

Tax-Exempt Sustainable 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



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Dear Fellow Investors,

A lot has happened since we launched our Tax-Exempt Sustainable strategy a decade ago. We have seen the sustainable investing landscape mature, evolve, and be met with immense polarization and scrutiny. We experienced a global pandemic, mounting geopolitical tensions, extreme and historic weather events, and humanitarian crises. There has been an evolving focus on transition finance and a growing sophistication toward 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, mounting tension and polarization on sustainability issues within the US, and continued pressure on municipal issuers to build and support infrastructure and provide services that enable a more inclusive economy. 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 the many large-scale systemic challenges the US economy faces today. The roughly \$4 trillion US municipal bond market provides ample investment opportunities to align ourselves with issuers addressing these issues.

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 present 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 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 Steve

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.

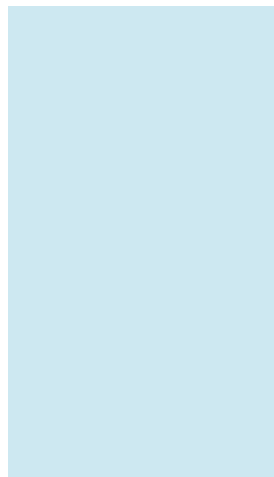
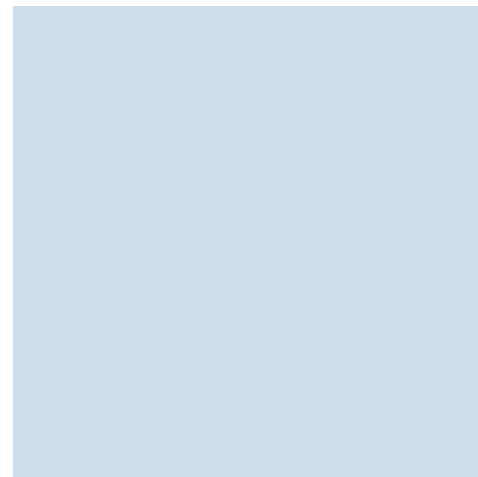
While each strategy is distinctive, across all our strategies financial performance is the core objective. Deep research and analysis is undertaken to provide a holistic understanding of the risks and opportunities associated with any given investment. By combining fundamental and sustainable investment 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 seek to deliver attractive after-tax investment returns. We firmly believe there does not have to be a trade-off between strong performance and investments that help address sustainability challenges. We find that a sustainable investment-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 municipal bond market in particular. 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 after-tax risk-adjusted returns.

The Brown Advisory Tax-Exempt Sustainable 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 do this by incorporating sustainable investment research to strengthen bottom-up, credit-focused research, providing a deeper holistic risk profile of the municipal sectors and issuers we evaluate. We employ an active and dynamic approach to asset allocation concentrated on our best ideas. Through this approach, we believe, we can provide investors with both core stability and alpha.

Our integrated investment analysis involves a complex balance of factors but is predominantly focused on two core characteristics, fundamental analysis with sustainable investment research.

- **Fundamental research:** bottom-up analysis to model cash flows, duration, valuations and an issuer's ability to pay. We also determine a project's feasibility and essentiality.
- **Sustainable investment research:** evaluation of sustainable investment risks and opportunities across municipal sectors, including specific use of proceeds and the issuer's ability to manage the project and risks.

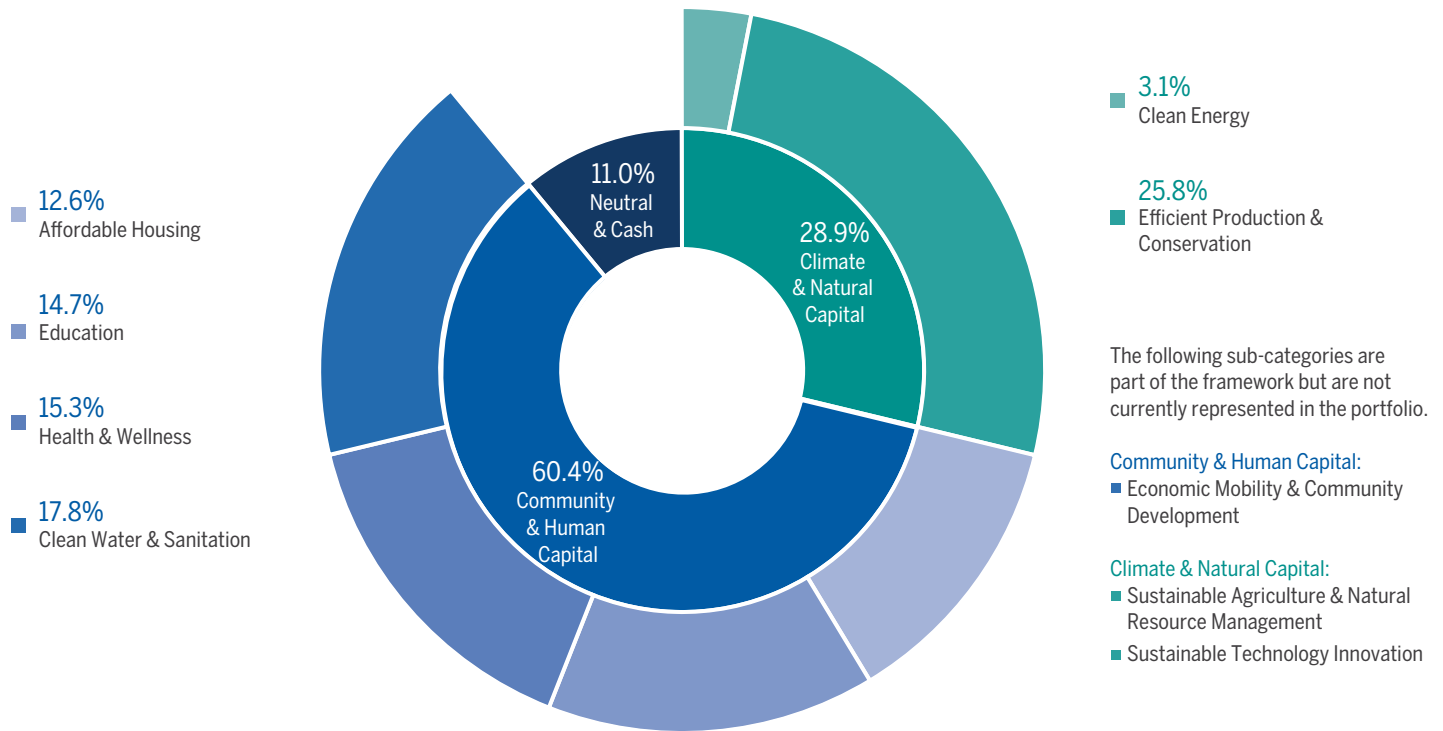
It is at the intersection of these key elements where we find an attractive investment. And only when an issuer meets our exact standards will they be considered candidates for inclusion in our sustainable bond portfolios.

SUSTAINABILITY INDICATORS

A 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. 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 (see below) to illustrate the variety of challenges and opportunities our portfolios address.



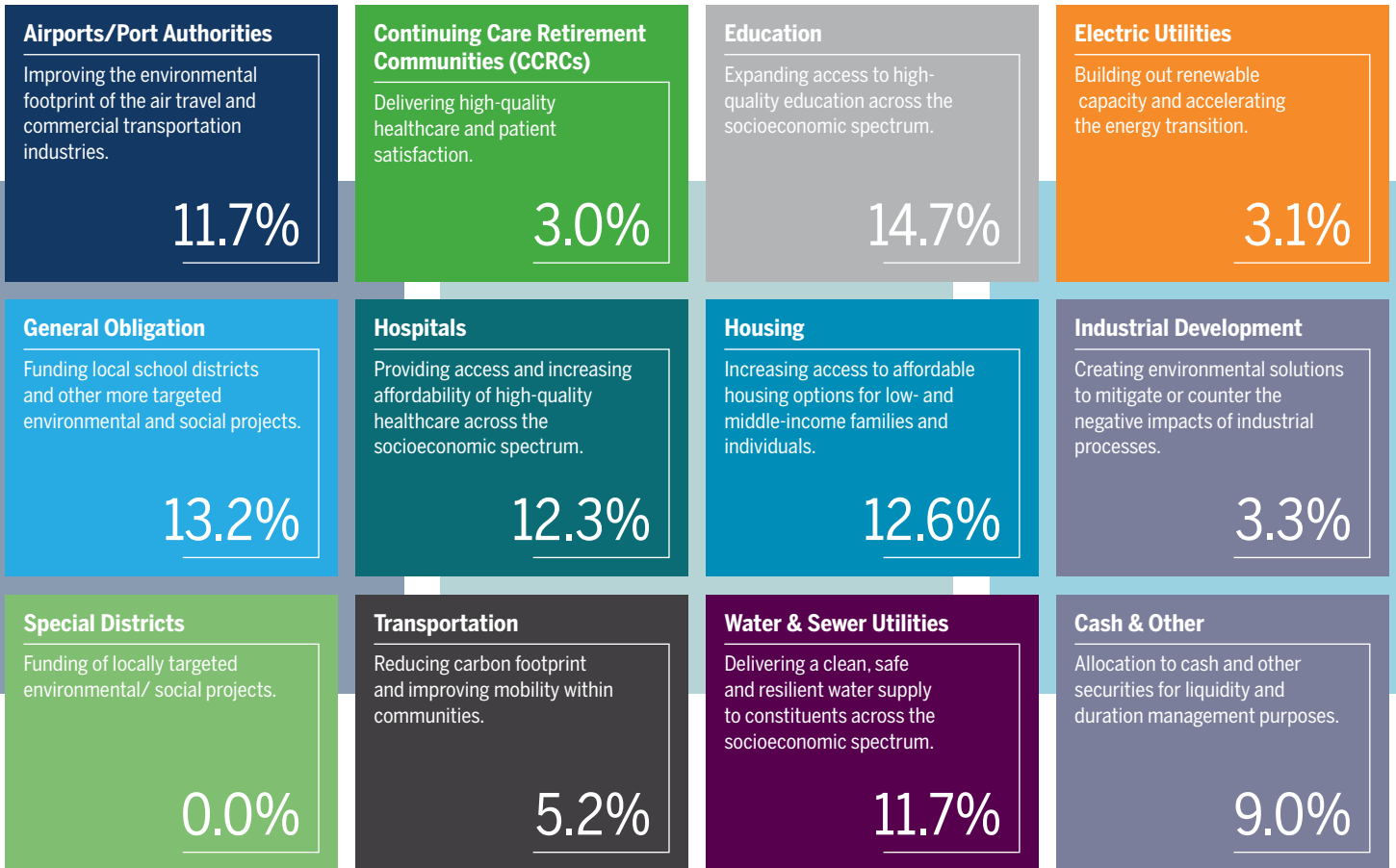
Source: Brown Advisory analysis. Numbers may not total to 100% due to rounding. Impact themes with de minimis weightings are grouped together in the "other" category. Portfolio information is based on a Brown Advisory Tax-Exempt Sustainable Fixed Income representative account as of Dec. 31 2023, and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

The portfolio typically spans the full range of municipal bond sectors. Revenue bonds offer a greater degree of transparency with regards to the projects they are funding, making them an ideal instrument for sustainable investors. We also invest in general obligation bonds, such as those that are financing school districts or other environmental or social projects. This sector diversification allows us to naturally address many different sustainability themes.



Source: Brown Advisory analysis. Sectors with de minimis weightings are grouped together in the "other" category. Numbers may not total to 100% due to rounding. Sectors are based on Bloomberg's classification system and include cash. Portfolio information is based on a Brown Advisory Tax-Exempt Sustainable Fixed Income representative account as of Dec. 31, 2023.

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.

Percentage of Portfolio in labeled bonds

28.3%

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

Case studies



CA COMMUNITY CHOICE FINANCING AUTHORITY

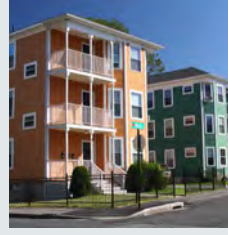
LABELED BOND:
Labeled Green Bond

THEME:
Clean Energy

ISSUER SUMMARY:

The California Community Choice Financing Authority (CCCFA) was established in 2021 with the goal to reduce the cost of power purchases for member community choice aggregators (CCAs) through prepayment structures. CCCFA is a Joint Powers Authority that can help member CCAs save up to 10% or more on power purchase agreements, helping reduce costs for ratepayers and increase available funding for local programs.

CCCFA intends to take advantage of this prepayment structure to not only reduce the cost but also increase the amount of clean energy on the California grid, fulfilling customers' needs for non polluting resources. CCCFA has issued nearly \$9 billion of prepayment bonds through the end of 2023 on behalf of community choice energy providers, saving participating community choice ratepayers over \$45 million yearly.¹



MA STATE HOUSING FINANCE AGENCY

LABELED BOND:
Labeled Sustainability Bond

THEME:
Affordable Housing

ISSUER SUMMARY:

The Massachusetts State Housing Finance Agency finances housing projects, aiming to enhance the availability of affordable housing across the Commonwealth of Massachusetts. The agency allocates resources for the development and maintenance of affordable rental and owner-occupied homes, contributing to the economic stability and community revitalization of the state.

The proceeds of MA State HFA's sustainability bond are expected to be allocated to the construction of six affordable rental housing developments, with MassHousing's rental program requiring that at least 20% of the units in each development be occupied by people or families of low income. Specifically, units set aside for low-income tenants are all designated at or below 80% area median income. Additionally, the projects will likely include energy efficiency standards meeting the relevant standards. For example, projects may meet standards such as ENERGY STAR or LEED for new construction, and EPA WaterSense for efficient hot water delivery; they may also include certified efficient new appliances.

¹ MCE, Community Choice Energy Provider Issue Over \$1 Billion in Green Bonds to Fund Clean Energy Projects, Jan 2024.



Climate change and carbon emissions

The immense challenge of decarbonization will likely require trillions of dollars of annual investment over the coming decades, and we believe the fixed income markets, and the municipal bond market in particular, are poised to play an essential role in financing that effort.

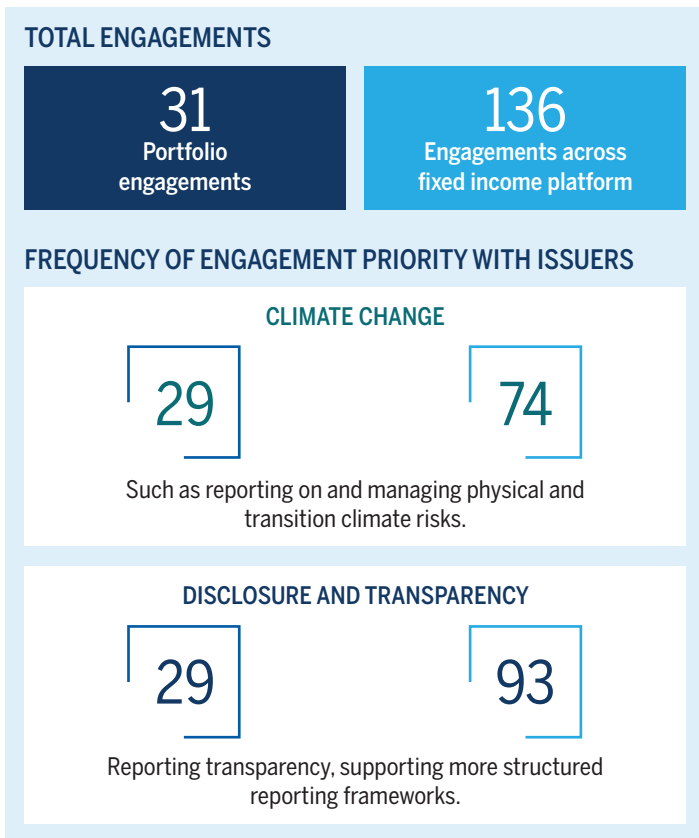
Where relevant, we consider an issuer's overall carbon footprint as a part of our investment due diligence to assess the risks and opportunities their efforts toward progress present. However, there are several data challenges unique to the municipal sector, both in terms of methodology and availability of data. Nonetheless, many issuers are acknowledging and reporting on their climate-related risks and opportunities (both physical and transition risk). Alongside partners like the International Capital Markets Association (ICMA), CDP and other industry organizations, we work on multi year projects to encourage issuers to develop stronger disclosure, reporting standardization, emission reduction and other improvements.

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 Tax-Exempt Sustainable Fixed Income representative account.

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 (this is particularly true for municipals) is particularly important for our due diligence, as it may help us to uncover lesser-known risks or opportunities. In particular, increasing climate-related disclosures in the municipal bond market has been an area of focus for us.

Our engagement activity by the numbers



Source: Brown Advisory. Portfolio information based on a Brown Advisory Tax-Exempt Sustainable 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. AIRPORT

GOAL:

Understand the specifics of an upcoming Labeled Green Bond Issuance

PRIORITY:

Climate Change

ACTIVITY:

This engagement took place before the issuance of a labeled green bond. Within the airports sector, we work to identify those that are proactive in managing their own environmental footprint in such a way that can improve efficiency and resiliency of their operations and mitigate potential negative impacts to the communities in which they are located. With this in mind, entering the engagement, we were uncertain about the environmental credentials of the project being funded, which is especially important to our process when evaluating labeled bonds. We were pleased to learn that the airport was aiming for LEED Gold certification, and that it had implemented several initiatives, including the installation of solar panels, the use of green roofs, and the transition to fully electric ground service equipment. Through this engagement we also learned that the airport is playing a central role in facilitating the use of Sustainable Aviation Fuel by building relationships with airlines and pipeline providers, which is going to be important as the aviation sector continues to work to decarbonize. As a result of this engagement, the team gained confidence in the credentials of the issuance and overall strategy of the airport, and this contributed to the decision to invest.



CDP MUNICIPAL DISCLOSURE CAMPAIGN

GOAL:

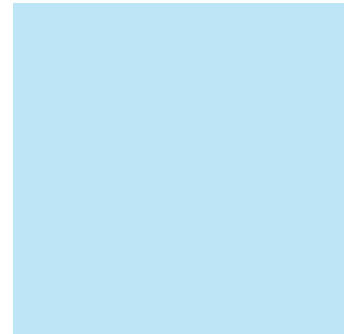
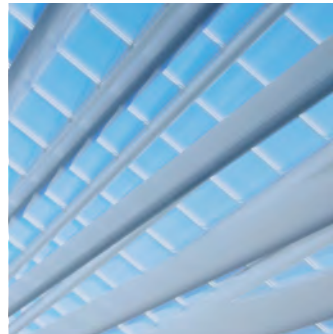
Encourage Municipal Issuers to Disclose Climate-Related Information

PRIORITY:

Climate Change

ACTIVITY:

CDP remains focused on encouraging municipal bond issuers to disclose their climate-related risks and opportunities. We have been glad to continue our collaboration with CDP, through participating in their 2023 Municipal Disclosure campaign, where we encouraged a number of municipal issuers across various sectors to report their climate-related risks and opportunities through the CDP platform. Encouragingly, over 228 municipal issuers disclosed to CDP during the 2023 reporting cycle, and we expect to continue to see progress here.



Engagement activity information is based on engagements related to the Brown Advisory Tax-Exempt Sustainable 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 Tax-Exempt Sustainable Fixed Income 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. 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. 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. Diversification does not assure a profit, nor does it protect against a loss in a declining market. Bloomberg is not affiliated with Brown Advisory, and Bloomberg does not approve, endorse, review, or recommend the Brown Advisory Tax-Exempt Sustainable Fixed Income strategy. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the Brown Advisory Tax-Exempt Sustainable Fixed Income strategy.