

2024

# Sustainable Core 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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Portfolio Manager



*Jason Vlosich*

**Jason Vlosich**  
Portfolio Manager

Dear Fellow Investors,

2024 was another pivotal and volatile year for markets—marked by catastrophic climate events, economic challenges, growing geopolitical tensions and uncertainty around a divided political climate. Despite what seems to be a daunting path ahead, there are positive trends in technological advancements, superior data capabilities, and increased capital being deployed to address critical global challenges.

The sustainable investment landscape continued to face scrutiny in 2024, prompting a necessary reset and reflection on how the industry uses terms to define or brand different investment approaches and philosophies. This inconsistency led to confusion and detracted from the core goal of delivering long-term, risk adjusted returns for clients.

Under a divided political climate, short-term shifts in public policy on various issues, including tax reform, immigration, tariffs, and regulation are probable. While uncertainty around these changes and the potential for some initiatives to be rolled back will likely continue, we have not altered our investment process, which is rooted in financial materiality. We firmly believe 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 many large-scale systemic challenges the world faces today.

Ultimately, we believe secular trends like climate risk and demographic shifts impact long-term value creation, transcend politics, and will continue to be important considerations in our research process. We see this period as an opportunity to continue investing in issuers that we believe are well positioned to adapt to these transformative trends, which are poised to shape the global economy in the decades ahead.

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 Jason**

## SUSTAINABLE INVESTING AT BROWN ADVISORY

As investors, we will consider any data, factor, business tactic or strategy, economic or market condition – whether quantitative and qualitative – which might allow us to better understand the material challenges and opportunities facing a business or issuer. Every Brown Advisory investment strategy holds the fiduciary duty of delivering investment performance to clients as its highest obligation.

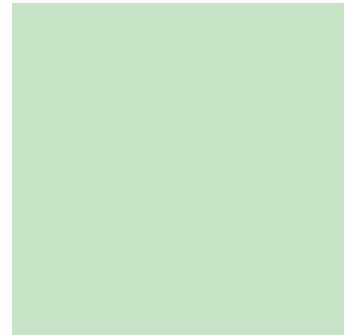
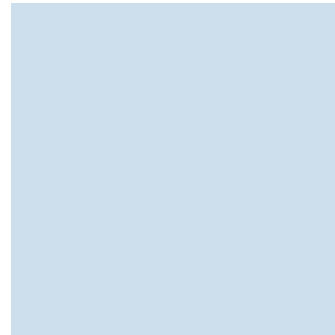
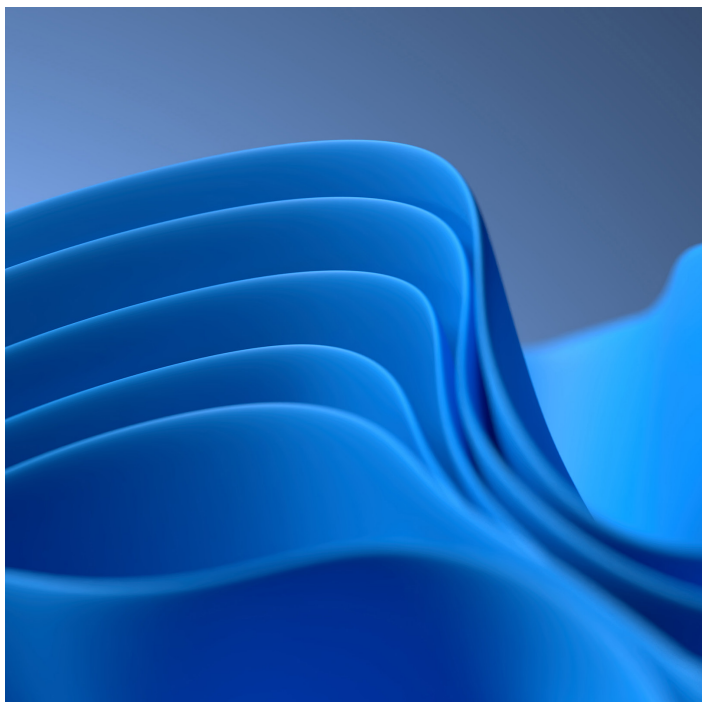
### How we think about Sustainable Investing

Sustainable Investing strategies apply an active and documented investment decision-making framework that emphasizes the materiality of the risks and/or opportunities that arise from natural resource, social and economic, climate, and/or governance issues in their underwriting of an investment. No two Sustainable Investing strategies will be exactly alike--each strategy's approach will reflect the portfolio manager's autonomy to invest in the way they believe best generates long-term performance for clients.

### Investment philosophy

We firmly believe there does not have to be a trade-off between strong performance and investments that help address global sustainability challenges. We find that a sustainability-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 breadth of the fixed income markets. By underwriting sustainable investment research into our due diligence process, we aim to identify responsible and forward-thinking issuers to construct a portfolio that delivers attractive risk-adjusted returns.

The Brown Advisory Sustainable Core 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 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 take an active and flexible approach to fixed income investing, seeking to offer investors access to an attractive stream of income and risk-adjusted returns while simultaneously generating positive outcomes on sustainability issues. We do this by incorporating sustainable investment analysis to strengthen both top-down and bottom-up credit-focused research, providing a deeper holistic risk profile of the issuers we evaluate.

- **Fundamental investment research:** combining global macro assessment to determine overall portfolio risk and composition, with bottom-up analysis to model cash flows, duration, valuations and an issuer's ability to pay.
- **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.

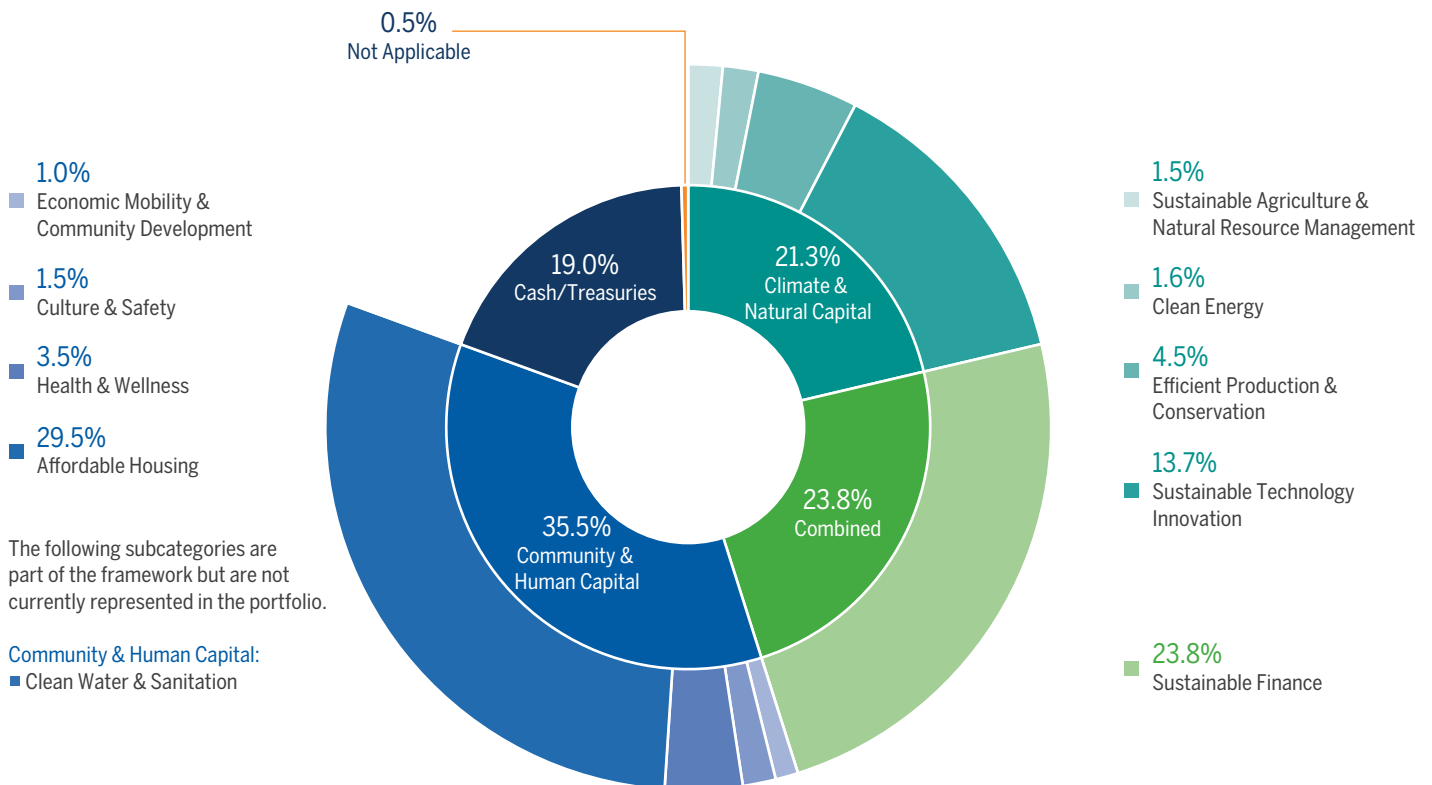
It is at the intersection of these key elements where we find an attractive investment. Only when an issuer meets our exact standards will they be considered candidates for inclusion into our sustainable bond portfolios. And our ongoing active and dynamic approach to asset allocation means we will reposition 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 our investment philosophy 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 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 "not applicable" category. Portfolio information is based on a Brown Advisory Sustainable Core Fixed Income representative account as of Dec. 31, 2024, and includes cash. Please see the end of this report for important disclosures.

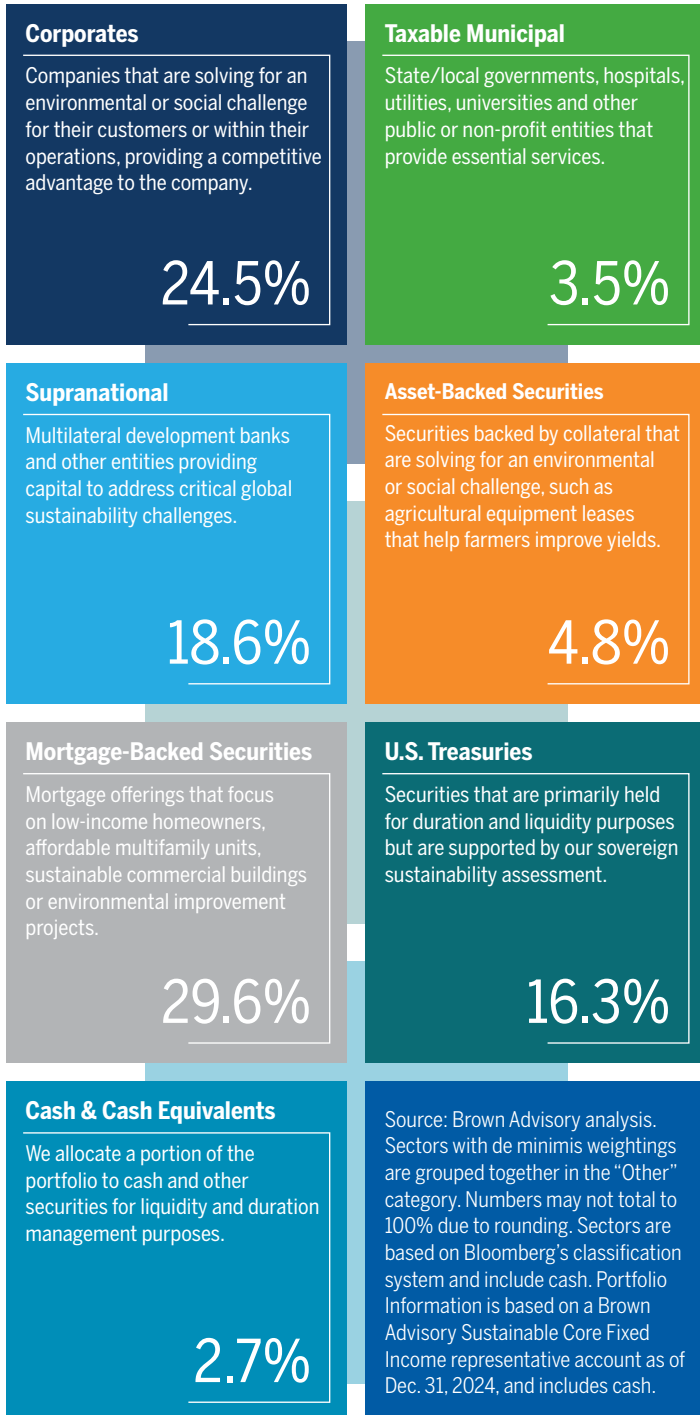
### A CLIENT-FOCUSED THEMATIC FRAMEWORK

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), if that aligns with their investment philosophy or goals. 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 sector

We believe that a fundamentally diverse portfolio, spanning a full range of fixed income sectors, naturally increases the range of issues and themes present in the portfolio. Each sector offers a differentiated entry point to various types of sustainability issues.



## 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 2024 surpassed \$1.63 trillion in issuance<sup>1</sup>, making it the second highest year for issuance on record. Green bonds are the most popular label, making up over 42% of total issuance<sup>1</sup>.

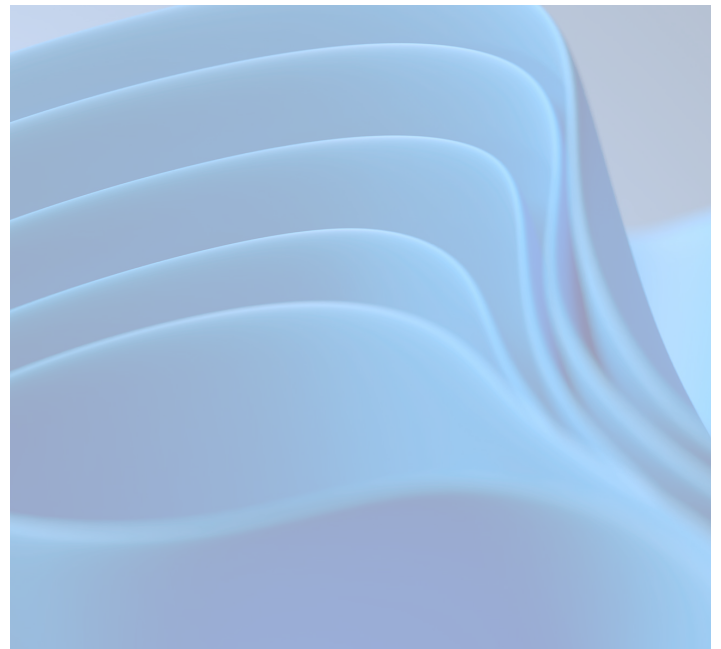
While appealing, bond labels are no shortcut for the prudent investor due to a lack of standardization and independent verification. When assessing a labeled bond, it is important to understand how the labeled bond fits into an issuer's overarching sustainability strategy, including evaluating the use of proceeds and mechanisms for accountability. In particular, we examine how well these bonds align with 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. The portion of the portfolio invested in different labeled bonds is presented below.

<sup>1</sup> Bloomberg New Energy Finance (BNEF) as of Dec. 31, 2024.



Source: Brown Advisory analysis based on a Brown Advisory Sustainable Core Fixed Income representative account as of Dec. 31, 2024, and includes cash. Please see the end of this report for important disclosures.



## Case studies



### EASTMAN CHEMICAL COMPANY (GREEN BOND)

**THEME:**  
Sustainable Technology Innovation

#### ISSUER SUMMARY:

Eastman is a chemical producer developing its capabilities to produce plastic from recycled plastic rather than through the traditional method using virgin feedstock. While it is early in these efforts and still largely uses virgin feedstock, Eastman is taking significant steps to transition its production method. For example, it has invested in three molecular recycling facilities that can help it convert plastic waste into feedstocks and has set targets related to the amount of recycled waste it converts, as well as for sales of specific products it makes using these inputs. We expect that over time Eastman will benefit from increasing demand from customers, driven either by preferences or regulation.

We are invested in Eastman's 2023 green bond, with funding eligible to be allocated across project categories, including eco-efficient/circular-economy adapted products; pollution prevention and control; renewable energy; and more. According to its 2024 impact report, Eastman has already allocated 100% of the proceeds, with all having gone to eco-efficient/circular-economy adapted products.<sup>1</sup> Investments in this category support the scaling of Eastman's waste reduction and product circularity efforts, including its goal to recycle upwards of 500 million pounds of waste annually—a 3,837% increase of its recycling capacity in 2021—largely via new molecular recycling facilities in France and Tennessee.<sup>1</sup>

<sup>1</sup> [Eastman 2024 Green Bond Report](#).



### REGENERON

**THEME:**  
Health & Wellness

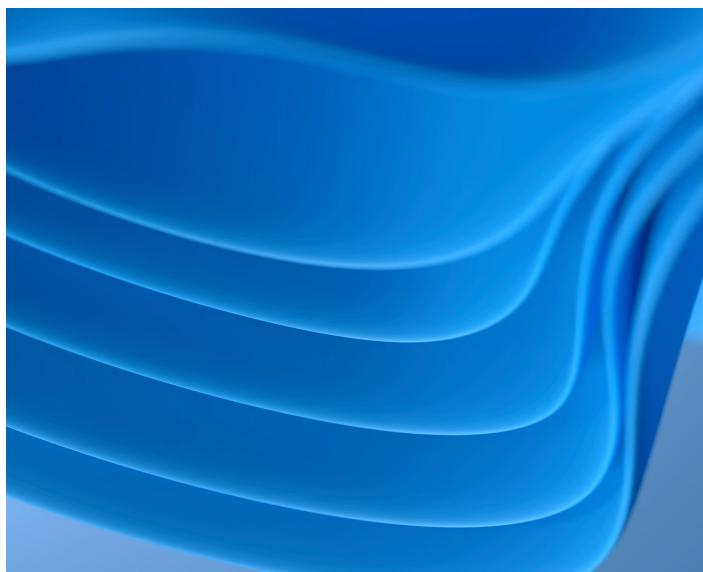
#### ISSUER SUMMARY:

Regeneron's competitive advantage lies in the company's 'one-stop' shop business strategy that seeks to improve patient outcomes by leveraging its biotech capabilities to discover, develop and manufacture medicine through the Regeneron Genetics Center (RGC) and VelociSuite Technologies. RGC houses one of the largest and most comprehensive human genetics databases that operates under the objective to improve patient outcomes by expanding the use of human genetics for clinical research and discovering and validating genetic factors that cause or influence a variety of diseases.<sup>2</sup> We believe the breadth of RGC's genetic database presents the company with a unique opportunity to expand its market share by developing more effective treatments for underserved and underrepresented communities.

Regeneron's VelociSuite Technology enables the company to quickly discover and develop human antibodies, the foundation of biologic medicines developed to treat and sometimes reverse the effects of human diseases that were previously incurable. For example, Dupixent® is the first and only biologic to produce statistically significant results that show a significant reduction in moderate to severe COPD and improvement in lung function.<sup>3</sup> VelociSuite pushes the boundaries of scientific discovery and accelerates drug development. RGC and VelociSuite has enabled the company to solidify its standing as a leader in the biotech space by applying a revolutionary approach to drug discovery and development.

<sup>2</sup> [Regeneron Genetics Center \(RGC\)](#).

<sup>3</sup> [Regeneron and Sanofi Dupixent Press Releases](#).



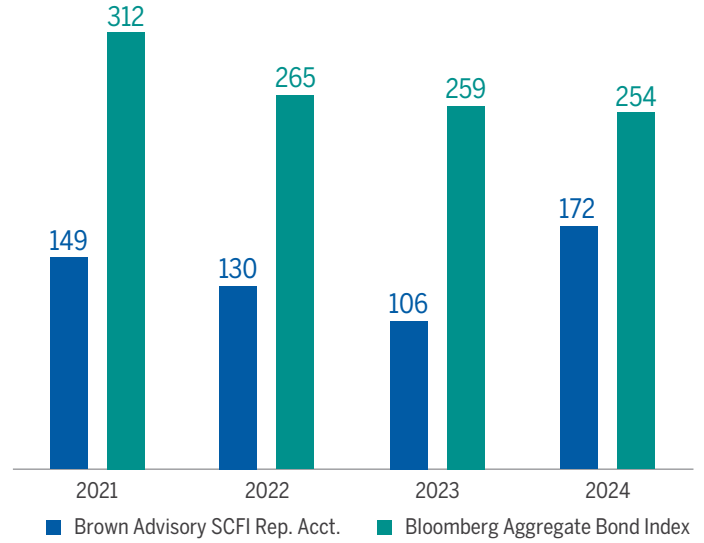
## Carbon emissions data

While climate risk is a consideration for all asset classes within the portfolio, the data on the right is illustrative of corporate issuers only due to the availability and comparability of data. This represents 24.5% of the portfolio.

We believe the fixed income markets are poised to play an essential role in financing the global effort to decarbonize our economy. As part of our investment assessments, we consider an issuer’s overall carbon footprint. From an investment perspective, this is beneficial as lower emissions can reduce the cost of operating expenses when paired with efficiency gains, mitigate certain regulatory risks, and signal stronger long-term resilience in an increasingly turbulent ecosystem.

Most large companies report in some form on carbon emissions and decarbonization efforts, but this is not consistently applied across all fixed income sectors. We continue to encourage issuers to make progress in this area and work with CDP and other investor groups on several multiyear initiatives aimed at creating reliable datasets for other fixed income asset classes.

### WEIGHTED AVERAGE CARBON INTENSITY<sup>1</sup>

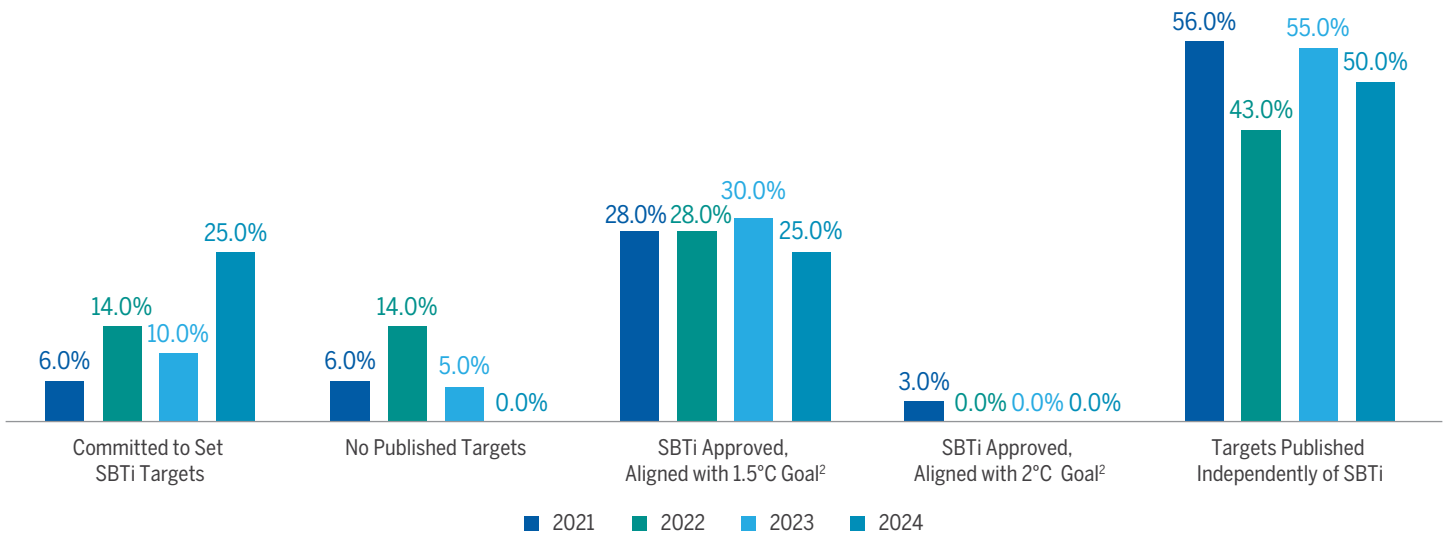


<sup>1</sup> Tons CO<sub>2</sub>e/\$M revenue of portfolio holdings, adjusted based on relative weighting of each holding.

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

## Science-based targets progress

It is important to look not only 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 Targets initiative (SBTi), although some set targets independently from this initiative. The presence of credible, forward-looking climate targets can signal a company’s preparedness for regulatory shifts, evolving customer expectations, and resource constraints—factors that may contribute to long-term resilience and competitive positioning.



<sup>2</sup> 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 or company—we engage only when we believe it will be material to our investment decisions.

Source: MSCI ESG Manager and Brown Advisory analysis. Data reflects portfolio holdings as of Dec. 31, 2024. Portfolio information is based on a Brown Advisory Sustainable Core Fixed Income representative account as of Dec. 31, 2024. 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

**70**  
Portfolio engagements

Source: Brown Advisory. Portfolio information based on a Brown Advisory Sustainable Core 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. Please see the end of this report for important disclosures.

### FREQUENCY OF ENGAGEMENT PRIORITY WITH ISSUERS

#### Portfolio engagements

#### CLIMATE & NATURAL CAPITAL

##### Climate Risk

**44**

For example, reporting on and managing climate risks.

#### COMMUNITY & HUMAN CAPITAL

##### Human Capital, Culture, and Community

**14**

For example, ensuring access to essential services, upholding human rights, and promoting positive culture and labor practices.

#### GOVERNANCE

##### Disclosure

**42**

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

##### AI

**1**

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.

##### Governance

**9**

For example, implementing policies and procedures to support various stakeholders, including increasing transparency in reporting.

## Notable engagements in 2024



### GLOBAL FOREST PRODUCTS COMPANY

#### GOAL:

Understand the sustainable lumber and circular products opportunities

#### PRIORITY:

Climate Risk

#### ACTIVITY:

This global forest products company derives most of its revenue from its pulp business but continues to diversify revenue streams with its lumber products business and other circular product opportunities. The company should see continued growth of its lumber business; it is expected to be able to capitalize on its meaningful share of the North American cross-laminated timber (CLT) market as this increasingly serves as a replacement for more emissions-intensive building products. Additionally, the company uses lignin, a byproduct of the pulp production process, as energy to fuel its own processes and generates revenue by selling excess energy to the grid. Finally, the company is exploring using lignin to produce alternatives to fossil fuel-based products.

Through our engagements over the last several years, we continue to monitor the development and conviction of these emerging opportunities. The company has been open to bondholder engagement since the team's first engagement in 2020. Most recently, in the fall of 2024, management requested a conversation with us to learn more about our approach to sustainable investment and what the company can focus on to fit into our investment framework. We also offered to provide guidance to the company on a potential labeled bond, which would help ensure the bond is shaped according to industry best practices. As a result of our ongoing dialogue both generally and on sustainability, the company ensured that we received strong allocation of its new issue high-yield bond, which, combined with the return at par of the previously held bond, led to meaningful performance benefits.

Please note, for the purpose of our public reporting, and in keeping with the spirit of trust and collaborative dialogue with our holding companies, we feel that it is important to anonymize the companies with which we engage on key sustainability issues.



### MULTINATIONAL FINANCIAL SERVICES COMPANY

#### GOAL:

Understand the bank's sustainability strategy and support for clients in the new energy solutions

#### PRIORITY:

Climate Risk

#### ACTIVITY:

This multinational bank is one of Spain's largest financial groups and has a strong presence in emerging markets. Over half of its loan exposure is in Turkey and Mexico, underpenetrated markets where it is well positioned to expand access to financial services for the underbanked. Both countries are emerging markets (EM), which offer strong economic growth potential for loans and bank account products. SME lending, especially in EM countries, drives economic development and results in multiple benefits for regions; in OECD countries, it is typically the largest source of employment. Furthermore, the bank is at the forefront of digitalization, with more than half of new customers acquired digitally, further cementing its leadership position and driving down its cost base.

Beyond its important role in supporting economic development, our most recent engagement in 2024 sought to understand its sustainability strategy and how it was supporting clients in their transition. We learned through our engagement that the bank is seeking to develop expertise in new technologies to better advise its clients on decarbonization strategies; in 2024, it expanded its footprint in the US with the aim of leading the financing of new energy solutions in the country, working alongside other companies prioritizing decarbonization efforts. As part of this new strategic initiative, the bank also committed significantly to a private climate infrastructure fund, which seeks to invest in new energy opportunities. The bank sees it as a win-win for its largest clients who seek to decarbonize but don't want to make the upfront investments in nascent technology on their own balance sheet. Overall, this engagement strengthened our conviction in the bank's ability to pursue its sustainability strategy as its corporate clients can benefit from getting priority access to sector-specific technology innovation without taking on balance sheet risk.

Engagement activity information is based on engagements related to the Brown Advisory Sustainable Core Fixed Income Strategy during 2024. 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 Sustainable Core Fixed Income representative account as of Dec.31, 2024. 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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