

2024

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,

2024 was another pivotal and volatile year for markets—marked by catastrophic climate events, economic challenges, and uncertainty following the U.S. election and its policy implications. Despite what seems to be a daunting path ahead, municipal issuers continue to prioritize addressing climate risk, and provide access to affordable housing, clean water, education, and health care.

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 critical sustainability challenges. Without both in combination, it will be difficult to amass the necessary capital required to address many large-scale systemic challenges society 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 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, Steve and Katherine

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.

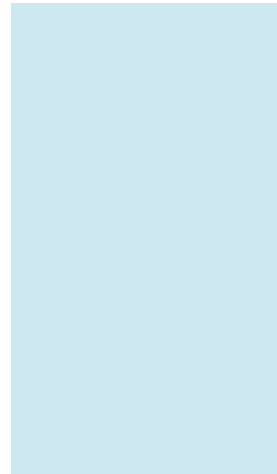
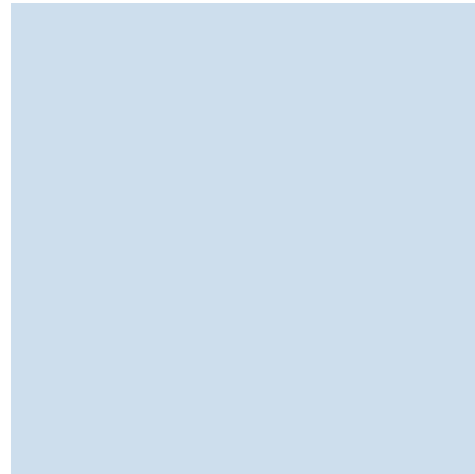
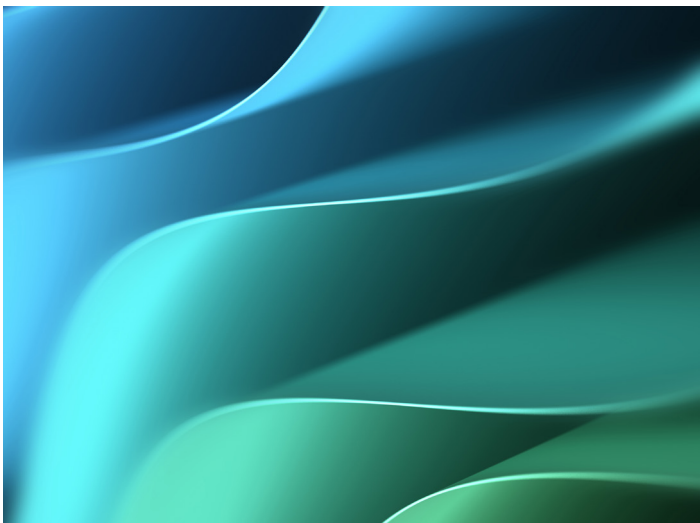
How we think about Sustainable Investing

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

- **Fundamental investment 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.

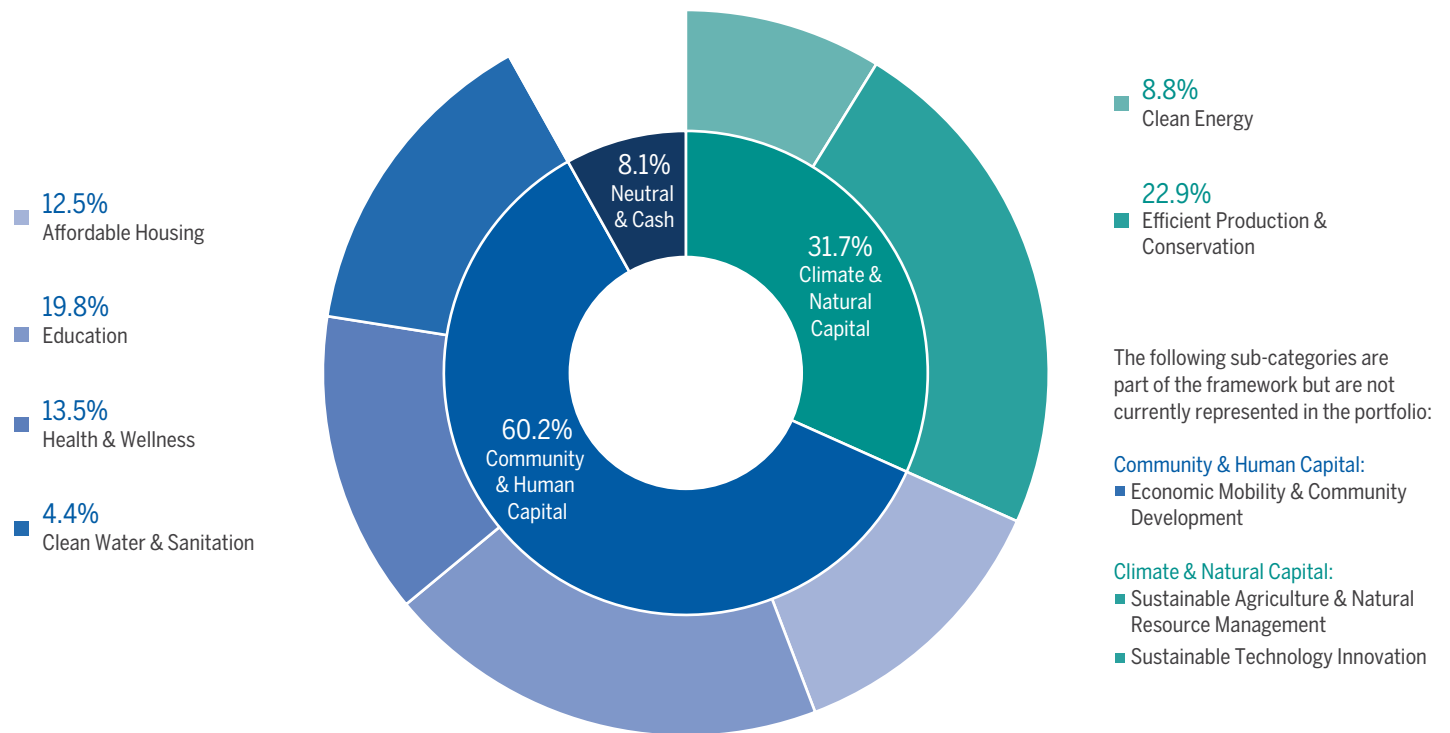
It is at the intersection of these key elements where we find an attractive investment. Only when an issuer meets our exact standards will they be considered candidates for inclusion in our sustainable bond portfolios.

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 "neutral" category. Portfolio information is based on a Brown Advisory Tax-Exempt Sustainable Fixed Income representative account as of Dec. 31 2024, and includes cash. Please see the end of this report for important disclosures.

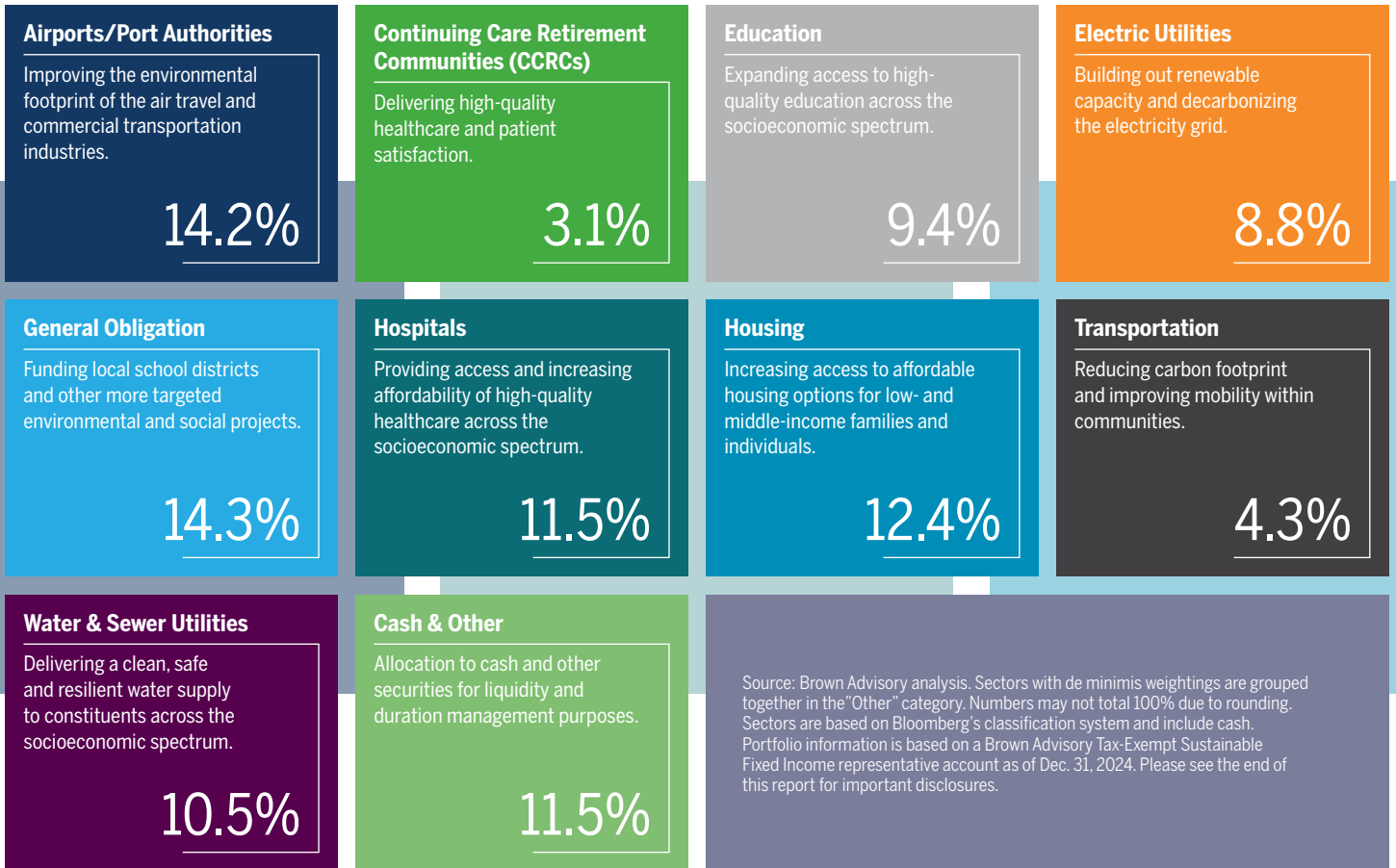
A CLIENT-FOCUSED THEMATIC FRAMEWORK

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 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.



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 issuance¹, making it the second highest year for issuance on record. Green bonds are the most popular label, making up over 42% of total issuance¹.

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

21.8%

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

¹ Bloomberg New Energy Finance (BNEF) as of Dec. 31, 2024.

Case studies



JFK MILLENNIUM PARTNERS LLC

ISSUER SUMMARY:

JFK Millennium Partners has demonstrated efforts to integrate sustainable considerations to support efficiencies within both

the construction and operation of its Terminal 6 project. JFK's Terminal 6 project is expected to earn LEED Gold and is unable to earn Platinum, as it is constrained by its utility connection.¹ JFK also disclosed that low-carbon products were included in project specifications and will support ACA carbon accreditation Level 3 Optimization status.² This certification indicates the airport terminal is working to manage its emissions towards carbon neutrality. We believe operating airports more efficiently will better position the terminal over the long term compared to its peers, as this can help to put less strain on the local grid and reduce risk of operational disruptions from extreme weather, etc. SAF access is not guaranteed and is dependent on external parties, though we will continue to monitor for developments.



SUCCESS ACADEMY CHARTER SCHOOLS

ISSUER SUMMARY:

Success Academy directs much needed educational resources throughout the boroughs of Manhattan, Brooklyn, Queens and the Bronx, where a quality

education can provide students with essential services and a pathway to socioeconomic mobility. The network successfully prepares its students to be competitive applicants in the college vetting process through its rigorous curriculum and college prep programs. Success students outperform their peers on New York State ELA and math exams, allowing the network to maintain a college acceptance rate of 100% to 4-year colleges for 8 years in a row.³ With a specialized STEM program, Success is breaking barriers by establishing a strong pipeline of diverse graduates to the world's top math and engineering programs. The school's alumni base includes graduates from top-tier schools, including Harvard and MIT, further showcasing the breadth of opportunities available to their graduates, positioning them to pursue higher education. The New York City-based charter school is the 5th largest school district in the state, operating 57 schools.⁴ The network serves over 21,000 K-12 students, of which 94% are students of color and 78% are from low-income households.⁵

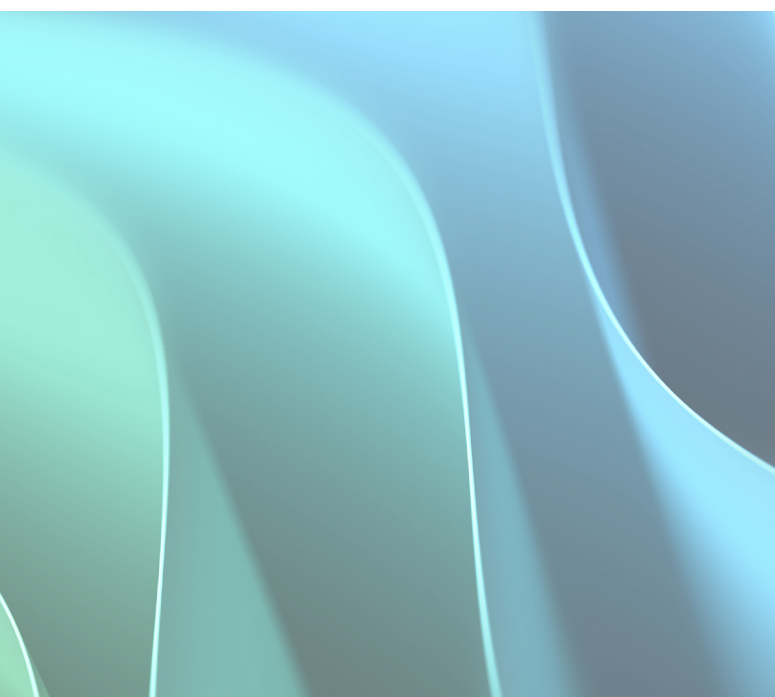
¹ JFK Millennium Partners Terminal 6.

² Brown Advisory and JFK Terminal 6 Engagement Call.

³ [Success Academy Results](#).

⁴ [Build NYC Resource Corporation Tax-Exempt Revenue Bonds \(Success Academy Charter Schools Project\), Series 2024](#).

⁵ [Build NYC Resource Corporation Tax-Exempt Revenue Bonds \(Success Academy Charter Schools Project\), Series 2024](#).



Climate risk 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. 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. 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.

Alongside partners such as the International Capital Markets Association (ICMA), Carbon Disclosure Project (CDP) and other industry organizations, we work on multiyear 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, 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 (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. Please see the end of this report for important disclosures.

FREQUENCY OF ENGAGEMENT PRIORITY WITH ISSUERS



Notable engagements in 2024



GENERAL CLIMATE ENGAGEMENT

GOAL:

Encourage Municipal Issuers to Disclose Climate-Related Information

PRIORITY:

Climate Risk

ACTIVITY:

Municipal issuers can be especially exposed to climate risks or opportunities, particularly the physical effects of climate change, depending on their location. For example, coastal cities need to adapt to rising sea levels, while cities in arid areas may see their water or electric systems heavily impacted by persistent droughts and heat. As a result, Brown Advisory has been focused on encouraging climate disclosure among municipal issuers to help them better underwrite these risks. Given the breadth of the municipal market and lack of standardized climate disclosure frameworks for municipal issuers, Brown Advisory finds that one of the most effective ways to engage is through industry events and workshops where investors, municipal issuers, and other stakeholders can come together and discuss best practices. This year, a member of the investment team presented at both the National Annual Government Financial Officers Association (GFOA) Conference and Annual CDP US Workshop, engaging with issuers on the physical climate risks facing state and local governments, and sharing Brown Advisory’s Sustainable Investing Philosophy and research process. We hope that this engagement with the industry helps promote the importance and usefulness of these disclosures to investors.



U.S. HOSPITAL SYSTEM

GOAL:

Understand Health Equity and Community Engagement

PRIORITY:

Accessible and Affordable Quality Healthcare

ACTIVITY:

This hospital system is ranked highly in the state of Illinois and has an ambitious goal to reduce the ~11 year gap in average life expectancy between residents who live primarily in the West and South Side neighborhoods of Chicago and their peers who live only a few miles away in the city’s downtown loop. The phenomenon has been coined the “Chicago Death Gap.” By investing in health equity and focusing on the social determinants of health, the hospital system takes a more holistic approach to healthcare. What we found unique about their strategy was that the hospital system not only provided its patients with access to quality and affordable health care but also supported workforce development and education, community engagement, research, and policy and advocacy in the communities it serves. In our engagement with management, we discussed the hospital system’s commitment to health equity and learned that infusing health equity into each pillar of the organization was driven by the board and received full support from management. This is a prime example of how our assessment of healthcare systems goes beyond patient care and into serving the local community across the continuum of care.

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.

Engagement activity information is based on engagements related to the Brown Advisory Tax-Exempt Sustainable 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 Tax-Exempt Sustainable 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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