

# **BROWN ADVISORY U.S. SUSTAINABLE GROWTH FUND**

EUROPEAN SRI TRANSPARENCY CODE 2022



## **European SRI Transparency Code**

The European SRI Transparency Code (the Code) focuses on SRI funds distributed publicly in Europe and is designed to cover a range of assets classes, such as equity and fixed income.

All information pertaining to the European SRI Transparency Code can be found at the following website: [www.eurosif.org](http://www.eurosif.org). The Code comes with a Guidance Manual for fund managers on how to best use and respond to the Code. The present version of the Code was approved by the Board of Eurosif on February 19, 2018.

### **REVISION OF THE CODE**

In 2017, the Code was updated to better reflect the continuing evolution of the European SRI market. A Working Group was set up to facilitate revision of the Code in line with the latest developments in the industry and in view of the latest work carried out by experts at the European and global level.

Applications to sign up to the Code will now be in line with key elements of the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD), Article 173 of the French TECV Act and the latest recommendations made by the High-Level Group of Experts on Sustainable Finance (HLEG) in its final report published in January 2018. Questions that are specifically designed to reflect those recommendations/legislation are indicated in the Code with footnotes.

### **TWO KEY MOTIVATIONS UNDERPIN THIS CODE**

1. The opportunity for retail SRI funds to provide clarification to investors and other stakeholders about their SRI approach in an easily accessible and comparable format.
2. Proactive strengthening of self-regulation to contribute to the development and promotion of SRI funds by setting up a common framework for transparency best practices.

### **GUIDING PRINCIPLE**

Signatories to the Code should be open and honest and should disclose accurate, adequate and timely information to enable stakeholders, especially consumers, to understand the ESG policies and practices of the fund.

### **COMMITMENTS BY SIGNATORIES**

- The order and exact wording of the questions should be followed;
- Responses should be informative and clear, and the resources and methodologies used should be described in as much detail and as precisely as possible;
- Funds should report data in the currency that they use for other reporting purposes;
- Reasons preventing the fund from providing all or part of the information to a given question should be clearly stated and, in such cases, signatories should state when they will be able to answer the question;
- Responses should be updated at least on an annual basis and should have a precise publication date;
- Responses to the Code should be easily accessible from the website of the fund and/or of the fund manager. In any case, signatories should make it clear where to find the information required by the Code;
- Signatories are solely responsible for the answers to the questions, and should state this in their response.

### **Statement of Commitment**

*Complete/modify the below section accordingly*

Sustainable and Responsible Investing is an essential part of the strategic positioning and behaviour of Brown Advisory. We have been involved in SRI since 1993 and welcome the European SRI Transparency Code.

This is our second statement of commitment and covers the period 12<sup>th</sup> September 2022 to 12<sup>th</sup> September 2023. Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our website.

## Compliance with the Transparency Code

Brown Advisory is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate. Brown Advisory meets the full recommendations of the European SRI Transparency Code. (If the full recommendations are not met, please state if and when you hope to comply with the questions you cannot answer at this time).

30<sup>th</sup> September 2022

## Eurosif classification of Sustainable and Responsible Investment<sup>1</sup> strategies

**Sustainability Themed Investment:** investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG. Sustainability Themed Investments inherently contribute to addressing social and/or environmental challenges, such as climate change, eco-efficiency and health. Funds are required to perform an ESG analysis or screening of investments in order to come under this category.

**Best-in-Class Investment Selection:** approach according to which leading or best-performing investments within a universe, category or class are selected or weighted based on ESG criteria. This approach involves the selection or weighting of the best-performing or most improved companies or assets as identified by ESG analysis within a defined investment universe. This approach includes best-in-class, best-in-universe and best-effort.

**Norms-Based Screening:** screening of investments according to their compliance with international standards and norms. This approach involves the screening of investments based on international norms or combinations of norms covering ESG factors. International norms on ESG are those defined by international bodies, such as the United Nations (UN).

**Exclusion of Holdings from Investment Universe:** an approach that excludes specific investments or classes of investment from the investible universe, such as companies, sectors or countries. This approach systematically excludes companies, sectors or countries from the permissible investment universe if they are involved in certain activities based on specific criteria. Common criteria include weapons, pornography, tobacco and animal testing. Exclusions can be imposed at the individual fund or mandate level, but also increasingly at the asset manager or asset owner level, across the entire product range of assets. This approach is also referred to as ethical or values-based exclusion, as exclusion criteria are typically based on the choices made by asset managers or asset owners.

**Integration of ESG Factors into Financial Analysis:** the explicit inclusion by asset managers of ESG risks and opportunities in traditional financial analysis and investment decisions based on a systematic process and appropriate research sources. This category covers explicit consideration of ESG factors alongside financial factors in the mainstream analysis of investments. The integration process focuses on the potential impact of ESG issues on company financials (positive and negative), which in turn may affect the investment decision.

**Engagement and Voting on Sustainability Matters:** engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process that seeks to influence behaviour or increase disclosure. Engagement and voting on corporate governance are necessary, but are not sufficient in themselves for inclusion in this category.

**Impact Investing:** impact Investments are investments in companies, organisations and funds with the intention of generating a social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below market-to-market rate, depending upon the circumstances<sup>2</sup>. Investments are often project-specific and distinct from philanthropy, as the investor retains ownership of the asset and expects a positive financial return. Impact investing includes microfinance, community investing, social business/entrepreneurship funds and French *fonds solidaires*.

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<sup>1</sup> Sustainable and responsible investment ("SRI") is a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long-term returns for investors and to benefit society by influencing the behaviour of companies. Ref. Eurosif 2016

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### 1. List of funds covered by the Code

Name of the fund(s): <b>Brown Advisory U.S. Sustainable Growth Fund</b>					
Dominant/preferred SRI strategy (Please choose a maximum of 2 strategies)	Asset class	Exclusions standards and norms	Fund capital as at 31 December	Other labels	Links to relevant documents
<input type="checkbox"/> Best-in-Class Investment section <input checked="" type="checkbox"/> Engagement & Voting <input checked="" type="checkbox"/> ESG Integration <input type="checkbox"/> Exclusions <input type="checkbox"/> Impact Investing <input type="checkbox"/> Norms-Based Screening <input type="checkbox"/> Leading to exclusions <input type="checkbox"/> Leading to risk management analysis/engagement <input type="checkbox"/> Sustainability Themed	<b>Passively managed</b> <input type="checkbox"/> Passive investing – core benchmark: specify the index tracking <input type="checkbox"/> Passive investing –ESG/SRI benchmark: specify the index tracking  <b>Actively managed</b> <input type="checkbox"/> Shares in a euro area country <input type="checkbox"/> Shares in an EU country <input checked="" type="checkbox"/> International shares <input type="checkbox"/> Bonds and other debt securities denominated in euro <input type="checkbox"/> International bonds and other debt securities <input type="checkbox"/> Monetary assets <input type="checkbox"/> Short-term monetary assets <input type="checkbox"/> Structured funds	<input checked="" type="checkbox"/> Controversial weapons <input checked="" type="checkbox"/> Alcohol <input checked="" type="checkbox"/> Tobacco <input checked="" type="checkbox"/> Arms <input checked="" type="checkbox"/> Nuclear power <input type="checkbox"/> Human rights <input type="checkbox"/> Labour rights <input checked="" type="checkbox"/> Gambling <input checked="" type="checkbox"/> Pornography <input checked="" type="checkbox"/> Animal testing <input type="checkbox"/> Conflict minerals <input type="checkbox"/> Biodiversity <input type="checkbox"/> Deforestation <input checked="" type="checkbox"/> CO2 intensive (including coal) <input type="checkbox"/> Genetic engineering <input checked="" type="checkbox"/> Other (Global Compact) <input type="checkbox"/> OECD Guidelines for MNCs <input type="checkbox"/> ILO Conventions <input type="checkbox"/> Other (please specify)	The total assets of the Brown Advisory U.S. Sustainable Growth Fund were \$5,003m as of 31 <sup>st</sup> December 2021.	<input type="checkbox"/> French SRI label <input type="checkbox"/> French TEEC label <input type="checkbox"/> French CIES label <input checked="" type="checkbox"/> Luxflag Label <input checked="" type="checkbox"/> FNG Label <input type="checkbox"/> Austrian Ecolabel <input type="checkbox"/> Other (please specify)	See below.

Links: Brown Advisory U.S. Sustainable Growth Fund

Document Requested	Link
KIID	<a href="#">KIID Library</a>
Prospectus	<a href="#">Prospectus &amp; Supplement</a>
Management report	<a href="#">Brown Advisory 2021 Annual Report</a>
Financial and non-financial reporting	<a href="#">Brown Advisory Funds plc - Annual Report 2021</a>
Corporate presentations	<a href="#">Firm Brochure</a>
Monthly Factsheet	<a href="#">Monthly Fund Factsheet</a>
Quarterly Presentation	<a href="#">UCITS Funds Document Centre</a>

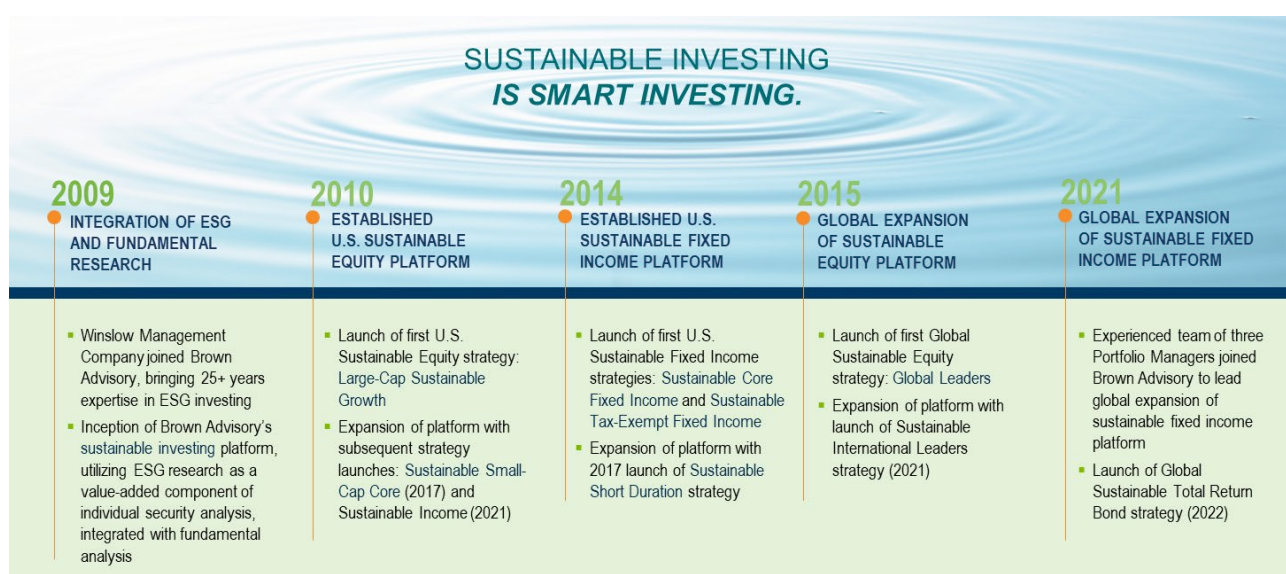
## 2. General information about the fund management company

### 2.1. Name of the fund management company that manages the applicant fund(s)

The Management company for the Brown Advisory U.S. Sustainable Growth Fund is Brown Advisory (Ireland) Ltd.

### 2.2. What are the company's track record and principles when it comes to integrating SRI into its processes?

Brown Advisory has a long history of serving clients focused on sustainable investing and we are deeply committed to the space. We strongly believe that sustainable investing is smart investing and provide solutions to both private and institutional clients on a broad range of sustainable investing mandates. The sustainable investment strategies we offer are focused on performance first, and we use sustainability as part of our fundamental research to help identify better investment opportunities and to understand which ESG factors drive investment performance.



Please see our [Sustainable Investing page](#) on our website for further information.

### 2.3. How does the company formalise its sustainable investment process?

Brown Advisory has published three policies related to Sustainable Investing on our website:

- [Institutional Sustainable Investing Policy](#)
- [Institutional Engagement Policy](#)
- [Proxy Voting at Brown Advisory](#)

Brown Advisory has 26 colleagues who are 100% dedicated to our Sustainable Investing efforts or are playing a critical role as part of the research and asset allocation process for our Institutional, Private Client,

Endowments and Foundations business. The colleagues within this team are fully integrated into the broader business and investment teams.

The firm has also established a Sustainable Investing Advisory Board, the members of which can be viewed [here](#).

**2.4. How are ESG risks and opportunities – including those linked to climate change – understood/taken into account by company?<sup>3</sup>**

Sustainable Investing at Brown Advisory seeks, first and foremost, to contribute positively to the performance of our strategies. Our research efforts aim to uncover ESG risks that may hinder the return from an investment, as well as sustainable opportunities that may lead to better returns.

A Brown Advisory ESG Assessment contains two sections: an ESG Risk Assessment and a Sustainable Opportunity Assessment. These are prepared by ESG research analysts, in collaboration with relevant fundamental analyst(s) and in some instances with an investigative analyst.

The goal of the ESG Risk Assessment is to uncover any undesired risks associated with the company/issuer that might not be revealed by a traditional investment research approach. For a complete ESG Risk Assessment, the ESG research analysts develop a proprietary view on a broad set of potentially material ESG risks, dependent on company/issuer or sector (e.g. environmental impact, diversity & inclusion, safety policies) and document any ESG controversies associated with the company/issuer. Following a review of all the risks and how the company/issuer is managing their risk exposure, the ESG research team assigns an ESG Risk Management rating to the company/issuer.

ESG Risk Assessment Factors – Examples		
Transparency	Product or service	Distribution systems & facilities
Regulatory environment	Waste generation	Compliance with regulations
Operational impact	Environmental policy	Potential for future violations
Management systems	Greenhouse gases and climate change	Efficient use and reuse of materials
Emission output	Energy usage	Resource consumption
Water usage	Material usage	Reputational risk
Environmental health & safety, Diversity	Supply chain	Adaptability to consumer preferences

The second part of our ESG Assessment is the ‘Sustainable Opportunity Assessment’. The goal of this assessment is to identify environmental, social or governance factors with the potential to enhance long-term shareholder value or generate positive environmental and social benefit. In Brown Advisory’s view, companies/issuers that have sustainable drivers at the core of their products, services and operations are often well positioned to outperform the broad market over the long-term. Sustainable drivers may include, for example, companies/issuers growing their revenues through sustainable products/services, cutting their cost due to increasingly efficient operations, allocating capital toward the development of sustainable projects or initiatives, and enhancing the value of their franchise through strong environmental or social practices. Wherever possible,

<sup>3</sup> Reference to Article 173 of the French TECV Act and the TCFD recommendations (risks and opportunities section)

we seek to quantify the impact of a company/issuer's sustainable drivers both from a financial and from an environmental or social perspective.

In addition to the two assessments described above, sustainable opportunities and ESG risks can also be identified through engagement with the issuer or through thematic/sector-focused investigative research. ESG reporting is available to portfolio managers, and portfolio managers running the firm's equity funds review this reporting at least quarterly. For Sustainable Strategies, ESG risks and sustainable opportunities are monitored by the ESG research team and any material updates are communicated to portfolio managers during investment team meetings or on an as needed basis.

Risks and opportunities linked to climate change would be identified through the ESG research tools described above. Brown Advisory seeks to support the transition to a low carbon economy through our sustainable investments, and in addition to seeking to invest in issuers that manage their climate-related risks well, many of the issuers in our sustainable investment strategies are also contributing to facilitate the transition to a low carbon economy. Further to this, Brown Advisory became a signatory of the Net Zero Asset Managers initiative in November 2021, pledging to support the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius, and to commit a portion of assets over the next year to be managed in line with the attainment of net zero by 2050 or sooner.

Brown Advisory has designated climate change to be one of our engagement priorities, and we seek to bring it up wherever appropriate with issuers during engagements. Lastly, Brown Advisory is a supporter of Task Force on Climate-Related Financial Disclosures (TCFD), signatory of Climate Action 100+ and Principles for Responsible Investment (PRI), as well as members of Ceres, among others. These memberships are an important resource for our continual enhancement of our approach to identifying climate risks and opportunities, and integrating them into our investment decisions.

### **Operational Climate Risk**

Brown Advisory became a carbon neutral company<sup>4</sup> in 2020.

Our primary operational impact on the environment is through the carbon dioxide equivalent (CO<sub>2</sub>e) emissions that stem from our operations. 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" the aforementioned emissions through a combination of renewable energy certifications and contributions to climate-positive projects. Several of these investments include funding a project to plant trees in Kenya and Uganda to help small communities create nature-based carbon removal systems and partnering with another organisation that builds biogas digestors for families in China that capture methane emissions from waste and convert them into renewable energy.

### **2.5. How many employees are directly involved in the company's sustainable investment activity?**

Brown Advisory has 26 colleagues who are 100% dedicated to our Sustainable Investing efforts or are playing a critical role as part of the research and asset allocation process for our Institutional, Private Client, Endowments and Foundations business. The colleagues within this team are fully integrated into the broader business and investment teams.

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<sup>4</sup> This refers to Brown Advisory's operational carbon neutrality and does not reference the carbon associated with its investments.

Brown Advisory has also established a [Sustainable Investing Advisory Board](#) which includes 8 members, four of whom are independent.

## 2.6. Is the company involved in any RI initiatives?

General Initiatives	Environmental/Climate Initiatives	Social Initiatives	Governance Initiatives
<input type="checkbox"/> ECCR – Ecumenical Council for Corporate Responsibility <input type="checkbox"/> EFAMA RI WG <input type="checkbox"/> European Commission's High-Level Expert Group on Sustainable Finance <input checked="" type="checkbox"/> ICCR – Interfaith Center on Corporate Responsibility <input type="checkbox"/> National Asset Manager Association (RI Group) <input checked="" type="checkbox"/> PRI - Principles for Responsible Investment <input type="checkbox"/> SIFs - Sustainable Investment Fora <input checked="" type="checkbox"/> Other (please specify) <ul style="list-style-type: none"> <li>• SASB: Sustainability Accounting Standards Board</li> <li>• SRI Conference &amp; Community</li> <li>• Intentional Endowments Network</li> <li>• BASIC: Boston Area Sustainable Investment Consortium</li> <li>• Impact Management Project</li> <li>• WISE: Women Investing for a Sustainable Economy</li> <li>• EMIA: Emerging Markets Investors Alliance</li> </ul>	<input checked="" type="checkbox"/> CDP – Carbon Disclosure Project (please specify carbon, forest, water etc.) <input type="checkbox"/> Climate Bond Initiative <input checked="" type="checkbox"/> Green Bond Principles <input type="checkbox"/> IIGCC – Institutional Investors Group on Climate Change <input type="checkbox"/> Montreal Carbon pledge <input type="checkbox"/> Paris Pledge for Action <input type="checkbox"/> Portfolio Decarbonization Coalition <input checked="" type="checkbox"/> Other (please specify) <ul style="list-style-type: none"> <li>• Ceres</li> <li>• TCFD: Task Force on Climate-Related Financial Disclosures</li> <li>• Climate Action 100+</li> <li>• Farm Animal Investment Risk and Return (FAIRR)</li> </ul>	<input type="checkbox"/> Access to Medicine Foundation <input type="checkbox"/> Access to Nutrition Foundation <input type="checkbox"/> Accord on Fire and Building Safety in Bangladesh <input checked="" type="checkbox"/> Other (please specify) <ul style="list-style-type: none"> <li>• Mission Investor Exchange</li> <li>• ICCR: Interfaith Centre on Corporate Responsibility</li> </ul>	<input type="checkbox"/> ICGN – International Corporate Governance Network <input type="checkbox"/> Other (please specify)

## 2.7. What is the total number of SRI assets under the company's management?

As of 31<sup>st</sup> August 2022, Brown Advisor's managed \$22.0 billion in client assets in our institutional strategies that we deem to be sustainable.

Please see our [Sustainable Investing page](#) for the Sustainable Funds we offer.

## 3. General information about the SRI fund(s) that come under the scope of the Code

### 3.1. What is (are) the fund(s) aiming to achieve by integrating ESG factors?



Sustainable investing at Brown Advisory seeks to integrate ESG factors into the investment process to contribute positively to the performance of our strategies. Our research aims to uncover environmental, social and governance risks that may hinder the return from an investment, as well as sustainable opportunities that may lead to better returns. Brown Advisory's preferred approach to Sustainable Investing is one of ESG integration. This fund offers an additional client solution that combines ESG integration with negative screens designed to seek to avoid exposure to certain controversial business activities.

Ultimately, the portfolio managers for the U.S. Sustainable Growth Fund believe that a company must be managing their ESG risks well and looking to take advantage of sustainable opportunities in order to be an investment that it's likely to provide long-term shareholder value. For inclusion in this strategy, a company must possess a sustainable business advantage as defined below in Q3.3.

### **3.2. What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund(s)?**

Brown Advisory's ESG research analysts are a core component of the firm's broader investment research team. Our ESG research analysts work together across asset classes to develop overarching ESG research tools, and to provide research coverage of overlapping portfolio names that are helped or are being considered for portfolios. Currently, Brown Advisory has 9 ESG equity and fixed income research analysts.

Brown Advisory has access to numerous third-party ESG ratings and data providers, and our ESG research analysts regularly engage with third-party data providers to ensure that we remain up to date with what is available in the market.

Currently, Brown Advisory subscribes to CDP, MSCI ESG Research Manager, ISS, RisQ and Bloomberg New Energy Finance. Data and ratings from these sources are just some of the numerous sources consulted in our efforts to fully understand the sustainable risks and opportunities associated with a given investment.

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. The team first wrote about this in 2018, which can be found in our article [Take ESG Ratings with A Grain of Salt](#).

### **3.3. What ESG criteria are taken into account by the fund(s)?**

One of the managers' means of discerning the companies that are likely to outperform the broad market over the long term is to find fundamentally strong companies that are using sustainability drivers to add value for shareholders. The Fund calls these specific sustainability drivers Sustainable Business Advantages or SBA. There are three distinct ways companies can use SBA to improve their financial position:

1. **Revenue Growth:** by offering a product or service that helps customers reduce the cost of doing business – energy usage, water intake, raw material usage – helping to drive productivity and efficiency for their customers.
2. **Cost Improvements:** companies that are productivity leaders themselves.
3. **Enhanced Franchise Value:** Improving the overall value of the business franchise through increasing customer loyalty, elevating the brand reputation, and improving employee engagement, retention and recruitment.

Multiple ESG criteria evaluated when conducting ESG analysis for these funds. These criteria are assessed through bottom-up ESG analysis based on qualitative and quantitative data. The ESG criteria evaluated may include, though are not limited to:

#### **Environment:**

- Climate change
- 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**

- Diversity, Equity and Inclusion
- Social Justice
- Human rights and responsible labour management
- Data privacy and AI ethics

#### **Governance**

- Executive compensation, including the link of executive compensation to ESG metrics
- Diverse and inclusive board composition
- Transparency with regard to political spending

### **3.4. What principles and criteria linked to climate change are taken into account in the fund(s)?<sup>5</sup>**

The portfolio managers view climate change to be the primary environmental issue facing companies in our investable universe. While we assess ESG risks on a case-by-case basis, climate risk is a universal risk that affects all our companies. Additionally, we believe that some of the most compelling investment opportunities in our universe are those companies with strong fundamentals that are also providing solutions to pressing sustainability challenges in the world – including climate change.

Criteria linked to climate change are considered through the ESG analysis and stewardship activities conducted for this fund.

**ESG Analysis:** The fund's ESG analysis includes analysis that seeks to identify physical climate risks and transition risks that may be material to a company's business practices, as well as identify companies taking advantage of opportunities to manage and minimize their use of natural resources and may lead to revenue growth, cost improvements or enhanced franchise value (i.e. companies with Sustainable Business Advantages as described in question 3.3.). In order to assess the strength of the companies approach to climate change, many criteria are assessed including the company's reporting and transparency as it pertains to climate, climate change vulnerability, emissions, energy use and mix, the setting of science-based targets, commitments to carbon neutrality, and management of climate-related metrics within the supply chain. The product or service offerings of the company or its internal operations are also assessed to determine if they are helping to solve or reduce some of the challenges associated with climate change. The investment team also partners with trusted climate experts to deepen our due diligence on climate-related issues. These partners include TCFD, SASB, Ceres, UN PRI, Brown Advisory's ESG research analysts are a core component of the firm's broader investment research team. Our ESG research analysts work together across asset classes to develop overarching ESG research tools, and to provide research coverage of overlapping portfolio names that are helped or are being considered for portfolios. Currently, Brown Advisory has 9 ESG research analysts.

**Back-end screen:** On the back-end of the process a screen is run to ensure the Fund avoids exposure to certain carbon intensive industries whose emissions and other actions are usually serving to hinder the transition to a low carbon economy. The Fund seeks to exclude companies whose primary business activities are directly tied to conventional exploring, extracting, producing, manufacturing or refining coal, oil or gas; companies whose primary business activities are directly tied to producing electricity derived from fossil fuels; companies with significant assets directly invested in conventional fossil fuel reserves.

**Engagement and Proxy Voting:** Climate change is one of Brown Advisory's engagement priorities, and the managers of the Fund seek to discuss climate change with companies wherever relevant. We many encourage companies to report on and manage physical and transition climate risk, align lobbying and political spending

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<sup>5</sup> Reference to Article 173 of the French TECV Act see paragraphs 3 and 4 of Article D.533-16-1 of Chapter III of the French Legal Code):

<https://www.legifrance.gouv.fr/affichCodeArticle.do?cidTexte=LEGITEXT000006072026&idArticle=LEGIARTI000031793697>

with climate goals, set science-based targets for reducing GHG emissions, among other asks. Our approach to engaging on climate issues has benefited from our partnership with initiatives and organisations such as the Interfaith Centre for Corporate Responsibility, CDP and the Climate Action 100+. Lastly, the portfolio managers support proposals that we believe are in line with strong management of climate-related risks.

**3.5. What is the ESG analysis and evaluation methodology of the fund manager/fund management company (how is the investment universe built, what rating scale is used etc.)?**

ESG analysis is integrated throughout the investment process for the Fund, and ESG research analysts are included in investment team meetings where ESG considerations are taken into account during conversations around idea generation through a decision to sell a security in the Fund.

ESG analysis is integrated through the use of the tools in the ESG toolkit as described in the firm's [Institutional Sustainable Investing Policy](#). In particular, an ESG Risk Assessment and Sustainable Opportunity Assessment are conducted for every company in the portfolio, and this assessment is often accompanied by active efforts to engage directly with the company.

Our ESG research is largely qualitative in nature, but we assign two quantitative ratings to our assessments for communication purposes, an ESG Risk Management rating and a Sustainable Opportunity rating. Our ratings use a simple 1-through-5 system, with a "1" signifying a green-light investment in terms of ESG risk or sustainable opportunity, and a "5" signifying meaningful and material risks, or the lack of any meaningful exposure to sustainable opportunities. A "+" or "-" may also be assigned to a rating (e.g., a "2+" rating) to indicate if a company or other bond issuer is materially progressing or regressing

Before a security is added to the portfolio it is run through a screen to ensure that there is no or limited exposure to certain controversial business activities.

**3.6. How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?**

Brown Advisory's ESG research analysts monitor the companies held in the portfolio on an ongoing basis to identify both progress and controversies associated with ESG-related activity. Our ESG Risk Assessments and Sustainable Opportunity Assessments are not static documents. We update them during an investment's lifecycle, and monitor conditions via engagement, investigative analysis, surveillance of risks, updates to our sustainability thesis for an investment, and collaboration with the rest of the investment team.

The back-end screen is run on the portfolio once a month to ensure continued compliance. Should our third-party screening provider indicate that a company has become exposed to one of the business activities that violate the screen, immediate action will be taken to confirm the exposure with the company and, if confirmed, the company will be sold from the portfolio.

Should the ESG risks of a company become elevated, the managers will seek to engage directly with the company to further understand why risks have become elevated and encourage the company to take actions to mitigate the risks. Should a company not take action to sufficiently manage these material risks, the managers will likely exit the position.

## 4. Investment process

**4.1. How are the results of the ESG research integrated into portfolio construction?**

The portfolio managers believe that ESG factors and fundamental factors go hand-in-hand, and there is no way to separate any disproportionate effect of one or the other on any investment decision or characteristic. As described earlier in this document, the Fund uses a rigorous process to integrate ESG factors into the investment decisions, and there is close collaboration between portfolio managers, fundamental analysts, and ESG analysts to work out what factors, whether they be ESG or financial, are most material to the performance of the company. The highest weighted position in the portfolio are therefore those in which the portfolio managers have highest conviction based on the due diligence conducted.

**4.2. How are the criteria specific to climate change integrated into portfolio construction?**

Climate change considerations are incorporated into our ESG risk assessment and sustainable opportunity assessment as described in question 3.4. We look for companies managing ESG risks (including climate change) well and also companies with sustainable business advantages that provide solutions that slow or reverse the effects of climate change.

**4.3. How are the issuers that are present in the portfolio, but not subject to ESG analysis evaluated (not including mutual funds)?**

*Please specify how much the funds can hold.*

Not applicable. Each company in the Fund undergoes the ESG analysis described in this document.

**4.4. Has the ESG evaluation or investment process changed in the last 12 months?**

Our ESG evaluation and investment process has not materially changed in the last 12 months however we updated our ratings scale for ESG Risks and Sustainable Opportunities.

We do, however, challenge ourselves to continuously evolve our ESG tools and approach to enhance our investment process. For example, we continue to build out our sustainable investing team, evaluate new ESG tools and data sources, and partner with experts in the sustainable investing community to enhance our approach to sustainable investing.

**4.5. Is a part of the fund(s) invested in entities pursuing strong social goals/social enterprises?**

Yes, our search for fundamentally strong companies taking advantage of sustainable opportunities leads us to compelling investment ideas that span a wide range of business models and industries that impact social goals and enterprises. We do not target any particular impact mix and we have found ample opportunity to invest in companies that address a wide range of social issues, understanding that many of these issues intersect with one another. We categorise our holdings according to a series of impact themes to illustrate the variety of challenges and opportunities that our portfolio addresses. Our portfolio allocation themes can be found on page 7 of the U.S. Large-Cap Sustainable Growth Strategy's Impact Report found [here](#).

**4.6. Does (do) the fund(s) engage in securities lending activities?**

*If so,*

*(i) is there a policy in place to recall the securities so as to exercise the voting rights?*

*(ii) does the process for selecting the counterparty(ies) integrate ESG criteria?*

*Not applicable, the Fund does not engage in securities lending activities.*

**4.7. Does (do) the fund(s) use derivative instruments?**

*If so, please describe*

*(i) their nature;*

*(ii) their objectives;*

*(iii) the potential limits in terms of exposure;*

*(iv) if appropriate, their impact on the SRI nature of the fund(s).*

Historically, the Fund's managers have not invested in derivatives. However, they value the flexibility to use derivatives for efficient portfolio management purposes if required. The permitted use of derivatives, along with the types of derivatives permitted, would be documented in the relevant investment management agreement and would be subject to a risk management process established at a portfolio level. The suitability of instruments held in the portfolio would be subject to ongoing oversight by the compliance function. Derivatives which are speculative in nature would not be permitted.

**4.8. Does (do) the fund(s) invest in mutual funds?**

*If so, how do you ensure compatibility between the policy for selecting mutual funds and the SRI policy of the fund(s)? How many funds can be held?*

The Fund invests in U.S. listed equities only.

## 5. ESG controls

### 5.1. What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund(s) as defined in section 4?<sup>6</sup>

Brown Advisory's Institutional Sustainable Investing ('ISI') Policy establishes a foundation for the institutional business' 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 Equities, 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 while also taking cues from the broad SI industry to ensure our policy is comprehensive and comparable with others.

Before any security is added to the Fund, it is assessed by ESG research analysts to ensure it meets the Fund's ESG criteria, and the company is confirmed not to violate the exclusionary screens. The screen is also run on a monthly basis to confirm continued compliance of existing holdings. To ensure companies continue to meet the ESG criteria of the Fund, ongoing monitoring of the ESG characteristics of companies and the Fund are undertaken by ESG research analysts and the research assessments are updated periodically. Any updates to the ESG profile are communicated to the portfolio managers during working group meetings or on an ad hoc basis.

The firm's SI professionals monitor this integration on an ongoing basis, and our sustainable strategies are required to produce periodic reporting demonstrating the appropriate level of ESG integration. In the unlikely situation that concerns arise regarding compliance with the investment policy or there are elevated ESG risks in the portfolios, the team will escalate these concerns to the Head of the Sustainable Investing Business, Carey Buxton. Ms. Buxton 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 working with the Head of Sustainable Investing and ESG research team to affect 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.

## 6. Impact measures and ESG reporting

### 6.1. How is the ESG quality of the fund(s) assessed?

The ESG quality of the Fund is ensured through compliance with the Fund's investment philosophy. That is, the Fund holds companies with Sustainable Business Advantages (SBA) and have strong ESG risk management characteristics, in addition to robust fundamental characteristics. The presence of SBA and strong ESG risk management is assessed through an SBA analysis and ESG risk assessment.

The ESG quality of the funds is also assessed using quarterly and annual impact reporting. The reporting may be internal or external, and can include the following information:

- Carbon footprint
- DEI metrics (e.g. gender diversity on the board)
- Exposure to controversial business
- Engagement activity
- Proxy activity
- Exposure to impact themes
- Proprietary ESG company ratings
- Third-party ESG fund ratings
- Sustainable Business Advantage Driver descriptions

<sup>6</sup> Reference to Article 173 of the French TECV Act

Our ESG research team are monitoring for controversies associated with companies held in our sustainable strategies on an ongoing basis. ESG research analysts document material updates pertaining to ESG risks or sustainable opportunities in the firm's internal research database which can be easily accessed by analysts and portfolio managers.

Additionally, the portfolio managers of our equity strategies meet with the ESG analysts on a quarterly basis to review the portfolio from an ESG perspective.

## **6.2. What ESG indicators are used by the fund(s)?<sup>7</sup>**

The primary ESG indicator used is the presence of Sustainable Business Advantages. Since the inception of the strategy on which the Fund is based, the focus of the Fund has been to invest in companies with SBA believing that companies with revenue growth, cost improvements or enhanced franchise value associated with innovative products or services will be the companies that have material positive ESG impact.

As an output of our investment process, we report on a variety of indicators including our impact themes, carbon footprint, engagement activities, proxy voting, and business practice exposure. Please refer to the strategy's impact report found [here](#) for examples on the different indicators we report on. More information on the ESG indicators used are as follows:

**Impact themes:** The assignment of an impact theme is based on the outcome of the ESG Assessment conducted for the company. The impact theme that most strongly aligns with the impact of the identified SBA is assigned to the company, as well as a secondary theme if appropriate.

**CO2 emissions:** Carbon emissions per dollar invested and weighted average carbon intensity.

**Board Diversity:** We report the proportion of portfolio companies that have no women directors. The data is sourced from MSCI ESG research manager.

**Exposure to controversial business:** Acknowledging that impact can be both positive and negative, we track portfolio exposure to various types of controversial business. Our internal reporting tracks exposure to alcohol, tobacco, gambling, adult entertainment, conventional weapons, controversial weapons, board diversity, and the UN Global Compact. Analysis of business exposure is conducted in MSCI ESG Research Manager and confirmed through bottom-up ESG due diligence.

**Engagement metrics:** We track the number of engagements, content discussed, whether E, S or G issues are raised, and whether the engagement included a discussion of one of our engagement priorities.

**Proxy voting:** Proxy voting is one way for portfolio managers to signal support for E, S and G issues. Proxy data is included in our annual impact report and on a proxy voting dashboard on our firm's website.

Additionally, we will be monitoring PAIs for this Fund, as well as implementing a minimum % of investments that are defined as 'sustainable'. Brown Advisory is working with the relevant teams to build capabilities in this area will be making the necessary disclosures in line with the publication deadline. Please see our statement on the Due Diligence Policies of Brown Advisory (Ireland) Limited on the Principal Adverse Impacts of Investment Decisions [here](#).

In due course, we will publish the % of the portfolio invested in sustainable investments in line with the regulatory requirements.

## **6.3. What communication resources are used to provide investors with information about the SRI management of the fund(s)?**

The Fund provides monthly factsheets and quarterly reports (please see these [here](#)). These include performance details and commentary. Given that the portfolio managers believe that ESG and fundamental factors go hand-in-hand, we view financial performance as indicating the success of ESG integration.

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<sup>7</sup> Reference to Article 173 of the French TECV Act

For the U.S. Sustainable Growth Fund, the portfolio managers also disclose the SBA descriptions underlying every position in the portfolio on a quarterly basis. Please find this on the Fund's webpage [here](#).

We seek to report our environmental and social impact is through our annual [Impact Reports](#). In these reports we compare our strategies to their respective benchmarks in terms on certain impact metrics such as carbon emissions, carbon intensity and diversity of the board. We source this data from third-parties (e.g. MSCI ESG Research Manager and CDP reports) and from the companies directly. In addition, we can provide bespoke reports (such as carbon foot-printing or DEI data).

The portfolio managers and other members of the investment team also publish ad hoc thought pieces on sustainability issues that can be found on "[Insights](#)" section of Brown Advisory's website.

Finally, as a signatory of the PRI, Brown Advisory completes the PRI's annual assessment in which we report on our firm-wide sustainable investing activities. See our latest results [here](#).

**6.4. Does the fund management company publish the results of its voting and engagement policies?<sup>8</sup>**

*If so, please include links to the relevant activity reports.*

The Fund reports on annual proxy voting and engagement activity in the annual impact report for the U.S. Large-Cap Sustainable Growth Strategy (see [here](#)).

Furthermore, the firm publishes the proxy voting data for our Mutual Funds, found on our website's proxy voting dashboard [here](#).

**Disclaimer**

The views expressed are those of the author and Brown Advisory as of the date referenced and are subject to change at any time based on market or other conditions. These views are not intended to be and should not be relied upon as investment advice and are not intended to be a forecast of future events or a guarantee of future results. Past performance is not a guarantee of future performance and you may not get back the amount invested. The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell, or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. The information contained herein has been prepared from sources believed reliable but is not guaranteed by us as to its timeliness or accuracy, and is not a complete summary or statement of all available data. This piece is intended solely for our clients and prospective clients, is for informational purposes only, and is not individually tailored for or directed to any particular client or prospective client. ESG considerations that are material will vary by investment style, sector/industry, market trends and client objectives. ESG strategies seek to identify companies that they believe may have desirable ESG outcomes, but investors may differ in their views of what constitutes positive or negative ESG outcomes. As a result, the strategies may invest in companies that do not reflect the beliefs and values of any particular investor. The strategies may also invest in companies that would otherwise be screened out of other ESG oriented funds. Security selection will be impacted by the combined focus on ESG assessments and forecasts of return and risk. Various Brown Advisory strategies intend to invest in companies with measurable ESG outcomes, as determined by Brown Advisory, and seeks to screen out particular companies and industries. Brown Advisory relies on third parties to provide data and screening tools. There is no assurance that this information will be accurate or complete or that it will properly exclude all applicable securities. Investments selected using these tools may perform differently than as forecasted due to the factors incorporated into the screening process, changes from historical trends, and issues in the construction and implementation of the screens (including, but not limited to, software issues and other technological issues). There is no guarantee that Brown Advisory's use of these tools will result in effective investment decisions.

[www.brownadvisory.com](http://www.brownadvisory.com)

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<sup>8</sup> Reference to Article 173 of the French TECV Act and the HLEG recommendations on GOVERNANCE