management means risks may detract from financial performance. May have moderate to severe controversies.	4	SLIGHTLY NEGATIVE Lack of or compromised sustainable drivers may erode competitive advantages.
5	NET NEGATIVE Little or no sustainability-related risk management means risks may detract from financial performance. May have severe controversies.	5	NET NEGATIVE Lack of or compromised sustainable drivers demonstrably erodes competitive advantages.

ⁱPlease note, these ratings are internal communication tools and only represent a snapshot of the risks or opportunities analyzed in the full Risk Assessment or Sustainable Opportunity Assessment, respectively.

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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