Brown ADVISORY
Thoughtful Investing.

ESG ENGAGEMENT POLICY STATEMENT

Governing Brown Advisory's ESG-related engagement with companies and bond issuers represented in our equity and fixed income investment strategies

We have regular interaction, or "engagement," with various stakeholders who have an interest in the equity and fixed income securities we hold, including the companies and issuers themselves. Sometimes our goal in these engagements is to inform our investment thesis, and other times we seek to elicit a specific stakeholder response to an idea, suggestion, or perceived risk. Engagement has always played an important role in our fundamental due diligence. We believe that good fiduciaries and stewards of client capital have a responsibility to maintain consistent dialogue with the companies and bond issuers in which they invest.

Engagement is an important component of our ESG research work. Specifically, our engagement efforts aim ***to enhance due diligence; to identify risks and encourage companies/issuers to responsibly manage them; to encourage companies/issuers to embrace sustainable and/or impact opportunities; and to advise third-party stakeholders regarding actions that can positively affect material and salient ESG issues.***

In this policy statement we aim to clarify the principles, philosophy and processes that guide our ESG-related engagement efforts.

Principles

- **Performance first:** Sustainable investing at Brown Advisory seeks, first and foremost, to contribute positively to the performance of our strategies. Our engagement efforts aim to uncover environmental, social and governance risks and opportunities that may influence the return from an investment, and to encourage positive steps from companies, bond issuers and other stakeholders that may lead to better returns. In particular, engagement is an essential tool for ongoing monitoring and oversight of our holdings, and to hold companies and bond issuers accountable to factors that drive long-term performance. An inevitable output of this process is a series of engagements encouraging actions by companies and bond issuers that can potentially benefit society in addition to enhancing investment returns.
- **Speak up, where it counts, loudly:** We view issues such as climate change, inequality, and poor corporate governance to be tangible risks in our investment portfolios, and as clear and present threats to society and the environment. As a sizable institutional investor, we can have an influential voice; we seek to use what influence we have to encourage actions by companies and bond issuers that can benefit long-term value for stakeholders, increase resilience, and generate positive impact on society (within the boundaries of a company's business or the structure and purpose of a bond issue). We aim to exercise our influence through active, constructive engagement, as well as casting proxy votes as equity shareholders.
- **A collaborative, constructive approach:** We believe that a collaborative approach, as opposed to a combative one, is the most effective way for us to engage.
    - In our equity strategies, our preferred style of investing is to build concentrated portfolios of sizable, long-term holdings, and as such we seek to build and maintain productive relationships with the management teams of these companies over time. We seek to avoid investing in companies that, in our view, need to materially change their practices to be a suitable investment, so our engagement dialogue with management teams is often pragmatic, and covers issues where all parties acknowledge common interest. While we recognize the value of shareholder proposals and proxy voting as a mechanism for encouraging change, we have not needed to file such proposals ourselves in order to open up productive dialogue.
    - In the fixed income space, we seek to work with industry partners to develop and strengthen the principles that guide issuance of many green bond and other labeled bonds, and we believe we can be most productive when encouraging issuers and other market participants to adopt these principles. Many of our investments, including but not limited to labeled bonds, seek to enable companies and issuers to transition to more sustainable practices. We view our partnership with

these issuers, particularly smaller companies or municipal issuers who do not have dedicated ESG expertise, to be particularly impactful and meaningful in helping them to achieve their objectives. We also collaborate with ESG underwriting desks that are preparing to issue new labeled bonds, offering our perspective with regard to best practices for structuring such issues; our aim in these conversations is to encourage integrity and transparency in the financing of sustainable projects, and thereby increase wider participation and capital inflows.

    - In addition, we acknowledge that one investor's voice is rarely enough to spur meaningful actions by companies or bond issuers—consistent and coordinated work by many investors is often needed. We partner extensively with a variety of groups that help coordinate engagement activity within the investment community, such as Ceres, PRI, International Capital Market Association (ICMA), Confluence Philanthropy, Interfaith Center for Corporate Responsibility (ICCR), and other likeminded organizations. Our engagement approach and recommendations are informed by the Task Force for Climate-related Disclosure (TCFD), the Impact Management Project, SASB and CDP, along with many of their peers.

- **Commitment to core ideals:** We recognize the nuances involved in ensuring that the differing missions and values of our clients are reflected in their investments with us. However, there are certain key ideals that permeate all of our sustainable investment portfolios in terms of environmental, social, and governance considerations. These are outlined in our firm's Sustainable Investing Policy, and they guide us directionally with regards to engagement activity as well as investment decision-making.
    - Furthermore, we choose priority issues (see section below on this topic) for our engagement activity that we believe merit strategic focus because of their importance, timeliness, and broad applicability to the preponderance of publicly-traded securities. We revisit our choices regarding strategic priorities on a periodic basis.
- **Long-term effort:** We believe that any successful engagement requires persistence over a long period of time. With respect to the ESG issues raised in engagements, companies and issuers are often willing to commit to incremental changes at first, but it takes work to track and ensure that they implement those changes, and even more work to encourage them to continually ratchet up their ESG commitments as part of a gradual evolution over time. We are committed to this ongoing process and we revisit and monitor the progress being made by the companies and issuers represented in our portfolios.

Engagement Approaches

At Brown Advisory, our engagement activity generally falls into four categories:

- **ESG Due Diligence:** We conduct ongoing discussions with companies/issuers to inform our investment research and decision-making. These conversations are a standard component of our ESG research process, and take place as part of our initial vetting of potential holdings, as well as over time as part of the monitoring process for existing holdings in our portfolios.
- **Impact:** We collaborate with companies/issuers and industry groups to advocate for improved ESG practices, and continued implementation of existing ESG-related initiatives. We note that proxy voting is an important tool for signalling what we consider to be best practices on ESG-related topics, and we offer further detail in our Proxy Voting Policy.
- **Advisory:** We are often asked by companies for feedback and informal advice on the development, improvement, and/or communication of their ESG efforts, and specifically by bond issuers and underwriters who value our opinions regarding best practices in structuring impact-oriented bond deals. (To be clear, we do not act in any formal capacity as an advisor or consultant on these matters, we simply act as a sounding board.)
- **Collaboration:** We partner with investor groups and NGOs to help advance salient issues when independent engagement would be less effective.

Priority Issues

Much of our engagement activity stems from our overall "bottom-up" orientation to investing—we seek to review companies and issuers on a case-by-case basis, and we base our engagement discussions on the specific risks and opportunities that we consider to be most relevant and material in each situation. However, we also strive to engage at a strategic level with many companies and issuers, on a common set of priority topics that have wide-ranging relevance. As such, at any given time we are working on a refined set of high-priority engagement topics that inform our goals broadly across our portfolios.

In setting engagement priorities, we consider the following factors:

- Exposure: is it a risk or opportunity to which Brown Advisory's strategies are especially exposed, especially in sustainable strategies? Have we seen one or more companies or issuers demonstrate weakened management of the issue?
- Saliency: is it an issue that transcends materiality, with broad-sweeping implications for all stakeholders?
- Demand: do our clients care about the issue?
- Outcome achievability: does Brown Advisory have the resources and/or influence to drive progress? Do we have the internal expertise needed to engage thoughtfully on the issue?
- Proactive outreach: have companies, bond issuers or other key stakeholders sought out our participation or advice?

Annual Reporting

Our engagement priorities in calendar-year 2020 were: **climate change; general disclosure; diversity, equity and inclusion;** and, **AI ethics/data security**. We offer discussion of our current priority engagement topics, and summarize our engagement activity for the prior year, in our annual Summary Engagement Report.