



BIG PROBLEMS REQUIRE BIG SOLUTIONS—INVESTING FOR IMPACT IN PUBLIC MARKETS

In today's market there is an opportunity for companies and issuers to make a material difference in addressing looming sustainability concerns, such as climate change, public health and food security. Indeed, investors should not ignore the potential opportunity to make a difference by investing thoughtfully within the large public equity and fixed income markets. Investing with a long-term perspective in companies and issuers that are driving significant projects has the potential to materially affect environmental and social outcomes across the globe. Solving for sustainability challenges within these asset classes is a worthy ambition, for problems of this scale will not be met with funding from governments and charitable dollars alone.

Interest in and appetite for sustainable investing solutions have grown sharply over the past decade. According to Morningstar, net flows into sustainable open-end and exchange-traded funds neared a record \$21 billion in 2019, up nearly four times from 2018's annual record for net flows.

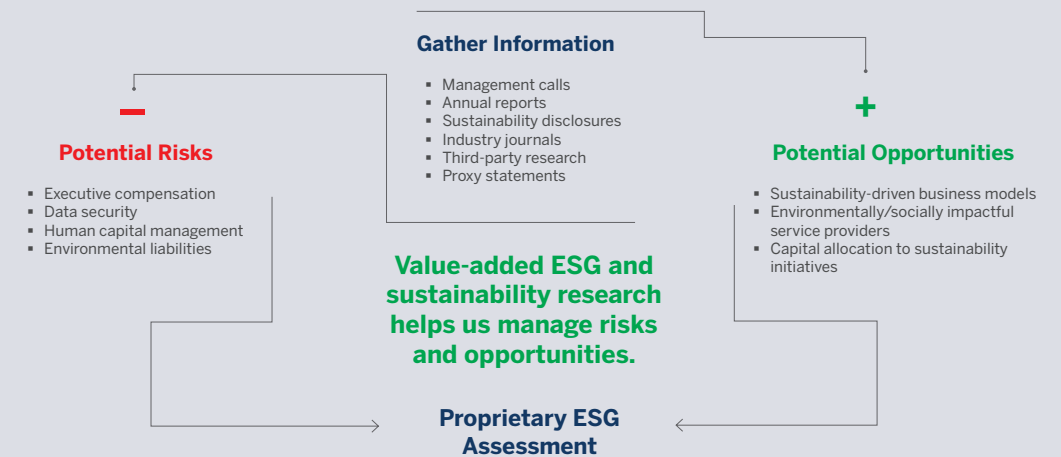
At Brown Advisory, our approach to sustainable investing is straightforward and very much focused on our clients. We seek to identify problems that our clients face and then work to solve those problems. We have thoughtfully

developed sustainability research expertise for over a decade in order to make better investment decisions and to deliver attractive, risk-adjusted investment returns for our clients. Over time, we have found that our clients grapple with four important challenges when it comes to sustainable investing. First and foremost, clients want to avoid trade-offs between returns and values. We do not think investors need to give up performance by embracing sustainable investing, and this forms a key pillar in our philosophy. Additionally, clients want to find a credible partner in an increasingly crowded space; they wish to make sense out of the imperfect and confusing array of available environmental, social and governance (ESG) data; and finally, they seek solutions tailored to their specific needs in an 'off-the-shelf' universe.

By addressing these four challenges, we have helped clients achieve and exceed their goals. Our proprietary ESG research frameworks drive investment strategies that put investment performance first while also making a positive global impact. The integration of ESG research in our overall investment process is helping us better manage downside risk and more thoughtfully engage management teams on material ESG topics.

OUR ESG RESEARCH APPROACH—HOW WE DO IT AND WHY

Our ESG research team collaborates with portfolio managers and fundamental analysts by performing deep, bottom-up due diligence on a company's or issuer's ESG risks and opportunities that inform investment decisions. Our process provides portfolio managers with a broader and deeper set of information useful to discern whether to buy, sell or hold an investment.



Source: Brown Advisory

In this article, we discuss our approach to sustainable investing across both equity and fixed income asset classes, offering tangible examples of how the marriage of fundamental and sustainable research is producing benchmark-beating returns as well as positive environmental and social outcomes.

SUSTAINABLE BUSINESS ADVANTAGES

In our Large-Cap Sustainable Growth portfolio, we invest in companies that we deem to be fundamentally strong and that are strategically focused on using sustainability strategies to bolster performance.

We believe that some of the most attractive business models are those with sustainable drivers at their core. Since the strategy's

inception, we have focused on companies with what we call Sustainable Business Advantages (SBAs); the SBA concept helps us clarify how a focus on sustainability-related initiatives helps to drive a company's revenue growth, cost reduction or enhanced franchise value. SBA is fully integrated into our fundamental due diligence as we allocate capital to our most compelling, risk-adjusted opportunities.

INTEGRATING FUNDAMENTAL AND ESG RESEARCH

Our investment philosophy places equal emphasis on the fundamental, sustainability and valuation picture for any company we consider for the portfolio. We only invest when we are confident on all three criteria. Central to our approach is our search for companies with Sustainable Business Advantages (SBAs) that can drive tangible, long-term business results.



Source: Brown Advisory

SEEKING HEALTHY RETURNS

The health care sector offers an excellent case study of how our SBA framework helps us pursue compelling sustainable investing opportunities.

We believe the importance of the health care sector to both society and the global economy is undeniable. Global health care spending is likely to exceed \$10 trillion per year by 2022, according to Deloitte's 2019 Global Health Care Outlook. Unsurprisingly, health care has also grown to become the second-largest sector in public equity markets, representing 14% of the market cap of the S&P 500® Index as of December 31, 2019.

With skyrocketing drug prices, concerns about data privacy and potential policy changes, the

sector is experiencing acute pressures. However, we believe many health care companies are making meaningful strides in key areas. Biotechnology advancements are helping to treat and potentially cure previously incurable diseases, and drug innovation is helping the fight against a variety of global contagions. Companies working toward these developments, we believe, can make for compelling investment opportunities.

While drug companies have massive growth potential, they also require favorable regulatory outcomes to succeed, so we focus on companies that are capable, in our view, of achieving measurable and reliable results—in other words, businesses that have some control over their own destiny. In health care, these companies often include devices, services, tools or technologies that generate consistent results for customers, such as shorter hospital stays for patients, reduced medical waste, higher success rates for medical procedures or other tangible and somewhat predictable outcomes.

COMPANY SPOTLIGHT: ILLUMINA

Illumina is an example of a health care company that meets our investment criteria. The enterprise offers a wide range of tools for large-scale analysis of genetic variation and function, helping to advance disease research, drug development and molecular diagnostic testing. Its genomic testing reduces misdiagnoses of rare and inherited diseases, enables the delivery of time-sensitive treatments to patients sooner, and can even help doctors choose among therapies to find the most effective option with the fewest side effects. The company has a dominant position, possessing an estimated 70% market share in the next-generation DNA sequencing instruments market. Additionally, an estimated 90% of all sequencing to date has been generated on Illumina technology. We believe that regardless of the outcome of the debate on drug pricing, the company is strongly positioned, as its tools should constantly be in demand from health care firms looking to improve their research.

INCOME AND IMPACT

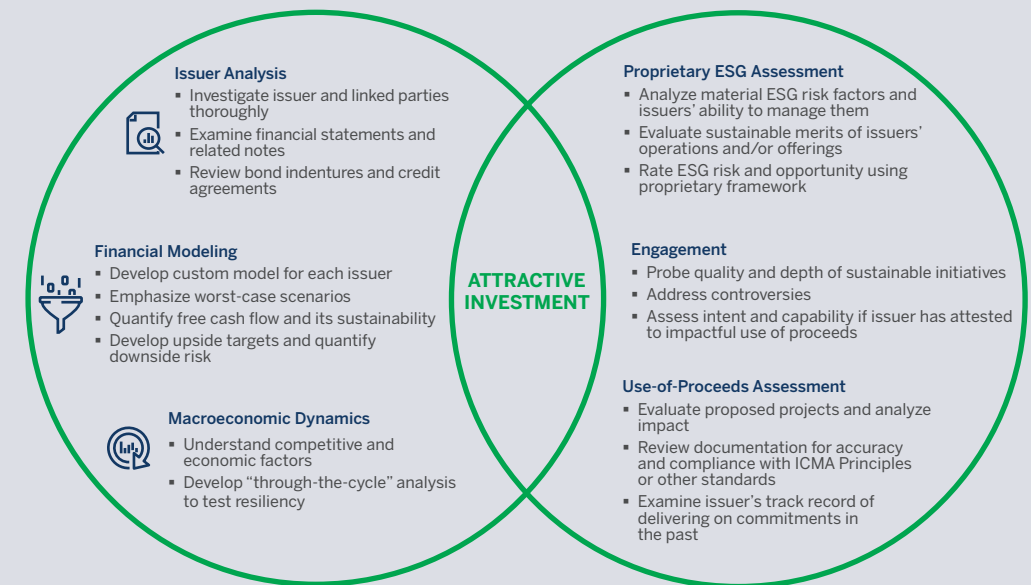
At Brown Advisory, we believe that sustainable investing principles are especially well-suited for fixed income investing. From a performance standpoint, understanding downside risk is a primary goal of both ESG research and traditional credit research. From an impact standpoint, bond issuers often offer investors a high degree of clarity regarding use of proceeds, so those investors can essentially lend money to an issuer and see with reasonable

transparency where that money is going. We have found that our approach to sustainable investing can enhance our returns by steering us to responsible and forward-thinking issuers.

In our security selection process, we integrate ESG research, fundamental credit research and careful examination of how bonds' proceeds will be used. This allows our clients to simultaneously pursue their long-term investment goals and their goals for driving meaningful changes in society.

INTEGRATING FUNDAMENTAL AND ESG RESEARCH

Our investment process places equal emphasis on fundamental research and ESG research.



Source: Brown Advisory

Through this approach, we find a variety of opportunities to generate impact across traditional fixed income sectors. The municipal bond market offers a healthy mix of bonds that fund education, health care, clean energy, water, community development and other initiatives. Corporate bonds are being used more and more often to fund clean energy and green building projects, and the mortgage market is, in our view, an excellent source of bonds that support affordable housing. A deeper dive into the municipal and securitized sectors will highlight our approach and implementation of this philosophy across our sustainable fixed income portfolios.

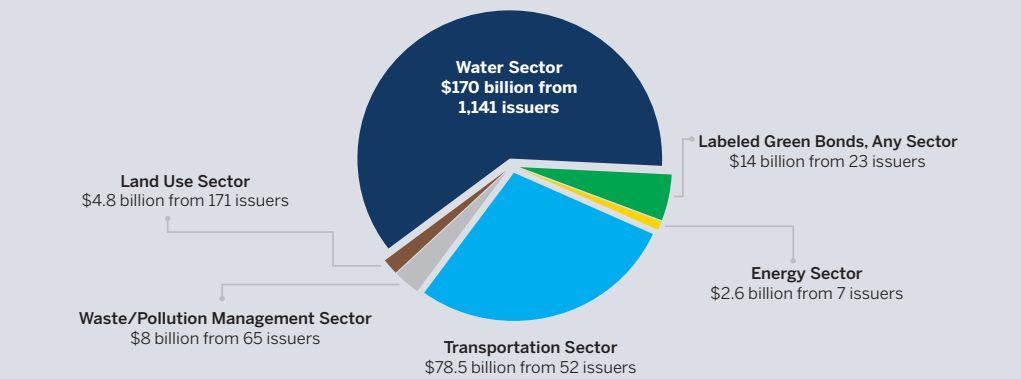
MUNICIPAL DEBT AND THE FRONT LINES OF CLIMATE CHANGE

Municipal bonds are issued, at least in theory, to produce a public benefit, so the asset class offers inherent appeal to impact-minded investors. In particular, we believe that municipal bonds will play a large role in combating climate change, as they will provide the financing required to build out infrastructure needed to combat the impacts of a warming planet.

We are highly focused on the climate-related risks associated with any municipal bond investment. We are pleased to see that cities and states—as well as the agencies that assess their creditworthiness—are also focused on these risks. The market as a whole is pushing for more rigorous climate risk disclosure, and issuers are funding a wide variety of high-impact projects aimed at climate mitigation and adaptation.

THE CLIMATE-ALIGNED MUNICIPAL BOND UNIVERSE

Research from the Climate Bonds Initiative in 2018 identified a \$264 billion climate-aligned municipal bond universe.



Labeled green bonds offer one avenue of exposure, but we look well beyond the green label to a more expansive universe of bonds across many sectors. We believe that investing in this space requires a commitment to proprietary ESG research, enabling us to vet an issuer’s sustainability merits and ensure its proceeds are used to generate real impact.

CREDIT SPOTLIGHT: DENVER WATER

Denver Water is a recent example of a credit driving meaningful positive impact within the climate bond arena. The utility services a population of approximately 1.4 million residents. It relies heavily on runoff from the Rocky Mountains for its water supply, making it especially vulnerable to drought caused by climate-driven precipitation changes. The Joint Front Range Climate Change Vulnerability Study estimates that a warming of 5°F in the region could decrease water supply by 20% and increase water use by 7%, even if precipitation patterns do not change. As a result, Denver Water is engaged in a variety of long-term initiatives, including reservoir

expansion projects, water recycling projects and conservation efforts.

SPOTLIGHT ON SECURITIZED ESG INVESTMENTS

Securitized bonds is not a sector that readily comes to mind when investors think of sustainable investing. However, the sector—which includes government (MBS) and commercial (CMBS) mortgage-backed securities as well as asset-backed securities (ABS)—offers impact-oriented investors a number of compelling opportunities. We believe that our investments in this space are generating impact in a wide variety of thematic areas: from affordable housing and community development to green building and energy efficiency.

- **Affordable Multifamily Housing** – We are invested in both government-guaranteed and nonguaranteed multifamily housing projects that support housing with rents that are affordable for the majority of low-income to middle-income households in a geographic area.
- **Community Development Financial Institution ABS** – We continuously look for opportunities to provide underserved communities with access to affordable credit, including through certified Community Development Financial Institutions.
- **Targeted Single-Family MBS** – We invest in securities backed by mortgages held by low- and moderate-income families, supporting affordable homeownership for millions of Americans.

- **Green MBS and CMBS** – Primarily through Fannie Mae green bonds, we help to finance property-level improvements that reduce energy and water use.
- **Equipment & Automotive ABS** – We are invested in a number of ABS backed by leases for equipment that is sustainably made and that helps borrowers be more sustainable, while also extending the useful life of the equipment.
- **Single-Asset Mortgage Loans** – These securities are backed by a variety of commercial real estate holdings, ranging from energy-efficient cold-storage warehouses to life sciences office buildings, driving positive impact in areas such as affordable health care, environmental sustainability and neighborhood revitalization.

CONCLUSION

There is no shortage of sustainability-related issues on investors’ minds, and we recognize that this can result in different approaches to sustainable investing. At Brown Advisory, we are committed to providing equity and fixed income solutions to meet our clients’ evolving ESG needs and to reinvesting in our sustainability offering for decades to come.

BROWN ADVISORY SUSTAINABLE OFFERINGS

	Large-Cap Sustainable Growth	Sustainable Core Fixed Income	Sustainable Short Duration Fixed Income	Tax-Exempt Sustainable Fixed Income	Active ESG Strategies
Asset Class	Large-growth equity	Investment-grade fixed income	Investment-grade fixed income	Municipal fixed income	Several equity, fixed income and multi-asset solutions
Inception Date	12/31/2009	09/30/2014	01/31/2017	09/30/2014	Various
Vehicles Available	<ul style="list-style-type: none">• Mutual fund• Collective investment trust• UCITS fund• Separate account• Model delivery	<ul style="list-style-type: none">• Mutual fund• Separate account	<ul style="list-style-type: none">• Separate account	<ul style="list-style-type: none">• Mutual fund• Separate account	<ul style="list-style-type: none">• Varies by strategy

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