Global Sustainable Total Return Bond 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

Chris Diaz
Portfolio Manager

Ryan Myerberg
Portfolio Manager

Colby Stilson
Portfolio Manager

Dear Fellow Investors,

2023 was the year of a widely anticipated recession that never happened as global fixed income investors found themselves navigating uncertainty surrounding growth, inflation, labor markets, supply chains, monetary and fiscal policy, and geopolitics. See our article Economic Indicators: The Tale of Two Charts.

As we discussed in our article, A New Fixed Income Regime – An Old Normal?, we are operating in a new economic reality that calls for adaptation, resilience, and flexibility. Businesses, investors, and policymakers must prepare for a world where the economic landscape shifts more rapidly and with greater intensity—and this is only exacerbated by the sustainability challenges that we face today from energy transition, to addressing rising inequality and changing demographics, to navigating increasing geopolitical tensions. The investment strategies that worked over the last 15 years may no longer be sufficient as we navigate the uncharted waters ahead. This is why we take a dynamic and flexible approach to managing portfolios, integrating both top-down and bottom-up research, that we believe is critical to generating alpha and providing capital preservation for clients.

What is so unique about global fixed income is the necessity and ability to navigate and address an array of sustainability challenges from multiple angles—whether it's the public sector through sovereign bonds or the private sector through corporate bonds (and everything in between). We are undergoing a major economic transformation that will require a concerted effort among many different parties to effectuate the financial, societal, and environmental outcomes that we believe are important to building sustainable, resilient economies.

Over 2023 we continued to see quality and standardization of sustainability data in fixed income investing being a challenge, but we also see improvements, especially as it becomes ever more obvious how sovereign bonds as an asset class can navigate and address key environmental and social challenges and as sustainability factors become increasingly economic. In 2023, we also continued to build out our fixed income research team, including the addition of another sustainable investment research analyst. We bolstered our approach to sovereigns, including an increasing focus on engagement, which we discuss in greater detail in this report. We also had representation at COP28, the UN climate conference, for the first time, which highlighted the importance of bringing together the public and private sector and the role of the sustainable debt markets in addressing key issues like climate change.

One of the core benefits that in-depth sustainability research can provide is to identify high quality investments with lower risk that improve downside protection. While our team strives to deliver on this core objective we are heartened by the positive outcomes we continue to see from the holdings within our portfolio, be it from a company like CaixaBank which is driving financial inclusion as Europe's largest private microfinance institution, our exposure to mortgage-backed securities that focus on low-income homeowners, affordable multifamily units, sustainable commercial buildings or environmental improvement projects or our sovereign engagement on climate change though initiatives such as Investor Policy Dialogue on Deforestation (IPDD), relevant to Brazil and Indonesia, and the PRI pilot sovereign engagement with Australia, just to name a few.

We hope you enjoy reading the report.

Sincerely,

Chris, Ryan and Colby

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 are 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 smart investments that help address global sustainability challenges. Integrating a sustainability lens into our selection process enhances our informational edge and steers us towards more responsible and forward-thinking issuers, be that bonds funding sustainable projects, or bonds from companies, countries or government agencies who are focused on delivering positive social and environmental outcomes.

As an unconstrained, global portfolio we see many regional differences in the implementation and regulatory scrutiny of sustainable practices, both positive and negative. Whilst the quality and standardization of data continues to be a challenge, its availability across various sectors in fixed income is improving over time. We think this is at least in part due to growing awareness that public-market capital needs to be aligned to address the sustainability challenges the world faces today. Sovereign bonds as an asset class, for example, has great potential to navigate and address key environmental and social challenges facing the global economy.

We also believe that sustainability factors are becoming increasingly economic. We expect to see the increase of physical and transition risk stemming from climate change and availability of natural resources. Likewise, as people are foundational to all aspects of the economy, we anticipate an increase in the opportunities to invest in more inclusive issuers—those who are managing human capital well—as well as those developing technologies that provide climate mitigation, or adaptation solutions within a more resource-constrained environment.

We have found that integrating fundamental analysis with sustainable research has a positive influence on our investment decision making and allows us to build fully diversified portfolios that aim to deliver both attractive risk-adjusted returns and positive outcomes.

Investment process

We seek to offer investors access to an attractive stream of income and risk-adjusted returns while simultaneously generating a positive outcome on global sustainability issues. We do this by taking an active, flexible approach to asset allocation, untethered to the benchmark, allowing us to allocate risk tactically to areas of the market with the most attractive risk-reward profiles to add depth and breadth to the opportunity set.

Our integrated investment analysis involves a complex balance of factors but is predominantly focused on two core characteristics, fundamental and sustainable investment research. Each of the different asset classes (corporates, municipals, sovereigns, mortgages, etc.) require in-depth consideration across a range of different factors from political risks to board composition and cash flow.

- **Fundamental research:** combining global macro assessment to determine overall portfolio risk and composition, with bottom-up analysis to model cash flows, duration and valuations.
- **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 when 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 this approach helps our portfolio drive progress in many different social and environmental areas. The way we assess sustainability requires a variety of methods due to the different types of issuer we invest in. By breaking down the portfolio by sector, geography and thematic framework, we can better demonstrate that diversification.

Diversification by sector

The issuers represented in our portfolio seek to achieve positive change in different ways, this allows us to avoid concentration risk and helps us allocate capital strategically and tactically using a dynamic approach to asset allocation based on our ongoing assessment of the global fixed income market. We also allocate a portion of the portfolio to cash and other securities for liquidity and duration management purposes.

Corporates

Companies that are solving for an environmental or social challenge for their customers or within their operations, providing a competitive advantage to the company.

18.0%

Mortgage-Backed Securities

Mortgage offerings that focus on low-income homeowners, affordable multifamily units, sustainable commercial buildings or environmental improvement projects.

8.0%

Supranational

Multi-lateral development banks and other entities providing capital to address critical global sustainability challenges.

18.9%

Sovereign

Countries addressing a variety of environmental and social challenges through government actions.

49.9%

Cash & Derivatives

We allocate a portion of the portfolio to cash and other securities for liquidity and duration management purposes

5.3%

Source: Brown Advisory analysis. Sectors are based on Bloomberg's classification system. Numbers may not total to 100% due to rounding. Portfolio information is based on a Brown Advisory Global Sustainable Total Return Bond representative account as of Dec. 31, 2023 and includes cash & cash equivalents. Please see the end of this document for important disclosures.

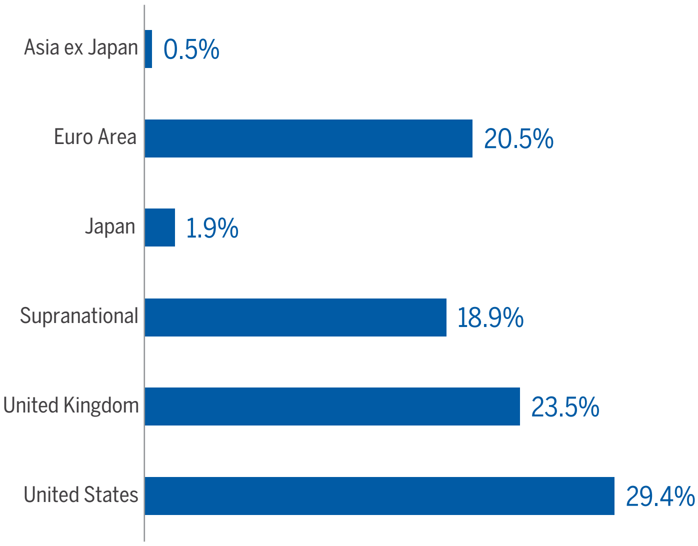
"What is so unique about global fixed income is the necessity and ability to navigate and address an array of sustainability challenges from multiple angles—whether it's the public sector through sovereign bonds or the private sector through corporate bonds (and everything in between)."

RYAN MYERBERG

Diversification by geography

As a global fixed income manager, we recognize that risks and opportunities vary by geography at any given time. This holds true for the sustainability challenges faced by each country and region in which we invest. Being able to understand both the macro level sustainability considerations, as well as how that flows through to the companies and countries in which we invest is an important part of our process.

GEOGRAPHIC BREAKDOWN



Source: BBH and Bloomberg. The portfolio information provided is based on the Brown Advisory Global Sustainable Total Return Bond representative account as of Dec. 31, 2023. Numbers may not total due to rounding. Cash is included in the weights calculations but not shown in the breakdowns above, cash was 5.3% as of Dec. 31, 2023. Holdings shown are for informational purposes only and are not a recommendation to buy, sell or hold any security. Please see the end of this document for important disclosures.

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[1].

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 sustainable 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. While allocation to labeled bonds was relatively small at year-end, we are encouraged by the growth of the market both in terms of depth and breadth. 2023 saw a $30bn increase in green bonds from sovereigns to supranationals with more than 50 sovereign issuers that have come to market to date[1]. We continue to engage with the sustainable debt community to build out this growing opportunity set.

Percentage of Portfolio in labeled bonds

2.9%

Source: Brown Advisory analysis is based on a Brown Advisory Global Sustainable Total Return Bond representative account as of Dec. 31, 2023 and includes cash. Please see the end of this document for important disclosures.

[1] Bloomberg New Energy Finance (BNEF) as of Dec. 31, 2023.

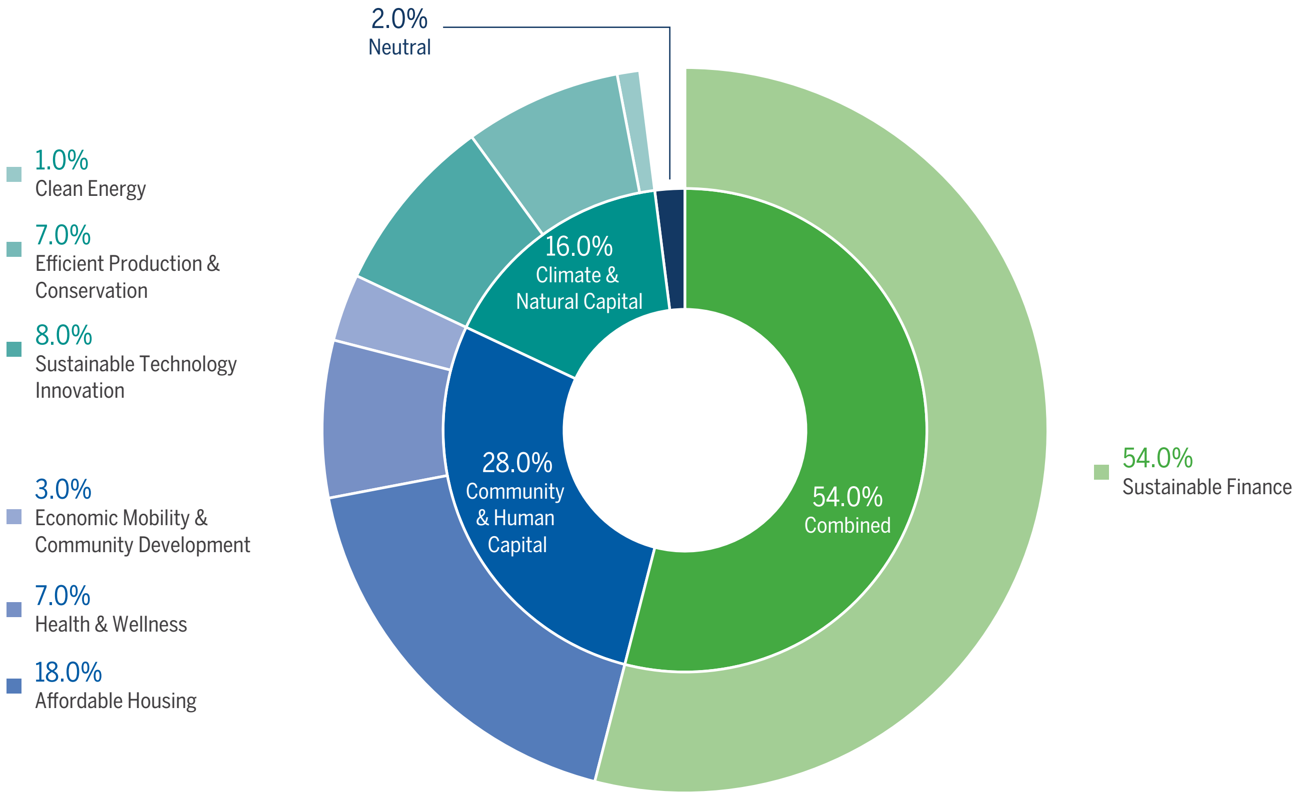
Diversification by themes

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.

This categorization is focused on corporate, securitized and supranational sectors. The portfolio also contains sovereign bonds which are assessed using a different approach and is explained on page 8 of this report.

DIVERSIFICATION OF CORPORATE, SECURITIZED AND SUPRANATIONAL SECTORS

This categorization is focused only on the aforementioned sectors and represents 45% of the entire portfolio.



Source: Brown Advisory analysis. Neutral represents holdings that are not categorized within the framework and cash. Combined represents holdings that could be categorized as both Climate & Natural Capital and Community & Human Capital. Numbers may not total due to rounding. Portfolio information is based on a Brown Advisory Global Sustainable Total Return Bond representative account as of Dec. 31, 2023, and includes cash & cash equivalents. Please see the end of this document for important disclosures.

A CLIENT-FOCUSED THEMATIC FRAMEWORK

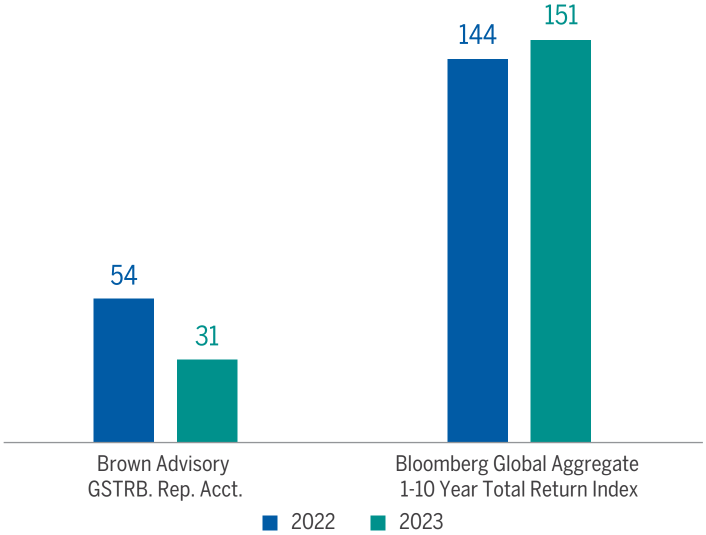
The themes presented in the Brown Advisory framework above, Climate & Natural Capital and Community & Human Capital, have been developed with the sole purpose of explaining the potential sustainability outcomes of our investments. We work closely with our clients to help them translate our themes against 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.

Corporate carbon emissions

While climate change is a consideration for all asset classes within the portfolio, the data across and below is illustrative of corporate issuers only due to the availability and comparability of data. This represents 18.0% of the portfolio[1]. Sovereign related carbon emissions are assessed differently, see page 8 for details.

We believe the fixed income markets are poised to play an essential role in financing global effort to decarbonize our atmosphere. As part of our investment assessments we consider an issuer's overall carbon footprint.

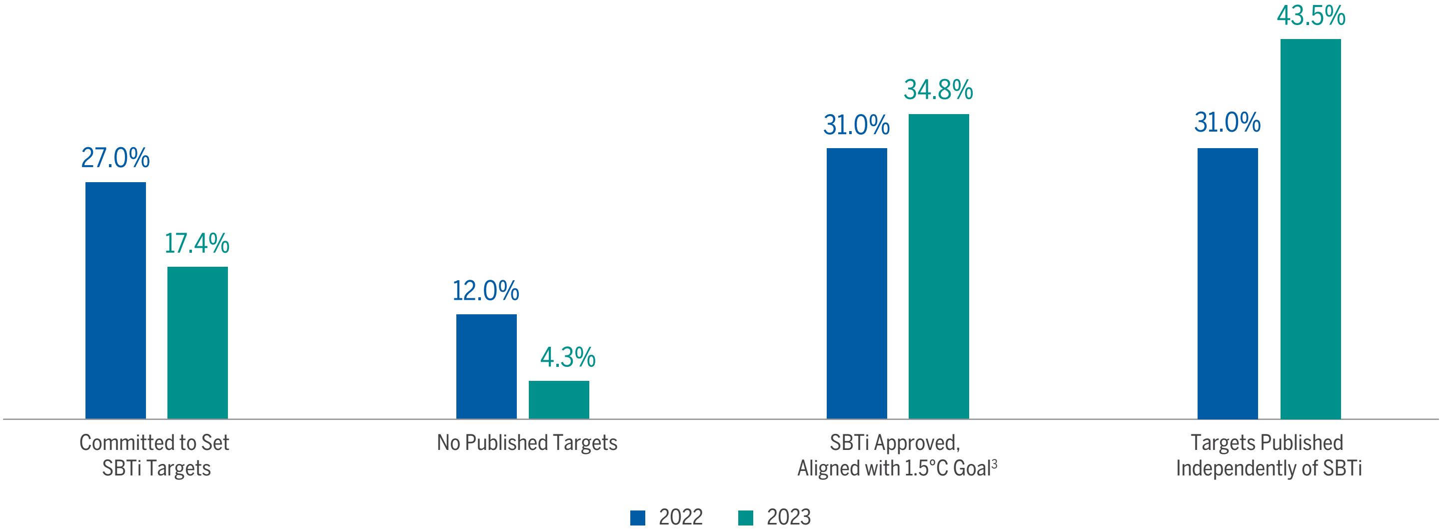
WEIGHTED AVERAGE CARBON INTENSITY[1, 2]



Source: MSCI ESG Manager.

Science-based targets progress[1]

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.



Source: MSCI ESG Manager and Brown Advisory analysis.

[1] Portfolio information is based on a Brown Advisory Global Sustainable Total Return Bond representative account as of Dec. 31, 2023. Please see the end of this report for important disclosures.

[2] Tons CO e/$M revenue of portfolio holdings, adjusted based on relative weighting of each holding.

[3] 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, we engage only when we believe it will be material to our investment decisions.

Sovereigns

Analyzing and investing in sovereign issuers from a sustainable investment perspective is often very nuanced. Countries are large, diverse issuers that can have a wide range of influence, both positive and negative, on the world around them and within their own borders.

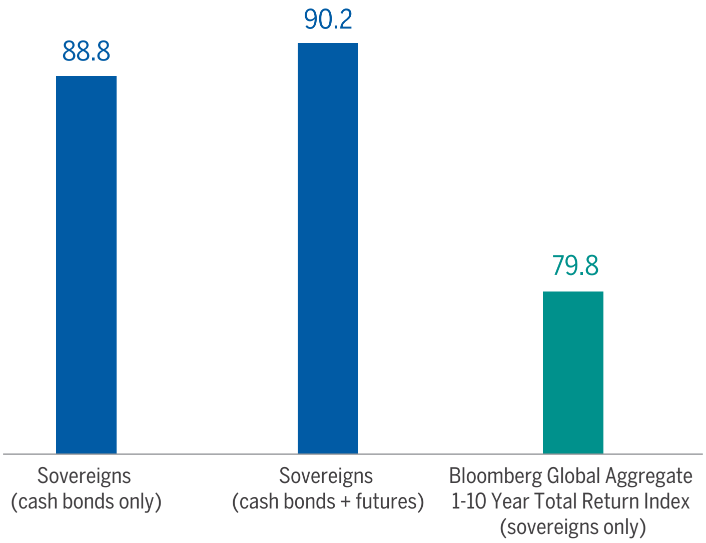
Therefore, in our view, it is too simplistic to map them to one specific theme. Instead, using a combination of quantitative and qualitative methods, we identify issuers that we believe are producing a net positive outcome on society and are also driving progress on one or more of the sustainability themes in our sovereign sustainability framework.

Broadly aligned to the SDG goals, we believe our framework helps to provide a balanced view of how a sovereign is performing and supported by our summary sustainability thesis.

Freedom House score

Freedom House annually assesses the condition of political rights and civil liberties around the world utilizing multiple assessments to create their score. This is just one data point we use in our sovereign sustainability assessment, but believe it is an important proxy for evaluating how governments are meeting the needs of its citizens in order to preserve political stability and avoid civil unrest. A higher score means relatively more freedom. To find out more click here.

WEIGHTED AVERAGE FREEDOM HOUSE SCORE



Source: Freedom House and Brown Advisory analysis. Data reflects portfolio holdings as of Dec. 31, 2023. Portfolio information is based on a Brown Advisory Global Sustainable Total Return Bond representative account. Please see the end of this report for important disclosures and a complete list of terms and definitions.

SOVEREIGN FRAMEWORK

Climate & Natural Capital
- Carbon transition
- Natural resource management & climate change

Community & Human Capital
- Economic opportunity
- Education
- Health

Governance
- Civil liberties
- Corruption & transparency
- Institutional strength & regulatory environment

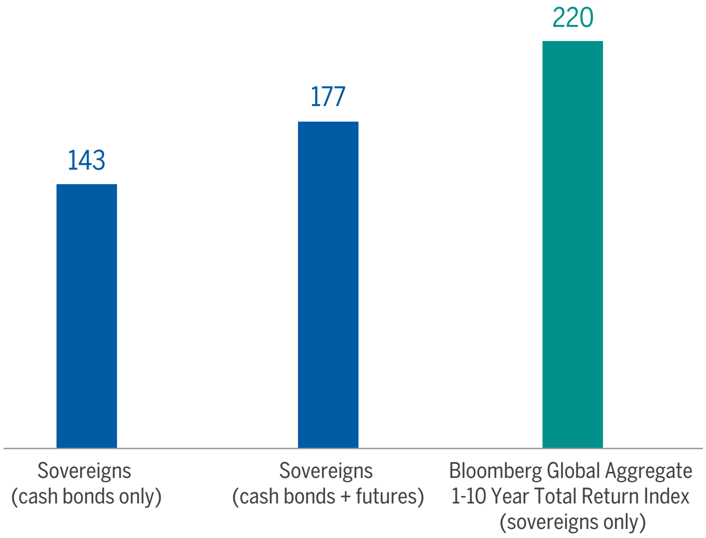
Source: Brown Advisory.

Sovereign carbon emissions

The standardisation of emissions data and emission reduction targets for sovereign issuers is still a work in progress, and as such we seek to take as holistic a view as possible when assessing and reporting this data. While disclosures are increasing, we intend to continue to engage with sovereign issuers and with the industry more broadly to seek more standardized disclosures in this asset class.

While Partnership for Carbon Accounting Financials (PCAF) methodology currently only provides guidance on sovereign cash bonds, we think it is important to also show the data including futures in the spirit of transparency. Given that futures represent an option to take delivery of cash bonds in the future, we believe that including them is more representative of our views and exposure to sovereigns in which we have a long position.

WEIGHTED AVERAGE CARBON INTENSITY[1]

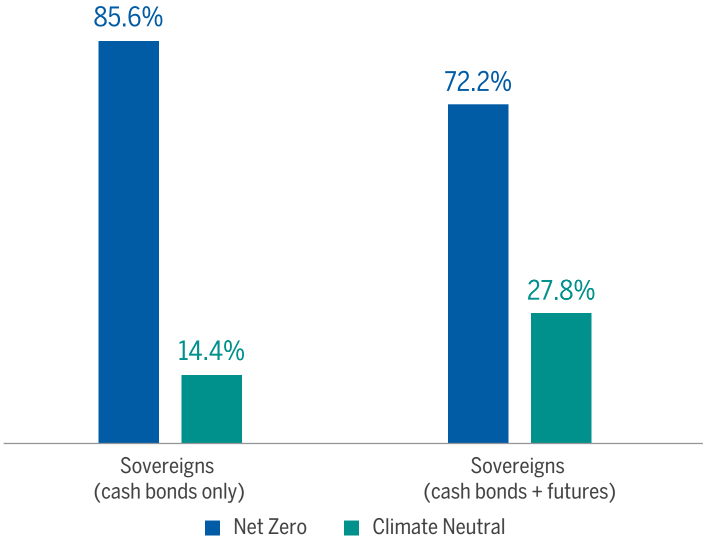


[1] Tons CO2e/$M GDP – adjusted 2017 PPP. adjusted based on relative weighting of each holding.

Source: MSCI ESG Manager. Portfolio information is based on a Brown Advisory Global Sustainable Total Return Bond representative account. Please see the end of this report for important disclosures and a complete list of terms and index definitions.

Sovereign net zero goals

When considering carbon transition risk of a sovereign, it is important to not just look at their emissions profile today, but where they are going, looking at forward-looking targets and policies to support them. Net Zero Tracker gathers this information based on publicly available data and given there is no single standard for net zero target-setting for sovereigns at this time, Net Zero Tracker classifies each country's target based on how it self-labels. To find out more click here.



Source: Zero Net Tracker. Portfolio information is based on a Brown Advisory Global Sustainable Total Return Bond representative account as of Dec. 31, 2023. Please see the end of this report for important disclosures.

Corporate case studies

CAIXABANK SA

THEME:
Sustainable Finance (Multi-Sector)

ISSUER SUMMARY:
CaixaBank is the largest private microfinance provider in Europe. We believe that it is well-positioned to drive financial inclusion, and has targeted reaching over 400,000 microloan beneficiaries and approximately EUR 3.5 billion in loan origination by 2024.[1] This initiative reflects the bank's efforts to support underserved communities and foster socioeconomic development. In addition, the company is seeking to mobilise over €64 billion[2] from 2022 to 2024 to support customers in the energy transition and CaixaBank's own transition. This includes building a renewable energy portfolio and a commitment to net-zero carbon emissions by 2050. Further, CaixaBank's issuance of green and social bonds account for over 40%[3] of its outstanding senior debt, channelling funds into projects that support the UN's Sustainable Development Goals, particularly in affordable and clean energy, and sustainable industry and infrastructure. The bank also demonstrates strong risk management practices, with a low loan portfolio exposure to environmentally sensitive industries and robust governance measures, including ESG-linked compensation for senior management and a target of 42% women in managerial positions by 2024.[4] This proactive approach is complemented by sustainable opportunity initiatives such as advising on investments that accelerate the green transition, in line with the Next Generation EU Recovery Plan.

RENEW POWER (GREEN BOND)

THEME:
Clean Energy

ISSUER SUMMARY:
ReNew Power is one of the largest pure-play renewable power generation companies in the world. Its operations include the development, construction, and operation of projects across wind, solar, and hydropower, and the company functions as a key player in India's renewable energy sector. For example, according to the ReNew's 2022/2023 Sustainability Report[5], the company's power operations over the past year have produced enough clean energy to power 4.7 million households and mitigated over 35 million tons of carbon emissions in the past 3 years. ReNew Power's strategic investments extend to the development of green hydrogen and energy storage solutions. These are both essential for enhancing renewable energy reliability and supporting India's 2070 net zero target and its clean energy transition.

ReNew Power's Green Bond finances the company's clean energy initiatives, with a focus on expanding its renewable energy footprint. The proceeds back projects that not only enhance the existing solar and wind capabilities but also invest in scalable hydropower and green hydrogen ventures. The labeled bond reflects an investment in India's sustainable development, contributing to the country's commitments under international climate accords and promoting the adoption of renewable energy at a larger scale.

Sovereign bond case study

AUSTRALIA

Australia's overall strong performance is driven by strong health metrics, labor force participation and gender equality that speak to the strength of its human capital. This is underpinned by a leading governance profile. Australia's largest negative driver is carbon transition stemming from its reliance on coal both as its largest export and main electricity source. This risk is partially mitigated by a well-diversified economy and other geographic advantages (wind, sun, critical minerals supply), which positions itself well to benefit from the carbon transition. Australia has committed to net zero emissions by 2050[6], and under the current administration has made meaningful progress in developing more concrete action plans. Through our participation in the PRI pilot sovereign engagement initiative with Australia, we have been able to gain a greater understanding of how relevant government ministries, authorities and regulatory bodies are mitigating and adapting to the impacts of climate change.

[1] CaixaBank Press Release: Goirigolzarri announces that MicroBank will dedicate €3.5 billion in three years to finance more than 400,000 vulnerable households and micro-enterprises, Sept 2022.
[2] CaixaBank Press Release: CaixaBank creates a new Climate Risk Unit, July 2022.
[3] Brown Advisory internal analysis as of Dec. 31, 2023.
[4] CaixaBank Press Release: CaixaBank creates a diversity advisory committee to harness the vision of leading female corporate executives in its equality initiatives, Dec 2022.
[5] ReNew, Driving Carbonisation Sustainability Report 2022-23.
[6] Climate Action Tracker as of Dec. 31, 2023.

Source: Company reports and 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 Global Sustainable Total Return Bond representative account. 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

TOTAL ENGAGEMENTS

81
Portfolio engagements

136
Engagements across fixed income platform

FREQUENCY OF ENGAGEMENT PRIORITY WITH ISSUERS

CLIMATE CHANGE

24 | 74

Such as reporting on and managing physical and transition climate risks.

DISCLOSURE AND TRANSPARENCY

45 | 93

For example, reporting transparency, supporting more structured reporting frameworks.

DIVERSITY, EQUITY AND INCLUSION

5 | 12

Examples might include ensuring accessible housing options, school districts, transportation and clean water in municipalities; pressing companies to align hiring and compensation with diversity measures, develop responsible arbitration policies, report on pay parity.

ETHICAL AI/DATA SECURITY

1 | 2

For example, hire personnel with AI/data privacy expertise and embed these ethics professionals into product development; issue annual progress reports on Ethics and Data Security.

Source: Brown Advisory. Portfolio information based on a Brown Advisory Global Sustainable Total Return Bond representative account. We do not engage with every company or issuer. We only engage only 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

SOVEREIGNS WITH MEANINGFUL CLIMATE RELATED RISKS

GOAL:
Enhance due diligence on climate related-risks and opportunities for sovereign issuers

PRIORITY: Climate Change

ACTIVITY:
Engagement with sovereigns on sustainability issues has moved beyond the simple understanding of monetary and fiscal policy—the range of risks and opportunities that each country faces can be extremely broad. Being the largest sector within the fixed income sphere and backed by the power of government, the ability and reach of sovereign issuers to navigate and address key environmental and social challenges goes well beyond the scope of a corporate issuer. As such, we believe that collaborative engagement is a particularly important tool when engaging with sovereign issuers to enhance our due diligence and promote progress on key issues. We take a thoughtful and holistic view of our understanding of the issues at stake and a sovereign issuer's ability to drive progress.

In 2023, highlights of our sovereign engagement activity include joining two collaborative initiatives: Investor Policy Dialogue on Deforestation (IPDD), relevant to Brazil and Indonesia, and the PRI pilot sovereign engagement with Australia. We also had presence at COP28, the UN climate conference in Dubai, and had the opportunity to engage with various government stakeholders from several countries, including Brazil, Indonesia, and the US. Lastly, we continue to be members of the Emerging Markets Investor Alliance (EMIA) and engage with our partners at the CrossBoundary Group.

In each of these instances, climate change has been the predominant theme, but the specific implications vary by each country based on a number of factors, including: geography, natural resources, economic impact, and GDP (proxy for ability to finance mitigation and adaptation measures). For instance, our conversations with Brazil have centered around responsible management of the Amazon rainforest, whereas with Australia the focus has been more focused on topics such as the transition from mining coal to critical minerals. In all instances, we have found it is important to engage with many different types of stakeholders from a range of government ministries, authorities, and regulatory bodies as well as members of civil society and NGOs. This has included ministries of finance and debt management offices, central banks, as well as ministries of environment and climate change. All of these conversations help shape our view, as we believe climate change will pose a persistent risk that is likely to continue to evolve over time.

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 is 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.

Source: Brown Advisory Research. Engagement activity information is based on engagements related to the Brown Advisory Global Sustainable Total Return Bond 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 engage only 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 Global Sustainable Total Return Bond representative account as of Dec.31, 2023. Please see the end of this report for important disclosures.

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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 the strategy. Sustainable investment considerations that are material will vary by investment style, sector/industry, market trends and client objectives. The strategy seeks 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, the strategy may invest in companies that do not reflect the beliefs and values of any particular investor. The strategy 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. The strategy incorporates data from third parties in its research process but does 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.

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The benchmark is the SONIA (Sterling Overnight Index Average) Index of very short-term unsecured loans between U.K. financial institutions. Secondary benchmark is the Bloomberg Global Aggregate Index (1-10Y) (GBP Hedged). The strategy is actively managed and is not constrained by any benchmark.

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