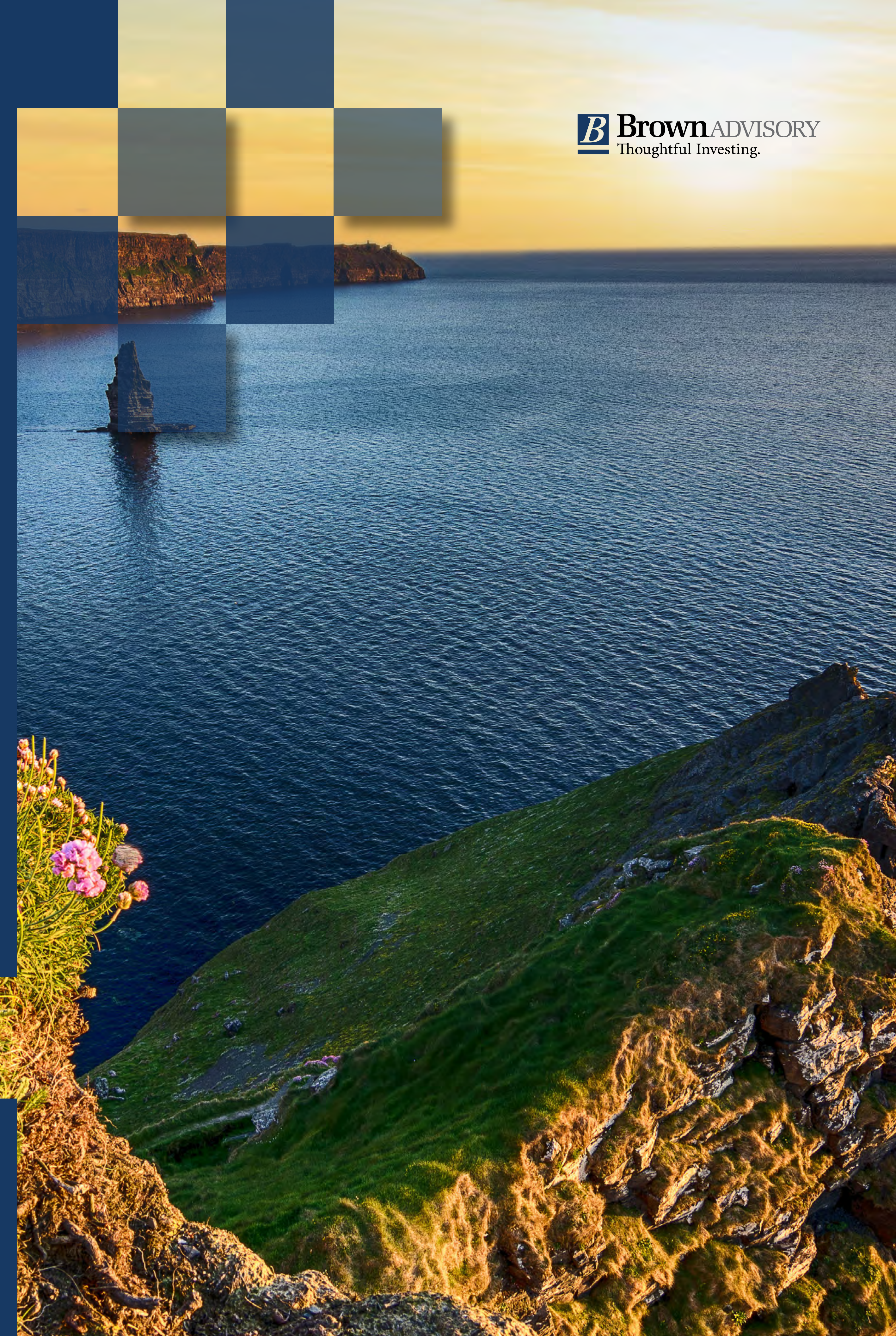
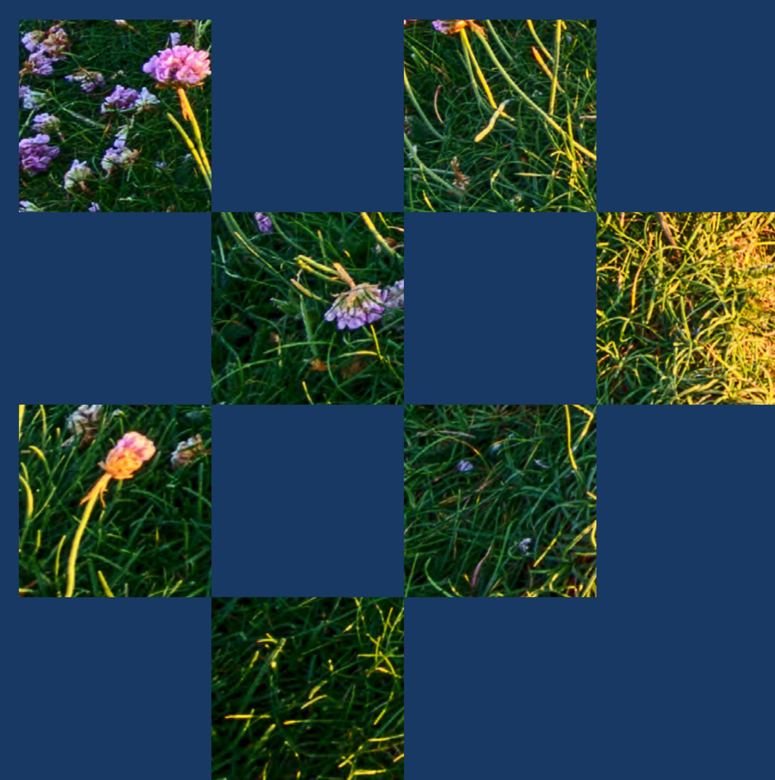
Brown Advisory

# Reflections on Stewardship 2021

*Stewardship | Defined as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."*



## Foreword

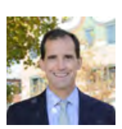
We think about stewardship broadly—indeed, you will see us use the term "raise the future" to refer to how we view our purpose for our clients, colleagues and communities. The idea behind this reflection of our purpose is the deep sense of responsibility we feel to help create a better and more sustainable future. At its essence, stewardship at Brown Advisory looks forward and requires us to take actions today to ensure that tomorrow is better.

As investors, we invest in companies and issuers that are better and stronger because of their role in building that sustainable future. As advisors, we help clients articulate what matters most to them in order to best incorporate philanthropy, community engagement, sustainability and impact-driven investments within their portfolios. As a business, we partner with for-profit and nonprofit purpose-driven organisations. As a firm, we make strategic contributions to certain charities and offset our emissions to achieve carbon neutrality. As a collection of colleagues, we bring our authentic selves to work every day in service to our clients, and we donate time and funds to support the communities that sustain us and our families.

To do this well, we must continue to intentionally recruit and elevate colleagues who share these values. Indeed, one of our criteria for promotion to Principal and Partner is demonstrating service to and leadership in the community.

We are deeply humbled to even consider that our firm's breadth and depth give our colleagues a platform to demonstrate stewardship in their communities. We are appreciative of the Financial Reporting Council's commitment to promoting stewardship in our industry. We are proud of the work we are doing for clients—a group of inspiring individuals, families and organisations—so that they may be meaningful stewards for the future.

Sincerely,



**Michael D. Hankin**

Partner, President and CEO of Brown Advisory

**Karina Funk**

Portfolio Manager; Chair of Sustainable Investing

# Contents

# PRINCIPLE 1

## *OUR PURPOSE, STRATEGY AND CULTURE*

**Brown Advisory was founded on a simple vision: to build a client-first investment firm. Today, over 800 colleagues are privileged to serve an inspiring group of individuals, families, nonprofits, charities, institutions and financial intermediaries around the globe. In Principle 1, we outline how together, our firm's mission, purpose, investment philosophy and culture allow us to be effective stewards for our clients, colleagues and communities.**

### OUR MISSION

To make a material and positive contribution for each client by delivering first-rate investment performance, thoughtful strategic advice and the highest level of service to help them get to wherever it is they want to go. Our business model, providing investment management and advice to our clients, allows us to remain objective in our decision-making and reduces the number of conflicts that arise when firms have multiple, competing client income streams.

At the foundation of our work for clients is how we think about building a firm that has a bigger purpose, one that aligns very closely with the Financial Reporting Council's definition of stewardship—"to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."

**Client**first.

**Colleague**driven.

**Community**focused.

**Culture**led.

## OUR PURPOSE

We use the term “raise the future” to refer to how we view our purpose for our clients, colleagues and communities. As investors, we invest for the long term. As advisors, we help clients articulate what matters most to them in order to best incorporate philanthropy, community engagement, sustainability and impact-driven investments within their portfolios. As a business, we partner with for-profit and nonprofit purpose-driven organisations. As a firm, we consider our charitable contributions strategically, work toward reducing our emissions and, as a last resort, offset our necessary operational emissions to achieve carbon neutrality. As a collection of colleagues, we donate time and funds to support the communities that support us and our families.

There are a lot of needs, and we certainly do not have all the answers. However, we believe that through innovation, collaboration and humility, we can raise the future, for all of us, together.

### “RAISE THE FUTURE”

It is a big statement, a tall order and a moving target all at the same time. It is also meant to embody, in just three short words, our firm’s purpose. Our effort, energy and focus are all aimed at elevating the potential of tomorrow for our clients, colleagues and communities. If we are successful in the pursuit of our tomorrow-based purpose, those whom we count as shareholders will share in the value that our collective future holds.

Like our clients, colleagues, communities and culture, the word “raise” has many sides. Its flexibility and depth as a verb parallel how we think about our responsibility for those around us, and ultimately, the future.

1. to physically construct or move something to a higher position;
   ***like a barn***
2. to gather for a purpose;
   ***like capital***
3. to bring to maturity;
   ***like a family***
4. to bring up for consideration or debate;
   ***like a question***
5. to increase the strength, intensity or pitch of;
   ***like a voice***

## THOUGHTFUL INVESTING

Our **investment philosophy** is rooted in our aspiration to be thoughtful investors. For Brown Advisory, “thoughtful investing” is a dedication to rigorous, fundamental research to gain a deep understanding of the businesses, issuers and managers in which we invest our clients’ capital. It is the patience to allow the quality of strategies, companies and allocators to compound our clients’ capital over time. It is the humility needed to make objective, unbiased decisions—even under pressure—and to learn from our mistakes. It is an appreciation of context so that ideas can be kept in proper perspective. It is an intense focus on sustainability as a means to outperform. Thoughtful investing is the belief that teams—through diversity, collaboration and a willingness to challenge one another—best deliver the first-rate performance that we promise to each and every client.

The idea of “thoughtful investing” manifests in different ways across our various business activities:

**Funds and Strategies:** We use a disciplined, bottom-up, fundamental research approach to build low-turnover, concentrated portfolios with the potential to drive attractive performance results over time. We have a culture and firm equity ownership structure that help us attract and retain professionals who share these beliefs, and we follow a repeatable investment process that helps us stay true to our philosophy. Environmental, Social and Governance (ESG) research is foundational in the process behind our dedicated sustainable investing strategies and is also an input for many of our strategies that do not have an investment objective linked to sustainability.

To respond to clients’ needs and provide specific solutions for each client’s considerations and goals, we have expanded our platform, adding investment strategies, making significant new hires and promoting colleagues from within our own research team.

**Multiasset Portfolio Solutions:** Our Investment Solutions Group guides asset allocation and manager research recommendations for our private client, as well as our endowments, foundations and charities portfolios, conducting deep and rigorous due diligence across asset classes to provide access to both leading and emerging managers. As our client base has grown and as the capital markets become ever more complex, we have expanded our external manager platform and continue to add highly specialised, best-in-class managers—so that we can customise portfolios to maximise opportunities and account for risk and liquidity preferences. As part of our responsibility to clients, we continue to seek opportunities with investment managers in public and private markets that will add value to client portfolios.

## OUR CULTURE

Brown Advisory’s culture is rooted in our DNA, which we have come to define, with and through, our Four Cs: Clients, Colleagues, Community and Culture. We focus on clients, always. We take care of each other, our colleagues. We find material ways to help our communities thrive. And we strive to invest in, nurture and cultivate a culture that can support a special focus on the first three.

Fundamental to Brown Advisory’s DNA are our ownership structure and our independence. Brown Advisory has been a private, independent and colleague-owned firm since 1998. Together, our colleagues own approximately 70% of the firm—with every one of our full-time colleagues owning equity and no one individual owning more than 5% of the firm. The remaining 30% is owned by select outside investors who provide insight, perspective and stability. We believe this approach ensures that we have an inclusive and balanced ownership structure—and that our colleagues’ interests are aligned with those of our clients. This “ownership mindset” could not be more essential to our culture. As owners, we are responsible for building a firm that will navigate and raise the future. It’s on us. Each of us. And this makes for an exciting, challenging and empowering environment in which we are privileged to work.

Our first and primary measure of how effective we are in being good stewards for our clients, colleagues and communities is our client retention rate. For a “client-first” firm, it is really the only thing that matters. And if we are unable to keep our clients happy, then we will fail as a business, and that will not allow us to dedicate time, focus and resources to our colleagues and communities. Our trailing 10-year firmwide client retention rate is 98%, a number that we think reflects our clients’ confidence in our mission, purpose, investment philosophy and ultimately our ability to be good stewards of capital.

Perhaps no characteristic distinguishes Brown Advisory more than our team approach.

We have a remarkable group of professionals based across 16 offices who serve our clients—and by working as a team, we can bring to bear the power of our collective experience, insights and service.

Collaboration, whether focused on investment research, tax planning or creating an impact in the community, allows us to ask the right questions, formulate thoughtful strategies and fine-tune solutions. It may not always be the easiest way to operate or the quickest approach to a result, but we know that teams deliver the best solutions and outcomes for our clients.

### THE SHARED VALUES AND BELIEFS UNDERPINNING OUR CULTURE

**Putting clients first, always**
This principle underpins everything we do. We are fortunate to be in a position to amplify the work, effort and impact of individuals, families and institutions who are making a difference in the world.

**The importance of our people**
We invest in individuals who embody our mission, purpose and values with humility. These colleagues perpetuate our culture by directing their focus, energy and skill for the benefit of our clients.

**The importance of investment results**
As investors, first and foremost, we know that achieving compelling investment results is paramount to our success.

**Being disruptive and innovative**
As a private firm, our long-term investment horizon allows our colleagues to explore new ideas and take certain risks. This entrepreneurial spirit is the foundation for building new performance, advice and service capabilities for clients.

**Working as a team**
We believe that decisions are best made with input from a group and in the light of each other’s scrutiny, instead of alone and in the dark.

**Embracing outside views**
A key ingredient in making sound decisions for our clients is to surround ourselves with a network of intelligent, experienced and diverse people. For us, this includes but is not limited to directors, outside shareholders, clients, other investors and industry leaders across the globe.

**Open and honest communication**
Our flat organisational structure makes it particularly important for us all to communicate effectively. At the heart of effective communication is our honesty, openness and a willingness to challenge each other with positive intent.

**Celebrating diversity, equity and inclusion**
Beyond just being the right thing to do, we know that a diverse team—with different backgrounds, worldviews and perspectives—operating in an inclusive environment will create more meaningful outcomes for clients. This commitment should not only be reflected in the diversity of our colleagues but also in those recognised as Principal and Partner. Further, a constructive attitude toward progress, an open mind and an open heart are factors that are held in focus when candidates are considered for Principal and Partner.

**Protecting our equity structure**
We award equity to all colleagues to make sure that our ownership structure is inclusive and balanced. This “partnership” philosophy underlies our shared sense of purpose and the alignment of our interests with those of our clients.

**Learning and curiosity**
Colleagues who are always in learning mode tend to have two important traits that translate to client success—humility and an adept ability to listen. In celebrating our collective curiosity, we recognise that we do not always have all the “right” answers and must continue to search for new and more effective solutions.

**The importance of growth and reinvestment**
We seek to grow steadily over time so that we can develop our resources to better serve clients. This includes meaningful reinvestment activity to expand our range of advice and service capabilities, strengthen our investment research teams, and improve technology resources.

**The performance and impact value of sustainable investing**
When it comes to maximising the risk-adjusted total return of an investment portfolio and making meaningful progress toward one’s mission, clients do not have to choose one over the other.

## SUSTAINABILITY

Sustainability is at the heart of our focus when investing in relationships for generations and ensuring that we are continuing to ask questions about goals, values and risk tolerance. For some of our clients, particularly nonprofits, charities and families, we construct multiasset, mission-aligned portfolios that seek to deploy capital to achieve both financial objectives and positive impact in the world. Just as we do not build portfolios based on models, we do not make assumptions about what sustainability means to a client. We start by listening and investigating what aspects of the environmental, social and governance landscape are most important before we begin to discuss how to express those values through a client's investment portfolio.

For us, sustainability is a meaningful part of thoughtful investing. We see incorporating a broad range of risks and opportunities into our research process as an important tool to generate long-term performance, including how a company is managing its products, services and solutions in the face of climate change and other long-term societal factors.

We believe that there does not have to be a trade-off between strong performance and responsible business practices, whether we are managing proprietary strategies within equities, fixed income or other asset classes, or working with individuals, families and charities to aligning their investment portfolios with their values.

## REDUCING CORPORATE EMISSIONS

As part of our purpose, we are committed to addressing climate change from both an investment and operational lens.

With respect to operational emissions, our focus remains first on reducing and monitoring emissions, and then on contributing funds to climate-positive projects around the world to compensate for unavoidable emissions.

Our operational carbon emissions in 2021 were approximately 3,500 metric tons, with the bulk of our impact stemming from a mix of Scope 1 and 2 emissions (heating and powering our physical office spaces) and Scope 3 emissions (emissions from air travel). Our corporate real estate team is supporting multiyear reduction efforts for Scope 1 emissions with a requirement for new buildings where we procure office space to meet the highest levels of LEED and BREEAM certifications. Our development of office spaces is also aligned with these standards.

Each year, we "offset" our emissions through a combination of renewable energy certificates and contributions to climate-positive projects.

### SUSTAINABLE BUSINESS ADVANTAGE

Portfolio Managers David Powell and Karina Funk developed the concept of Sustainable Business Advantages (SBAs) to determine how sustainability can drive a company's revenue growth, cost savings or enhanced franchise value and lead, ultimately, to advancing shareholder value. Additionally, the team believes that sustainable business advantages can drive positive environmental and sustainable outcomes.

As an example, our flagship Large-Cap Sustainable Growth strategy, led for the past 10 years by Karina and David, is widely recognised by investors and leading financial publications as a strong sustainable investment option. The strategy uses proprietary research to produce positive returns and sustainable outcomes for clients. Ongoing engagement and monitoring are part of our investment process for strategies that consider SBAs.

Examples of Sustainable Business Advantages in Strategy Holdings

| SBA Driver | Business Scenario | Company Trait/Strategy | SBA Outcome |
|---|---|---|---|
| Revenue Growth | Customers have an appetite for being more productive and saving money. | Company offers solutions that help firms reduce energy, water or resource usage whilst improving customer throughput/yields. | Helping customers save money whilst increasing their productivity is a persistent and compelling value proposition that can increase a company's sales growth. |
| Cost Improvement | IT firms host data centres that consume energy and produce emissions at a massive scale. | Leading IT firms are working to reduce the energy and resource costs of operating these data centres. | The companies that innovate and stay ahead of competitors can operate their centres more efficiently and offer renewable energy within their customers' supply chains. |
| Enhanced Franchise Value | Consumers are increasingly migrating to environmentally and socially responsible products. | Some companies are responding with ethical, healthy, organic products to meet this demand. | Companies that have built sustainable product lines over time may enjoy customer loyalty and a strengthened brand. |

## COMMITMENT TO DIVERSITY, EQUITY AND INCLUSION

We strongly believe that we cannot be an innovative firm without a pronounced dedication to and investment in diversity, equity and inclusion (DEI), evidenced as follows:

- The Principal and Partner promotion process considers a candidate's leadership in diversity, equity and inclusion.
- All of our business areas incorporate DEI commitments into strategic plans.
- Our group heads' annual goals include DEI objectives, to which their compensation is tied.
- With term limits and a focus on recruiting women and people of color, we are intentional about the diversity of Brown Advisory's board of directors.
- For the third year in a row, we earned a perfect score of 100 on the Human Rights Campaign's Corporate Equality Index, the U.S. benchmark for corporate policies and practices to support LGBTQ+ colleagues.
- Our seven colleague resource groups (CRGs) support colleagues and allies as well as proactively educate colleagues about the needs and experiences of underrepresented groups:
  - Asian and Pacific Islander
  - Black and African
  - Hispanic and Latinx
  - LGBTQ+
  - Military and First Responders
  - Parents and Caregivers
  - Women
- Through periodic surveys, focus groups and audits, we obtain data that help direct our DEI strategies—and provide quantitative measures to accompany our objective to continually consider what it feels like to be in someone else's shoes.
- We monitor hiring, retention and promotions through a DEI lens to maintain our focus on building a diverse and inclusive community.
- We conduct anonymous biannual DEI surveys to hear directly from colleagues and to understand how the firm can help them be successful.
- Comprehensive pay equity audits are conducted biannually to ensure equity in compensation for all colleagues.

OUTCOME

**2021 INVESTMENTS IN CLIMATE POSITIVE PROJECTS**

**The Giving Trees**

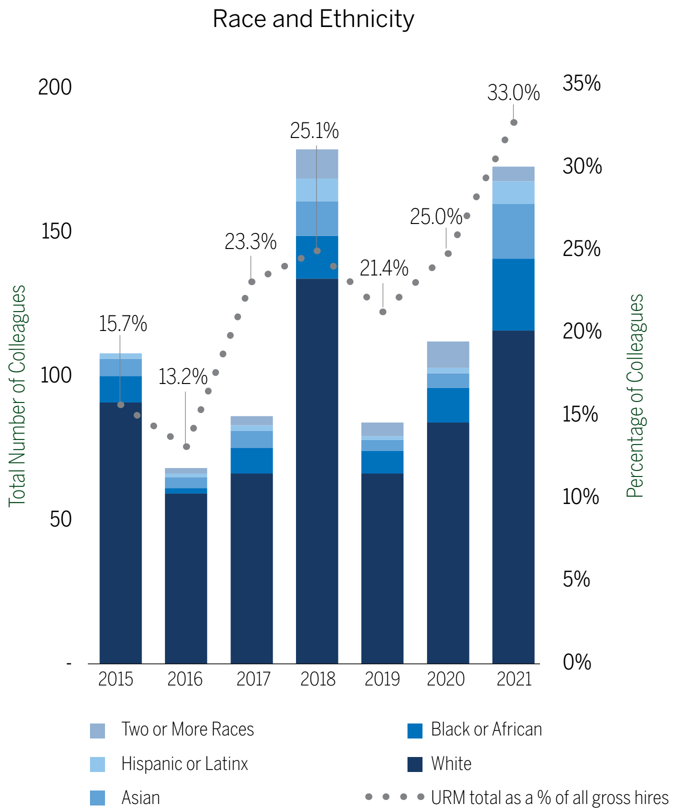
*The Giving Trees plants trees in Kenya and Uganda to help small communities create a nature-based carbon removal system that helps train leaders, supports women's smallholder farms and pulls families out of poverty. The project is verified by Verra and the Cool Effect Foundation, our purchasing partner.*

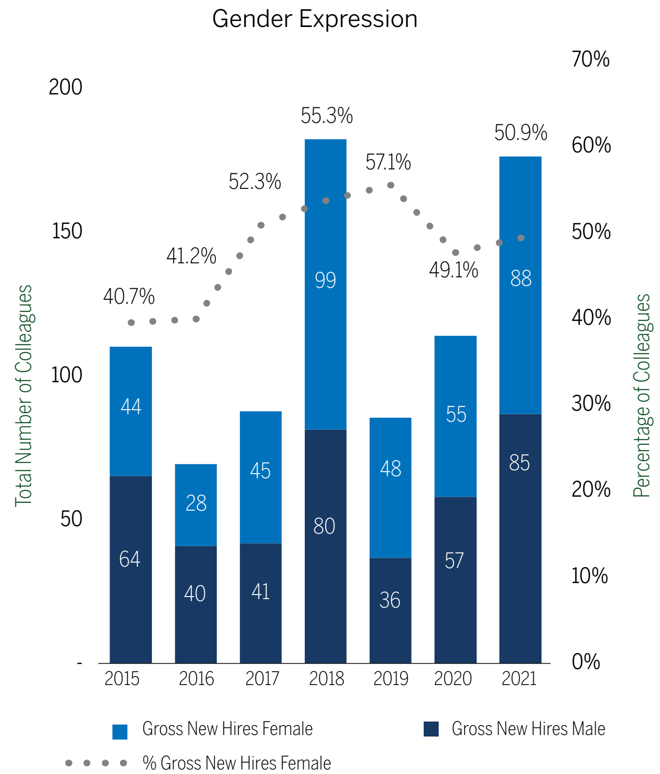
**Cooking with Gas**

*Cooking with Gas builds biogas digestors for families in China that capture methane emissions from waste and convert them to renewable energy. It is verified by Gold Standard CDM and the Cool Effect Foundation.*

## New Hire Diversity

Colleague data is self-reported.




Colleague Resource Group Leaders

**"At its core, our DEI work is about each of us reflecting upon what it feels like to be in other people's shoes and asking: Is everyone comfortable working in the Brown Advisory environment? Is everyone treated fairly and with respect? How can I help?"**

—Mike Hankin, President and CEO



CLIENT OUTCOME SPOTLIGHT

### STEWARDSHIP OF CAPITAL FOR CLIENTS MAKING A DIFFERENCE IN SOCIETY

*"Advancing equity in Arkansas will have a profound effect on the state's families and communities, with the potential to drive significant economic growth. All of us—community leaders, employers, policymakers and others—have a stake in addressing the opportunity gaps and unequal access that hold back our entire society."*
***– Dr. Sherece Y. West-Scantlebury, CEO, Winthrop Rockefeller Foundation***

The Winthrop Rockefeller Foundation has a distinctive origin story. Win Rockefeller was born in New York City into one of the wealthiest families in history. After serving in the U.S. Army, he went to visit a friend in Arkansas and fell in love with the region and decided to settle near Little Rock permanently. He built a global cattle business and eventually ran for and was elected governor. As governor, he was credited with passing the state's first minimum wage act, enacting prison reform and integrating Arkansas schools. He was the only southern governor to mourn the assassination of Dr. Martin Luther King, Jr. publicly, saying: "I am not my brother's keeper. I am my brother's brother."

Governor Rockefeller's legacy became the Winthrop Rockefeller Foundation (WRF). Today, WRF, with about $170 million in assets, is focused on funding systemic change to address the root causes of poverty in Arkansas. Governor Rockefeller said, "There's no place for poverty in Arkansas." Maybe not coincidentally, this aligns with the personal mission of Dr. Sherece Y. West-Scantlebury, WRF's CEO since 2007, who believes that there's no place for poverty in the U.S.

Dr. West-Scantlebury, who was raised in Baltimore's Murphy Homes public housing community, is passionate about eradicating poverty, building community and advancing equity. According to Dr. West-Scantlebury, "There's a point where you make a choice between whether you want your society, community or economy to be one filled with working-age adults who are not employable or you change the system to be responsive to the needs of children and families and their success." She believes we are at that point and that WRF can play a critical role for Arkansans, to ensure their background does not determine their life's course and outcomes.

*When Cheryl Hampton's home—which had been in her family for six generations—was being threatened with foreclosure, she worked with credit counselors at Southern Bancorp. Backed by a grant from the Winthrop Rockefeller Foundation, the bank helped her to buy back her family home.*

WRF carries out its mission—to relentlessly pursue economic, educational, social, ethnic and racial equity for all Arkansans—through funding nonprofits and advocacy groups that have a "multiplier effect" and aim to increase prosperity for future generations. For example, an important focus for WRF is ALICE (asset-limited, income-constrained, employed) families, who represent a significant segment of Arkansas households—providing grants to support research, affect policy and change the narrative so that the health care workers, teachers, retail employees, delivery drivers and members of the military in Arkansas who struggle with financial stability can access pathways to thrive over the long term. In addition, WRF provides funding to Community Development Financial Institutions (CDFIs) across Arkansas to provide access to capital, especially to entrepreneurs who identify as women and people of color.

The Foundation's commitment to its mission is palpable. "Over time," says Andrea Dobson, the Foundation's CFO and COO, "we began to realise that our investments needed to help us achieve our mission." In 2014, the organisation went through a search process to find an investment partner that could deliver performance and mission-aligned investments. Today, about 50% of the Foundation's endowment is invested sustainably, including in Brown Advisory's Large-Cap Sustainable Growth strategy–"If we're really going to create change, capital markets have got to be part of it," says Dobson.

# PRINCIPLE 2

*GOVERNANCE, RESOURCES AND INCENTIVES*

**Having adequate governance, resources and incentives are fundamental pillars to support and enhance the effective stewardship of client assets. In Principle 2, we present our leadership team, provide a summary of our key responsible stewardship policies and outline the investment tools that we use. We also highlight how our training and incentives promote and enhance stewardship.**

## GOVERNANCE STRUCTURES

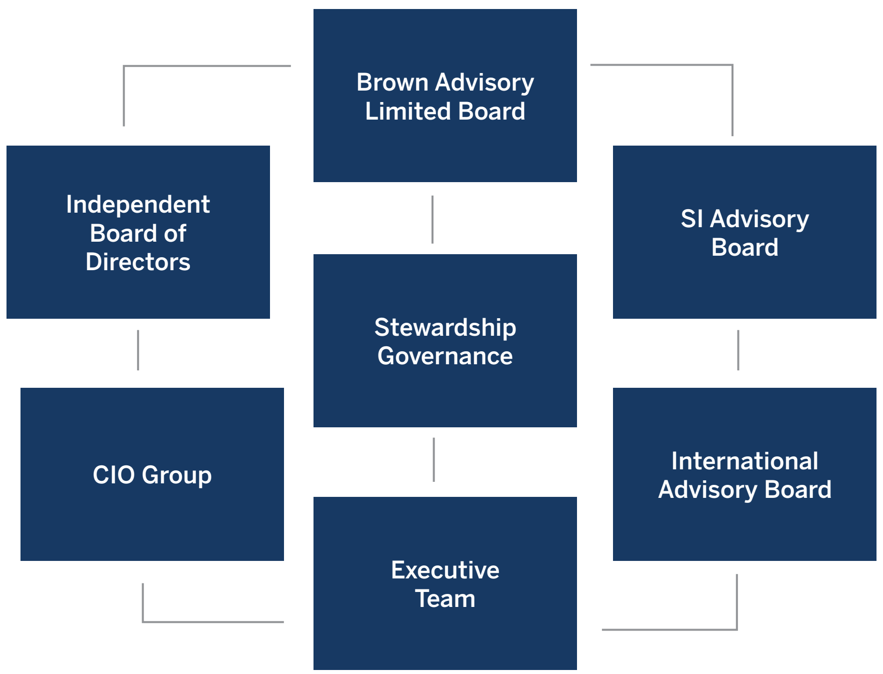
Supporting the firm's stewardship activities are multiple levels of governance that are aligned to provide our clients, colleagues and communities the support that we aspire to achieve through our mission and purpose.

The governance structure comprises the groups shown in the chart on the right. These groups include a large number of colleagues and our independent advisors, who have deep experience from across our industry and beyond. Individual biographies can be found on our website:

https://www.brownadvisory.com/us/people

We believe that good governance necessitates the evolution and improvement of corporate structures and processes over time.

In 2021, Brown Advisory sought to improve its corporate governance by implementing three additional senior leadership groups: Ideas, Prioritisation and Execution. These serve as open channels for discussion around opportunities to further enhance governance and promote change. We will continue to make further improvements and report on these in our future stewardship reports.

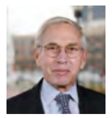


## Independent Board of Directors

To maintain and support our mission and purpose as an independent firm, we rely on the guidance and oversight of an independent Board of Directors. Our directors' independence ensures impartiality in decision making, which in turn supports our stewardship. This board meets at least quarterly, often with additional ad hoc board meetings throughout the quarter. As of December 31, 2021, the firm's Board of Directors comprised:

**William C. Baker ***

Past President and CEO of the Chesapeake Bay Foundation



**Howard E. Cox, Jr. ***

Special Limited Partner of Greylock

**Matthew Cutts ***

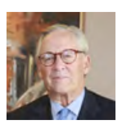
Partner at Squire Patton Boggs LLP

**John O. Downing ***

Founder of CDK Investment Management

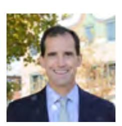
**Robert J. Flanagan ***

President of Clark Enterprises Inc.



**Benjamin H. Griswold IV**

Partner of Brown Advisory

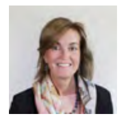


**Michael D. Hankin**

Partner, President and CEO of Brown Advisory

**Beatrice H.M. Hollond ***

Chair of Millbank Financial Services Limited and F&C Investment Trust plc



**Katherine Kalin ***

Former Head of Corporate Strategy at Celgene and Partner at McKinsey and Company

**Glenn R. Martin ***

President of Clay County Port and of Universal Sales Corporation

**Robert S. Murley ***

Senior Advisor at Credit Suisse (NYSE: CS) and Former Chair of Investment Banking in the Americas

**Charles E Noell III ***

Co-Founder of JMI Equity Partners

**Walter D. Pinkard Jr. ***

Senior Advisor at Cushman & Wakefield and President of the France-Merrick Foundation

**David Robinson ***

Co-Founder of Admiral Capital Group and of Carver Academy

*Denotes non-executive/independent board member.*

## Brown Advisory Ltd Board of Directors

The Brown Advisory Limited Board gives direction and oversight to our international business, which covers the U.K., Europe and Asia-Pacific. Our directors provide effective challenge to our business teams and assist in thoughtful decision-making, drawing on their deep operating experience. Our corporate governance is strengthened through their review of significant policy decisions, new product proposals and progress against our business goals.

**Edward Chadwyck-Healey**

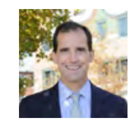
Partner and Head of the London Office, Brown Advisory

**David M. Churchill**

Partner, Chief Financial Officer and Chief Operating Officer, Brown Advisory

**Logie Fitzwilliams**

Partner, Head of International Business and Global Head of Sales, Brown Advisory



**Michael D. Hankin**

Partner, President and CEO, Brown Advisory

**Peter G. C. Mallinson ***

Former Partner and Managing Director, Goldman Sachs International

**Simon Peck ***

Former Partner and Senior Advisor, Brown Advisory

**Richard Thomason**

Partner and Head of Compliance for International Business, Brown Advisory

*Denotes non-executive/independent board member.*

## OUTCOME

Across the organisation, we have a number of committees that are structured to enable effective stewardship and build accountability within our wider organisation. At right, we provide examples of three committees across our U.K., European and Asia-Pacific operations.

### CORPORATE GOVERNANCE AND CONFLICTS COMMITTEE
Board of Directors

*Brown Advisory maintains a Corporate Governance and Conflicts Committee that assists it in its oversight of material conflicts of interest to protect the interests of clients. As covered in more detail in Principle 3, conflicts of interest can arise from time to time, and the purpose of this committee is to identify such conflicts and ensure they are managed effectively. This independent oversight promotes responsible stewardship and strengthens our firmwide corporate governance whilst also allowing for impartial decision-making when a potential conflict may arise.*

### RISK AND COMPLIANCE COMMITTEE
Brown Advisory Ltd

*To ensure adequate oversight and challenge, the Risk and Compliance Committee meets on a quarterly basis to oversee the risk and compliance functions of the firm, in accordance with the firm's regulatory obligations and its business plan. The committee performs extensive oversight, such as product governance to ensure that new products are in line with regulatory requirements, in the interest of the firm and consumer. The committee also reviews breaches and complaints to monitor for any underlying systemic issues.*

### OPERATING COMMITTEE
International Business

*Our international operating committee meets monthly to discuss all operational opportunities and risks facing our business, including new jurisdictions and products, incidents and notable client queries, and progress on strategic initiatives.*

## Firm Leadership and Executive Team

Mike Hankin, Brown Advisory's president and CEO since 1998, is supported by a 25-person Executive Leadership team that represents all groups and functions at the firm. Together, the team is tasked to voice, raise and debate any and all issues that may impact our clients, colleagues and communities. The Executive Team meets regularly to discuss the management of the firm as well as engages in continuous dialogue through the usual course of business.

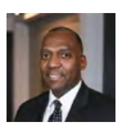

**Sid Ahl, CFA**
CIO for Private Client, Endowments and Foundations

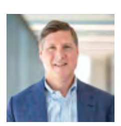

**Chris Bartlett**
CIO for Investment Risk and Business Strategy


**Carey Buxton**
Head of Sustainable Investing Business


**Paul J. Chew, CFA**
Chief Investment Officer


**David M. Churchill**
Chief Financial Officer and Chief Operating Officer

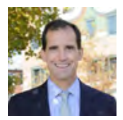

**Brian Cobb**
Chief Technology Officer

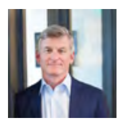

**Charlie Constable**
Head of Private Client, Endowment and Foundation Business


**Logie Fitzwilliams**
Head of International Business and Global Head of Sales


**Richard Gamper**
Head of Messaging


**Eric Gordon, CFA**
Head of Equities


**Michael D. Hankin**
President and CEO


**Timothy Hathaway, CFA**
CIO for Institutional and Head of U.S. Institutional Business


**Jacob Hodes**
CIO of Private Investments


**Getty Melaku**
Head of Corporate Finance


**Sandra Moffet**
Head of Baltimore Private Client, Co-Head of Strategic Advisory


**Nicole Nesbitt**
Head of U.S. Institutional Sales and Client Service

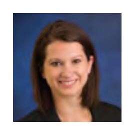

**Erika Pagel**
CIO of Sustainable Investing

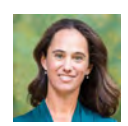

**Alice S. Paik**
Chief Strategic Advisory Officer


**Shannon Pierce, CPA**
Controller


**Brett Rogers**
General Counsel


**Stephen Shutz, CFA**
Portfolio Manager, Head of Tax-Exempt Fixed Income


**Rebecca Sugarman**
Chief Human Resources Officer


**Dune Thorne, CTFA, CWS**
Chief Strategy Officer—U.S. Private Client


**Brien White**
Chief Operating Officer of U.S. PCE&F

OUTCOME
**STEWARDSHIP GOAL SETTING**

Members of the executive team are required to create and share objectives annually with Brown Advisory's Board of Directors. Beginning in 2020, this group was required to set at least one objective each around advancing sustainability across our business as well as at least one objective each regarding diversity, equity and inclusion. These objectives have been shared with the Board and are regularly reported on along with the progress of other goals set forth by these leaders for the teams and functions under their leadership and direct oversight.

**2021 Example**

*Brown Advisory committed to HM Treasury's Women in Finance Charter with the goal of increasing the proportion of women in Partner positions to 30% by December 2026.*

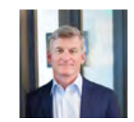
## Chief Investment Officers

Because of the varied nature of the investment expertise and disciplines needed to achieve our clients' goal, we have organised a team of CIOs that together are responsible for the coordination and management of the firm's many investment programmes.


**Sid Ahl, CFA**
Partner, Chief Investment Officer for Private Client, Endowments and Foundations, and Head of the New York Office

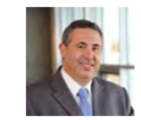

**Chris Bartlett**
Partner and Chief Investment Officer for Investment Risk and Business Strategy


**Paul J. Chew, CFA**
Partner and Chief Investment Officer for Brown Advisory


**Timothy Hathaway, CFA**
Partner and Head of U.S. institutional Business


**Jacob Hodes**
Partner, Chief Investment Officer for Private Equity and Head of the Baltimore Office


**Erika Pagel**
Partner and Chief Investment Officer of Sustainable Investing

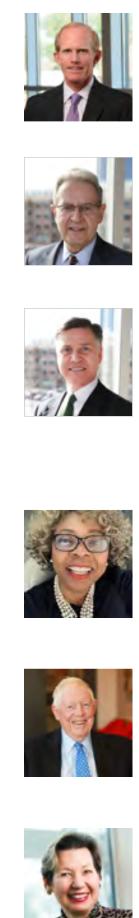

**Eric Gordon, CFA**
Partner and Head of Equities


**Christopher Hancock, CFA**
Partner and Chief Investment Officer of International

## Advisory Boards

To help give us an additional layer of feedback and guidance we have organised two boards that are "advisory" in nature. The Sustainable Investing Advisory Board is a group of experts that we thought could help us through their independent and external perspective better serve our clients seeking sustainable and ESG solutions. Over time, the SI Advisory board has provided invaluable insight to our SI team and beyond. Similarly, the International Advisory Board is a group that is helping us develop and monitor solutions for clients outside of the United States.

### Sustainable Investing



**Mark Collins**
Partner and Senior Advisor, Brown Advisory

**Martin S. Kaplan**
Retired Partner, Wilmer Cutler Pickering Hale and Dorr

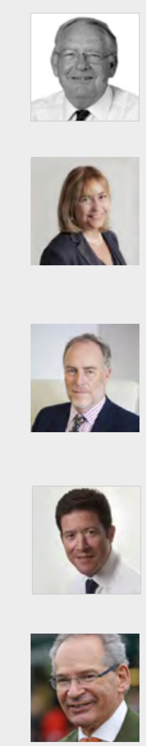
**Dan Esty**
Hillhouse Professor of Environmental Law and Policy, School of the Environment, and Clinical Professor of Environmental Law & Policy, Yale Law School

**Mamie Parker**
Chair, Virginia Department of Game and Inland Fisheries Commission

**Truman T. Semans**
Partner and Senior Advisor, Brown Advisory

**Herta Von Stiegel**
Founder and Chair, Ariya Capital Group Limited

### International



**Simon de Zoete**
Director and Former Chair, Troy Asset Management Ltd

**Beatrice H.M. Hollond**
Chair, Millbank Financial Services Limited and F&C Investment Trust plc

**Peter G. C. Mallinson**
Former Partner and Managing Director, Goldman Sachs International

**Jamie W.J. Ritblat**
Founder and Chair, Delancey

**Robert Waley-Cohen**
Founder and Former CEO, Alliance Imaging Inc. and Alliance Medical Ltd

## GOVERNANCE POLICIES AND PROCEDURES

The governance structures outlined above underpin our business. Brown Advisory considers sustainable investing to be a key component of our approach to responsible stewardship. Therefore, we provide examples of the policies and procedures that govern our sustainable investing business, which serves our clients with sustainable investing requirements, below.

**Brown Advisory's Institutional Sustainable Investing (SI) Policy** establishes a foundation for the firm's SI philosophy and capabilities. It serves as an accountability and transparency mechanism for both our internal team and external stakeholders. The firm's Head of Sustainable Investing, Chair of Sustainable Investing, Head of Sustainable Fixed Income, ESG Research Team, Head of Equity Research, Sustainable- and ESG- strategy portfolio managers, and compliance team members are all key contributors to and/or reviewers of its content. The policy reflects Brown Advisory's proprietary approach to SI whilst also taking cues from the broader SI industry to ensure our policy is comprehensive and comparable with others.

Strategies that are part of our sustainable platform make specific commitments around their own approach to integrating ESG risk management and sustainable opportunities. Internally, we run reports to ensure compliance with those commitments. Other strategies may integrate ESG research but do not make commitments around the level of sustainable investments or risks. They use this information nevertheless for decision-making.

In the unlikely situation that concerns arise regarding compliance with the investment policy or where there are elevated ESG risks in the portfolios, the team will escalate concerns to the Head of the Sustainable Investing Business, who will then consult with other appropriate stakeholders, possibly including members of the Compliance Team and Investment Risk Management Committee, to determine the best course of action.

Additionally, the firm's legal and compliance team is responsible for maintaining alignment with forthcoming regulations that may impact the current policy and is working with the Head of Sustainable Investing Business and ESG research team to effect any appropriate changes. Any material changes to the SI business philosophy, including the SI policy, are communicated regularly to senior leadership and the appropriate Boards.

**Brown Advisory's Investment Solutions Group (ISG) Policy** articulates our sustainable due diligence framework and defines nuances in our approach to manager selection in line with our firmwide philosophy. Our framework adheres to a proprietary scoring system, reviewing both firm and fund, to evaluate strategies objectively on their sustainable investment approach. The process was designed to demonstrate a thorough approach to sustainability assessment and to showcase consistency across managers and processes; it was created with input from professionals across our Investment Solutions Group, Sustainable Investing, and Operational Due Diligence teams. To summarise our process, we are looking for managers who incorporate ESG risk factors into their valuations and position selection but also identify opportunities in sustainability and align portfolios to capitalise on them. We define sustainable investments as investments that demonstrate strong fundamentals and governance, and are aligned with positive environmental and social objectives over the long term without negatively contributing to people or planet as a whole. We are not looking to define our clients' values or mission on their behalf but instead work alongside them to identify strategies that help them express their values without compromising the investment fundamentals they expect from our firm.

**Brown Advisory's ESG Engagement Policy** governs the firm's ESG-related engagement with companies and bond issuers represented in our internally managed 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.
- Identify risks and encourage companies/issuers to responsibly manage them.
- Encourage companies/issuers to embrace sustainable and/or impact opportunities.
- Advise third-party stakeholders regarding actions that can positively affect material and salient ESG issues.

**Brown Advisory's Proxy Voting Policy** serves as a foundation of our approach to proxy voting for securities held within our institutional strategies. For these securities, Brown Advisory's equity research team has researched the company and generally is well-informed of any issues material to the company's business model and practices. As such, we believe we are in a position to engage with companies on these issues both through proxy voting and other engagement practices. Proxy voting is a democratic process that offers shareholders the opportunity to have their voice heard and express their sentiment as owners. For this reason, we believe that the rights of shareholders with regard to these resolutions should be protected by regulators to ensure that investors' perspectives can always be heard in a public forum.

- **Proxy voting is our fiduciary duty.** We hold ourselves responsible for aligning our investment decision-making process and our proxy voting in order to be consistent about what we seek from companies that we hold in our institutional portfolios. We seek investments that are building and protecting long-term shareholder value, and we believe this is reflected in all of our proxy voting decisions. Responsible management of ESG issues is one input to achieving long-term shareholder value, and as such, we are likely to support those shareholder proposals that encourage company action on what we believe are material ESG risks or sustainable opportunities.

- **Transparency is essential.** Brown Advisory is committed to providing proxy reporting and standardised disclosure of our voting history, as well as publishing N-PX filings for our mutual funds as required by law. Transparency is an important step in helping our clients evaluate whether we uphold our stated principles within our Sustainable and ESG strategies.

- **Bottom-up due diligence should inform voting decisions.** We review each proposal that comes up for vote. Our analysts seek to dive below the surface and fully understand the implications of especially complex and material proposals. The recommendations of our proxy voting partner, ISS, are taken into consideration but do not determine our final decisions.

- **Collaboration with other stakeholders can inform our voting choice and amplify the signal of our vote.** We collaborate on voting research through dialogue between our analysts and portfolio managers. Where additive and practicable, we also collaborate with external stakeholders, including company management, ISS, issue experts, ESG research networks and others. We believe this collaboration leads to better-informed decisions, and in certain instances, collaboration can help to send a stronger message to a company about how the investment community views a given issue.

- **Proxy voting can be a part of a larger programme to encourage positive changes.** Proxy voting is just one way to communicate with companies on risks and opportunities. To complement our proxy voting process, and sometimes as result of it, our investment team might choose to pursue an extended engagement with a company as it relates to any information found during the due diligence process for determining the vote.

## RESOURCES

***In order to maintain consistent standards across asset classes and minimise duplicative work on managers, companies or bond issuers held in multiple portfolios whilst also seeking to embed ESG research deeply within the decision-making process for sustainable investments, we have invested meaningfully in resources to develop an investing toolkit to support research, engagement and reporting.***

Our ESG research team conducts deep due diligence using a combination of primary research and third-party data sources, in an effort to fully understand the sustainability risks and opportunities associated with a given investment. The process culminates with formal assessments that are leveraged for portfolio decisions as well as engagement dialogue with companies, bond issuers and other stakeholders.

### Institutional ESG Research Tools

a. **ESG Risk Assessment:** This assessment seeks to produce a proprietary view on a broad set of potentially material ESG risks facing an investment and documents what may be deemed as ESG controversies. Analysis focuses on the absolute risks that may be present as well as the company or issuer's ability and track record in managing those risks.

b. **Sustainable Opportunity Assessment:** This assessment aims to identify ESG factors with the potential to enhance long-term performance or generate positive environmental or social benefits.

c. **Labeled Bond Assessment:** This assessment is specific to the fixed income asset class. It seeks to examine and, where possible, quantify the positive or negative impacts of any projects that a labeled bond may be funding. The assessment seeks to ensure adherence to best practices, including voluntary guidelines produced by ICMA.

d. **Thematic and Sector-Focused Investigative Research:** In addition to its extensive work on security-specific research, the ESG research team collaborates to create frameworks to help guide the integration of ESG research across certain sectors. Furthermore, the ESG research team also collaborates with other members of the institutional research team to examine broader issues and themes that have the potential to reverberate across multiple investments. When such trends are identified, the team develops specific investigative projects that may involve in-depth stakeholder interviews, close document review and other techniques.

### Private Client and Charities Research Tools

From the outset of our relationship with a client, we believe it is key to really understand our clients' values in order to develop an actionable plan and build an investment portfolio that not only aligns with these values but can potentially enhance them. In order to understand our client's values, we created a four-part framework to help guide the conversation from setting a plan and timeline to tracking and progress.

Step one is 'discovery' through careful listening. Before we can even consider investing any portion of a client's portfolio, we need to define the full range of their financial and values-based priorities. We do this by taking new clients through an exercise, which is known as our Discovery Questionnaire. The Discovery Questionnaire is a worksheet given to the client that seeks to understand their mission and portfolio goals, explore negative screens and issues of interest, and define ways to measure success.

Step two is 'expression'. After reaching a shared understanding around what is most important, we dissect the proposed portfolio using our propriety reporting tool, ARIS Analytics. The output then becomes the starting point from which we document a long-term plan meant to guide an investment programme that expresses a client's mission, values and beliefs.

Step three is 'integration'. With a plan in place, we can integrate investments that can drive both returns and alignment of the client's values.

Step four is 'improvement', which includes tracking, measuring and tracking success. We need to monitor and report results as comprehensively as possible to make the adjustments necessary to help ensure that our journey is on the most effective path.

As it pertains to supporting our Private Clients and Charities through sustainability investment offerings, our manager research process, as described in our ISG policy, has always been a deep, iterative, qualitative and quantitative one aimed primarily at identifying superior investment managers with market-leading investment acumen. The pillars of this process include an emphasis on identifying managers with a well-honed, repeatable process based on fundamental, bottom-up research and a high-conviction, long-term and concentrated approach to portfolio management. Our evaluation of sustainable managers is merely an extension of this process. We developed a matrix to evaluate specific sustainability parameters that we think are integral to a manager's success. This matrix is supplemental to our fundamental investment review, not in replacement of it, and helps us identify managers with an adhered-to sustainable investing process and philosophy that have translated into performance and impact.

An important part of our evaluation of managers and investment strategies has become the way these managers engage with businesses they own to improve outcomes operationally—both financially for their shareholders, but also for stakeholders including employees, customers and the communities in which they do business. Some of the most compelling sustainable managers operate like sustainability consultants for the management teams they invest in, sharing best practices related to the management of natural and social capital, and demonstrating their commitment to sustainability with authenticity. We have found that engagement is an important tool leveraged by the most effective active managers, helping to accelerate value creation amongst portfolio companies by highlighting key ESG risks and sustainable opportunities. As such, engagement strategy, process, outcomes and reporting are critical components on which we evaluate these managers.

Within engagement, we prefer to see managers who have allocated specific resources that are dedicated to engagement as opposed to simply leveraging fundamental analysts. We have found that dedicating resources to engagement allows firms to be more directed in their engagement, better prioritise issues for focus and ultimately demonstrate more impact.

### Reporting Tools

We provide regular reporting on the ESG integration approach and accompanying environmental and social outcomes for our sustainable strategies. We also offer customised reporting to clients upon request. Our primary means of communicating this information is through annual Impact Reports and certain quarterly materials.

### Screening Tools

In addition to these research, engagement and reporting tools, Brown Advisory has worked to develop extensive screening capabilities for our portfolios. Our screening process leverages our third-party research data to apply a rules-based screening process that seeks to identify companies that may have controversial business involvements. Screening decisions help our clients reflect values and priorities in their portfolio. We offer screening options in many of our strategies, either through customised implementation in separate accounts or in screened versions of several of our fund offerings.

### OUR APPROACH TO ENGAGEMENT

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

- **Engagement as part of ESG due diligence:** Engagement is an important part of the investment process for both our equity and fixed income investment teams. Brown Advisory's ESG research analysts partner with fundamental analysts and portfolio managers in an effort to engage many existing and prospective holdings of our sustainable strategies in discussions on various ESG topics. Engagement can take place during the initial evaluation of a company or other bond issuer's investment prospects as well as part of ongoing monitoring of existing holdings. Asking the right questions can reveal important information about a company or other bond issuer that traditional fundamental research may not uncover.

- **Impact-oriented engagement:** We also prioritise certain engagement topics based on their scope and salience across our entire investment platform, and seek to engage companies and other bond issuers on these issues in a concerted manner. To determine our impact priorities, we rely both on top-down analysis of broadly relevant issues and findings that emerge from our bottom-up research and due diligence engagement. Examples include climate change, diversity and inclusion, and ethical implementation of artificial intelligence. We believe that engagement can help signal to companies and other bond issuers the level of investor support for impact-related actions. We find that our conversations spur key decision-makers to consider new thinking and, in some cases, new initiatives. These engagements are conducted in a constructive manner, as we believe that we can be most effective in a positive, collaborative mode. In some cases, we conduct these broader engagement efforts in collaboration with industry initiatives involving many partners.

- **Informal advisor to sustainable economy stakeholders:** We offer our perspective to stakeholders (when asked) on how to enhance ESG risk management and reporting. Particularly, our fixed income team was an early participant in the nascent green bond market, which has since greatly expanded to encompass a wide array of labeled bonds that fund projects with positive environmental and social impact. Owing to our fixed income team's experience in this space, bond issuers and underwriters call on the team to provide advice on structuring options for impact-oriented bond deals. Whilst we are not advisors in any official capacity in these situations, we are always grateful for the opportunity to offer our thoughts.

- **Proxy voting:** Our equity strategies generally support ESG-related shareholder proposals that we consider likely to improve shareholder value over time. We actively consider each proposal's specific merits and the company's specific circumstances, and we may engage with a company or other stakeholders in certain cases. Proxy voting for our institutional investment strategies is overseen by the Proxy Voting Committee, whilst the responsibility for casting votes rests with the fundamental and ESG research team and, ultimately, with the portfolio managers of each Brown Advisory equity investment strategy. For more information, please see our proxy voting policy and reporting dashboard.

# OUTCOME

## ARIS ANALYTICS

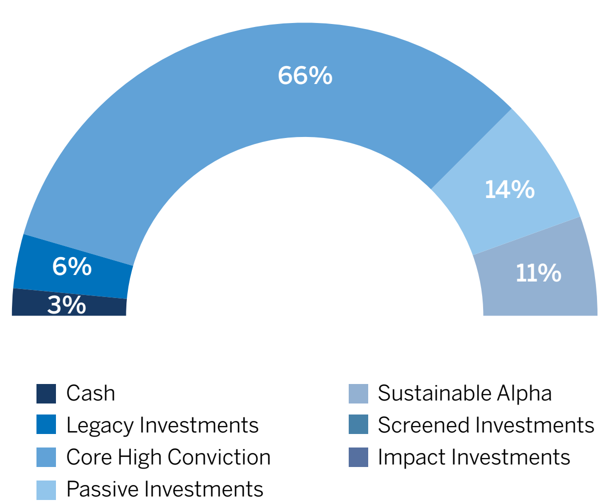
**Our Sustainable Analysis and Reporting Tool**

To help effectively manage and monitor our sustainable portfolios, we developed a proprietary system called ARIS Analytics, which we have refined and enhanced extensively over the past three years. ARIS (which is an acronym for alignment, risk, impact and sustainability) can cross-reference Brown Advisory's primary ESG research, third-party ESG data sources and holdings data for hundreds of managers in our approved and recommended list.

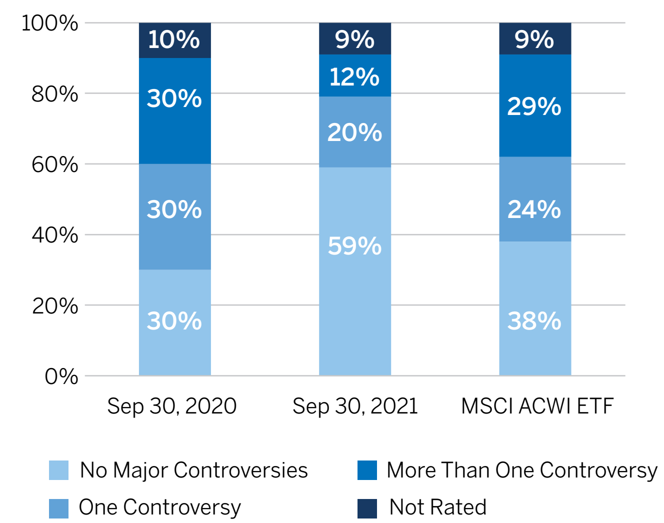
Importantly, ARIS is available to all portfolio managers across the firm, and they can use it to quickly generate analysis for any client's portfolio. This sample dashboard provides an ARIS-derived snapshot of a hypothetical portfolio's sustainable attributes: allocation between various types of sustainable investments, carbon footprint relative to a broad-market index, and evolution of its carbon footprint and its exposure to what we deem to be ESG-related controversies over time.

Below is an illustrative example of an ARIS dashboard.

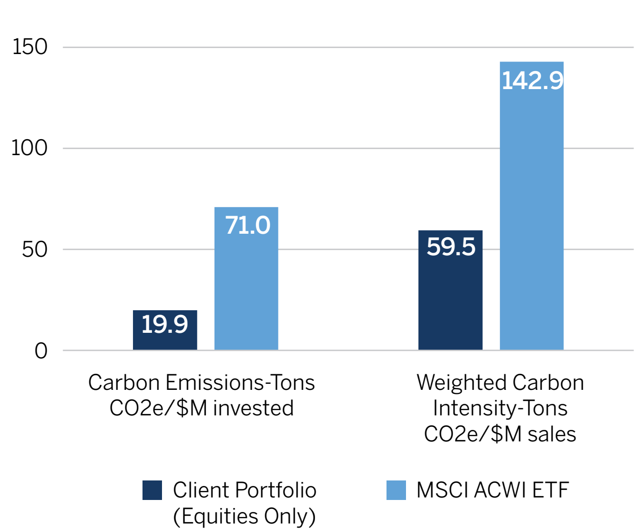
**Sustainable Asset Allocation**



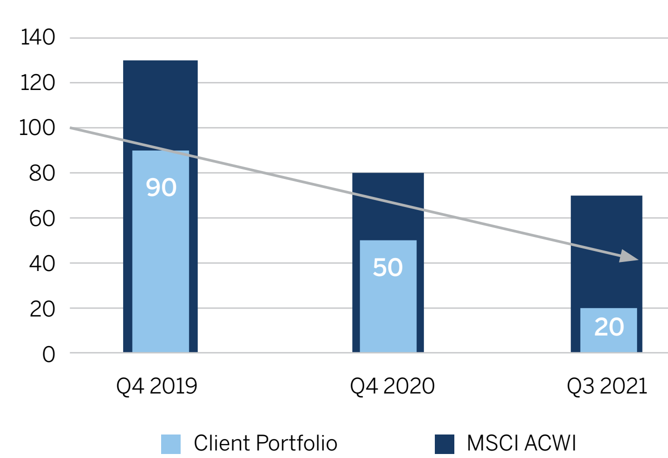

**Controversies Over Time**




**Carbon Footprint Analysis**




**Carbon Footprint Analysis Over Time**




## LEARNING, TRAINING AND IMPROVEMENT:

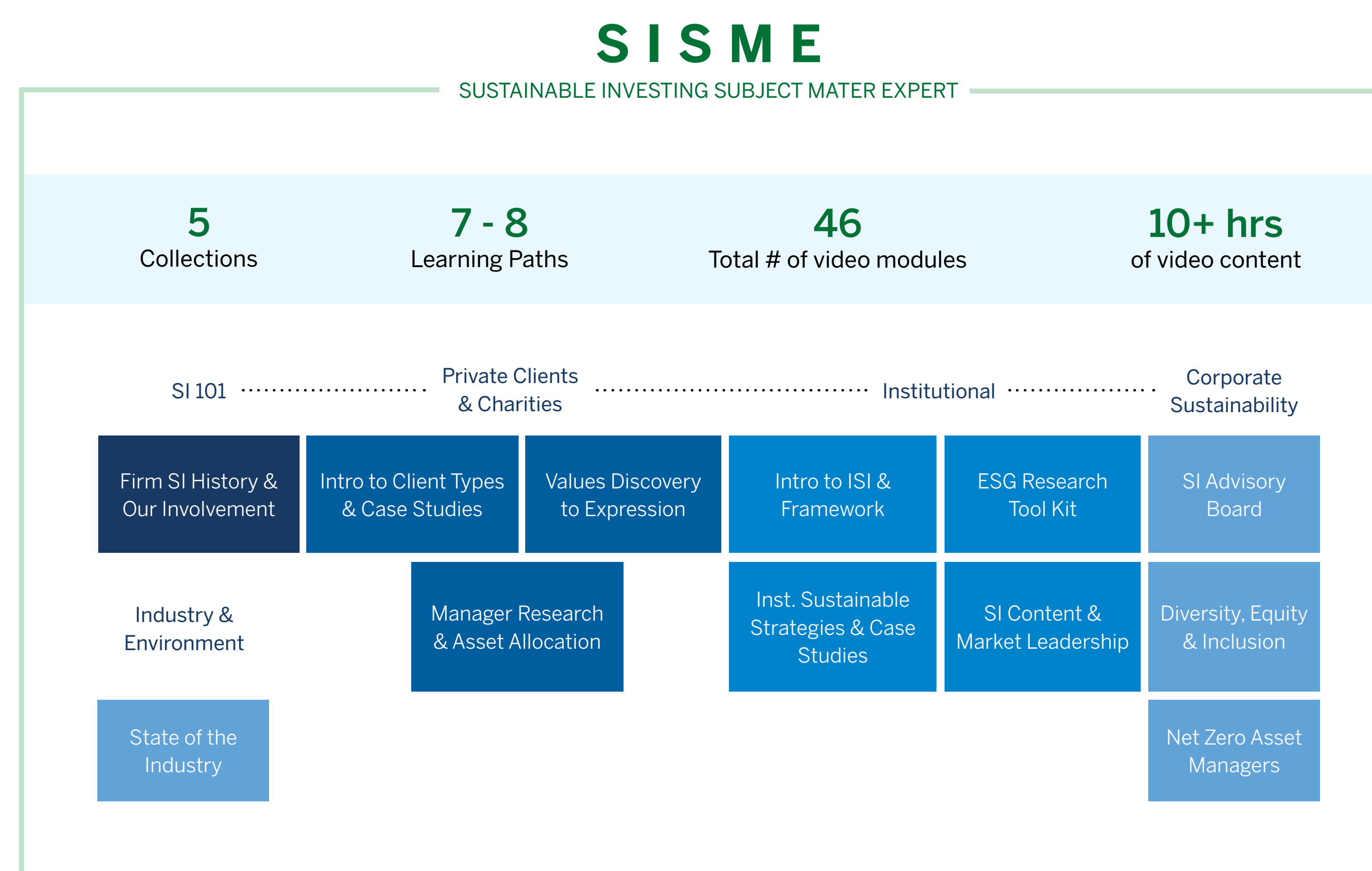
We are always looking for ways to improve our research techniques, data sets and decision-making processes. We actively listen to colleagues, clients, board members, competitors, industry partners and other key stakeholders in an ongoing effort to evolve our skill sets and capabilities. We are also committed to spreading knowledge about sustainable investing to all of our colleagues, and we offer extensive internal training to all colleagues so they can better understand our sustainable investing solutions and better serve our clients.

To help our colleagues understand and articulate our approach to sustainable investing, we run an internal development programme called SISME (short for "Sustainable Investing Subject Matter Experts"), in which all colleagues are invited to participate.

Our internal SISME programme includes an expansive curriculum covering the history of the field, core sustainable investing principles, ESG research techniques, frameworks for serving clients and many other topics. The programme currently takes colleagues through learning modules covering:

- **Institutional solutions:** market overview and history of SI, ESG research tools, Brown Advisory's institutional strategy offerings, client case studies, industry partnerships and collaborative initiatives
- **Balanced portfolio solutions:** asset allocation, manager selection, recommended sustainable manager roster, private investments, ESG reporting (e.g. internal ARIS Analytics), client case studies, sustainable strategic advice
- **Brown Advisory through an ESG lens:** a series of modules that use our ESG research team's tools to hold a mirror up to our own firm, examining the sustainable traits of our solutions, our DEI efforts, our charitable giving, community programmes, colleague development and wellness, and our firm's governance.

In addition to this formal training, our colleagues dedicated to sustainable investing work hard to keep all colleagues informed about the sustainable investing landscape and its developments. These efforts include thought pieces posted to the firm's website, presentations at firmwide morning meetings, discussions relating to ESG integration at equity and fixed income research team meetings, presentations to the sales and service team, and a video introducing our sustainable investing capabilities.



## INCENTIVES:

We believe our ability to meet our clients' needs and, ultimately, our firm's success is dependent on our ability to attract, recruit and retain exceptional colleagues at all levels of the firm. From senior portfolio managers and analysts to colleagues just joining our firm as their first job, we seek to hire professionals who embody the culture and values at Brown Advisory whilst also bringing their own unique perspective from which we can learn.

Our remuneration philosophy, including the award of firm equity, aims to align colleagues closely with all clients and to foster a collaborative culture to support and enhance stewardship. In determining remuneration for our investment professionals, we take into consideration investment performance, teamwork and the overall profitability of the firm. Our remuneration structure is designed to create a highly collaborative investment process rather than a star system and seeks to avoid prioritising one client ahead of another, further enhancing our role as stewards of our clients' capital.

### Portfolio Managers

The performance bonus portion of the portfolio managers' remuneration considers a number of factors, including but not limited to performance, teamwork, the ability to grow and retain assets, and the firm's profitability. When evaluating a portfolio manager's performance, the firm compares the performance of all accounts to the relevant market index over trailing one-, three- and five-year time periods. Additionally, the firm considers the portfolio manager's peer rankings and performance compared to the relevant market index. These factors feed in to a formal review process, and remuneration is based on merit.

### Analysts

The performance bonus portion of analyst remuneration is based on the performance of our investment strategies, the analyst's stock selection on an absolute and relative basis, and teamwork and contribution to the overall investment process, stressing quality over quantity. These factors feed in to a formal review process, and compensation is based on merit.

### PROMOTION TO PARTNER

A promotion to partner is reserved for those individuals who exhibit all elements of the firm's core DNA and act as ambassadors of the firm both inside and outside of the walls of Brown Advisory—including but not limited to stewardship for the community, our sustainable investing practice, and our commitment to building a diverse and inclusive workplace environment. These individuals are leaders in their respective areas of expertise, and they help support and drive the goals and growth of the business forward.

Finally, in all promotion, performance management and incentive discussions, we consider personal effective risk management (e.g., low contribution to low error and incident rates). Details on our incident review process are described in Principle 5.

2021

Victor Abiamiri | Priyanka Agnihotri | Teague Avey | Megan Brune | Joe Carpenter | Lauren Dell
Atte Enyenihi | Eric Fischer | Rob Furlong | Carter Furr | David Hodnett | Elise Liberto | Mike Maxwell
Kathryn McManus | Greta Meytin | Tayo Okunseinde | Rima Parikh | Jason Vlosich

# PRINCIPLE 3

## CONFLICTS OF INTEREST

**Our fiduciary relationship with clients requires that we act with undivided loyalty, fairness, good faith, and without regard to personal interest or profit. The nature of the financial services market is such that conflicts of interest can arise from time to time. We aim is to identify such conflicts and ensure that they are managed effectively. In Principle 3, we outline our policy and include examples of potential conflicts that may arise during the course of business.**

### IDENTIFYING AND MANAGING CONFLICTS

As mentioned above, the nature of the financial services market is such that conflicts of interest can arise at times. We therefore seek to organise our business in a manner that avoids possible conflicts. Accordingly, we have implemented procedures, controls and a segregation of duties amongst staff in order to achieve this.

We maintain a Conflicts of Interest Policy that identifies the types of conflicts that may arise and the controls in place to mitigate those conflicts. The policy and conflicts inventory is reviewed regularly to ensure the record of conflicts remains appropriate and relevant, and that the appropriate mitigating controls are in place and reviewed on an ongoing basis by the Board of Directors.

Colleagues are aware that just the opportunity to act improperly may create the appearance of conflict and that conflicts can arise in the absence of wrongdoing. The firm's Code of Ethics outlines our commitment to maintaining the highest standards of professional conduct and ethics in order to discharge our legal obligations to our clients, protect our business reputation and avoid even the appearance of impropriety in our investment activities on behalf of clients. Whilst we strive to avoid conflicts, we are cognisant that conflicts will nevertheless arise, and it is our policy to fully and fairly disclose known material conflicts to our clients.

# OUTCOME

## POLICY IN ACTION

### Example of Trading Conflict Mitigation

Whilst advisory personnel are permitted to trade within their own brokerage accounts, we have several policies and procedures in place to ensure that personal trading does not violate our fiduciary obligations to clients. Our Code of Ethics sets forth standards of conduct expected of employees and addresses conflicts that arise from personal trading by employees. It provides policies and procedures designed to ensure that employees conduct their personal securities transactions in a manner that complies with the securities laws, rules and regulations and that does not raise the appearance of impropriety. In addition, it sets forth controls designed to avoid actual or potential conflicts of interest between clients and our employees. Controls in place include blackout periods for certain employees, pre-clearance of employee trades, holdings disclosures and other trading restrictions.

**Additional Conflicts and How We Manage Them**

| Issue | Potential Conflict | Management Arrangements |
|---|---|---|
| Allocation of transactions | Investment opportunities between Clients or between the Firm, Personnel and Clients may be allocated more preferably to one party, disadvantaging one or more Clients. | The Firm has a Personal Account Dealing Policy and an Aggregation and Allocation Policy to manage this potential conflict. |
| Conflicting positions or trading strategies | Having a conflicting position in securities or adopting conflicting trading strategies for different Clients such that dealing for one Client may potentially be detrimental to the other. | The Firm's International Investment Committee meets monthly. This Committee is responsible for the oversight of the Firm's private clients investment strategies and avoiding or managing any conflicts associated with them. |
| Management and performance fees | A failure to properly disclose the amount and basis of the calculation of the fees and commission charged on a particular fund which could give rise to a conflict of interest between the interests of the Firm, its Clients and those of its investors. | The Firm does not currently apply performance fees on any discretionary investment management mandate. Funds managed by a Brown Advisory group company ('in-house funds') disclose fees and commissions in accordance with applicable laws. |
| Remuneration structures | The remuneration structures/practices incentivise short term performance targets, contrary to the investment horizons of the client portfolio or otherwise to the detriment of the client | The Firm maintains a Remuneration Policy intended to align the long- term interests of Clients, the Firm and Personnel. |
| Side letters and preferential terms | Certain Investors may request preferential treatment or provision of information compared to other investors in the same Fund(s) which may give rise to a conflict of interest between the interests of investors to whom preferential rights have been granted and the interests of investors to whom preferential rights have not been granted. | The Firm will resist requests for preferential treatment from Fund investors where representations have indicated that a standardised service or terms will be provided. |
| Ownership structure | All colleagues are shareholders of Brown Advisory. This could pose a risk that inappropriate advice is given to clients in order to maintain business, even if a product may be unsuitable, to increase the share price. | The Firm performs periodic reviews of all client portfolios to ensure investments are suitable and portfolio managers are held accountable to FCA Conduct and Treating Customers Fairly rules. |




# PRINCIPLE 4

*PROMOTING WELL-FUNCTIONING MARKETS*

**Whilst we consider short-term factors, such as interest rate, commodity and currency risk, as bottom-up, long-term equity holders, these factors do not drive our fundamental investment case in isolation. However, with respect to our Fixed Income strategies, we closely monitor a range of economic drivers. Principle 4 considers marketwide risk factors and, through a systemic lens, we address our response to COVID-19, ongoing disparities in the workforce and climate-related risks.**

## OUR RESPONSE TO THE COVID-19 PANDEMIC

We were surprised by the need to rapidly move to a work-from-home posture in March 2020, but we were fully prepared, thanks to excellent business continuity planning by our executive and operations teams. Thanks to their efforts, as well as that of our highly proactive and adaptive pandemic task force, we provided uninterrupted service to our clients, provided comfort and assistance to our fellow colleagues, and supported our communities during an extremely challenging period.

Our highest priority is always delivering for our clients, and that did not change during the pandemic. Before it became a certainty that we would need to close our physical offices, we asked all colleagues and departments to “practice” working from home on several occasions so we could iron out any technology-related issues at an individual level and encourage teams to work on remote communication and meeting effectiveness. When the time came, we were ready, and our colleagues and teams moved to the remote environment without the slightest hitch in productivity or client communication.

As a firm, we wanted to make sure we were in touch frequently with clients about our plans and actions in response to the pandemic, so our CEO and CFO, Mike Hankin and Dave Churchill, wrote letters to all our clients on a weekly basis during the first three months of the crisis and at several points over the course of the year that followed. These letters shared details of our operational steps to ensure uninterrupted service, offered some of our thinking regarding how the pandemic might impact our investments. They also provided a window into how they and the rest of the firm were feeling about the pandemic, and the transparency of these notes were greatly appreciated by clients and colleagues alike.

## Onsite Protocols/Offsite Capabilities

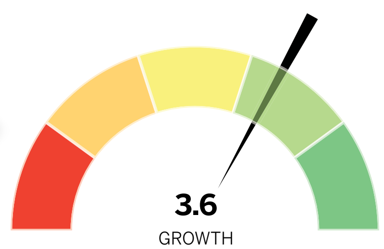
Within a month of entering a remote working environment, our COVID-19 task force began building an office reopening protocol.

The threat of the virus waxed and waned several times throughout the pandemic period, and our office protocols frequently needed to adapt. We went through several cycles of opening offices under strict guidelines for a period, then needing to close them once again. When conditions permitted, we were able to provide an extremely safe environment in our offices for colleagues by ensuring limited numbers in the office at any given time, strict compliance with mask and distancing guideline, an intense deep-cleaning regimen in all offices, and temperature screening and onsite rapid testing.

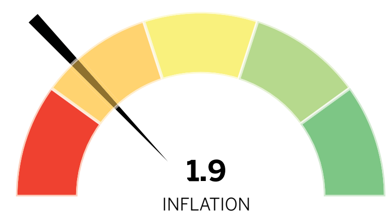
## OUTCOME

### FIXED INCOME ECONOMIC DRIVERS

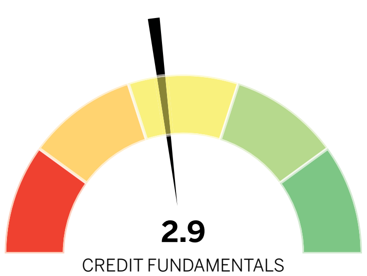
These charts are an example of how we reflect our views of the main drivers of the economic cycle. We forecast growth and inflation for the largest global economies, and integrate market-based and broader sentiment indicators in order to assess both the current phase of the economic cycle and identify key inflection points within the cycle. This allow us to understand the key risks and opportunities that we expect to manifest in the global markets for the next 6-12 months and position portfolios accordingly.



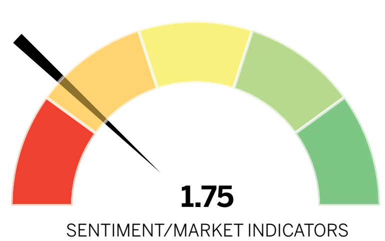

| | |
|---|---|
| Trend Growth | 4 |
| Industrial Production | 3 |
| Global Manufacturing PMI | 4 |
| Global Services PMI | 4 |
| Consumer Sentiment | 4 |
| OECD Leading Indicator (Aggregate) | 5 |
| Global Housing | 4 |
| Lending Standards/Credit Growth | 3 |
| Third-Party Global Economic Surprise Index | 1 |
| TOTAL | 3.6 |



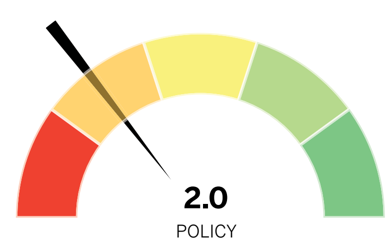

| | |
|---|---|
| Realised Inflation to CB Target | 1 |
| Inflation Expectations | 1 |
| Output Gap | 2 |
| Productivity | 3 |
| Wage Growth | 2 |
| Oil | 2 |
| Commodities Ex-Oil | 2 |
| Shipping Rates (Land/Sea/Air) | 2 |
| Money Supply | 3 |
| Third-Party Global Economic Surprise Index | 1 |
| TOTAL | 1.9 |




| | |
|---|---|
| Leverage | 1 |
| Interest Coverage | 4 |
| Earnings | 3 |
| Free Cash Flow | 3 |
| Margins | 2 |
| Covenants | 1 |
| Liquidity/Near Term Maturities | 4 |
| Upgrades/Downgrades | 3 |
| Capital Access | 5 |
| TOTAL | 2.9 |




| | |
|---|---|
| Yield Curve Slope | 2 |
| Valuations - P/E | 1 |
| Valuations - Credit Spreads | 1 |
| Valuations - HY to IG Spread | 1 |
| Liquidity | 3 |
| M&A LBO Activity | 2 |
| IPO/SPAC/Crypto | 1 |
| Fund Flows | 2 |
| CSFB Euphoria Index | 3 |
| ML Bull/Bear Index | 3 |
| Consumer Leverage/Margin | 1 |
| % Equites in Asset Allocation | 1 |
| TOTAL | 1.75 |




| | |
|---|---|
| Fiscal | 2 |
| Monetary | 2 |



## Benefits and Wellness

Throughout the pandemic, we enacted many new benefit policies and programmes, and adjusted existing policies to better support our colleagues during this period. Over the past two years, we have:

- Expanded our telemedicine programme to cover doctor visits of all types as well as behavioral health visits.
- Created and actively maintained a resource centre on our intranet with a wide range of information and services to support colleagues physically, mentally and emotionally.
- Expanded our gym and fitness centre reimbursement programme to allow colleagues to use those funds for mental health apps, child online learning tools and mindfulness apps.
- Relaxed our wellness programme requirements (this programme provides monetary incentives to colleagues who complete a series of health tests and health education programmes) to include at-home test kits so colleagues could still receive their wellness incentive.
- Relaxed our prescription refill waiting periods so those covered under our health plans could pick up their prescriptions early during their less-frequent trips out of the house.
- Actively promoted our existing Bright Horizons backup child care benefit to help ensure support for working parents.
- Changed our 401(k) plan to assist colleagues during the pandemic by expanding withdrawal and loan options, increasing loan and withdrawal limits, and allowing participants the ability to suspend loan payments.
- Conducted a lengthy series of "Wellness Wednesday" webinars as a service for all colleagues and their families. Webinars covered a wide range of topics, such as nutrition, working from home and navigating the uncertainty of the pandemic. Participation in these events ranged from 20% to 30%.

## Using Systemic Risk Analysis to Guide Opportunistic Investments

As the market absorbed the reality of COVID-19 in March 2020, several members of Brown Advisory's investment team saw a way to help clients in the midst of the sell-off. The idea was to create a concentrated equity portfolio of high-quality businesses whose household names could reassure clients and whose strong balance sheets would serve as ballast for an uncertain future. Chief Investment Officers Paul Chew and Chris Bartlett, Head of Equities Eric Gordon, and Portfolio Risk and Analytics Manager Erin Cawley launched the Select Opportunities strategy for clients in one week during a volatile time in the market. The strategy, which includes our equity analysts' highest-conviction recommendations, is designed to have very low turnover. As Eric says, "If you own great businesses, they will do the work for you."

## Navigating Our World Podcast

During the pandemic, because we could not host events, we launched our Navigating Our World (NOW) podcast as a means to share our belief in embracing outside, diverse viewpoints and in learning from experts about the pressing, long-term issues that will impact our investment decisions, our lives and our communities. The podcast provides an opportunity for shared learning and a valuable means to connect with our network. Podcast guests have included CEOs, such as Dan Schulman (PayPal), Alan Jope (Unilever), Josh Silverman (Etsy) and Dr. M. Sanjayan (Conservation International); climate expert Kate Gordon; Librarian of Congress Dr. Carla Hayden; and global energy authority Dr. Daniel Yergin.

## CLIMATE RISK

For our part, as an investment firm, we must view climate decisions through the lens of our fiduciary duty to generate attractive investment returns that help our clients achieve their goals over the long term. This long-term lens, we believe, requires an appreciation of how our climate and other sustainability challenges will strengthen or weaken an investment case.

Our firm's entire approach to climate change, and to ESG research in general, is very much in line with our philosophy of "thoughtful investing". We have long conceived of sustainable investing as a performance-focused concept and that it can be a financially beneficial course of action, but only when thought, discernment, patience and discipline are at the core of each individual investment decision within a portfolio.

There are no shortcuts to making good investment decisions, and we are extremely leery of top-down, "enforced" approaches to investing—sustainable or otherwise. For example, we generally do not use screening as a tool in our investment process, although we do implement as appropriate to meet certain client or investment policy restrictions on sector exposures or other issues. Instead, the portfolio managers of our sustainable investment strategies actively seek out investments where they believe shareholder value is being driven in some way by contributing to climate or broader sustainability solutions (operational reduction, products that help customers reduce emissions, etc.). A nuanced approach is also essential in our engagement with portfolio holdings or proxy vote decisions. We take a case-by-case approach that focuses our engagement priorities and leads to a mix of "yea" and "nay" votes on various shareholder proposals after our investment teams understand as best we can whether the intent of the proposal is in fact likely to be beneficial to shareholders.

We believe that any climate-focused commitment we make as a firm will be achieved as a natural outcome of our performance-focused sustainable investment philosophy. In our view, there are many ways for companies, bond issuers and other potential portfolio holdings to contribute positively to the trajectory of climate change, and we have long experience in finding these situations where sustainability strategies, products and services can materially and positively impact an issuer's financial position.

### Industry Engagement

In 2020, Brown Advisory became a formal supporter of the Impact Management Project and the Task Force on Climate-Related Financial Disclosures (TCFD). Both of these organisations and the frameworks they recommend for measuring and reporting ESG impact data have helped to shape our engagement and reporting process. We do not yet report in line with TCFD. Our firm also formalised its support of the Interfaith Centre for Corporate Responsibility, a leader in shareholder engagement, and partnered with CDP on multiple projects, including the Science-Based Targets Initiative and Non-Disclosure Campaign.

1. The CDP (formerly known as the Carbon Disclosure Project) is a nonprofit that administers a disclosure questionnaire (developed by investors and completed by companies, cities, states and regions) to communicate how environmental risks and opportunities impact their top and bottom line. Over 2,500 companies disclose to CDP, but there are still many major corporations in high-impact sectors that are not capitalising on the benefits of disclosing environmental risks and opportunities. In 2020, CDP sought to expand this project to a broader array of fixed income issuers, focusing on the municipal bond market via the CDP Municipal Disclosure Campaign. Brown Advisory was one of seven investors to participate in this pilot. We have signed up to participate in the CDP's 2022 Municipal Disclosure Campaign and more general Non-Disclosure Campaign.

2. The CDP Science-Based Targets (SBTs) Campaign offers CDP signatories the opportunity to play a key role in accelerating the adoption of science-based climate targets. This is achieved by collaboratively engaging with companies for deliberate action to set these targets. The campaign builds on CDP's tried and tested collective engagement mechanism to accelerate the adoption of science-based targets in the corporate sector. In driving the adoption of science-based emission reduction targets, investors can decarbonise their portfolios and mitigate climate-related risks to which they may be exposed. We are currently in the process of signing up for the 2022 CDP SBT Campaign.

We continue to look for opportunities to engage in line with our commitment to Climate Action 100+. The firm's ESG research team has engaged with third-party ESG data providers and raters in an effort to help shape the industry in that regard.

More detail on our participation in industry groups is provided in Principle 10. In future years, as we launch strategies that require further analysis of marketwide risks, we anticipate providing more detailed reporting on these risk factors. We are also building out our internal investment risk team, covered in Principle 5, which we believe will increase our effectiveness in responding to such risks.

OUTCOME

**SHARING OUR VIEWS ON SYSTEMIC RISK**

As a practice, we try to articulate our views on the risk landscape each year through our Annual ISG Outlook. In 2022 edition titled "Inflection Points" we reflect our team's thinking on the risks and opportunities around the following topics:

- COVID-19
- China
- Interest Rates and Global Central Bank Policies
- Valuations
- The Energy Transition
- Private Markets
- "The Great Resignation"
- Web3 and the Metaverse


### Operational Carbon Footprint

Our operational carbon footprint is important to us, but we believe that we can have a far greater impact on climate change through our investments: by working with clients to implement sustainable investment strategies, monitoring and managing the climate risk within the portfolios we manage, and engaging with our portfolio holdings and their stakeholders. We think that every business should be clear about the direct and indirect climate impacts of their activities. Nearly all of our firm's impact on the global climate stems from our investments, not our operations. In 2021, our firm's listed equity holdings—totaling $101.1 billion as of December 31, 2021—had a carbon footprint approximately 500 times greater than the footprint of our operational operations. We are tackling this opportunity for impact in multiple ways:

1. Through our firm's sustainable investing strategies, whose philosophies and processes have consistently led to portfolios with substantially lower carbon intensity (a measure of a portfolio's carbon emissions, scaled by its proportional ownership of the underlying holdings) than their benchmarks. Perhaps more importantly, many of our sustainable strategies seek to invest in companies that are trying to solve climate challenges for the rest of the world.

2. Through our ESG research team's engagement work. The team had full engagements with 148 different companies, bond issuers and other stakeholders in 2021. This is covered in further detail in Principles 10 and 11.

3. Through our initial steps as part of the Net Zero Asset Managers initiative (NZAMi), explained further in Principles 9 and 10. All of this work has one common thread running through it: our belief that sustainable investing is smart investing and that ESG information helps us make better investment decisions. We are often frustrated when sustainable investing is framed as an "either/or" proposition—performance or impact, but not both. For over 12 years, we have been committed to the belief that you can have it both ways, and we believe that our track record in sustainable investing is largely attributable to delivering performance and impact to clients, not sacrificing one for the other.

OUTCOME

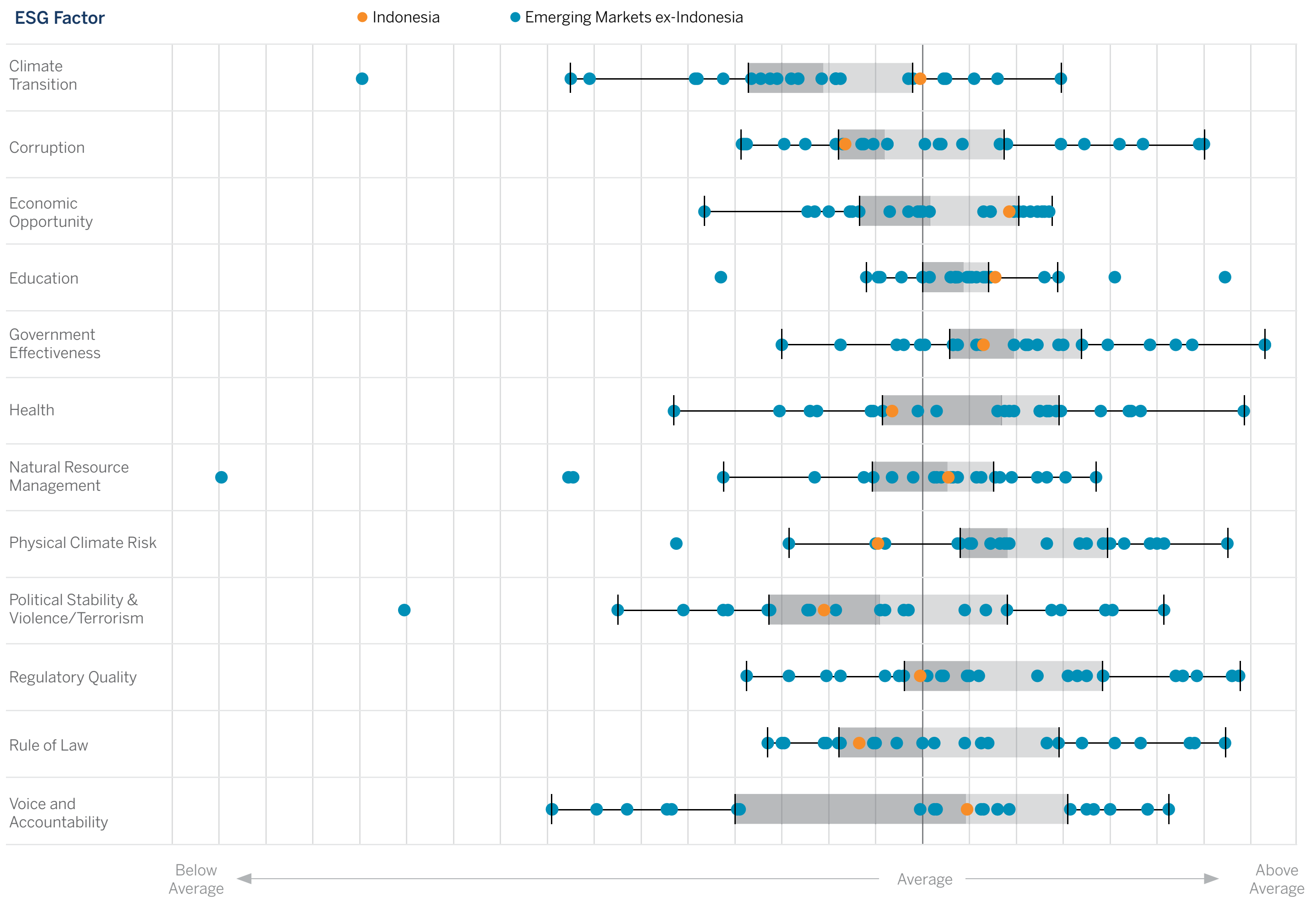
### SOVEREIGNS ANALYSIS

In 2021, we published a piece titled "Sustainable Sovereigns: Integrating ESG Analysis into Government Debt Research" to describe how we analyse and report on the risks and opportunities of investing in sovereign bonds of different countries. Our framework combines a quantitative methodology with qualitative analysis to build a holistic assessment of a country's ESG risks and sustainable opportunities that is comparable across countries yet able to capture subtleties and gradations.

We believe that one size does not fit all when assessing the sustainability profile of sovereigns. Below is an example of this analysis, which plots Indonesia against other emerging market countries.

For further detail more, please refer to the paper here:

https://www.brownadvisory.com/us/theadvisory/sustainablesovereigns-integrating-esg-analysis-government-debt-research




## INCLUSIVE CAPITAL

One of the areas where we have seen clients express intentionality is in diversity of the asset managers within their investment portfolios. Brown Advisory incorporates a number of diverse manager characteristics into our manager research process from both the investment and operational due diligence angles to address the systemic and ongoing disparities in access to funding for female- and BIPOC-led money managers. By embedding DEI and diverse manager selection in our day-to-day work, we aim to deliver the best performance results to our clients as well as provide an array of investment options to fit their values-driven goals.

Recognising that our process for evaluating managers' DEI characteristics relied on their own disclosure, Brown Advisory approved a contract with Lenox Park, a technology company specialising in data aggregation and analysis of diversity data on asset managers. We are now in a position to provide clients more granular-level diversity data and reporting. Moreover, we are able to leverage Lenox Park's cloud-based technology platform, which provides private peer networks, allowing for collaboration around investments, events and other topics designed to bypass traditional industry gatekeepers. Our intentions in this effort are to identify leading and high-quality investment solutions, and to continue to meet our changing clients' needs in this space. Our goals are to ensure that we are addressing any unintentional bias in our investment selection process and to provide a long overdue increase in representation of diverse managers across the investment platform.

In a bit of a different light, we also support our clients' efforts to direct capital to female- and BIPOC-led entrepreneurs through a number of different investments, be they directing lending opportunities to business owners in local communities or fund structures focused on developing seed-stage or friends and family round capital to startup founders who traditionally don't have access to those investments.

OUTCOME

### B|Innovative

Through our B|Innovative effort, we are dedicating our resources, network and strategic support to mission-aligned practitioners who share our dedication to innovation and inclusive growth. Two such funds that we have supported through B|Innovative are:

- **RareBreed Ventures** – a pre-seed, value-add venture fund providing founders in underserved markets with capital and wraparound portfolio company services
- **Conscious Venture Fund** – an early-stage venture capital firm and startup accelerator focused on supporting diverse entrepreneurs who are solving problems associated with the resiliency and vibrancy of urban communities Access to funding for women and BIPOC investors is an issue that we care deeply about for the sake of our clients and our community, and continue to monitor and seek to incorporate in our investment management strategies.

# PRINCIPLE 5

*REVIEW AND ASSURANCE*

**In addition to our comprehensive framework that governs the oversight and review of our policies and processes, as referred to in Principle 2, we utilise additional layers of review and validation to ensure the effectiveness of our stewardship activities. Principle 5 provides a high-level overview of our Internal Audit and Compliance functions and presents our scores from the 2021 Principles for Responsible Investment (PRI) assessment.**

## COMPLIANCE OVERSIGHT

The Compliance function serves as a core component of the firm's second line of defense for managing risks, overseeing and reviewing the firm's implementation of, and its compliance with, policies, procedures and controls. A key outcome is to ensure that the FCA's requirement to 'Treat Customers Fairly' is embedded into the firm's culture, which is paramount to acting as responsible stewards for clients.

To ensure adequate oversight and challenge, a Risk and Compliance Committee meets on a quarterly basis to oversee the risk and compliance functions of the firm in accordance with the firm's regulatory obligations and its business plan.

The committee discusses and advises on the following issues:

- Compliance monitoring and audit outputs
- Anti-money laundering issues
- Product governance oversight/new products
- Conflicts of interest
- New policies and procedures
- Incidents/breaches/complaints
- New regulation/legal developments

## OUTCOME

### PROCESS EVOLUTION

An example of how we have evolved and updated our policy in 2021 is changes we made to our proxy voting policy to reflect our preference for boards that have racial and/or gender diversity.

We updated our proxy voting policy to state:

The firm seeks to support independent boards of directors comprised of members with diverse backgrounds (including gender and race), a breadth and depth of relevant experience (including sustainability), and a track record of positive, long-term performance. The firm may vote against any boards that do not have the following levels of diversity (i.e., directors who are women or other underrepresented groups):

- For boards consisting of six or fewer directors, the firm may vote against the Nominating Committee Chair where the board does not have one diverse director by 2022, and two diverse directors by 2024.
- For boards consisting of more than six directors, the firm may vote against the Nominating Committee Chair where the board does not have 20% diverse board members by 2022, and 30% diverse directors by 2024.
- In cases where the Nominating Committee Chair is not up for re-election, the firm may vote against other board members, including the Chair of the board.

This change was approved by the firm's Proxy Voting Committee.

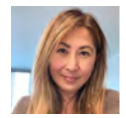
## Internal Audit

The Internal Audit function serves as Brown Advisory's independent third line of defense to ensuring the organisation's policies and processes are adequate and effective in supporting our clients, colleagues and communities. Reporting into the Board's Audit Committee and administratively to the firm's General Counsel, at a high level, the team focuses on:

- Providing independent assurance to management and the board on the adequacy and effectiveness of governance, risk management, and control processes for the organisation
- Recommending changes/corrective actions when needed
- Providing advice and guidance on the risk and control aspects of new (or changing) processes, systems, products and policies

**Uche Ogbuokiri**
Internal Audit Associate

**Sarah Penne**
Internal Audit Associate



**Linda Tan**
Head of Internal Audit

## Investment Risk Programme

Whilst we are confident in our ability to manage risk comprehensively, we also believe in continual improvement, so we are currently engaged with a global consultant to further enhance our Investment Risk Programme. We believe this investment of time and resources is highly valuable to our clients and is reflective of our role as stewards of their capital.

**Chris Bartlett**
CIO for Investment Risk and Business Strategy

**Samir Shah, CFA**
Head of Operational Due Diligence, ISG

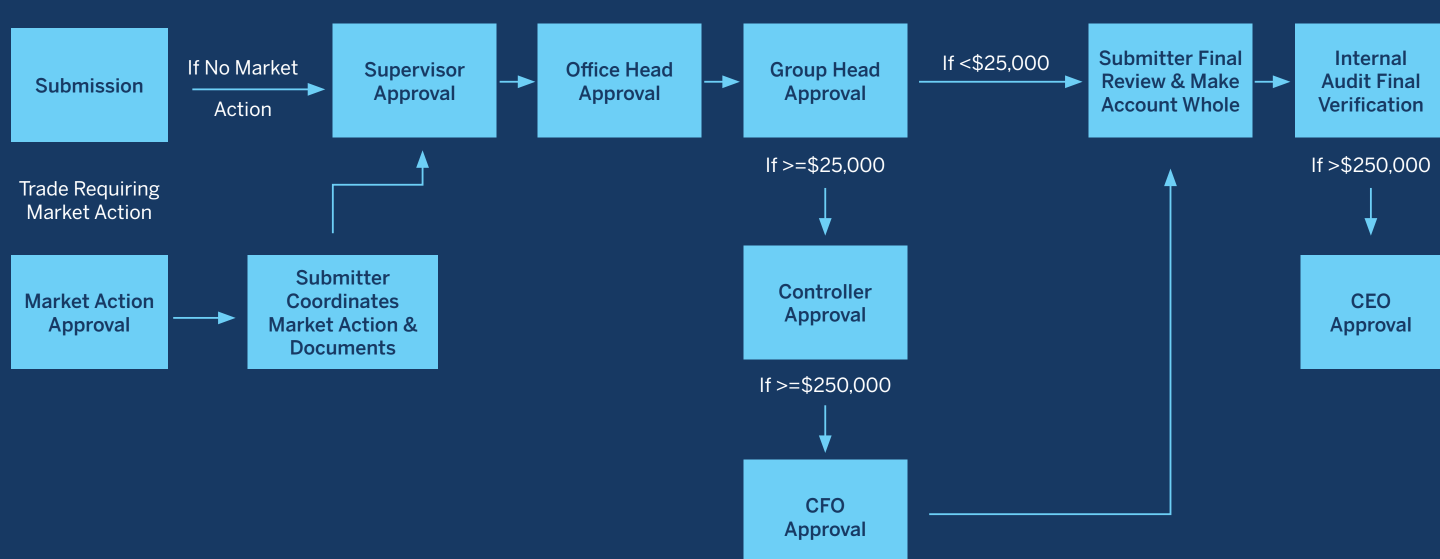
**Ashley Webb**
Business Analyst

## OUTCOME

### INTERNAL INCIDENT REPORTING

As a firm, we have procedures in place to conduct daily business activities. We have corresponding controls in place to validate procedures are executed as intended. However, sometimes an event (incident/error) occurs that either our procedures did not anticipate or resulted from a colleague's mistake. When an event occurs that has unintended or negative consequences to clients or to other internal colleagues (whether monetary or not) and remediation is necessary, that event is considered an "incident". Colleagues will not be penalised for filing an Incident Report. Thoughtful Incident Report filings can be catalysts for learning, change and resource allocation. An incident report is be completed any time a client's account or internal firm operations are affected in a way other than initially intended. The process is enabled by a software system—Archer—and overseen by the Internal Audit team.

In addition to the levels of governance detailed in Principle 2, we lean on additional layers of review and validation to ensure that we are acting as the most effective stewards for our clients, colleagues and communities.




## OUTCOME

### ILLUSTRATIVE RISK OVERVIEW DASHBOARD

| Category | Limit | Portfolio Weight |
|---|---|---|
| **Prospectus Limits** | | |
| Non-Investment Grade | 50% | 5.7% |
| Emerging Market Bonds | 50% | 6.4% |
| Total ABS | 40% | 12.5% |
| Non-Agency ABS | 10% | 1.4% |
| CLO/CMO | 10% | 0.0% |
| CoCos | 10% | 0.4% |
| China Onshore | 20% | 0.0% |
| 144A | 30% | 3.6% |
| 144A w/No Registration | 10% | 3.6% |
| Total Non-Agency ABS, CoCos, CLO, CMO, 144A w/ No Reg | 15% | 4.0% |

| Factor | IPS Min | IPS Max | Tier 1 Range | Tier 2 Range | Port Output |
|---|---|---|---|---|---|
| **Top Down** | | | | | |
| VAR | 0% | 10% | 7.5% | 10.0% | 1.38% |
| Duration | 0 | 8 | 6 | 8 | 3.57 |
| Active Currency | 0% | 30% | 10% | 20% | 19% |
| Credit | 0% | 70% | 50% | 60% | 24% |
| High Yield | 0% | 40% | 20% | 30% | 6% |
| Leverage | | | 350% | 500% | 318% |
| Leverage ex FX Hedging | | | 300% | 450% | 231% |
| Regulatory Leverage | 0% | 400% | 250% | 350% | 214% |

## TRANSPARENCY

Transparency is key to ensuring accountability. As such our periodic reporting to the U.N. Principles for Responsible investment serves as a means of being able to evaluate the setup and application of our policies. Furthermore, the veracity of our sustainable investing approach has been verified through our application for certain ESG labels for a selection of our funds. For example, we have received the LuxFlag for the U.S. Sustainable Growth Fund, and the FNG label for the U.S. Sustainable Growth Fund and for Global Leaders Sustainable. These labels are only awarded after a thorough application process and compliance with the funds' state investment approach is audited at least annually.

# OUTCOME

### PRI REVIEW AND ASSESSMENT

PRI reporting is the largest global reporting project on responsible investment where signatories are required to report annually on their responsible investment activities. Signing the internationally recognised PRI allows organisations to publicly demonstrate their commitment to responsible investment and places them at the heart of a global community seeking to build a more sustainable financial system. Brown Advisory has been a signatory since 2014.

The scoring methodology for the 2021 Reporting Framework was based on the following guidelines:

- The signatory's responsible investment implementation across its overall investment process, rather than looking only at its investment in ESG products
- The scope of implementation of specific responsible investment practices, such as the percentage of AUM covered
- The level of sophistication of the responsible investment practice for the majority of AUM
- Increasing the focus on consistency, including how group policies are applied in different asset classes or subcategories, or how policies are implemented by external managers or service providers
- Having more clarity on the time frame of practices carried out
- The inclusion of some outcomes-related questions in the assessed 'core' indicators

Broadly, we feel that our scores reflect our firm's broad-based efforts to adopt sustainable investing principles across all aspects of our business. Whilst we hope to earn more 5-star ratings over time, we expect to have fewer of them currently, simply resulting from the fact that Brown Advisory has a broad mix of clients, some of whom do not wish to pursue sustainable investing. Also, since the disclosure was filed in early 2021, we have since done meaningful work in areas such as proxy voting, climate strategy and fixed income ESG research innovation, all of which we expect to bolster our ratings going forward in a variety of categories.

| Module Name | Brown Advisory 2021 Score | Brown Advisory Percentile Score | Industry Average |
|---|---|---|---|
| Investment & Stewardship Policy | ★★★★ | 68 | 60 |
| Indirect – Manager Selecting, Appointing & Monitoring | | | |
| Listed Equity - Passive | ★★★★ | 81 | 57 |
| Listed Equity – Active | ★★★★ | 82 | 67 |
| Fixed Income – Passive | ★★★★ | 79 | 43 |
| Fixed Income – Active | ★★★★ | 80 | 57 |
| Private Equity | ★★★★ | 76 | 63 |
| Real Estate | ★★★★ | 76 | 62 |
| Infrastructure | ★★★★ | 75 | 71 |
| Hedge Funds | ★★★★★ | 92 | 34 |
| Direct & Active Ownership Modules | | | |
| Listed Equity – Active Fundamental - Incorporation | ★★★★ | 79 | 71 |
| Listed Equity – Active Fundamental - Voting | ★★★★ | 70 | 54 |
| Listed Equity – Investment Trusts - Voting | ★★★★ | 70 | 60 |
| Listed Equity – Passive Voting | ★★★★ | 57 | 57 |
| Fixed Income – SSA (Government Issued) | ★★★★ | 85 | 50 |
| Fixed Income – Corporate | ★★★★ | 84 | 62 |
| Fixed Income – Securitized | ★★★★ | 86 | 55 |

# PRINCIPLE 6

*CLIENT AND BENEFICIARY NEEDS*

**Communication and reporting to our clients have always been, and will continue to be, a priority at Brown Advisory. Our preferred method of communication is direct and personal, and we have found that the best way to build trust is through person-to-person connection. Principle 6 provides further detail on our client base and the ways in which we communicate with them.**

## OUR CLIENT BASE

When planning and investing for both our clients and our firm, we think in terms of generations and value the long term over the short. As a private and independent firm, we have a patient, supportive and aligned group of shareholders (most of whom are colleagues). They have enabled us to develop multigenerational relationships with clients, build institutional portfolios that beat their benchmarks over decades, and seed new, innovative strategies and services that likely won't "reward" shareholders for many years.

Our clients rely on us to realise their investment objectives. We believe that achieving compelling investment results starts and ends with an ability to weather the tough times (which are always shorter than they feel) so that capital can compound. This philosophy applies whether we are investing on behalf of individuals, families, family offices, nonprofits and charities, pension plans, or financial institutions, and is underpinned by rigorous research, repeatable processes, collaborative teamwork and high-conviction ideas.

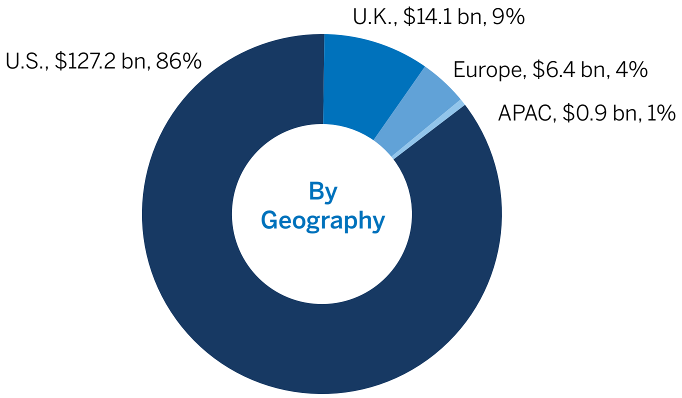
## OUTCOME

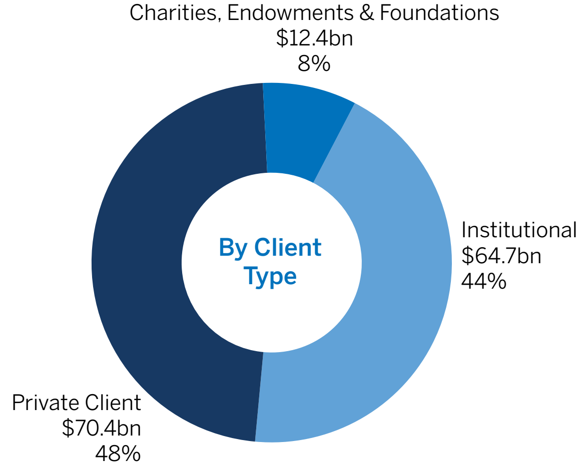
### CLIENT ASSETS BREAKDOWN

**By Asset Class (USD millions)**

| | % | Total |
|---|---|---|
| Cash | 6.2% | $9,192.9 |
| Fixed Income | 10.7% | $15,848.0 |
| Equity | 62.7% | $92,600.8 |
| Alternatives | 15.8% | $23,380.7 |
| Other | 4.5% | $6,581.5 |
| | 100.0% | $147,604 |

As of December 31, 2021, approximately 40% of our clients' assets are managed in funds and separate account mandates for institutions, family offices, wealth managers and global banks. The remaining 60% is typically invested on a multiasset basis on behalf of individuals, families, endowments, foundations and charities.



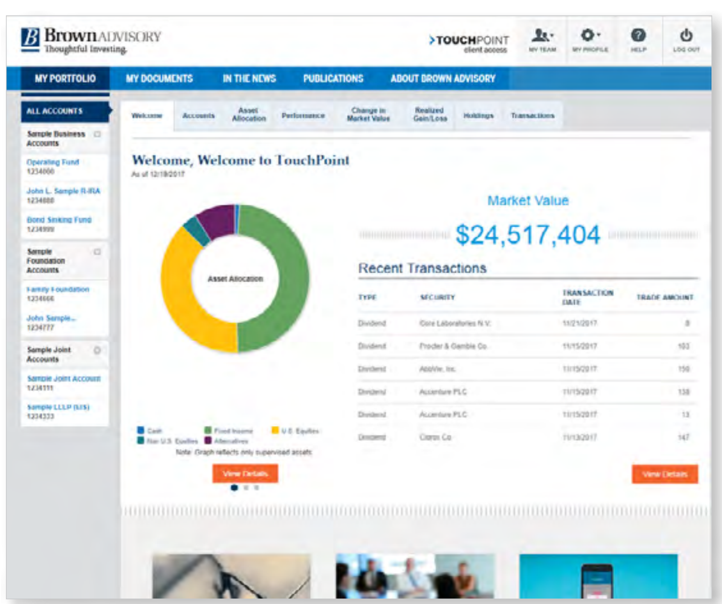



## CLIENT OVERSIGHT AND COMMUNICATION

When we oversee and manage a majority (if not the entirety) of an overall investment portfolio, we use our "three-bucket" framework to help protect a long-term focus. The first bucket, or operating account, provides liquidity and stability; the second bucket, or core portfolio, combines growth and stability assets designed to pursue long-term growth; and the third bucket, or opportunistic allocation, enables timely investments that capitalise on time-sensitive opportunities. Over the 10-plus years that we have used this three-bucket approach, we have found that it not only serves as a useful structure to survive down markets but also allows our clients to thrive in them—the confidence of adequate liquidity frees up capital to take advantage of opportunities in times of market dislocation.

**TOUCHPOINT**
client access

*TouchPoint helps provide our clients with better service—whether we are displaying their account information, granting access to other advisors or sending documents to our clients directly. Our clients and their teams can use TouchPoint to quickly and effectively resolve many day-to-day investment needs.*




When we manage individual portfolios for clients, we also take the long view, relying on concentration to drive the long-term orientation of the given strategy. Concentration forces, amongst other things, high conviction and a ruthless search for the best ideas. Coupling conviction with the possibility that selling a position from a concentrated portfolio can lead to adverse tax outcomes, our institutional portfolio managers and analysts have a fundamental incentive to invest in securities that they intend to hold for, at the very least, three to five years.

We approach each client with a listen-first mindset and come with no presumptions so that through conversation, we can develop a solution tailored to their needs. When Brown Advisory is chosen to provide investment advisory services to a client, the relationship and investment team sets up an initial meeting with the key people within the client's organisation. In this initial meeting, we place a major focus on setting appropriate asset allocation and portfolio guidelines, as they serve as the foundation for the management team to develop an appropriate investment strategy for the client. We find a discussion of multiple factors assists our clients and us in determining proper asset allocation guidelines.

For clients seeking financial or estate planning to supplement their investment goals, we have a team of Strategic Advisors who work closely with clients to develop a family mission statement and strategic plan to focus on long-term goals and objectives, and determine whether a family wants to include their values in their investment philosophy. This team helps clients create an Investment Policy Statement that outlines clear guidelines for how capital will be invested and can also help create a framework for good decision-making. They also help clients think through tax and capital gains implications associated with clients' investments. Strategic Advisors and Portfolio Managers work collaboratively to translate objectives into sustainable investment actions–aligning investments with values.

From there, communication and reporting to clients on our activity have always been a priority for the firm. Importantly, our preferred method of communication with clients is direct and personal—we have found the best way to build trust is through human-to-human connection, and that starts with intimate communication. Our ARIS Analytics tool and reporting, mentioned in Principle 2, is a great way to reflect exactly how an individual client's portfolio reflects their stewardship goals and targets. We have also built a proprietary client portal—TouchPoint—which clients can access 24/7 to review the holdings, documents and performance related to their portfolios.

Outside of the direct, client-relationship based communication, we have a number of consolidated and aggregated reports that can help inform a collection of clients at once.

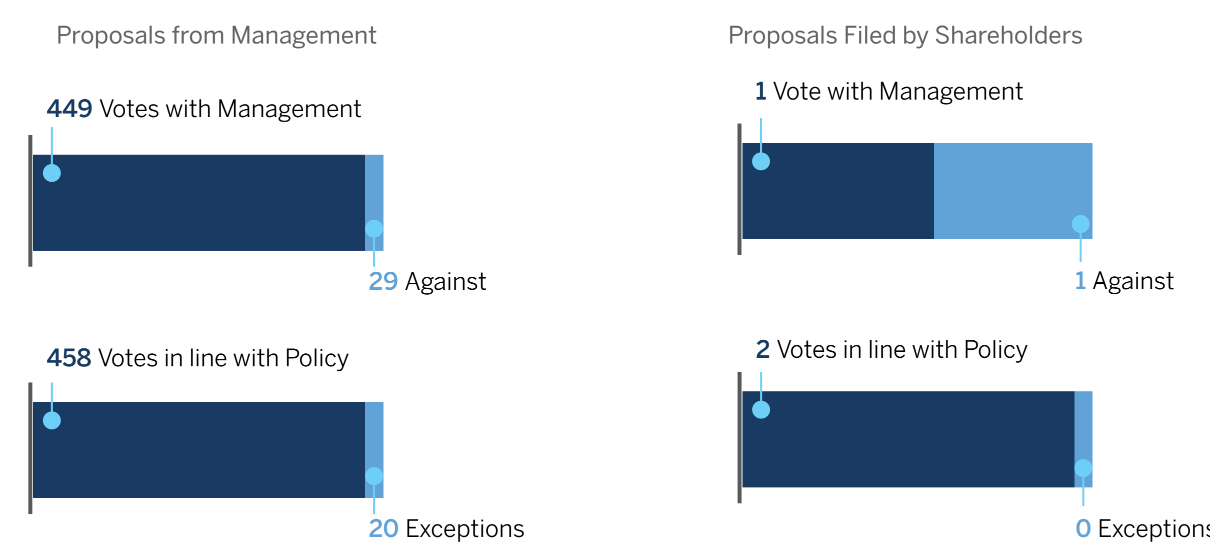
### Impact Reports:

For a number of our most prominent Sustainable Investing Strategies, we produce an annual Impact Report that details and discusses how the strategies have addressed certain sustainable, ESG or stewardship matters over the previous year.

- Large-Cap Sustainable Growth: The 2021 report includes a review of the strategy's ESG research and integration approach, and examines how the Portfolio Managers use the concept of Sustainable Business Advantage to identify compelling long-term investments. It also discusses the positive environmental and social outcomes being created by the strategy's portfolio companies, and reports on the engagement and proxy voting activity during the year (both as an individual stakeholder and in concert with investor coalitions).
- Sustainable Core Fixed Income and Tax-Exempt Sustainable Fixed Income: The 2021 reports include a review of how the strategies conduct and use ESG research to drive returns, and how the investments in the portfolios are helping to create positive environmental and social outcomes. They also discuss how the teams engage with issuers—sometimes for ESG due diligence and impact purposes, other times in an advisory capacity with issuers seeking guidance on structuring labeled bond offerings—and how they participate in the broader sustainable investing community.
- Global Leaders: The 2021 report combines the team's thinking across many ESG topics alongside articles on low carbon investing and how looking after one's customer is tied to ESG. It provides updates on the strategy's progress around adoption by portfolio companies of the Science-Based Target initiative, Brown Advisory's growing team, engagement, proxy voting where the strategy takes a different view to proxy advisory firms, and sustainability incorporating durability, persistence and environmental balance.
- Sustainable Small-Cap Core: The 2021 report includes a review of the strategy's ESG research and integration approach, and examines how we use both fundamental and ESG research to identify compelling long-term investments. It also discusses the positive environmental and social outcomes being created by the strategy's portfolio companies, and reports on engagement and proxy voting activity during the year. The strategy's 2021 proxy voting data is presented below as an example.

**2021 EXAMPLE PROXY VOTING DATA**

*Sustainable Small-Cap Core Holdings, 2021 Calendar Year*



## PROXY VOTING DASHBOARD

Powered by ISS, clients can access real-time information on Brown Advisory's proxy voting activity. Important to note, however, from time to time, clients may prefer to elect alternative voting guidelines in cases where the guidelines previously outlined in this document do not align with the client's investment or value objectives. The firm seeks to provide clients with the opportunity to have proxies voted in line with their values and objectives. Where a client desires to elect alternative voting guidelines, the firm will work with the client and ISS to identify appropriate alternative voting guidelines.

Where no appropriate predefined alternative guidelines are available, the firm will endeavour to work with the client to define and set up guidelines to vote proxies on a case-by-case basis. Members of the firm's Proxy Voting Committee review any alternative policy guidelines when first raised by a client to identify any voting considerations that might need further discussion. The firm may recommend a departure from specific aspects of the selected policy's guidelines when it deems such a departure to be in the client's best interest.

### Annual Report

The purpose of the annual report is to help our stakeholders understand how we work to serve our clients and who we aspire to be in as nuanced a way as possible. It starts where we must always start, with our clients and describing our Mission: to make a positive and material difference for our clients. In Performance we describe our investment activity and what "Thoughtful Investing" means to us. Impact focuses on our communities, and as industry best-practice serves as our de-facto Sustainability Report. DNA is about our ownership mindset and the "genetic markers" that animate our culture. Together, the Annual Report serves a yearly means to share with our clients, colleagues and communities what is on our minds, and how we are investing for the future on their behalf. An important feature of each Annual Report is the introduction letter from Mike Hankin, president and CEO.

## COMMUNITY & IMPACT WEBPAGE

We recently created a new page on our website to aggregate and discuss our activities around corporate giving, climate change mitigation, community investment and colleague community engagement. Each of which we consider central to our role as stewards for our client, colleagues and communities.

Many of the activities highlighted on this webpage have been discussed in this report already, but it is worth noting a few other points:

- **Corporate Giving:** In 2021, Brown Advisory contributed more than $1.75 million to a range of nonprofits and charities across the communities where we live and work. In addition to supporting organisations that are important to our clients and colleagues, we focus our giving in three strategic areas:

- **Justice:** We support nonprofit organisations that address social injustice and racial inequity. These organisations provide support and services to minorities and economically disadvantaged groups, work to dismantle systemic barriers to racial equity, and build deliberate systems to achieve and sustain racial equity.

  *Nonprofit partner examples:* Bard Prison Initiative, Roca, Ron Brown Scholar Program, B-360, 10,000 Black Interns

- **Environment:** The nonprofits with which we partner strive to support conservation and combat the complex environmental challenges that threaten our world, such as climate change, water scarcity and quality, biodiversity, sustainable agriculture and environmental justice. We believe that these issues are interconnected with their social and systemic counterparts, and that addressing them requires a holistic approach to balance urgency with long-term solutions.

  *Nonprofit partner examples:* Nature Sacred, Conservation Fund, Kew Royal Botanic Gardens (see below)

- **Gender Equity:** We partner with organisations dedicated to helping and empowering women and girls, especially those in underrepresented groups. Their work focuses on inclusion, education, health and social services, and includes closing the gender gap in business and government, mentoring, furthering and supporting women's rights, preventing abuse, and providing direct services to people in need.

  *Nonprofit partner examples:* Invest in Girls, Him For Her, International Women's Forum, U.K. Treasury's Women in Finance Charter, Girls Are INvestors (GAIN)

- **Community Investment:** At Brown Advisory, we catalyse innovation in mission-driven businesses and initiatives that are designed to materially enhance opportunities in our communities. These strategic investments take the form of capital, resources and collaboration with change-agents who promote opportunity, equity and inclusion in the ecosystems in which we work. Examples of these investments include:

  - **UpSurge** is building an engine to propel Baltimore into the top tier of U.S. innovation cities, whilst striving to be the country's first "Equitech City." UpSurge works with founders to launch, support and grow high-impact startups, and develops strategies to attract new companies, talent and capital.

  - DivInc's mission is to generate social and economic equity through entrepreneurship by equipping underrepresented founders with access to the critical resources they need to build investable companies. Based in Austin, Texas with a second location in Houston, DivInc offers a 12-week accelerator for early-stage startups and builds partnerships with public and private institutions to drive systemic change.

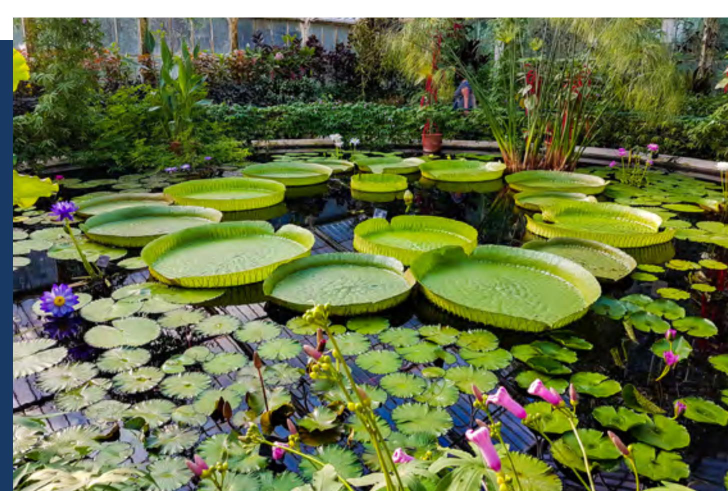
  - As noted in Principle 4, B.Innovative is our collaborative workspace programme for purpose-driven startups and investors that seeks to catalyse entrepreneurial activity and thought leadership across underserved stakeholders. Beginning in Baltimore and now launching in Austin, B.Innovative embodies our dedication to provide physical and human capital resources to change-makers, and to help unlock new ways to create value and results for people and organisations that are working to raise the future.

Community involvement is an expectation for advancement of colleagues at the firm. We believe that the extent and breadth of community giving, leadership and involvement by our colleagues, with the support of the firm, is essential to our stewardship culture. These activities also benefit the wider societies and environments in which we operate.

OUTCOME

### 2021 NON-PROFIT PARTNERSHIP

Brown Advisory were a corporate sponsor of Kew Royal Botanic Gardens in 2021. Many of our London-based colleagues volunteered multiple days of their time as gardeners, planting seedlings and flowers. The team enjoyed furthering their education with Kew's team of leading environmental experts, enhancing the rich biodiversity at Kew Gardens as well as learning about endangered plant species.



OUTCOME

### 2021 U.K. CHARITY OF THE YEAR

Each year, we support a number of charities through individual as well as corporate contributions. Additionally, colleagues in our London office shortlist and vote for their charity of the year, with whom we actively engage with throughout the calendar year. In 2021, the MS Society was chosen as our charity of the year for a third year running, over which period we raised £44,061.22 toward the Stop MS appeal.

In 2022, Brown Advisory is proud to be partnering with Greenhouse Sports as our charity of the year. All funds raised through our individual and team pursuits will go toward fulfilling Greenhouse Sports' vision that every child deserves a fair chance to succeed.

Our involvement with Greenhouse Sports extends beyond fundraising to volunteering as part of an employability programme with a local school. We take part in basketball, table tennis or tennis lessons with students and speak about workplace/interview experiences with an overall mentoring focus to the sessions. The ultimate goal of each session is to engage young people living in the inner-city develop social, thinking, emotional and physical skills.

# PRINCIPLE 7

*STEWARDSHIP, ESG AND INVESTMENT INTEGRATION*

**We believe sustainability is an essential part of thoughtful investing and our most effective way to incorporate the idea of stewardship into our investment process. In Principle 7, we explain how we integrate stewardship and ESG analysis into our overall research and investment processes.**

We see incorporating a broad range of risks and opportunities into our research process as an important tool to generate long-term performance—including how a company or potential investment is managing products, services and solutions in the face of climate change and other long-term societal forces.

Just as we do not build portfolios based on models, we do not make assumptions about what sustainability means to a client. It can be a path to investment performance, a way to reflect values through an investment portfolio, an opportunity to make an impact on the world.

*The timeline below shows the evolution of our sustainable investing journey so far and includes key moments in the evolution of our sustainable investing platform:*

## 2009

### INTEGRATION OF ESG AND FUNDAMENTAL RESEARCH

- Winslow Management Company joined Brown Advisory, bringing 25+ years expertise in ESG analysis
- Inception of Brown Advisory's sustainable investing platform, utilising ESG research as a value-added component of individual security analysis, integrated with fundamental analysis

## 2010

### INCEPTION OF U.S. SUSTAINABLE EQUITY PLATFORM

- Launch of first U.S. sustainable equity strategy: U.S. Large-Cap Sustainable Growth
- Expansion of platform with subsequent strategy launches: U.S. Sustainable Small-Cap Core (2017), U.S. Sustainable Income (2021)

## 2014

### INCEPTION OF U.S. SUSTAINABLE FIXED INCOME PLATFORM

- Launch of first U.S. sustainable fixed income strategies: U.S. Sustainable Core Fixed Income and U.S. Sustainable Tax-Exempt Fixed Income
- Expansion of platform with launch of U.S. Sustainable Short Duration strategy (2017)

## 2015

### GLOBAL EXPANSION OF SUSTAINABLE EQUITY PLATFORM

- Launch of first global sustainable equity strategy: Global Leaders
- Expansion of platform with launch of Sustainable International Leaders strategy (2021)

## 2021

### GLOBAL EXPANSION OF SUSTAINABLE FIXED INCOME PLATFORM

- Experienced team of three portfolio managers joined Brown Advisory to lead global expansion of sustainable fixed income platform
- Launch of Global Sustainable Total Return Bond strategy (2022)

## INSTITUTIONAL SUSTAINABLE INVESTING PRINCIPLES

Brown Advisory strives to promote and uphold a number of principles through our sustainable investing activities and platform:

**Performance first:** Sustainable investing at Brown Advisory seeks, first and foremost, to contribute positively to the performance of our strategies. Our research efforts aim to uncover environmental, social and governance risks that may hinder the return from an investment and sustainable opportunities in order to add value to the due diligence process and we believe help portfolio managers make better decisions. One output of our sustainable investing work is a roster of investments that we believe are poised to create positive impact on society and/or the environment, but our primary use of ESG research is to enhance our returns for clients.

**Diligence in primary ESG research:** We believe it is our duty as sustainable investors to conduct primary ESG research and to pursue ESG research coverage across our sustainable investment strategies. Our ESG research team leverages third-party data in some instances, but generally only as a supplement to primary research. We believe that whilst third-party ESG research can be a helpful input in assessing ESG risks, primary research is needed to identify sustainable opportunities. We believe this approach helps us understand the investment opportunities we consider and to help ensure that our sustainable strategies can meet and exceed the expectations of our clients.

**Independent thinking from portfolio managers:** We believe that our results are improved when our portfolio managers are given freedom to express their investment philosophies. This extends to sustainable investing; our portfolio managers can integrate sustainable investing principles to varying degrees, and we do not enforce a standard approach to ESG integration across our sustainable investment platform. However, we have a policy for what constitutes a "sustainable" strategy. On our platform, sustainable strategies are those that have established standards for portfolio holdings around fundamental and sustainable theses.

**Speak up, where it counts, loudly:** We view issues such as climate change, inequality and poor corporate governance to be tangible risks in our sustainable investment portfolios and as clear and present threats to society and the environment. As a sizable institutional investor, we believe we can have an influential voice in certain circumstances. We take this responsibility seriously; where appropriate, we seek to use what influence we have to encourage actions by companies and bond issuers that we believe can benefit long-term value for stakeholders, increase resilience and generate a positive impact on society (within the boundaries of a company's business or the structure and purpose of a bond issue). When we participate in engagement efforts, we seek to exercise our influence through active, constructive engagement and/or casting proxy votes as equity shareholders, and through participation in sustainable investing industry initiatives and working groups.

**Collaboration, not isolation:** Our ESG research analysts are integrated into the overall fundamental research effort that supports our equity and fixed income strategies. ESG research analysts work collaboratively with fundamental analysts across asset classes and industry sectors, and with portfolio managers across our various sustainable investing strategies, in a research process that seeks to examine individual sectors, issuers and securities, where applicable, to determine their suitability for our various strategies. Similarly, we strongly support the cooperative spirit that has guided the broad sustainable investing community for many years. We actively participate in many research and advocacy partnerships that aim to advance research methodologies, establish data and measurement standards, and raise the bar for environmental and social responsibility.

**Transparency:** We are committed to clear disclosure about the sustainable criteria that guide any of our strategies; this is true for our dedicated sustainable investment strategies and those that may elect to incorporate any of the ESG research tools in their investment process.

**Continual improvement:** We look for ways to improve our research techniques, data sets and decision-making processes. We actively listen to colleagues, clients, board members, competitors, industry partners and other key stakeholders, in an effort to evolve our skill sets and capabilities. We are also committed to spreading knowledge about sustainable investing our colleagues, and we offer internal training to all colleagues so they can better understand our sustainable investing solutions and better serve our clients.

**Commitment to core ideals in our sustainable strategies:** We recognise the nuances involved in managing portfolios in alignment with the differing missions and values of our clients. However, there are certain key ideals that permeate our sustainable investment strategies in terms of environmental, social, and governance considerations. These include any one or more of the following:

### Environment

**Climate change:** Climate change is widely recognised as an existential threat to human civilisation; the current and potential costs of extreme weather disasters, homelessness, health pandemics, environmental injustice, quality and availability of essential resources, biodiversity declines, and other climate-related problems are all well-documented. Companies, municipalities and other bond issuers are major contributors to climate change and also directly exposed to potential losses from climate change. We are therefore motivated to encourage transition to a low-carbon economy and to seek assurance that steps are being taken to mitigate the damage from climate change that we are already experiencing today.

**Responsible management of natural resources:** Water stress, food supply, soil quality and waste management all involve finite or threatened resources that our world and economy depend on to survive. We generally favour companies and bond issuers with proof of sustainable supply-chain management, a commitment to ethical waste diversion or actions that make accessibility of these essential products more equitable.

### Social

**Diversity, equity and inclusion:** Diversity is good for business, and equity and inclusion are required to help ensure a just and civil society, fair wages and job conditions, and equal access to essential services like clean water, healthy food, quality education and public transportation. We generally favour investments that promote diversity, equity and inclusion, and we aim to avoid investments that we believe materially worsen injustice.

**Human rights:** We seek out investments that we believe have robust practices in place for protecting workers and other stakeholders, such as safe, age-appropriate working conditions and robust processes for both deterring and reporting human rights abuses. We also favour and encourage clear disclosures of human rights policies, procedures and progress.

### Governance

**Transparency and disclosure:** Investors need accurate, timely and clear rigorous disclosure from companies and bond issuers so they can make informed, thoughtful decisions. Disclosure of ESG information is especially important because it is generally outside the boundaries of regulatory requirements. We support companies and other bond issuers that disclose, at reasonable cost, nonproprietary information on management of material ESG risks and opportunities, and progress toward ESG-related goals and targets.

**Oversight and accountability:** Accountability helps ensure that sustainability goals are actually pursued and achieved by companies and bond issuers. We look for investments with accountability structures in place, such as, strong board oversight, relevant internal experience necessary to manage risks, measurable sustainability targets, compensation formulas that are connected to such targets, and/or adherence to industrywide or easily comparable frameworks.

## RATINGS

Our ESG research is largely qualitative in nature, but we assign two quantitative ratings, an ESG Risk Management rating and a Sustainable Opportunities rating, to our assessments for certain asset classes for communication purposes with the portfolio managers to express sentiment. Our ratings use a simple 1–5 system, with a "1" signifying the most favourable assessment in terms of ESG risk or sustainable opportunity, and a "5" signifying the most unfavourable. Where applicable, the analysts include a "plus" or "minus" (e.g., a "2+" rating) to indicate if a company or other bond issuer is materially progressing or regressing.

The tools that enable this research are defined and discussed in Principle 2.

## OUTCOME

### BROWN ADVISORY ESG RATINGS FRAMEWORK

The act of assigning ESG ratings inherently runs the risk of implying an unwarranted level of precision regarding ESG data. Available ESG data is imperfect, and the interpretation of this data, as with much financial data, necessitates a degree of subjectivity. For this reason, we use a simple 1–5 rating system and develop more refined views of specific companies and other issuers with qualitative research. Further, we assign separate ratings for risk and opportunity, as opposed to a singular rating for a company or bond issuer. We believe that this dual-rating approach helps us differentiate between investments characterised by good risk management, versus investments that are helping to solve major environmental and social challenges.

To be clear, these ratings do not drive portfolio activity but are used as a communication tool that helps foster greater discussion with portfolio managers, fundamental analysts, the broader investment team, and our sustainable investment oversight and risk management teams.

| | *ESG Risk Management Score* | | *Sustainable Opportunity Score* |
|---|---|---|---|
| 1 | **NET POSITIVE**<br>Entity effectively manages all material ESG factors, going beyond best practices and potentially leading to a competitive advantage.<br>Generally does not have major ESG controversies. | 1 | **NET POSITIVE**<br>The primary **product/service** offering solves for a critical environmental and/or social challenge.<br>Sustainable **operations** are helping to drive potential business advantages and efficiencies, and significantly reducing or mitigating any negative environmental and social impacts. |
| 2 | **SLIGHTLY POSITIVE**<br>Entity has adequate ESG risk management systems, such that material ESG factors are unlikely to pose a material threat. May have a small number of minor ESG controversies. | 2 | **SLIGHTLY POSITIVE**<br>Some **products/services** solve for environmental and social challenges, and some efforts to reduce negative impact of **operations**; relatively limited when compared to an "1"-rated entity, in terms of the share of overall revenue, or the extent of impact. |
| 3 | **NEUTRAL**<br>Entity has basic ESG risk management systems, but there is not enough information to evaluate effectiveness. May have a moderate number of material ESG controversies. | 3 | **NEUTRAL**<br>Little to no material exposure to **products/services** that solve an environmental or social challenge. Minimal efforts to reduce negative impacts of **operations** or create operational advantages. |
| 4 | **SLIGHTLY NEGATIVE**<br>Minimal ESG risk management means that ESG risk may pose a material threat to entity. May have moderate to severe ESG controversies. | 4 | **SLIGHTLY NEGATIVE**<br>Some **product/service** offerings may cause environmental and/or social harm. **Operations** may cause environmental and/or social harm. |
| 5 | **NET NEGATIVE**<br>Little or no ESG risk management, ESG risks are likely to pose a material threat to entity. May have severe ESG controversies. | 5 | **NET NEGATIVE**<br>Primary **product/service** offerings may cause meaningful environmental and/or social harm. **Operations** may also cause meaningful environmental and/or social harm. |

## SUSTAINABLE INVESTING SOLUTIONS

### For Institutions

The following strategies integrate ESG research, including assessment of ESG risks and sustainable opportunities, in the SI investment processes described in this report:

**Equity Strategies:**

- U.S. Large-Cap Sustainable Growth
- Global Leaders
- U.S. Sustainable Small-Cap Core
- Sustainable International Leaders

**Fixed Income Strategies:**

- U.S. Sustainable Core Fixed Income
- U.S. Tax-Exempt Sustainable Fixed Income
- U.S. Sustainable Short Duration Fixed Income
- Global Sustainable Total Return Bond

**ESG Research and Engagement Platform**

- Dedicated ESG research team that is integrated with fundamental analysts and portfolio managers across our equity and fixed income investment teams
- Proprietary ESG research methodology and internal rating system used to help assess potential investments
- Deep investigation into the use of proceeds raised by the bonds we hold in fixed income portfolios and the impact produced by those proceeds—for both labeled and unlabeled bonds
- Pursuit of active, issue-driven engagement with management teams, bond issuers, industry and issue experts, NGOs, and other stakeholders to bring attention to ESG issues, encourage best practices and provide guidance on topics
- Comprehensive, policy-driven approach to proxy voting
- Capabilities to provide customised screening to clients (applied independently from our investment process)

### For Individuals and Families

- Disciplined construction of sustainable portfolios, through an established and documented process for translating client goals and priorities into bespoke asset allocation and manager recommendations
- Robust, open-architecture platform of sustainable managers, each vetted through due diligence covering their fundamental, sustainable and operational strengths. Our platform covers a wide range of public and private asset classes, with attention to offering manager diversity
- Structured engagement approach whereby a significant part of our manager evaluation process is the way they engage with businesses they own to improve outcomes operationally–both financially for their shareholders, but also for stakeholders, including employees, customers and the communities in which they do business
- Our multiasset platform of internal and external sustainable managers to actively manage a Sustainable Model Portfolio, which provides a core portfolio allocation across asset classes for our sustainably-aligned private clients in the United States
- ARIS Analytics, our in-house proprietary sustainable reporting system, which allows us to provide look-through ESG and impact data on balanced portfolios, down to the individual security level. We leverage this system to help assess legacy portfolios of new clients, recommend new target portfolios and monitor progress toward each client's goals over time
- Active efforts to help amplify our clients' voices, through proactive engagement with companies and bond issuers, a thoughtful approach to proxy voting, and our own actions and commitments as a firm on key ESG-related topics
- Strategic advice regarding broader goals, such as aligning impact and philanthropic goals with portfolio strategy, development of appropriate trusts and other legal structures to help achieve legacy or multigenerational objectives, and next-generation education
- High-touch client service solutions, covering comprehensive reporting, grant administration, educational support and other needs
- Capabilities to provide customised screening to clients (applied independently from our investment process)

### For Charities, Endowments and Foundations

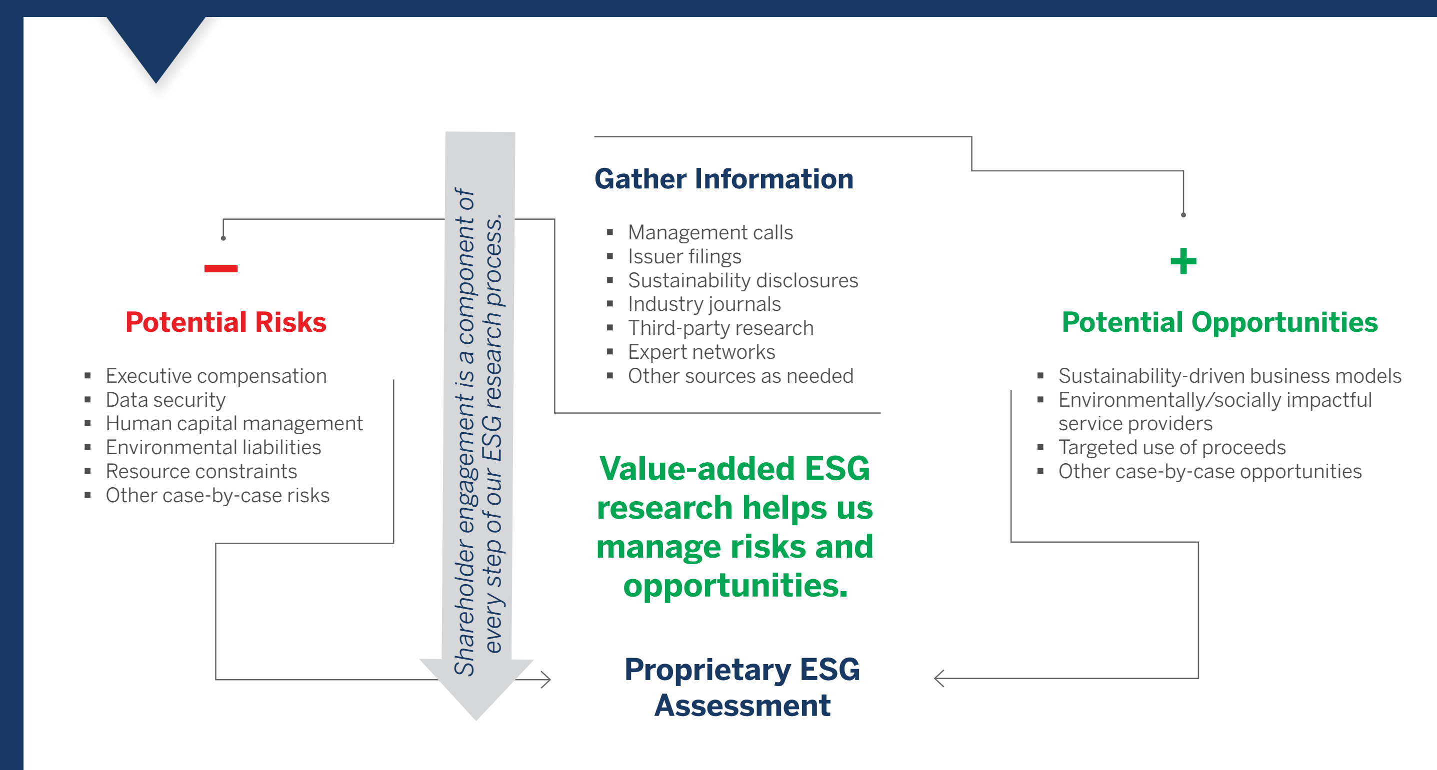
- Addressing the scope of mission alignment—we will be acting across the entirety of the client's investment assets or focusing on a "carve out" pool of capital for mission alignment
- Determining the pace of mission alignment— we will seek to align 100% of assets at inception, or begin with a smaller percentage of assets, and set targets for increasing that percentage over time
- Developing or refining investment policies—as we work with clients to better understand their goals and priorities, we can codify those priorities in an investment policy that effectively translates intention into reality
- Depending on the client, these policies may include defined screens that prohibit or require investment in certain sectors, set priorities for ESG factors such as DEI that guide manager selection, or goals for impact on key issues related to the client's mission
- Working with the full range of stakeholders—we act as more than portfolio managers for many of our clients, and serve also as advisors and partners in an effort to help clients navigate decisions related to sustainable investing and mission alignment. In particular, many of our clients have different stakeholder groups who may not always see eye to eye on certain issues, and we have experience helping to bridge these divides and bring stakeholders together to support a strategy

## OUTCOME

### ESG RESEARCH INTEGRATION

Brown Advisory's ESG equity and fixed income research analysts are a core component of the firm's broader equity and fixed income investment research team. Our ESG research analysts work together across asset classes to develop overarching ESG research tools and provide research coverage of overlapping portfolio names that are held or are being considered for both equity and fixed income portfolios. At the same time, the equity and fixed income ESG analysts are integrated members of the research teams for their respective asset classes, working closely with fundamental analysts and portfolio managers to guide portfolio decisions for our sustainable strategies. For our traditional strategies, we will provide proprietary ESG research or research produced by third-party ESG research providers at the request of the portfolio manager.

We believe this approach helps us to maintain consistent standards across asset classes and minimises duplicative work on companies or bond issuers held in multiple portfolios whilst also seeking to embed ESG research deeply within the decision-making process for sustainable investments.



# CROSSBOUNDARY *—Our Frontier Markets Partner*

Challenging ourselves to look for strategic opportunities that can unlock investments for clients led us to partner with CrossBoundary—a frontier markets firm whose mission is to provide private capital to underserved markets. Through 16 offices on five continents, the CrossBoundary team advises entrepreneurs, investors, Fortune 500 companies and policymakers on frontier market investments, and invests client capital in sustainable energy projects.

***"With Brown Advisory, we have found a truly aligned partner. Together, we look forward to pursuing our mission of bringing private capital to underserved markets, which might be considered frontier today but will be the mainstream growth stories of tomorrow."***

–Jake Cusack, Co-Founder and Managing Partner, CrossBoundary

# PRINCIPLE 8

*MONITORING MANAGERS AND SERVICE PROVIDERS*

**Brown Advisory works in partnership with a select group of service providers as well as internal and external investment managers. In Principle 8, we outline the nature of our monitoring activity and explain how this is used to ensure the best stewardship and investment outcomes are achieved on behalf of our clients.**

The majority of our investment management and stewardship activity is conducted within Brown Advisory by our own dedicated teams of fundamental analysts, sustainable investing analysts and portfolio managers. For certain activity, where we deem it appropriate to engage with external providers (for example, data provision), we carefully select partners and continuously monitor their service. Please see below for further detail.

## ESG DATA PROVIDERS

Brown Advisory conducts thorough due diligence when selecting data providers, seeking RFPs and demonstrations from multiple providers before taking part in trials to test the appropriateness of the solution for our need. The thoroughness of the due diligence process is particularly important for sustainable investing, as the reliability and availability of ESG data varies depending on the factor in question or the asset class. Understanding how data providers source and/or estimate data is very important in order to ensure data is used in an appropriate way in the investment decision-making process.

Please note that although we have access to third-party rating systems, we do not lean on external ESG ratings to determine whether a company is an appropriate fit for our strategies. As our ESG team has long believed, no raw ESG rating can tell an investor whether a company is a sound investment. We believe that primary research is the only way to consistently arrive at well-informed investment decisions. Examples of service providers includes:

### Institutional Shareholder Services

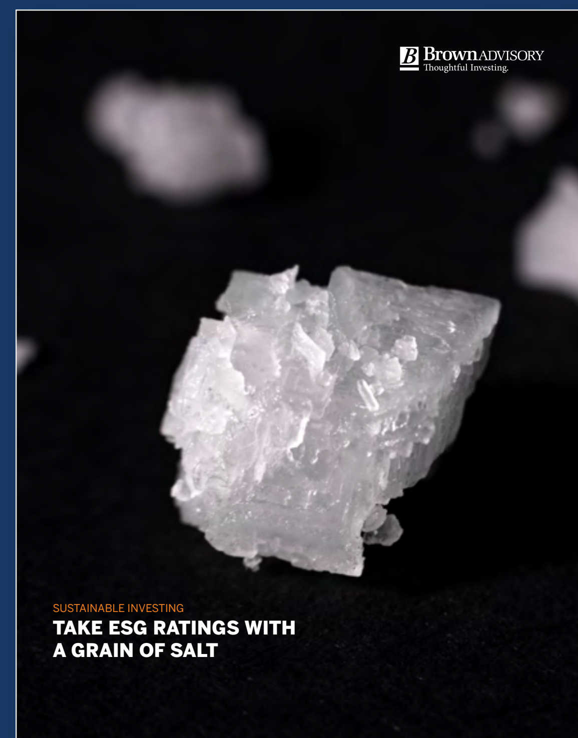
Institutional Shareholder Services (ISS) is the firm Brown Advisory retains for proxy voting services. Brown Advisory collaborates with ISS in many ways, including designing and implementing our proxy voting policy, setting up our client accounts to vote proxies, and providing governance research to aid in proxy voting decisions. Brown Advisory's proxy voting team meets with ISS on a monthly basis and maintains email contact more frequently. Members of Brown Advisory's research team also participate in ISS roundtable events where ISS seeks to gather investor perspectives to enhance its voting guidelines year over year. Finally, Brown Advisory runs a number of automated reports to determine whether voting activity is being executed properly. Should any issues arise, the proxy voting team will engage ISS to determine the source of the issue, and if necessary, the issue will be escalated to all or a subset of the Proxy Voting Committee and other members of the firm as applicable (e.g., portfolio managers, analysts).

### MSCI

MSCI is one of Brown Advisory's primary ESG data providers. We are in regular communication with MSCI, learning more about the expanding nature of its product offerings and seeking assistance with challenges we encounter. Brown Advisory also leverages MSCI for our negative screening activity ensuring alignment with client values as appropriate. We would note that as the wider ESG landscape has continued to evolve, by necessity, so too has our approach.

OUTCOME

**PUBLISHED THOUGHTS ON ESG RATING METHODOLOGY**




The team first wrote about this in 2018, which can be found in our article *Take ESG Ratings with A Grain Of Salt*

https://www.brownadvisory.com/intl/theadvisory/take-esg-ratings-grain-salt

### Other Third-Party Providers

In recent years, our ESG research team undertook a review of our ESG data providers and assessed many other providers in the market. We assessed the capabilities of the various providers and the alignment of those capabilities to our research needs, and evaluated these against peers and other research sources available to the market. Brown Advisory expects to conduct such a review periodically.

## INVESTMENT MANAGERS

Brown Advisory's Investment Solutions Group (ISG) helps our colleagues serve the clients of the firm by conducting asset allocation and manager research, and producing the Brown Advisory Approved Manager List and Model Portfolio. ISG's manager due diligence often takes months or even years prior to the approval of a fund. Key steps in the process include:

**Sourcing:** The team sources managers through relationships, conferences, capital introductions, screens and referrals.

**Quantitative Analysis:** The team performs rigorous statistical analysis to evaluate the quality of returns. This process also includes comparing prospective managers against peers and often includes the creation of custom benchmarks to attempt to explain for outperformance.

**Meetings:** The team typically meets with a manager several times prior to investment, with many members of the ISG team meeting with a manager. The meetings ultimately culminate in an onsite meeting at the manager's office, where we meet the Portfolio Manager and many members of the analyst team.

**Engagement:** We prefer to see managers who have allocated specific resources that are dedicated to engagement as opposed to simply leveraging fundamental analysts, where we are able to hold them accountable. We have found that dedicating resources to engagement allows firms to be more directed in their engagement, to better prioritise issues for focus and to ultimately demonstrate more impact.

**Operational Due Diligence:** The ODD team performs analysis on the operational controls of a given organisation and performs background checks on all key individuals. The ODD team has ultimate veto power of an investment.

**Portfolio Impact Analysis:** The team performs in-depth analysis on the exposures of a fund to determine how it should fit into a portfolio and how it will perform in different situations compared to the other managers on the platform.

ISG performs a formal review of each manager on a quarterly basis to ensure that they are meeting expectations both from a process and performance perspective. This process includes a meeting or call with the manager, an updated research report, and discussion of the manager at a two-day offsite. In addition to these formal reviews, the team constantly tracks managers and provides updated talking points to the entire firm on a monthly basis. These quarterly reviews are also conducted on Brown Advisory's internally managed strategies.

## OTHER SERVICE PROVIDERS

We are in daily contact with our outsourced service providers through the normal course of business and have quarterly service review calls in place to ensure our service-level agreements are being upheld.

In addition, we undertake periodic reviews of the alternative providers in the relevant market to revalidate that our existing partnerships deliver the best outcomes for our clients.

Should an incident or error occur with one of providers where they did not meet our requirements, the provider would follow its internal incident reporting process, a summary of which is shared with our operational teams for approval or continued discussion.


**Engagement activity is critical to our stewardship and sustainable investing success. 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. In Principle 9, we discuss our approach to engaging with the issuers of securities in which we invest and provide examples of engagement at both a firmwide and strategy level.**

## OUTCOME

### 2021 ESG STAKEHOLDER ENGAGEMENTS

**By Priority**

| | |
|---|---|
| Climate Change | 91 |
| Disclosure/Transparency | 109 |
| DEI | 72 |
| Ethical AI | 23 |
| Total | 295 |

**By Approach**

| | |
|---|---|
| Advisory | 40 |
| Collaboration | 16 |
| Due Diligence | 116 |
| Impact | 18 |
| Total | 190 |

**By Category**

| | |
|---|---|
| Environmental | 109 |
| Social | 105 |
| Governance | 87 |
| Total | 295 |

## ENGAGEMENT GUIDING PRINCIPLES

Below, we articulate our three guiding principles for engagement activities and outline how our approach differs across asset classes.

1. **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. 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. Whilst we recognise 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.

   - Within fixed income, we seek to work with industry partners to develop and strengthen the principles that guide issuance of many green bond and other labeled bonds. 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 that 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 our external manager evaluation, ISG prioritises engagement on behalf of our advisory clients. The evaluation of managers and investment strategies is a significant component of our ESG integration and due diligence processes, and allows us to engage with businesses we own to improve outcomes operationally. Some of the most compelling sustainable managers operate like sustainability consultants for the management teams they invest in, sharing best practices related to the management of natural and social capital, and demonstrating their commitment to sustainability with authenticity. We have found that engagement is an important tool leveraged by the most effective active managers, helping to accelerate value creation amongst portfolio companies by highlighting key ESG risks and sustainable opportunities. As such, engagement strategy, process, outcomes and reporting are critical components on which we evaluate these managers.

   - In addition, we have learned that consistent and coordinated work by many investors is often needed to spur meaningful action. 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 on Corporate Responsibility (ICCR), and other likeminded organisations. Our engagement approach and recommendations are informed by the Task Force for Climate-Related Disclosure (TCFD), the Impact Management Project, Emerging Markets Investors Alliance, IFRS' Sustainability Accounting Standards Board and Carbon Disclosure Project, along with many of their peers.

2. **Commitment to core ideals: We recognise 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 ESG 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.

### Engagement Approach

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.

**ESG Due Diligence**

We conduct ongoing discussions with companies/issuers to inform our investment research and decision-making.

**Impact**

We collaborate with companies/issuers and industry groups to advocate for improved ESG practices.

**Advisory**

We advise companies/issuers on best practices, such as developing robust ESG programmes and structuring impact-oriented bond deals.

**Collaboration**

We partner with investor groups and NGOs to advance salient issues and tools that will benefit the larger investment community.

### Engagement Prioritisation

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?

Whilst we review our priorities annually, we believe effective engagement (and indeed investing) requires a long-term mindset. We approach engagement with a three- to five-year time horizon and expect to maintain our engagement priorities over a multiyear period. We review a number of key factors that help us understand what our engagement priorities should be, in addition to case-by-case engagements that are company specific.

### OUTCOME

**2021 ENGAGEMENT PRIORITIES**

- **General Disclosure** – e.g., reporting transparency, supporting more structured reporting frameworks
- **Climate Change** – e.g., reporting on and managing physical and transition climate risks; aligning lobbying and political spending with climate goals
- **Diversity and Inclusion** – e.g., 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
- **AI Ethics and Data Privacy** — e.g., hire personnel with AI/data privacy expertise and embed these ethics professionals into product development; issue annual progress reports on Ethics and Data Security

## OUTCOME

### 2021 THEME ENGAGEMENT CASE STUDIES

#### Engagement Priority: AI Ethics and Data Privacy

For several years now, we have actively engaged with first movers in the AI technology space, whose decisions may have broad implications for how AI issues like bias, privacy and transparency evolve. In particular, bias is a serious problem in AI systems that mistakenly identify people from certain groups more often than others—for example, facial recognition software and criminal justice algorithms have been shown in multiple instances to treat people of color unfairly.

Our work on ethical AI is highly collaborative; having partners is always helpful, but especially so on complex issues like this. In the past year, Brown Advisory has joined the AI working group of the World Economic Forum, PRI's collaborative working group on facial recognition and a similar working group assembled by the American Institute of Certified Public Accountants—all of these groups have similar goals related to setting expectations and standards regarding responsible AI best practices.

The first two years of ethical AI engagement were largely focused on engaging experts to inform our strategy. In the last 12 months, we have escalated to more clearly articulate our views on best practices and communicate expectations in a number of forums, including our own materials, direct letters to management teams and proxy votes.

Progress has varied across the companies with which we have engaged on ethical AI. One AI leader has been quite responsive and has paused AI sales to law enforcement whilst also establishing key new leadership roles, policies and internal standards for its AI deployments. On the other hand, other leaders were not initially responsive, leading our team to begin a gradual escalation of the engagement in 2021 with letters from our portfolio managers who own the company in their strategies.

#### Engagement Priority: General Disclosure

Data integrity is incredibly important for the future of sustainable investing, and we believe all ESG investors need to work together to help improve data quality in an arena where most reporting is still completely voluntary.

Occasionally, when conducting primary due diligence on a company, we have uncovered discrepancies between third-party data and the realities of a company's current activities. As such, we felt engagement could be used as a tool to address this.

Engagements on transparency and disclosure tend to be one on one with a company's management team; increasingly, these are inbound requests, as companies understand the inherent value of better disclosure on ESG. We supplement our dialogue with industry initiatives that enhance a range of disclosure efforts and also use proxy voting to send a signal. Whilst we are framework agnostic, we push for standardised transparency that is quantitative where possible and tied to business fundamentals. We recently worked with some of our portfolio companies to provide this type of feedback in their sustainability report. Equally important is connecting ESG within fundamental commentary.

Disclosure is low-hanging fruit, and alone, not entirely useful absent of action. Whilst we are pleased with the level of transparency many companies continue to embrace, we view that ongoing monitoring of disclosure (i.e., progress towards goals) to be more important and where our focus is currently.



## OUTCOME

### 2021 INSTITUTIONAL ENGAGEMENT CASE STUDIES

#### Brown Advisory Large-Cap Sustainable Growth

**Large Coffee Chain**

- An important part of our thesis for investing in this particular large coffee chain and roastery is that the company is a leading employer attracting and retaining staff in a competitive industry through implementing forward-thinking labour practices and good Governance at all levels within the company.
  - All employees who work more than 20 hours a week are eligible to receive stock options, health insurance and financial assistance for college-level education.
  - Executive compensation is linked to the achievement of the company's diversity and inclusion goals.
- Human capital management is a key risk we consider in each ESG profile. Following recent reports from a large coffee chain that detailed a challenging labour environment, we initiated a conversation with its investor relations team to understand how they responded to this industrywide challenge. We learned through dialogue and recommendations that the coffee chain is committed to investing and retaining its employees through a number of initiatives. These investments in employees continue to drive customer connections and overall productivity levels that support its business' long-term success and differentiation despite a challenging environment. Whilst this has impacted margins, the company believes that this investment will pay off; it has already seen turnover levels stabilise at the hourly worker level. We view the commitment to long-term retention over short-term margins as a positive outcome and one that strengthens our conviction in its ESG management.

#### Brown Advisory Tax-Exempt Sustainable Income

**New England State Issuer**

- Brown Advisory engaged with one of the six New England states to improve General Disclosure at its invitation. This state's municipal issuing authorities wanted to discuss investor preferences and expectations regarding social bonds. The state had issued labeled bonds previously and was preparing for an upcoming social bond issuance, and it also wanted to generally understand and evaluate best practices for labeled bond issuers.
- The Brown Advisory Fixed Income ESG Research team provided an advisory perspective by noting several of the preferable aspects of social bond deals, including clear detailing of how proceeds will be used, with meaningful specifics and timelines, and an annual impact report that discloses where funds were spent so that issuers will be accountable for results. In addition, the team provided examples of impact reports that are considered to be "best in class" and pointed out the key features of each.
- Over time, through engagements like this, the team hopes to create a firmer foundation for the rapidly growing labeled bond market.

OUTCOME

## 2021 EXTERNAL MANAGER ENGAGEMENT CASE STUDIES

### Boston Common Asset Management

**Magna International**

- As a part of its commitment to the Net Zero Asset Managers initiative and its own High Carbon Emitters Engagement Initiative, Boston Common engages with key holdings and addresses financed emissions. It engaged with Magna International on Climate Disclosure.
- As a result of this dialogue, Magna International has agreed to set science-based targets and is mapping Scope 3 emissions. Furthermore, Magna posted its CDP report to allow for greater transparency on its approach to climate change.

### Parnassus Investments

**Fund-level**

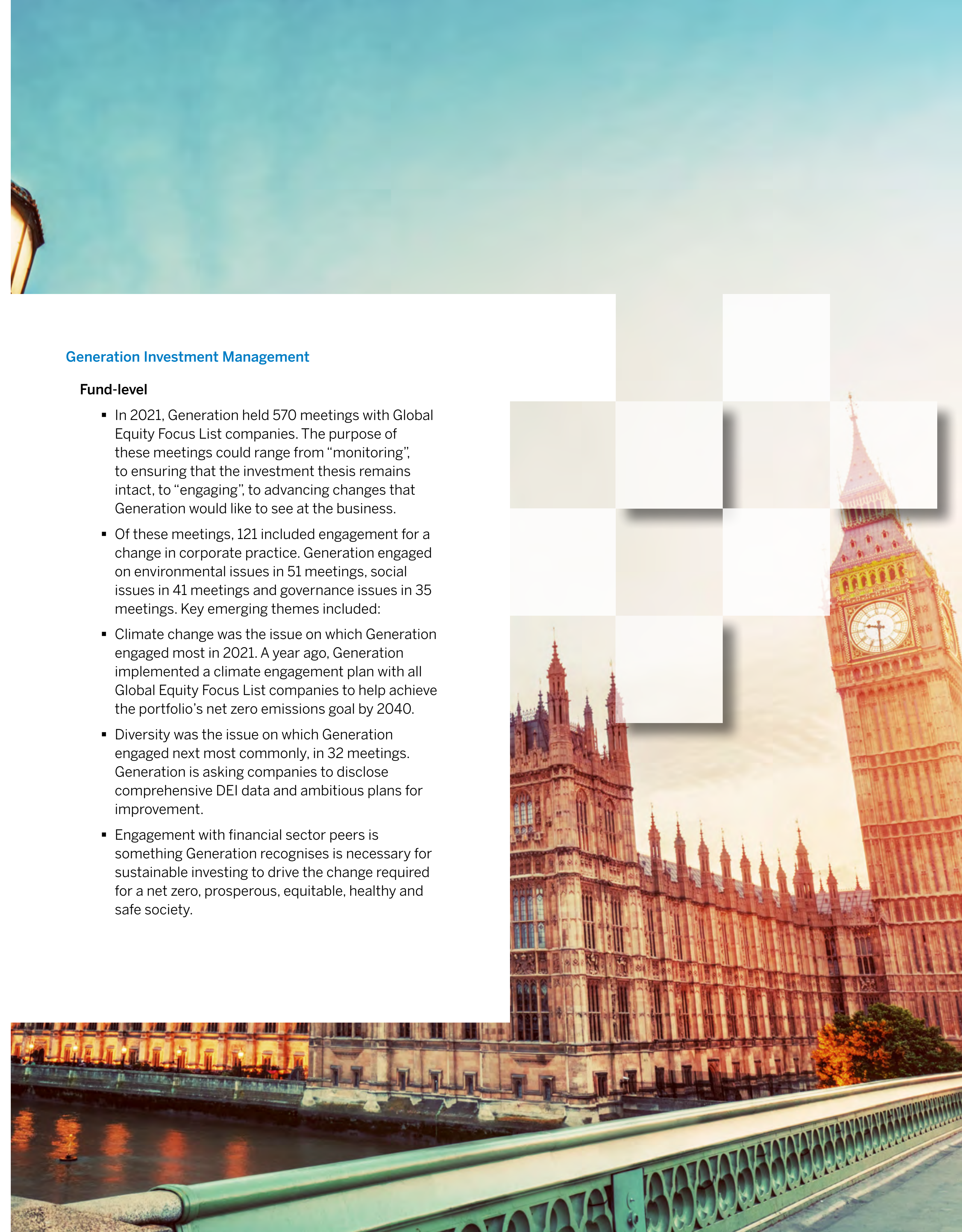
- Parnassus is enhancing its ESG stewardship activities by filing shareholder resolutions, or proposals. When Parnassus engages a company with the goal of improving an ESG issue, such as committing to science-based climate targets, the hope is that the company will adequately address the issue.
- If the company is unresponsive, Parnassus may now decide to escalate the issue by presenting it for a shareholder vote through the company's proxy statement. If enough shareholders agree with Parnassus, that should send a strong signal to management to take the recommended actions.
- Parnassus worked on its first two shareholder resolutions at the end of 2021 and expects to ramp up this effort in 2022.

### Ownership Capital:

**Co-Star Group**

- Since 2020, Ownership's engagement with CoStar Group (provider of information, analytics, and online marketplaces to the real estate industry) has focused on improving ESG disclosure, carbon footprint management, and better integrating energy efficiency information into its data and marketplace products.
- CoStar's facilities are LEED-certified, and it utilises an all-electric fleet, but Ownership believes the company has room to improve ESG disclosure in line with such initiatives. Further, whilst energy efficiency data is partly available on its marketplaces, there is a significant opportunity to further integrate best-in-class energy efficiency data into its real estate marketplaces, which helps provide consumers increased transparency, whilst encouraging landlords to further improve building energy efficiency.

Ownership recently visited CoStar's headquarters to meet the CEO, CFO and SVP of Global Analytics. They have been working with CoStar's ESG team to improve its ESG disclosure and used the meeting to discuss expectations with senior management for CoStar to achieve carbon neutrality by 2030.



### Generation Investment Management

**Fund-level**

- In 2021, Generation held 570 meetings with Global Equity Focus List companies. The purpose of these meetings could range from "monitoring", to ensuring that the investment thesis remains intact, to "engaging", to advancing changes that Generation would like to see at the business.
- Of these meetings, 121 included engagement for a change in corporate practice. Generation engaged on environmental issues in 51 meetings, social issues in 41 meetings and governance issues in 35 meetings. Key emerging themes included:
- Climate change was the issue on which Generation engaged most in 2021. A year ago, Generation implemented a climate engagement plan with all Global Equity Focus List companies to help achieve the portfolio's net zero emissions goal by 2040.
- Diversity was the issue on which Generation engaged next most commonly, in 32 meetings. Generation is asking companies to disclose comprehensive DEI data and ambitious plans for improvement.
- Engagement with financial sector peers is something Generation recognises is necessary for sustainable investing to drive the change required for a net zero, prosperous, equitable, healthy and safe society.

# PRINCIPLE 10

## *COLLABORATIVE ENGAGEMENT TO INFLUENCE ISSUERS*

**Collaboration is one of three key guiding principles in our approach to engagement. In Principle 10, we provide detail on a number of cross-industry initiatives and partnerships that Brown Advisory is a member of or participates in. We believe these affiliations benefit our comprehensive ESG research processes and provide us with a platform to demonstrate our values, influence outcomes and drive stewardship for our clients, colleagues and communities.**

As discussed in several of the principles, collaboration is a key belief in our approach to stewardship. We are a member or participant in a number of cross-industry initiatives and partnerships.

We believe these affiliations benefit our comprehensive ESG research processes and provide us with a platform to demonstrate our values, influence outcomes and drive stewardship for our clients, colleagues and communities.

Brown Advisory is an active member and/or participant of the following organisations:

BASIC Boston Area Sustainable Investment Consortium
SRI Conference & Community a FolioFinancial company
WISE BOS
CDP Driving Sustainable Economies
The Green Bond Principles
Interfaith Center on Corporate Responsibility
Ceres Sustainability is the bottom line.
PRI Principles for Responsible Investment
Intentional Endowments Network
Climate Action 100+
Mission Investors Exchange
US SIF The Forum for Sustainable and Responsible Investment
IFRS Sustainability Alliance
Emerging Markets Investors Alliance
The Net Zero Asset Managers initiative
FAIRR A Coller Initiative
TCFD Task Force on Climate-Related Financial Disclosures

## COLLABORATIVE ENGAGEMENT

We seek to partner with investor groups and NGOs to help advance salient issues. In 2020, Brown Advisory became a formal supporter of the Impact Management Project (a project that ran from 2016-2021) and the Task Force on Climate-Related Financial Disclosures. These organisations and the frameworks they recommend for measuring and reporting ESG impact data have helped to shape our engagement and reporting process. Our firm also formalised its support of the Interfaith Centre for Corporate Responsibility, a leader in shareholder engagement, and partnered with CDP on multiple projects, including the Science-based Targets Initiative.

- The CDP (formerly known as the Carbon Disclosure Project) is a nonprofit that administers a disclosure questionnaire (developed by investors and completed by companies, cities, states and regions) to communicate how environmental risks and opportunities impact their top and bottom line.
    - In 2020, CDP sought to expand this project to a broader array of fixed income issuers, focusing most on the municipal bond market. Brown Advisory was one of seven investors to participate in this pilot. Over 2,500 companies disclose to CDP, but there are still many major corporations in high-impact sectors that are not capitalising on the benefits of disclosing environmental risks and opportunities.
- The CDP Science-Based Targets Campaign offers CDP signatories the opportunity to play a key role in accelerating the adoption of science-based climate targets in the corporate sector. This is achieved by collaboratively engaging with companies for deliberate action.
    - The campaign builds on CDP's tried and tested collective engagement mechanism to accelerate the adoption of science-based targets in the corporate sector. In driving the adoption of science-based emission reduction targets, investors can decarbonise their portfolios and mitigate climate-related risks to which they may be exposed.

We continue to look for opportunities to engage in line with our commitment to Climate Action 100+. The firm's ESG research team has engaged with third-party ESG data providers and raters to help shape the industry in that regard.



## OUTCOME

### 2021 COLLABORATIVE ENGAGEMENT CASE STUDIES

In the calendar year, we engaged with investor groups and NGOs on 16 collaboration opportunities. Two examples are shared below.

#### Net Zero Asset Manager Initiative

In 2021, we agreed to join the Net Zero Asset Managers initiative (NZAMi), a global consortium representing hundreds of investment managers and trillions of U.S. dollars in client assets that is focused on helping its signatories pursue net-zero investment goals. We are now using its framework to align an aggregated portfolio (AP) of our clients' assets with the goal of net-zero global greenhouse gas (GHG) emissions by 2050.

NZAMi has gained a great deal of traction in a short period of time; in less than two years, it grew to become a coalition of 250 investment firms managing more than $60 trillion (as of May 31, 2022).

In our view, NZAMi has created an extremely important nexus for collaboration within the investment industry. No single individual investor, and very few institutional investors, can hope to make a dent in climate change on their own, and it will take the concerted effort of thousands of investment managers and their clients—not to mention governments, companies, NGOs and other actors across society—to gradually move the needle on GHG emissions. If NZAMi succeeds, we believe that the investment industry will have collectively reduced the risks faced by millions of investors around the world, whilst simultaneously contributing to the long-term prosperity of society.

We must be clear, however, that the assets we manage do not belong to us—they belong to our clients. We think this is a critical distinction when deciding whether to commit those assets to a meaningful initiative such as NZAMi. Our decisions on which assets to commit to the initiative are guided by two core ideas:

1. **Robust, climate-focused investment research and the pursuit of net-zero outcomes, require access to sufficient climate data within an asset class or sector, including emissions data, to make informed investment decisions.** Today, there are only a few asset classes, such as public equities or the corporate bond sector, where carbon data is even directionally helpful, and it is almost nonexistent in many other asset classes. We can only seek to adapt our approach within an asset class when we have enough information to do it. We also commit to help solve some of these data challenges.
2. **We must ensure that all clients invested in our SI strategies and/ or strategies in the AP understand that net zero is an outcome, not a target.** Our sustainable investment strategies have always sought to generate returns through investments that are driving long-term climate resiliency. These strategies will continue to operate as they have previously but will be better armed with additional net-zero tools and processes to aid in decision-making. Clients should not expect a change in approach of the strategies counted toward our net-zero commitment.

We are enthusiastic about formalising our net-zero journey. We are not ultimately the owners of any of the assets we manage for clients, but we can play a major role for asset owners by identifying relevant climate issues, developing and using climate data effectively, and continuing to refine our techniques for integrating sustainability factors into our investment decisions. We believe all of these activities can help encourage our portfolio holdings to better prepare themselves for the risks and opportunities that climate change has produced.

#### Carbon Disclosure Project

Brown Advisory engaged with a smaller regional airline on climate change, specifically about plans for strategic decarbonisation to improve its climate risk management. We acknowledge the airline's positive efforts to improve fuel efficiency and reduce emissions but noted that there were a broad range of decarbonisation risks to consider within the aviation sector.

We initially engaged with the airline in the first quarter of 2021. We provided guidance on investor expectations for decarbonising the aviation sector, and on strengthening the airline's evaluation and disclosure of climate risks. As a follow-up, we engaged with the airline through the CDP Non-Disclosure Campaign, which ended on September 30, 2021. This campaign allowed Brown Advisory, amongst other investors, to specifically request for this airline to disclose its climate-related risks and opportunities to CDP. The airline responded to CDP for the first time in the third quarter of 2021, marking what we believe is a successful result from engagement. Our most recent engagement with the company was at our regular quarterly check-in during the third quarter of 2022. This discussion covered target setting and the power of sustainable aviation fuels (SAF).

# PRINCIPLE 11

## ESCALATION TO INFLUENCE ISSUERS

**Any activity we may undertake to influence a company, bond issuer or other portfolio stakeholder is aligned with an objective to positively contribute to performance or reduce risk. In Principle 11, we discuss the opportunities for escalation that we may consider to accelerate progress should we not achieve the results we hope to via our usual engagement approach.**

### Long-Term Partnership

We believe that any successful engagement requires persistence over a long period of time. With respect to the 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 ratchet up their 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.

## ESCALATION

Engaging with companies is a meaningful part of our ongoing investment management process. We pursue private dialogue with management teams to inform our research and to share our perspective.

Engagement helps our investment team identify and manage risks and understand opportunity. Our fundamental approach to engagement is collaborative, not confrontational. We are ultimately on the same team as our portfolio companies—we invest in them because we think they manage risks well and add value via sustainable business activities.

We believe that ESG issues may generate financial impact, and so our focus on performance and risk reduction also lead us to engage on issues that have positive environmental or social outcomes. We seek to pursue dialogue with issuers and their stakeholders with the intention of discovering information that informs our thesis and/or to advocate for action that may improve the issuer.

The foundation of our engagement, which we divide into four approaches, is due diligence. We seek to listen to management teams and their stakeholders to understand their perspective. From there, we may choose to deepen or escalate our engagement by utilising one of our other three approaches (collaboration, impact or advisory). Importantly, we strive to lead with an offer for partnership, and we do see companies and other issuers reach out to our ESG research team for assistance proactively.

In instances where our engagement approach is not achieving the results we desire, we may use escalation methods, including but not limited to:

- Collaboration with other investors to engage a company on a specific topic
- Letter writing to bring specific issues to companies' attention, particularly those companies where direct access to engage in dialogue with the company can be difficult to achieve
- Proxy voting against management recommendations on specific proposals

### 1. Collaboration

Collaborating with other investors is, in our view, part of good engagement practice, as one investor's voice is rarely enough to spur meaningful action by issuers. However, in some cases, our choice to join in a collaborative engagement may be part of an escalation strategy.

***2021 Example***

Brown Advisory has sought to engage a large e-commerce retailer and technology company with regard to its labour practices and use of AI technologies, as we view both as being significant risks for this company, if not managed appropriately. Whilst Brown Advisory continued our direct engagement with this company, we have also collaborated with other investors through the Interfaith Center for Corporate Responsibility to engage with this company. We believe that the combined voice of shareholders has been one factor in the steps this company has taken to improve its management of these risks over time.

### 2. Letter writing

An additional approach to escalation that our team has used is sending formal letters to companies requesting actions on certain topics that we believe are significant risks to the issuer's long-term performance. In these letters, we make specific requests to the company, often including requests for calls with specific employees that the company adopt certain best practices or that the company disclose certain information to improve investors' ability to assess risk and opportunities.

***2021 Example***

In 2021, we sent a letter to a large technology company where we requested additional information on the company's approach to the ethical development and implementation of artificial intelligence technologies. The company acknowledged receipt of our letter and has invited Brown Advisory to join ESG-focused investor calls. In an additional effort to signal the importance of this issue to the company, Brown Advisory has also voted proxies related to ethical AI in a manner that aligns with the company's improved action on the topic.

### 3. Proxy Voting

Another approach to escalation that our equity funds take is through voting proxies. Again, we only cast our proxy votes in line with what we believe is the best long-term financial interest of the company. In most cases, we seek to engage directly with a company before casting a vote against management, but we believe a vote against management can send a strong signal to a company.

In our equity strategies, our preferred style of investing is to build concentrated portfolios of sizable, long-term holdings. 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. Whilst we recognise 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.

***2021 Example***

An emerging market micro lender held for several years by one of Brown Advisory's strategies is, in our view, a market leader with strong social impact. Equally, from the environmental perspective, we believe the company is making significant progress on disclosing environmental data and committing to setting targets (including a net-zero strategy).

In March 2021, a vote opportunity was put forward to approve changes to the company's board. The company's management team recommended we vote for the resolution and approve the changes. We instead opted to vote against this.

Despite the strong ESG credentials mentioned above, we believe that voting against the proposal (and the management team) was warranted. We were not provided with enough information on the proposed directors or an acceptable level of information on the due process of election. We engaged directly with the company's investor relations team beforehand and the company's CFO afterward—requesting more notice about changes and proposed new directors in future. The management team were receptive to our suggestions and noted that it would seek to address this.

# PRINCIPLE 12

*EXERCISING RIGHTS AND RESPONSIBILITIES*

**As a fiduciary and sustainable investor, we consider proxy voting to be an important responsibility and mechanism for voicing our preferences as owners and stakeholders in the companies we hold in our strategies. In Principle 12, we provide a summary of our proxy voting activity for listed equities over the course of 2021 and share examples related to our engagement priorities that were outlined in Principle 9. We also describe how we exercise our rights and responsibilities for fixed income assets.**

We believe that proxy voting can be used as part of a larger programme to encourage positive changes and that proxy voting is just one way to communicate with companies on risks and opportunities. To complement our proxy voting process, and sometimes as result of it, our investment team might choose to pursue an extended engagement with a company as it relates to any information found during the due diligence process for determining the vote.

## OUTCOME

### 2021 PROXY VOTING ACTIVITY

An overview of the number of votes made in 2021 is shown to the right. On occasion, Brown Advisory makes a conscious decision to abstain from voting.

Further, we vote proxies for our funds and strategies as well as for those clients who entrust us to do so. Some clients choose to vote their own or choose to instruct us to vote according to their own policy or philosophy.

**Voting Activity on All Proposals**

| | Number | Percentage |
|---|---|---|
| For | 21,214 | 88% |
| Against | 1,597 | 7% |
| Withhold | 958 | 4% |
| Abstain | 240 | 1% |
| Total | 24,009 | 100% |

**Voting With/Against Brown Advisory Policy**

| | Number | Percentage |
|---|---|---|
| With Policy | 23,426 | 99% |
| Against Policy | 253 | 1% |
| Total | 23,679 | 100% |

**Voting With/Against Management**

| | Number | Percentage |
|---|---|---|
| With Management | 21,301 | 88% |
| Against Management | 2,810 | 12% |
| Total | 24,111 | 100% |

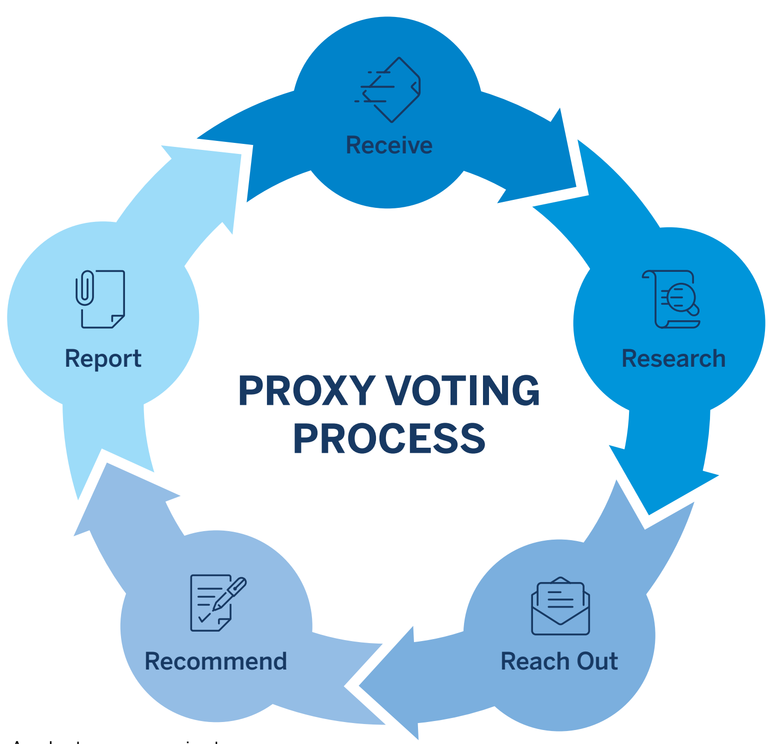
## Proxy Voting Committee

As described in the firm's Proxy Voting Policy, and outlined in Principles 2 and 6, voting for our institutional investment strategies is overseen by a Proxy Voting Committee made up of equity research analysts, ESG research analysts, trading operations team members, the Head of Sustainable Investing, our Head of Equities and our General Counsel among others.

The committee is responsible for overseeing the proxy voting process. Responsibility for determining how a vote is cast, however, rests with our investment and ESG research teams and, ultimately, with the portfolio managers for each Brown Advisory equity investment strategy.

Whilst we use the recommendations of ISS as a baseline for our voting, especially for routine management proposals, we vote each proposal after consideration on a case-by-case basis. Our customised Proxy Voting Policy, developed in consultation with ISS, is reviewed each year.

### Institutional Proxy Voting Process




## Proxy Voting on ESG Issues

Shareholder proposals regarding ESG issues, in general, are supported, especially when they would have a clear and direct positive financial effect on shareholder value and would not be burdensome or impose unnecessary or excessive costs on the issuer. The ESG proposals we generally support often result in increased reporting and disclosure, which deepens our understanding of the risks and opportunities pertaining to a specific company. Although policy decisions are typically better left to management and the board, in cases where the firm believes a company has not adequately mitigated significant ESG risks, the firm may vote against directors. Brown Advisory broadly supports proposals that encourage the following considerations that we believe are in the best long-term economic interest of our clients:

**Environment**

- Climate change and emissions reporting, goal setting, and action
- Water quality, accessibility and management
- Responsible and effective waste management
- Energy efficiency and renewable, lower-carbon energy sourcing

**Social**

- Social justice
- Human rights and responsible labour management
- Data privacy and AI ethics

**Governance**

- Executive compensation measures that are linked to ESG metrics
- Diverse and inclusive board composition
- Transparency with regard to political spending

## Consideration for Fixed Income Assets

When underwriting credit exposure to the portfolio and managing credit risk on an ongoing basis, our integrated fundamental credit and ESG research process includes the review and assessment of relevant legal documentation, such as bond indentures, loan agreements, commercial contracts, prospectuses, and transaction documents. Especially in the case of labeled bonds (green, social, sustainability bonds), we frequently engage with issuers, underwriters and other industry groups regarding investor expectations surrounding the structure of the bonds, allocation of proceeds, and impact reporting requirements. We are involved in several fixed income-focused working groups through ICMA, U.N. PRI and EMIA, as discussed in further detail in Principles 9 and 10.

## 2021 PROXY VOTING CASE STUDIES

The following examples provide insight into how we use proxy voting to tackle ESG issues as well as to exercise our rights and responsibilities as stewards of our clients' capital. We vote on thousands of proposals every year from hundreds of public companies; these examples were selected to convey specific scenarios that often come up in conversation with our clients, such as whether we ever vote against management or our own policy, and so forth.

### Microsoft

**Vote on Engagement Priority**
Brown Advisory has set four engagement priorities, as described in Principle 9. Occasionally, shareholder proposals are brought that align with these priorities and, in general, we seek to vote in favour of these proposals provided the request made is in line with what our research has shown to be best practice on these issues. Below, we provide an example related to both our 'enhanced disclosure' and 'diversity, equity and inclusion' engagement priorities.

| | |
|---|---|
| **Company** | Microsoft |
| **Proposal** | Report on Gender/Racial Pay Gap |
| **Proponent** | Shareholder |
| **Management Recommendation** | Against |
| **Policy Recommendation** | For |
| **Vote Cast** | For |
| **Vote Rationale** | The proponent is asking that Microsoft report its median pay gap across race and gender, including several associated policy, reputational, competitive and operational risks, and risks related to recruiting and retaining diverse talent. Whilst Microsoft has made progress on these issues, we believe that it is still in the best interest of shareholders to support this proposal, as talent attraction and retention are critical components of a company's long-term success. The additional transparency could promote accelerated DEI progress and would enhance our understanding of the effectiveness of DEI initiatives over time, particularly as one mechanism to assess inclusion. |

### facebook

**Vote Against a Shareholder Proposal**
Brown Advisory approaches shareholder proposals on an issue-by-issue basis. In general, we are likely to support those shareholder proposals that encourage company action on what we believe are material ESG risks or sustainable opportunities.

| | |
|---|---|
| **Company** | Facebook (Now Meta) |
| **Proposal** | Amend Certificate of Incorporation to Become a Public Benefit Corporation |
| **Proponent** | Shareholder |
| **Management Recommendation** | Against |
| **Policy Recommendation** | Against |
| **Vote Cast** | Against |
| **Vote rationale** | A vote against this proposal is warranted, as there are many unknowns associated with the PBC structure, especially in terms of how a social media company could benefit. Therefore, the request for the board to amend the company's Certificate of Incorporation to become a Public Benefit Corporation does not appear to be in our client best interest at this time, as the benefits are not yet evident. |



### Electronic Arts

**Vote Against Management**
Brown Advisory tends to vote in line with management a high proportion of the time, particularly on routine matters. Our tendency to support management stems from the fact that we tend to run concentrated strategies on our institutional platform, meaning we have a strong preference for companies with high-quality management teams that are managing their companies in a way that we strongly support from the start. However, in certain circumstances, particularly on nonroutine matters, we may vote against management.

| | |
|---|---|
| **Company** | Electronic Arts |
| **Proposal** | Advisory Vote to Ratify Named Executive Officers' Compensation |
| **Proponent** | Management |
| **Management Recommendation** | For |
| **Policy Recommendation** | Against |
| **Vote Cast** | Against |
| **Vote Rationale** | Following failed support for this proposal last year, the company disclosed shareholder engagement efforts and feedback, as well as certain improvements to the pay programme. Nevertheless, the committee demonstrated only limited responsiveness, as certain concerns were not fully addressed by the committee. Brown Advisory has had multiple calls with the company to provide feedback on the compensation structure, as it was something that our research analysts and portfolio managers viewed as concerning. Our team was not supportive of the changes that the company made and believed that the proposed compensation package was still too large and out of line with peers. |

### Alphabet

**Vote Against Our Policy**
Brown Advisory votes in line with our proxy voting policy a strong majority of the time. However, for our institutional assets, we believe that each proposal should be evaluated on a case-by-case basis that takes into consideration the unique characteristics of the company in question.

| | |
|---|---|
| **Company** | Alphabet |
| **Proposal** | Elect Director Ann Mather |
| **Proponent** | Management |
| **Management Recommendation** | For |
| **Policy Recommendation** | Against |
| **Vote Cast** | For |
| **Vote Rationale** | Our proxy policy is set to vote against directors who serve on an excessive number of public boards, which for directors who are not also CEOs of public companies is defined as five public boards. Ann Mather sits on six public boards. Given her work on these boards is her primary focus, we believe the load is manageable. Additionally, with 15 years' experience on public company boards and her experience on the boards of other technology companies, we believe she will bring a valuable perspective to the board. |