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WEBINAR TRANSCRIPT

Policy Impact: How New Initiatives in Washington Intersect with ESG Portfolios

Susan Traver: Hello, I'm Susan Traver, partner and senior advisor at Brown Advisory. Welcome to our webinar. There are a number of things that make Brown Advisory distinctive. As an investment management firm, there are four really important reasons why I joined the firm about four years ago. Our partnership structure was number one. We are privately held; each of our colleagues has an equity interest in the firm, which we believed aligned our interest with those of the client. Secondly, we are first and foremost an investment management firm, and we have compelling investment performance results that prove out how important that is for us. Thirdly, our genuine commitment to diversity, equity and inclusion, which all starts at the top with our CEO. Fourthly, and most importantly for today's discussion, a deep expertise in sustainable investing, stretching back more than a decade, but equally important today.

Our topic today is certainly timely. In the wake of the Biden administration, President Biden has made some recent executive orders around climate, and we believe it's just a smart approach. With me today are two of my colleagues, Erika Pagel and Elizabeth Hiss. Erika is a partner, member of our executive team and the CIO of the Sustainable Investing Group here at Brown Advisory. She has more than 25 years of experience. Elizabeth is a research analyst who focuses on identifying first-in-class sustainable investment solutions. She helps clients develop mission-based and sustainable investment programs. Elizabeth is a two-time undergraduate degreeer, both from Columbia and the Paris Institute of Political Studies. We're going to spend the next 45 minutes discussing the Biden administration's environmental policies and their potential impact on your portfolio. I'll begin with our questions. Let's dive in. Erika, tell me, what is sustainable investing, and how has it evolved?

Erika Pagel: Great. Thank you, Susan. It's a pleasure to be with everybody today. For something that may seem complex, with a lot of terminology, we like to keep it simple. Sustainable investing is looking for market rate returns while also having a focus on ESG—also known as environmental, social and governance—issues and criteria. It's an investment discipline that considers ESG measures to generate long-term, competitive financial returns and positive societal impact. Sustainable investing, it's also a framework for understanding nonfinancial information. In our work with clients, we are focused on helping them achieve their specific goals. No two clients have the same goals. In the same way, what sustainability means can vary widely client by client.

Susan, you are correct. The industry has evolved a lot. It's undeniable the rise in global sustainable investing over the past 10 years or so. Really, no matter where you look, whether it's a focus on the environment, management alignment with stakeholders, treatment of employees, gender diversity, sustainable issues are frequently brought up in daily conversation. Over the years, each of these issues or circumstances has created global awareness and is really a driving force behind increasing demand from investors. ESG has gained traction among money managers. Last year, sustainable investing accounted for about a third of the more than $51 trillion in U.S. assets under professional management.

Another change that we've seen evolve over many years is where capital is deployed and in what sectors. Ten years ago, it was mostly focused on the exclusion of companies and sectors. A few examples are excluding tobacco from a portfolio, or gambling. Following the financial crisis in 2008, governance issues were top of mind for investors. Five years ago, the focus was much more on fossil fuel divestment and the environment. Today, what we're seeing is a much broader focus that includes many issues. Certainly, climate change is on many investors' minds, but so are social challenges. Exposures to opioids or private prisons. Diversity and inclusion is a key area of focus. Then, reporting and governance by companies. We always like to share examples to bring it to life, but many of you probably remember a few years ago, plastic usage was on the top of a lot of minds, and how are we going to cope with that existing waste globally and reduce future reliance on plastic. In fact—that was 2018—Morningstar actually reported that the number of public companies mentioning plastic waste and their plan to reduce usage on their earnings call increased by 340%. All of these issues, when brought to the forefront, create awareness, and more investors today ask about those issues. Really, circumstance drives awareness.

Susan Traver: That is really interesting, Erika. Thank you so much. Thank you for the historical perspective. Can you talk a little bit about the difference between 2020 and 2021? We really were in an unprecedented time and market last year, and what you foresee in 2021, with respect to sustainable investing.

Erika Pagel: Yes. The COVID-19 crisis, and the global response, has really not only been a threat to health and our livelihoods, but it's also been a threat to global economies and the communities that we live in. In our view, incorporating sustainable factors into the investment process has never been more important than it is today. We believe that the events over the last year will lead to even more change in how investors view companies, how they'll allocate their investment capital going forward. Companies that have or are currently implementing better practices we think will be leaders going forward. From a sustainable investing perspective, looking for companies that will not only be able to weather this storm, but those that will be part of the solution. Companies that are taking care of their employees, expanding employer benefits, gender equality, ensuring safety and have continuity plans. I'll touch on a couple of focus areas from last year and then talk a little bit about where we think we're going in 2021.

2020 was a year when corporate intention was a common narrative. Many corporations now have sustainability reporting, many include ESG in their overall mission. The UN stakeholder capitalism metrics will provide a standard framework for companies to measure and track nonfinancial goals, which is big progress, particularly after the UN, a few years ago, came out with their SDGs, which helped provide a framework. Last year, money managers representing over $9 trillion in assets under management committed to support the goal of net zero greenhouse gas emissions by 2050. Votes on shareholder resolutions continued to increase. The first six months of last year, those that were focused on the environment were up more than 33% versus 2019. Lastly, I'll leave you with in 2018, California announced the board gender diversity law, which required publicly held companies with headquarters located in the state to include a minimum number of women on their boards. Illinois and more than 10 other states have followed California's lead, and they've either enacted or are considering board diversity statutes. Then, in December of last year, NASDAQ actually filed a proposal with the SEC to require more than 3,000 companies listed on its exchange to have at least one female director or an underrepresented minority group.

Our outlook for sustainable investing continues to be very positive. Sustainable investing identifies themes that are and will grow in importance. We believe that 2021 will be a continuation of 2020. As you mentioned, President Biden has already implemented a lot of change. He has advocated for a $2 trillion climate plan. Time will tell what will move forward. However, some other areas that the new administration has taken steps is rejoining the Paris Climate Agreement, identifying steps to double offshore wind production by 2030, 100% renewable energy by 2035. All of this is very good news for sustainable investing. A few other areas that we might see this year is we anticipate greater focus from investors not only on climate change, but on community, social injustice, diversity and inclusion, and racial and gender equality. We're also expecting the role of international to play a big part—the EU and its focus on sustainability, the role that China will play after announcing last year its plans to be carbon neutral by 2060. It's likely China will be a driver of innovation going forward. We'd expect much greater focus on the fixed income markets with sustainability. There's a significant opportunity for change by linking the proceeds to direct projects and outcomes. Then—we talked about this earlier—likely momentum in renewable energy continues. We also expect more standardized reporting from companies, which will allow for more consistent reporting.

Susan Traver: Thank you. That is a lot and wonderful to hear. Let me switch over to Elizabeth for a second here. Elizabeth, as Erika mentioned, the Biden administration is signaling a real focus on climate change mitigation. Can you talk to us a little bit about that? What might be the opportunities and risks associated with that shift in the administration’s policies?

Elizabeth Hiss: Sure. More than happy to. It's really interesting. It's already clear, not only the executive orders in the early days but also some of the federal appointments the Biden administration has made, that it's not just climate that's going to be in focus but really a broad set of issues, I think, the administration is going to take on over the next four years. A couple of areas that come to mind immediately, federal appointment, as I mentioned, have already been very clear in terms of determining the path the administration is going to take. Incoming Treasury Secretary Janet Yellen, for example, has been on record and has co-authored a report with the Bank of England Governor Mark Carney, published in October, where she says—and has been on record saying this before—where meaningful carbon prices, she thinks, are the cornerstone of an effective package of public policies that really should incentivize transition to net zero, alongside what she thinks also is important, substantial public expenditures in greening economies. She's an advocate of carbon pricing. The Biden administration has campaigned with the idea that carbon pricing is going to play a material role in their policy.

Just to outline it, carbon pricing is really an incentive scheme. It's aiming to shift the cost and the brunt of carbon emissions to society as a whole, to really the emitters themselves. Carbon pricing has the potential to substantially influence the capital allocation and, really, balance sheets of large public companies in the U.S. and where they operate abroad. Carbon pricing will definitely be felt differently depending on the sector but would open up a real opportunity set for investors, putting capital behind transition technology and infrastructure that is less carbon intensive, [which] provides alternatives to the current inputs in manufacturing and building today. An example that really illustrates the impact it could have is the power sector. Carbon pricing has the ability to actually change the entire cost hierarchy of power generation by elevating the production costs—historically cheap—but also high-emitting methods, like coal, and lowering the relative cost of renewables. The opportunity set for this shift to capital is substantial; there are also risks companies are going to need to reckon with. The industrial, as I mentioned, the building materials, the manufacturing sectors, carbon pricing is going to increase the cost of their inputs, going to increase their cost of capital. It's really going to create, immediately, an incentive to replace carbon as means of production. I think it's going to be an essential risk and existential risk for a lot of companies if they're not able to develop a transition plan.

I think another area where the Biden administration has really signaled that focus on climate policy and some of these other issues that sustainable investors concern themselves with is the SEC. Incoming SEC Chair Gary Gensler has been a huge proponent of really advocating for stringent disclosure requirements for public companies around a range of environmental and social issues, and we really expect his role at the SEC to be an advocate for this and really ramp up the requirements for U.S. companies' public disclosure to join the six other global disclosure standards currently on the books internationally. I think this presents an opportunity for sustainable investors seeking to leverage those greater disclosures of a company's political donations, of their diversity, equity, inclusion metrics, of their carbon emissions. It will allow investors to better capture and price company risks, both currently realized and not yet realized. For many years, the lack of data has inhibited sustainable investors to really make apt judgements about the real risk facing companies and their balance sheets. We really think it's going to potentially recast the U.S. corporate landscape in a different light. If there's a real ramp-up in disclosure requirements, which I think is exciting from an opportunity perspective, but again, this is still a risk for companies who don't quite have their ducks in a row on some of these issues.

I think the final one I think I'll point to is Biden's appointee for the chair of the Federal Energy Regulatory Commission. FERC is the federal regulator of two major energy industries, the power sector and the natural gas industry, and the incoming chairman has been a huge supporter of more climate-minded regulation, prioritizing the impact of things like proposed pipelines. FERC has the ability to actually permit pipelines and controls how electricity is even bought and sold in the nation's power market. Glick, the chairman of FERC, really has the ability to really enable the Biden administration to deliver their decarbonization plans by actually fostering carbon prices on electricity. It can propel a massive buildout of high-voltage transmission infrastructure and make it really harder to build pipelines. There's a lot of opportunities here. Tremendous infrastructure buildout—that's going to enable this decarbonization—but there's really tangible support from a policy perspective, if some of these appointees deliver on their promises. We think a lot of these beneficiaries, down the road of some of these policies, whether it's transmission, builders and manufacturers, utilities, power generators, battery storage companies, who are actually constituents of our sustainable portfolios, there's a lot of opportunity in front of us, we've seen from the early days.

Susan Traver: That's great. All super exciting. Let me stick with you for a minute, Elizabeth. We've talked a lot about the environment—understandably so with climate change. When we think about sustainability, we look at what's called ESG, environmental, social and governance. Can you expand a little bit—I know Erika's touched on this, but can you expand a little bit on the S and the G of ESG, because we get so focused on carbon imprints and climate control?

Elizabeth Hiss: No. It's a good question, and it gets at the history of sustainable investing, where it really historically was more true in the early days—building a sustainable portfolio really meant stripping out the carbon or stripping out the GSG emissions as much as possible. I think that was largely because things like measuring carbon intensity of a company, the GSG emissions, a little bit more tangible. Social or racial equity issues, or managing governance issues and quantifying their impact on a business was thought to be a little bit less tangible and more abstract, less measurable. This has really changed. I think the way companies' management conduct themselves publicly, the way they treat their employees, the way they manage their resource footprint are all intrinsically linked more than ever to their ability to exist, attract customers, attract investors. I think 2020 revealed just how inextricably linked a company's reputation is as a steward of all these areas... operate and attract investors. As Erika said, within the pandemic period, how companies treated their employees amid these shutdowns, whether they were being really generous or potentially less generous on things like sick leave, or creating safe working environments, or how responsive they were to the immense social justice upheaval and push for racial equity in corporate America this summer was really telling.

Our and the growing definition of sustainable investing considers holistically a lot of these factors and realizes that they all are really determinant of a company's not only outcomes from performance perspective but also their ability to attract customers. One of the things that has been really zeroed in on this year in particular is companies' ability to attract and retain diverse talent, the extent to which they're not only attracting diverse talent but giving them a path for success within their organization, and there are countless linkages between excelling on the social and governance renders, and the financial outcomes of businesses. With this recruiting example, again, if you think about if you're spending all of your time attracting talent, you're able to integrate that into your organization effectively, you're able to train them and really give them a broad set of opportunity for growth within your organization, you're going to spend less time on recruitment cost. You're going to spend less money on retraining cost, and you're going to benefit, hopefully, if you're retaining your employees, on losing those inefficiencies or business interruption personnel departures. There is so much within your wheelhouse and your toolkit as a sustainable investor today—that wasn't the case before—and I think the holistic look at E, S and G, is more useful than ever in the context of your portfolio.

Susan Traver: Thank you so much. That's great to hear. Erika, back to you. Now that we have an understanding of what sustainable investing is and what the Biden administration's policies look like, how do you as the chief investment officer consider building a portfolio? How does one begin to do that?

Erika Pagel: Well, Susan, there's no right or wrong way to do this. From our perspective, the key is to meet each client where they are in the process and then to make adjustments along the way so that each portfolio grows, aligned with the client's mission but also aligned with the client's goals. I'll highlight a few key principles that we think about. First, process is just important as implementation. Understanding how investment strategies and holdings work together within a portfolio, but also monitoring those exposures and your progress on that implementation. It's very important to note that sustainable investing really, truly means different things to different people and organizations. What's also true is that all investing has some level of impact. When we build portfolios, we believe in using the same portfolio construction approach within sustainable portfolios, as we do for every portfolio. You'll need to consider risk and return, but you also need to look at risk and return and holdings with an ESG lens. Secondly, we believe that ESG is a disruptor in many industries. It's a cause for change in how businesses operate. We're looking for ESG opportunities, but we also believe that ESG is an important risk tool when building portfolios.

Third, a sustainable portfolio can deliver competitive performance, in addition to having lower carbon, lower fossil fuel exposure, but also low exposure to controversial business practices. We believe that that's incredibly important. Then, lastly, it is easier than you think to incorporate sustainability into a portfolio. It's actually likely that many clients already have exposure, as many managers and many companies are already using an ESG lens as part of their research process and analysis.

Susan Traver: Great, thanks. Many, many years ago, when people used to talk about socially responsible investing, it was always nice to have, but there was a forfeiture of return—that it was an altruistic way to align your values with your investments. Today, do you still have to forfeit return in order to have a sustainable portfolio?

Elizabeth Hiss: I love this question, because the fact that it's still being asked means there's not, I think, a strong understanding of sustainable investing as I'd hoped there be. When you ask, in a really black-and-white way, does sustainable investment, is traditional investing from a performance perspective—it's an interesting question, but I think it lacks a nuance because it's like asking, "Do all of the mutual funds in the world who invest in larger-cap companies always outperform the mutual funds who invest in smaller-cap companies?" The answer is that if you look at a really broad swath of the thousands of ETFs and mutual funds, and other investments out there, you may find a number who in one count outperformed and some who have underperformed, depending on the actual strategy you're looking at.

Our view is that it really is important to choose carefully and underwrite the investments in your portfolio, but if you can find—which we have, and continue to look for our clients—is that if you find sustainable investment strategies who are putting in the work to conduct diligence on investments, that go beyond simple financial metrics and are seeking to really understand all of the risks and opportunities, knowable and unknowable potentially today, things like climate change and other ESG risks pose to their business and operations, and their business models, you're going to continue to, and we have, outperform those who do not. It's really looking for strategies who are doing this really holistic and iterative diligence to come to better investment decisions about companies leveraging this broad nonfinancial, extra financial data set. A recent example, the massive supply chain disruption brought about by COVID-19—a pretty startling bifurcation in business models who had invested in resiliency planning, vertical integration or inventory management and those who did not.

Many of those businesses who had fared well during the spring and summer, constituents of sustainable managed portfolios, because the managers underwriting those business, way before the pandemic, had looked for those businesses who had vertically integrated their supply chains, which is really the hallmark of businesses who are more resource efficient; they waste less, and you have holistically planned around business disruption. I think another real variant on this question of does sustainable strategies outperform or underperform traditional strategies, it's a question of time horizon. The definition of sustainable investing we adhere to guides our philosophy, which is long-term minded. We're looking for companies who are prioritizing capital allocation that will realize benefits over 10-year cycles, potentially at the expense of short-term quarterly earnings. If you're using a goal post as weeks, months, quarters, there may be some dispersion where if you take a short-term view, you may outperform, but if we're thinking about sustainable investing, which we do over a long-term view and really looking at businesses who are going to endure, over the long term, sustainable investment strategies have really started to show their out performance over these long-term cycles.

Susan Traver: That's incredibly helpful. Thank you. Erika, let me ask you a two-part question here. How do you think about starting to introduce sustainable investments into a portfolio, and could you also distinguish between equity and fixed income, and how you decide how do I curate this portfolio?

Erika Pagel: Sure. Maybe I'll just start a little bit on sustainable asset allocation and building a portfolio.

Susan Traver: Great.

Erika Pagel: When thinking about a sustainable portfolio, it's really a balancing act, which is similar to a traditional portfolio. On one hand, you're deploying capital to both maximize risk-adjusted returns and income, but on the other hand, you have to focus on the clients' values and mission alignment. We believe you can do both successfully. Marrying that mission alignment and portfolio construction goals is something we weight carefully when assembling portfolios. We're very focused on the return potential and risk profile, but we're also focused on the unintended impact, such as factor tilts, concentration, as well as overall diversification levels. When building a sustainable portfolio, you may end up having some differences in portfolio characteristics, such as the fact that many sustainable strategies have a bit of a growth tilt or bias that is primarily due to some lower energy and materials exposure, and a focus on more innovative practices and technology. However, what's really important is that from an asset allocation standpoint, methodology is the same. The focus, as Elizabeth was highlighting earlier, it's really on long-term portfolio objectives.

How do we think about introducing strategies into portfolios? Portfolio transitions are often gradual exercises. That's especially true when migrating to a sustainable investment approach. Thinking about sustainability, it adds new dimensions to the investment decision-making process. We have a four-step building block, or process, that we like to use, and any client could be at different points in this process. The first one is really the discovery phase. This is discussing with clients both their financial and their mission-based priorities. This can be done over one meeting, several meetings. It can be done by a questionnaire or survey. We really think it's important during this discovery phase to update or develop an investment policy statement for each client. Secondly, and very importantly, is what we call your know-what-you-own stage. This is conducting a full portfolio look through analysis to underline holdings to really, truly understand what the portfolio owns. Looking through to mutual funds, ETFs, really everything in a client's portfolio. From there, we can gauge particular exposure to maybe controversial business practices and to have even a deeper conversation with each client about sustainability. This actually helps us to guide portfolio decisions in the existing portfolio but also to guide decisions as we move forward.

Third, integration. This is the fun part. This is when we put all those pieces together, and we actually start making changes to the portfolio. Last but not least is improvement. This is also very critical because we can work very hard on the first three steps, but it's very important to track progress, report back to clients on both traditional asset allocation, traditional performance metrics, but also to track progress on sustainability. That is something that we monitor over time and is, again, critical to the process.

Susan Traver: Great. That sounds wonderful. Elizabeth, back to you for a minute. As a research analyst, how do you look at the universe of sustainable investment opportunities and figure out what you want to use or recommend in a portfolio?

Elizabeth Hiss: It's definitely an interesting exercise, and it's become more interesting in the last couple of years. Setting the stage a little bit, ESG and sustainable investing funds out there have seen enormous inflows over the past couple of years, to the point where, depending on how you ask, it's a third of the assets under management in the United States. In this year alone, between March and June, there were $71 billion of inflows into ESGs labeled as sustainable funds. Because of this massive inflow activity, there are now over 3,000 public funds, ETFs or mutual funds out there, with some sustainable investment mandate. As you might imagine, the dispersion of the type of sustainable funds you're going to find in this enormous universe, and I think also the voracity of their underlying claim to investing sustainably and their outcomes in terms of performance, is pretty staggering. Our approach to really mining through this ever-growing universe has been to establish some firm guidelines and ability to judge strategies a little bit more objectively using a few parameters that zero in on the investment process, in particular, because again, we're trying to evaluate who are these compelling investors who are going to be able to use and harness sustainable investing to drive out performance over time while driving positive impact as well.

The goal, as we're doing these searches, is not to define one definition of sustainability for our clients, but it's to identify managers and strategies who are using sustainably innovative research to inform better valuation of businesses, to price risk more effectively and also to construct portfolios that are informed by all the sources of tail risk [that] climate change and others of this ESG risk impose. We use this matrix to help us identify managers with superior investment acumen, to adhere to process and philosophy that has, again, translated into performance. For example, we're more compelled in evaluating managers and strategies who conduct their own differentiated and iterative diligence during the research process to understand the underlying operations of a company, or its culture, or its management of risk and opportunities, the way it thinks about sustainability, rather than leveraging simply an off-the-shelf ESG rating. There's a lot of providers out there who will tell you, from their view as a company, a AAA, AA, a CCC, we're more compelled by those who are doing their own work to come to a differentiated view to the market, just as we hope some traditional investor would go beyond using southside ratings to inform their buy and sell activity.

We've really been compelled by these managers who are leveraging sustainability to just drive better investment decision-making. A more important part of our evaluation of managers, even recently, has been thinking about the way they engage with businesses they own to actually improve outcomes from a sustainability perspective. It's become even more of a focus of ours, to find managers who are not just buying and selling securities in their portfolio but leveraging their position as large institutional investors and bringing opportunities for sustainability improvement to the companies' management, to really drive home this closed loop of being a sustainable investor means using your voice effectively and making sure that along the way as an investor, you're advocating for change in a way that you can.

Susan Traver: Great. Thank you. Brown Advisory, as we know, we use both outside managers and our own cooking, if you will. You not only look at outside managers but look at individual companies when thinking about the viability of their sustainability process. Can you give us an idea of something that surprised you or something that you might not think would belong in a Brown Advisory sustainable portfolio?

Elizabeth Hiss: Sure. This is always an interesting thing to think about. I think a lot of folks still believe if you're looking at a sustainable portfolio, you need to have exclusively wind farm producers and electric vehicle makers. It goes beyond that in terms of what you'll find, really interesting and proven sustainable investors are able to unnerve us as a compelling sustainable investment. One that I really like in an internal Brown Advisory portfolio we run is a company called Nordson. Again, unlikely, potentially, constituent of a sustainable portfolio, but they're a manufacturer of precision technology solutions that are focused on efficient material dispensing in the adhesive and industrial coatings manufacturing process. Literally, the glue that keeps things like semiconductors adhered to the components of your iPhone. One of the things that they've been really, really forward thinking about is their ability to dispense products that help improve customers' manufacturing productivity and yield. Through their manufacturing process and their engineering, they've been able to help customers drive more efficient input consumption and enhance the overall quality and durability of the end product for their customer. Really, an esoteric industrial company who is solving an industrial challenge for their customers and helping them save money, time and resources along the way.

Susan Traver: Thank you. Erika, back to you for a minute. Risk management, which is clearly one of the metrics that we use when we're putting together a portfolio. When you're integrating sustainable investment strategies into a traditional multi-asset class portfolio, how do you measure risk, and what do we look for to make sure that we're being prudent stewards of that portfolio?

Erika Pagel: It's very important, and it isn't only for sustainable investing, it's pretty much for across the board. There are areas you will want to be aware of in a sustainable multi-asset portfolio, and I can highlight a few, and then I'll also drill down and make a couple points on equity versus fixed income and how we think about those. First and foremost, we look for strategies that benchmark themselves to traditional benchmarks—that's something that we believe in doing and have believed in doing for a very long time. I think another key component is understanding that building a sustainable portfolio will likely have a higher-quality bias and, as Elizabeth mentioned, long-term focus. That might come with reduced risks to things such as polluters, regulatory weapons in energy, and many in the industry believe that this is in part due to better downside capture. Those are areas that we monitor very closely. It's important to note that ESG strategies performed well on a relative basis during both the market drawdown and market recovery last year, and *Barron's* featured an article more than a year ago citing that ESG investors avoided less bankruptcies over the past decade because of that high-quality basis. That's not a predictor for the future, but it is something that we monitor.

Clients that use negative screen should understand that in different market environments, performance can vary versus benchmarks. What we believe is that good stock picking, alpha generation by managers and a diversified portfolio, that limiting sectors like alcohol, energy, gambling, weapons or fossil fuels, has not impacted the long-term performance of a portfolio. In fact, if you look at a few benchmarks, the MSCI ACWI ex Fossil Fuels, it's actually outperformed the traditional ACWI over the past three and five years. You'll also want to consider and understand the differences of active and passive strategies within sustainable investing. If tracking error is important, if having exposure to most all sectors is important, then consider using passive. Active portfolios are going to be built on bottom-up, fundamental analysis, and they can adjust their allocations to reflect ESG considerations as they arrive. Another area that we monitor a lot, from a risk management standpoint, is many sustainable equity strategies tend to have a growth tilt. We talked about this a little bit earlier, but there is more of a tilt toward sectors such as technology and health care, and oftentimes, in underway or minimal exposure to energy and financials. You'll want to look through to underlying holdings to understand exposures to areas like value and growth.

Then, there are some areas that sustainability may not apply or be a good fit. That's commodities, public REITs, hedge funds—how you compensate a portfolio for that risk return in each of those will certainly vary in different market environments. What we also look for is each sustainable manager and how they report their level of impact, but also how we assess their impact. I'll leave you with a couple of areas sustainable investing is in our minds, particularly suited to fixed income. In fixed income, you have full transparency of the designated use of proceeds, and it's in many ways a pure plight ESG investment. From a risk management side, green bonds are really no different than other bonds in similar sectors, as far as duration and credit characteristics. Green bonds—they do have to report on their use of proceeds. That's very important to us, as far as reporting goes. Then, within equities from a risk management side, there are many ESG pure play equities, and then there are several companies that are driving their business forward by using sustainability that helps to drive revenue—it helps to drive profits, cost savings and market share. Some of these companies with third parties have different ratings. We assess all of that information in order to come up with our investment perspective.

Susan Traver: Thank you. We're at the end of our questions. I'd like to ask each of you if you have any closing comments, beginning with Elizabeth.

Elizabeth Hiss: I would just say, we talk a lot about the ways in which sustainability is nuanced or complicated, and it's gained a huge amount of ground, but I think the underlying impotence that I think is driving people to want to add sustainable investing to their portfolio, it's a positive one. I think it reflects the greater understanding that you, in the context of your investment portfolio, can align yourself with values that matter to you. They're not as disassociated as they were in the past. I think a lot of people—the younger generations too—just have a lot of potential in front of them to integrate the way they think about the world with the way they invest in their portfolio. I will leave you with that.

Susan Traver: Erika?

Erika Pagel: I'll leave you with, as long-term investors, we look for companies that will not only thrive today but those that will thrive and exist in the future. Responsible companies understand and manage their long-term sustainability risks, but truly exceptional teams see the opportunity in sustainability, not only that risk. Lastly, I'll leave you with, we do believe that you can have both mission alignment and competitive performance for clients. There's a lot of options out there, which makes it easier to get started.

Susan Traver: Thank you both very much. This has been incredibly informative and illustrates Brown Advisory's dedication to sustainable investing, and we thank you very much. Thank you for coming today.