Brown ADVISORY
Thoughtful Investing.

2018 IMPACT REPORT

BROWN ADVISORY SUSTAINABLE CORE FIXED INCOME STRATEGY

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Letter of Introduction from the Portfolio Managers

Brown Advisory is deeply committed to sustainable investing. As of Sept. 30, 2018, Brown Advisory managed approximately $4.1 billion* in client assets under various sustainable investment mandates for individuals, families and institutions.

Our goal with this work is to help our clients generate attractive investment returns driven by innovative ESG research, align their investments with their values and make a positive impact on society with their capital.

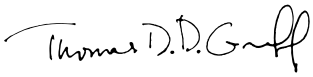
Our clients are interested in learning more about the impact component of their sustainable investing strategies, and to address this growing interest, we are pleased to issue our first, formal annual Impact Report for the Brown Advisory Sustainable Core Fixed Income strategy.

The report includes:

- The ***investment philosophy*** and process with which we pursue performance, values alignment and impact
- A portfolio-level view that breaks down our holdings in terms of ***impact themes, impact types*** and the diverse range of ***traditional fixed income sectors*** held in the portfolio (and a description of the sources of impact in each one)
- Impact case studies of individual bonds held in the portfolio
- Ways in which our fixed income team and our firm are contributing broadly to the advancement of sustainable investing principles

On behalf of all Brown Advisory colleagues—each of whom plays an important role in delivering sustainable investment solutions to our clients—we are proud to present this Impact Report to our clients and the broader sustainable investing community. We hope you find it informative, and we welcome a continuing conversation with you about the work we are doing.

Sincerely,



Tom Graff, CFA
Portfolio Manager
Head of Fixed Income

Amy Hauter, CFA
Associate Portfolio Manager
ESG Research Analyst

*Brown Advisory entities included are: Brown Advisory LLC, Brown Investment Advisory & Trust Company, Brown Advisory Ltd. and Brown Advisory Trust Company of Delaware, LLC.

THE STRATEGY'S INVESTMENT PHILOSOPHY AND PROCESS

Investment Philosophy & Research Approach

There is a growing acknowledgment that government and philanthropic sources of capital will likely fall far short of what is needed in the coming decades to solve the pressing social and environmental challenges of our time. Hence, many investors are increasingly eager to find ways to generate positive impact through their investments, motivated by not only a desire to align their investments with their values but also a pragmatic aspiration to make a tangible, measurable difference in society with their capital.

At Brown Advisory, we believe we can play a valuable role in helping our clients generate positive impact. We integrate environmental/social/governance (ESG) research, fundamental credit research and careful examination of how bonds' proceeds will be used. This allows our clients to pursue simultaneously their long-term investment goals and their goals for driving meaningful changes in society.

We find that sustainable and impact 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. Moreover, fixed income securities in similar sectors with similar durations and credit ratings tend to have a high return correlation—meaning that all else being equal, a green bond and a traditional bond should produce the same results. And from an impact standpoint, bonds 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 what is being done with that money. Standards such as those created under the Green Bond Principles (GBP) have further enhanced this transparency regarding use of proceeds.

Objectives & Investment Process

The strategy's return objective is clear—we seek to outperform the Bloomberg Barclays U.S. Aggregate Bond Index in a full market cycle. Our impact objective is not as easy to measure, but it is equally clear to us. **We seek to invest primarily in bonds that produce positive social and environmental impact through a combination of the general strategies of the issuer and the specific use of the bond's proceeds.** Conventional wisdom has long held that performance and impact goals are at odds with each other, but we have found our approach to impact investing can enhance our returns by steering us to responsible and forward-thinking issuers.

We conduct credit and ESG research within a single, unified due diligence process (see diagram on page 5), which ensures that impact and ESG considerations are a core part of our investment thesis. Our ESG research is itself an integrated, three-pronged effort that pulls together sector analysis, issuer and management team analysis, and an assessment of use of proceeds. All of our ESG/impact research is supported by third-party data but also enhanced by proprietary research and judgment by our dedicated ESG research team. For example, we rely on information verified by the Center for International Climate Research (CICERO) and other reliable sources to trace use of proceeds, while also doing our own due diligence on how funds are deployed.

This process helps us identify bonds and issuers that are capitalizing on sustainable business opportunities, avoiding major ESG risks, and managing those risks with prudence and focus. We have also found that this integrated approach has a positive influence on our investment decision-making. Our process gives us a better understanding of an issuer's ESG profile and its intended use of proceeds, and we believe this knowledge helps us allocate capital to bonds with a higher likelihood of producing desirable returns.

INTEGRATING FUNDAMENTAL AND SUSTAINABLE RESEARCH

Our investment process places equal emphasis on studying the fundamental credit profile of potential investments, and on understanding the environmental and social characteristics and risks of those investments. When we are confident on both fronts, then and only then do we invest.

Issuer Conversations

- Probe quality and depth of sustainable initiatives
- Assess intent and capability if issuer has attested to impactful use of proceeds

Proprietary ESG Assessment

- Material ESG risk factors
- Sustainable business opportunities
- Ability of issuer to manage those risks and opportunities

Use-of-Proceeds Assessment

- Review targeted projects and analyze impact
- Review documentation for accuracy and compliance with GBP or other standards
- Examine issuer's track record of delivering on commitments in the past

ATTRACTIVE INVESTMENT

Issuer Analysis

- Thorough investigation of issuer and linked parties
- Deep dive into financial statements and related notes
- Review of bond indentures and credit agreements

Macroeconomic Dynamics

- Understand competitive and economic factors
- Develop "through-the-cycle" analysis to test resiliency

Financial Modeling

- Customize model for each issuer
- Emphasize worst-case scenarios
- Quantify free cash flow and its sustainability
- Develop upside targets, quantify downside risk

PORTFOLIO-LEVEL IMPACT ANALYSIS: DIVERSIFICATION BY THEME, TYPE AND SECTOR

Some impact investments target specific issues precisely, but a primary goal of our strategy is to provide a *diversified approach to impact*. This serves to ensure balance across our portfolio and aims to deliver desired results to our clients, many of whom care about driving progress in many different social and environmental arenas. On the following pages, we split out the portfolio along three different axes to highlight its diversity—the **impact themes** targeted by various investment, the **methods used** to target those themes and the breadth of **sectors** covered by the strategy's investments.

DIVERSIFICATION BY IMPACT THEME

Breaking the portfolio out by different impact themes illustrates the variety of issues and causes that our holdings address through their use of proceeds and/or general business strategies and practices. As shown on page 7, we look at impact using a fairly straightforward segmentation into three main categories—environment, health and well-being, and economic development/social inclusion—each with several subcategories. (We also invest in a small number of bonds that fund projects spanning many impact categories; we refer to these as "multisector" bonds.)

Categorizing each security's impact is not an exact science—our research is based on both objective data and subjective analysis, and many securities produce impact on multiple fronts.

DIVERSIFICATION BY IMPACT TYPES

We also diversify the portfolio by investing in bonds that generate positive impact in different ways, as shown on page 8.

As we've discussed in this report, many of our bonds generate impact by deploying proceeds on specific and intentional social and environmental initiatives. A growing number of these bonds are being issued under standards outlined formally in the Green Bond Principles (GBP) or the related Sustainability Bond Principles, allowing them to carry a clear label that attests to the issue's legitimacy and quality as an impact investment. We also find through our research many bonds that aren't issued under GBP procedures but nonetheless deploy the funds raised in a positive, impactful manner. Overall, nearly 60% of the portfolio is invested in bonds where proceeds are being deployed in an identifiable manner on projects and initiatives that produce positive environmental or social impacts.

The rest of the portfolio is primarily invested in bonds from "impactful issuers," or issuers whose strategies and business practices, in our view, are broadly positive from an ESG perspective.

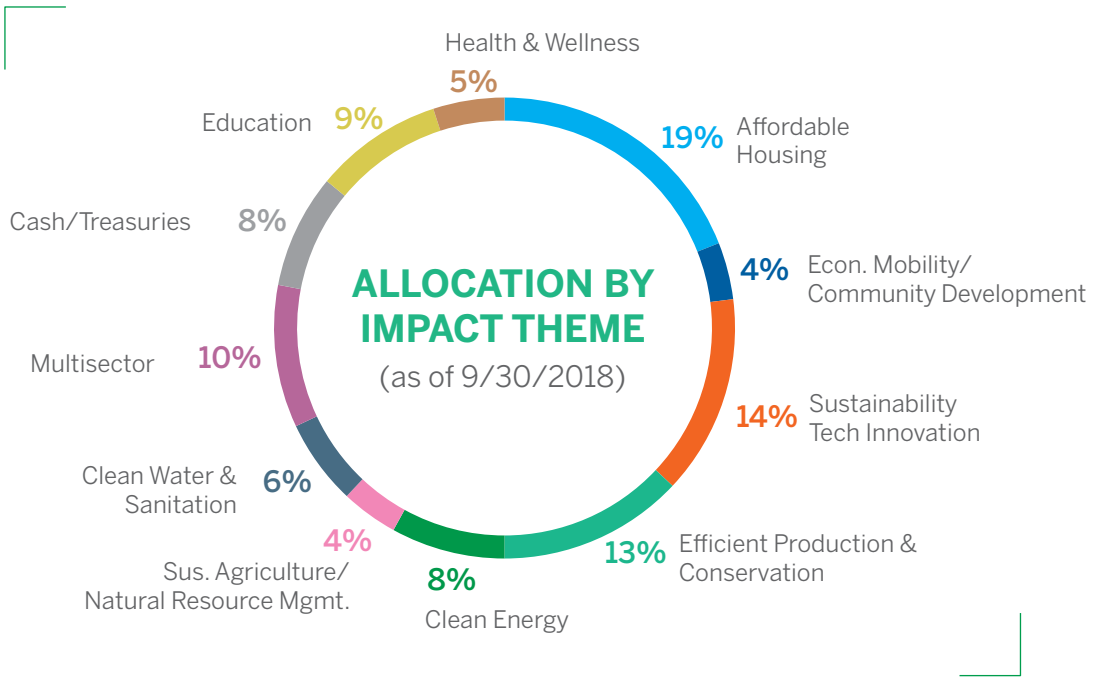
DIVERSIFICATION BY FIXED INCOME SECTOR

Finally, we seek to diversify the portfolio from a fundamental as well as an impact standpoint. As shown on page 9, we invest in a range of traditional fixed income sectors—this allows us to avoid concentration risk (i.e., putting all of our eggs in one basket) and helps us allocate capital strategically and tactically (i.e., rebalancing assets into and out of sectors based on our ongoing evaluation of the conditions in those sectors).

While our sector allocation is based on financial considerations, it is also a source of impact diversity for the portfolio. The taxable municipal space alone 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 has provided an excellent source of bonds that support affordable housing, in our view. We also invest in a wide range of corporates from companies we consider to be leaders in their industries with regard to ESG. In short, we find that our focus on general portfolio diversification naturally increases the range of issues and causes that the strategy addresses from an impact perspective.

DIVERSIFICATION BY IMPACT THEME

As of this report, the portfolio's investments are generating positive activity across the impact spectrum. Areas of current emphasis include affordable housing, as well as investments impacting clean energy, energy efficiency and resource efficiency.



DESCRIPTIONS OF IMPACT THEMES

Economic Development & Social Inclusion

Affordable housing	Offering housing options to low- and moderate-income families.
Economic mobility & community development	Increasing employment opportunities and financial inclusion for underserved communities.
Education	Reducing barriers to education for underserved groups.
Diversity, inclusion, equality	Supporting race and gender equity; empowering minority populations.

Health & Well-Being

Health & wellness	Promoting health and well-being, and improving access to and quality of health care.
Clean water & sanitation	Improving access to clean drinking water and sanitation services; solving infrastructure challenges; managing freshwater ecosystems.

Environment

Sustainable technology innovation	Innovating products and services that deliver sustainability results (e.g., energy-efficient products, sustainable transportation).
Efficient production & conservation	Reducing use of energy or raw materials, increasing use of renewables through internal operations.
Clean energy	Developing, operating or delivering clean energy from wind, solar and other renewable sources.
Sustainable agriculture/ natural resource management	Responsibly managing natural resources, minimizing or reversing land degradation, and protecting biodiversity.

Multisector Bonds

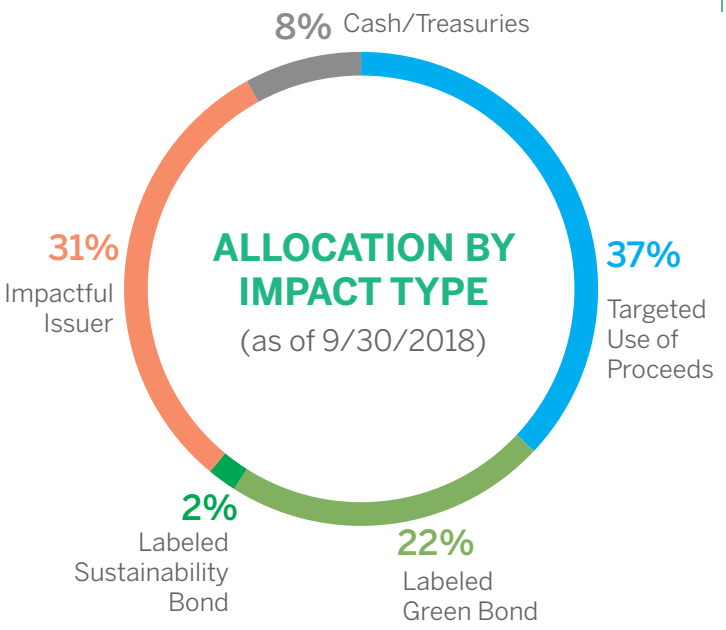
Multisector	Bonds financing projects across multiple themes and/or companies whose strategies create impact across multiple themes.

Source: FactSet®, Brown Advisory analysis. Impact theme breakdown is based on a proprietary Brown Advisory categorization scheme. Portfolio information is based on a representative Sustainable Core Fixed Income account and is provided as supplemental information. Portfolio breakdown includes cash and cash equivalents. Please see the Brown Advisory Sustainable Core Fixed Income Composite disclosure for more information.

DIVERSIFICATION BY IMPACT TYPE

The bonds in our portfolio generate impact in several different ways. Some create impact via the projects funded by those bonds, while others do so via the general conduct and activities of the issuer. As of Sept. 30, the portfolio's investments were fairly evenly split across these categories:

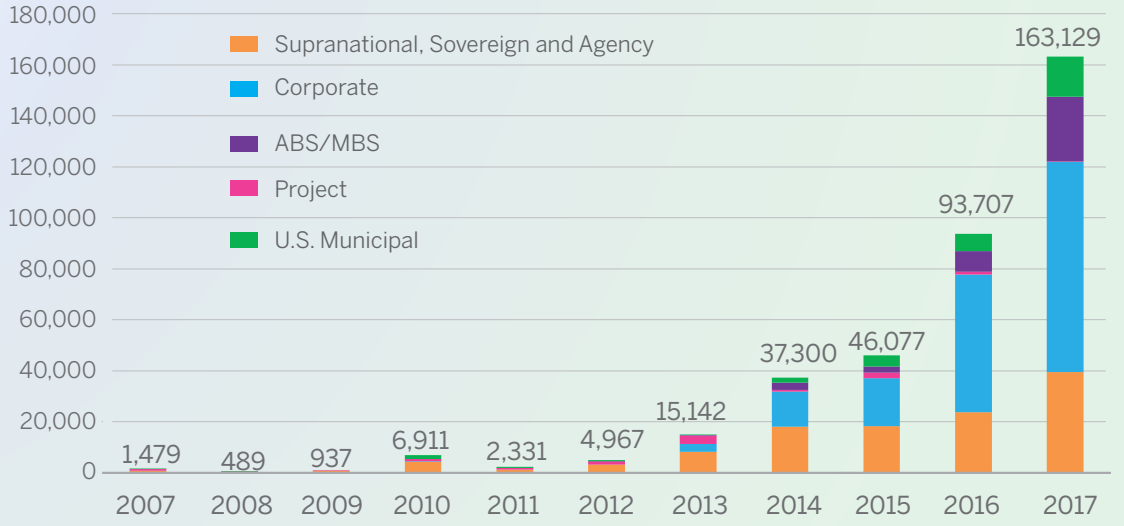
- Labeled investments where the use of proceeds is verified according to a set of standards, such as the Green Bond Principles (24% of portfolio)
- "Targeted use of proceeds" bonds that are not issued under any verification standards but nonetheless communicate a specific use of bond proceeds (37% of portfolio)
- Bonds from "impactful issuers" that are in the portfolio because of the characteristic of the issuer as opposed to the project funded by the bond (31% of portfolio)



Source:FactSet®, Brown Advisory analysis. Impact type breakdown is based on a proprietary Brown Advisory categorization scheme. Portfolio information is based on a representative Sustainable Core Fixed Income account and is provided as supplemental information. Portfolio breakdown includes cash and cash equivalents. Please see the Brown Advisory Sustainable Core Fixed Income Composite disclosure for more information.

GREEN BONDS GO MAINSTREAM

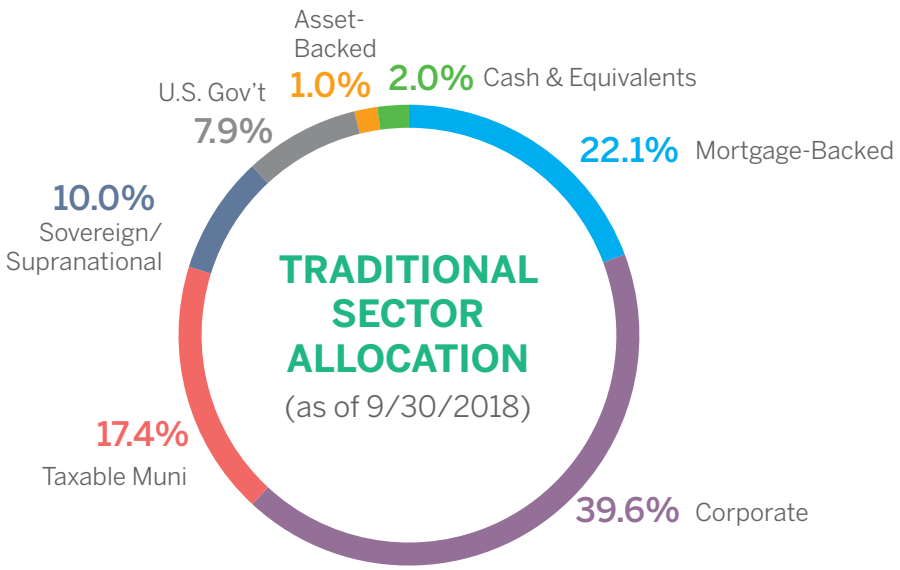
Labeled green bonds have been around for more than a decade, but demand (and corresponding growth) in the green bond space began to ramp up rapidly in recent years. From a $5 billion baseline in 2012, the market exploded to more than $163 billion in 2017.



Source: Bloomberg New Energy Finance

DIVERSIFICATION BY FIXED INCOME SECTOR

We believe that a fundamentally diverse portfolio, spanning the full range of traditional bond sectors, naturally increases the range of issues and causes that the portfolio targets. Taxable municipals offer a healthy mix of bonds that fund education, health care, clean energy, water, community development and other initiatives. Corporate bonds often fund clean energy and green building projects. The mortgage market is an excellent source of bonds that support affordable housing.



Corporate

We invest in the bonds of a variety of impactful corporate issuers that have clear and well-documented commitments to sustainable strategies and practices.

We also hold a number of corporate credits whose proceeds are being used specifically to generate impact—these largely support clean energy and efficient production/conversation initiatives.

Mortgage-Backed

Our investments in the mortgage market are of high credit quality and mostly government-backed issues. These are primarily investments that support affordable housing.

We own a number of single-family FNMA (Fannie Mae) pools. In 2017, Fannie Mae was the world's largest green bond issuer, issuing $27.6 billion in green MBS backed by either green building certified properties or by properties seeking to reduce energy or water consumption.

Green bond commercial MBS deal issuance has increased since the first deal was issued in late 2017. There have also been an influx of workforce and affordable housing deals that support lending to low- and moderate-income borrowers as well as professionals such as teachers, so they can live in the communities where they work. All have provided us with a wider range of opportunities in this sector.

Asset-Backed

In this space, we own a bond from an issuer helping the government fund loans to borrowers without access to credit, and we have invested in Tesla's inaugural auto lease trust.

Taxable Municipal

Among the growing volume of green municipal bonds supporting impactful projects in the U.S., some are issued as taxable instruments and are thus appropriate for the strategy.

Our taxable muni allocation is fairly diverse. As of Sept. 30, our largest holding clusters were public education bonds and bonds from public utilities supporting clean energy and clean water/sanitation initiatives.

Sovereign / Supranational

We invest in several bonds issued by Canadian and European agencies, each of which funds an assortment of socially and environmentally impactful projects.

U.S. Government

Other than a single agency bond from the International Finance Corp. that funds impact projects in various arenas, most of our U.S. Treasury investments are simply held for diversification and liquidity purposes. These are the only holdings in the portfolio that don't offer specific social/ environmental impact.

Source: FactSet.® Portfolio information is based on a representative Sustainable Core Fixed Income account and is provided as supplemental information. Portfolio breakdown includes cash and cash equivalents. Please see the Brown Advisory Sustainable Core Fixed Income Composite disclosure for more information.

IMPACT CASE STUDIES FROM THE PORTFOLIO

We have selected several case studies from our portfolio to highlight the breadth of investments across our holdings and to showcase the ways in which these bonds and issuers are producing impact.

Xylem

TYPE: Impactful Issuer

SECTOR: Corporate

THEME: Clean Water & Sanitation

Xylem is a major provider of water-related equipment and service solutions. It tackles water challenges from many different angles:

- Solutions to reduce leakage or "real water losses" in aging distribution networks
- Wastewater recycling and chemical treatment systems
- Stormwater handling systems
- Remote monitoring systems to help watershed managers ensure availability and quality
- Filtration solutions that help prevent waterborne illness
- Advanced water metering infrastructure solutions

70% Energy Savings

Xylem's new Flygt Concertor wastewater pumping system automatically adjusts speed and intensity based on surrounding conditions. It can reduce energy costs for utilities by up to 70% compared to traditional systems.

Xylem's commitment to sustainability has led to a consistent stream of innovations to help its customers not just manage water more effectively but reduce energy and material consumption in their processes as well. One prominent example is its Flygt Concertor pumping system; this system—the first of its kind—automatically adapts to extant water flow conditions and adjusts energy consumption accordingly. The Flygt Concertor system has reduced energy and maintenance requirements by more than half for many customers in comparison to traditional systems.

Xylem is also committed to solutions in developing markets that actually work for those markets. Its "Essence of Life" business model finds feasible ways to create simple but effective water solutions for economically challenged customers, such as rural farmers in emerging markets. An example is Xylem's Saajhi Stepping Pump, a dual foot pedal system with minimal parts and service requirements that replaces the literal carrying of buckets from water source to field. This product represents a first step for these farmers toward mechanization and modern water management.

Source: Xylem. 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.

MidAmerican Energy

TYPE: Labeled Green Bond

SECTOR: Corporate

THEME: Clean Energy

MidAmerican Energy is a subsidiary of Berkshire Hathaway Energy Company. It provides service to 770,000 electric customers and 751,000 natural gas customers in Iowa, Illinois, South Dakota and Nebraska.

6 GW

By the end of 2019, MidAmerican should have 6 gigawatts of wind-powered generation capacity—enough output to meet most of its Iowa customers' electricity needs.

The company is rapidly transforming its generation mix through meaningful renewable energy investments (MidAmerican's efforts are a major component of Berkshire's overall pledge to invest an incremental $15 billion in the space). In 2004, 70% of its generation capacity came from coal, and nothing came from wind. At year-end 2016, 48% of generation capacity came from wind and 31% from coal. According to the company, no other U.S. rate-regulated utility owns more wind-powered generation capacity.

The labeled green bond we own from MidAmerican is financing the company's most significant wind capacity deployments to date. Its Wind X project was recently completed, and as of the end of 2016, it was generating 550 megawattts of energy. Wind XI is a $3.6 billion ongoing project aimed at installing turbines with generation capacity of 2,000 megawatts by the end of 2019. Both are being funded by the green bond.

Upon the completion of Wind XI, MidAmerican Energy is expected to have invested $10.3 billion, building 6 gigawatts of wind-powered generation capacity—equivalent output to approximately 90% of its Iowa retail customers' annual use.

Land O'Lakes

TYPE: Impactful Issuer

SECTOR: Corporate

THEME: Sustainable Ag & Natural Resource Management

Land O'Lakes is a member-owned, "farm to fork" agricultural cooperative made up of over 2,000 dairy producers, 1,000 other agricultural producers and hundreds of agricultural retailer members. "Farm to fork" refers to the co-op's vertical integration; Land O'Lakes provides crop inputs, seed, animal nutrition, GPS-enabled precision agriculture systems and other production services to its members, as well as product marketing solutions to help their farmers distribute their products effectively.

Land O'Lakes also uses its farmers' production as inputs to manufacture its familiar branded butter and cheese products seen in grocery stores across the country. The familiar branded Land O'Lakes products we see in stores only account for 15–20% of revenue and profit; the majority of its business focuses on helping its farmers succeed and thrive.

20 Million Acres

By 2025, Land O'Lakes aims to have 20 million acres of its farmers' land managed under its advanced, sustainable agronomy platform.

Land O'Lakes touches half of the harvested acres of row crops in the U.S., so its ambitious SUSTAIN program is making a tangible difference in the agriculture industry. This program is aimed squarely at the massive environmental footprint of modern agriculture and the fact that in coming decades, we will need yet another revolution in farming techniques to increase yields and meet rising global food demands. Farms participating in SUSTAIN gradually transform their practices to be more environmentally friendly; digital precision technology drives much of the transformation of these farms over time. Land O'Lakes is devoted to this new program. It has committed by 2025 to have 100% of its members' milk supply assessed through the SUSTAIN Dairy Platform and to secure 20 million acres on the Land O'Lakes agronomy platform to continuously improve fertilizer, soil and water optimization.

Source: MidAmerican Energy and Land O'Lakes. 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.

Spotlight On Securitized ESG Investments

As a result of the 2008–09 financial crisis, many investors may have negative sentiments about the mortgage market. It brings up memories of predatory lending practices and the damage those practices had on families as well as the broader economy.

But responsibly issued and packaged mortgage-backed securities—and bonds similarly securitized by other pools of hard assets—are often very solid investments, and we find numerous opportunities where funds being raised by these securities are deployed in ways that positively impact society. As noted earlier in this report, more than 20% of our portfolio is invested in securitized bonds; here are a few examples of the kinds of investments we seek out in this space.

Workforce Housing Bonds

These Freddie Mac-issued bonds support housing with rents that are affordable for the majority of low- to middle-income households in a geographic area. Without programs like this, it is often impossible for teachers and other civil servants to live in the communities where they work.

CRA-Targeted MBS

The Community Reinvestment Act (CRA) ensures that banks provide credit services—including home loans—to everyone in the communities where they do business. Many lenders deliver on their CRA obligations through Fannie Mae MBS that contain high concentrations of loans with household income levels that meet the low- and moderate-income definitions of the CRA. We also invest in MBS issued by local government programs that accomplish similar goals.

Fannie Mae Green MBS

These are portfolios of single and multifamily loans originated under Fannie's Green Financing business. Properties accessing financing through this program must either possess a recognized Green Building Certification or demonstrate improvements aimed at reducing energy or water use. Owners receiving this form of financing also must report the property's annual ENERGY STAR score to track energy performance over the life of the loan.

Consumer Loan ABS

We review a healthy pipeline of deals that support unsecured loans to consumers struggling to access credit. Often, these securities are attractive from an impact standpoint but fail to meet our fundamental investment criteria. To date, we have only invested in one such security—an ABS issued by Oportun, a certified community development financial institution (CDFI) that works with U.S. Treasury and the state of California to provide inclusive, affordable financial services.

Automotive ABS

A variety of asset-backed securities deploy funds raised through their issuance on impactful projects, whether they are labeled as green bonds or not. An example investment from our portfolio is Tesla's Auto Lease Trust, a bond backed by leases on Tesla's electric cars that is funding Tesla's pioneering development of electric vehicles for the mass market.

Agency & Nonagency CMBS

These securities are backed by commercial real estate—predominantly multifamily properties, but also properties such as assisted living facilities and mental health complexes. We invest in CMBS issued by Fannie Mae and Ginnie Mae. The securities we own are driving positive impact in areas such as affordable health care, rehabilitation, affordable housing, workforce housing, education/childcare, environmental sustainability and neighborhood revitalization.

Los Angeles California Community College District (LACCD)

TYPE:
Targeted Use of Proceeds/Impactful Issuer

SECTOR:
Municipal

THEME:
Education

180,000 Students

LACCD is investing billions of dollars to turn its nine campuses into state-of-the-art (and LEED-certified) institutions to better prepare its largely underserved student body for thriving careers.

LACCD serves more than 225,000 students across nine campuses in Los Angeles County, the largest county in the U.S. by population. Four-year college/university expenses have spiraled out of reach for many people in the U.S., and community colleges have thus become an increasingly critical launching point for many young adults as they prepare to enter the workforce. Eighty percent of LACCD's students—that's more than 180,000 rising young adults—come from underserved populations, so this institution is an incredibly important force in its community that creates avenues for lower-income students to successfully launch thriving careers.

Recently, officials approved a $6 billion public Sustainable Building Program for LACCD (partly funded by this bond issuance); this represents the largest community college construction bond program in the U.S. LACCD is preparing to transform its nine campuses into state-of-the-art educational institutions that meet LEED standards from a physical-plant standpoint. The program will coincide with LACCD's strategy for realigning its course offerings to better prepare its students for green growth industries, such as solar, wind, alternative fuels and biotech.

Source: Los Angeles California Community College District. 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.

BROADER IMPACT CONTRIBUTIONS

Engagement

Creditors and bondholders play a key role in the capital structure of corporations, and we can make our voice heard with issuers across asset classes. Unlike equity shareowners, who can vote their proxies and/or speak out at annual corporate meetings, we have no formal public engagement venue for ESG issues. But we nonetheless can and do engage with issuers to discuss relevant risks and opportunities.

Engagement is an integral part of our investment process—we use it to communicate our thinking to issuers and also to gather information for our own investment decisions. We frequently hold ESG-focused calls with issuers of current and potential holdings. Past engagements have addressed issues such as large environmental controversies, labor relations problems, and various other issues. In addition, when we invest in a labeled green bond or a bond with targeted use of proceeds, we often engage with the issuer on an ongoing basis, to ensure that funds are being used as promised and producing impact as intended.

We find that engaging with the leaders and decision makers of our bond issuers is a valuable mechanism for uncovering information about an issuer. Moreover, when issuers are forthcoming in their responses to our queries, and receptive when we voice concerns about ESG-related risks, we view it as a sign that they are good stewards of our clients' capital.

Case Study: Engaging on Firearms

In February 2018, our firm conducted an in-depth review of direct and indirect exposure to firearms revenue across our investments. We already knew that we had minimal exposure across our firm's strategies to companies that were involved in gun or ammunition manufacturing or distribution. But increasing concerns about mass shootings in the U.S. led to this highly focused examination of our portfolios to flag any company with any involvement in the industry.

In our fixed income strategies, our exposure was limited to bonds issued by a single grocery company that, through a subsidiary, retailed rifles, pistols and ammunition for hunting. We had previously engaged with this company in broader conversations about ESG issues, but our firearms exposure review led us to re-engage with management on the specific topic of firearms. Our discussion ranged across ethical and pragmatic considerations. Specifically, we probed on the company's practices with regard to monitoring sales and ensuring the qualifications of purchasers—both within and beyond state and local regulatory guidelines. We also sought to understand if the company planned to change its approach in the wake of recent mass shootings and how it was incorporating potential legal liabilities and reputational risk into its overall view of this aspect of its business.

Two weeks after this engagement (alongside similar engagements between this particular company and many other investors), the subsidiary announced plans to prohibit gun sales nationwide to buyers under 21 years of age and to discontinue the sale of assault weapons.

Industry Contribution

Sustainable investing and impact investing have advanced tremendously in the past 10–20 years, thanks to thoughtful, ongoing contributions from many investors and investment firms. Through our commitments to collaboration and organizational involvement, writing articles and publications, and public events and speaking engagements, we hope to do our part.

Collaboration/Organizational Involvement:

PRI Principles for Responsible Investment	Signatory since 2014.
The Green Bond Principles	Early signatory and active contributor to strategies to increase GBP adoption.
Ceres — Sustainability is the bottom line.	Long-term member and supporter. Brown Advisory partner Steven Hoch sits on Ceres President's Council.
CDP — DRIVING SUSTAINABLE ECONOMIES	Long-term signatory and supporter.
Intentional Endowments Network	Founding member. Brown Advisory partner Erika Pagel serves on Steering Committee.
BASIC — Boston Area Sustainable Investment Consortium	Long-term member, supporter and event co-host/sponsor.
US SIF	Long-term member and supporter.
SRI Conference & Community — a FolioFinancial company	Long-term conference participant. Karina Funk serves on conference agenda committee.

Recent Articles and Publications:

"Income and Impact: Adding Green Bonds to Investment Portfolios"
by Amy Hauter and Tom Graff

"The Other 95%: Impact Investing for Endowments and Foundations"
by Brigid Peterson

"Capital Conservation"
by Karina Funk and David Powell

"ESG and the Stock-Picker's Dilemma"
by Karina Funk and David Powell
(published in the 2017 *Journal of Environmental Investing*)

"Conversation with the Portfolio Managers: Sustainable Core Fixed Income"
by Tom Graff and Amy Hauter

"Seeing the Big Picture: Investing For Impact in Public Markets"
by Emily Dwyer and Karina Funk

"Impact Investing: Five Ways to Make Your Mark"
by Brigid Peterson

Recent Speaking Engagements:

6th Annual Green Investing Conference (New York)
"Green Bond Investor Roundtable"
Amy Hauter

South by Southwest (Austin, TX)
"Investing to Change the World"
Dune Thorne, Karina Funk

Investing For Impact (Boston, MA)
"Is ESG Smart Enough?"
Karina Funk

28th Annual SRI Conference (San Diego, CA)
"Invest in the Power of Inclusion"
Erika Pagel

Sustainatopia Boston 2017 (Boston, MA)
Multiple ESG/Impact panels
Amy Hauter, Karina Funk

Green Bonds Americas 2018 (New York)
"Investors' Perspective and Drivers of Demand"
Amy Hauter

Sustainable Core Fixed Income Composite

Year	Composite Total Gross Returns (%)	Composite Total Net Returns (%)	Benchmark Returns (%)	Composite 3-Yr Annualized Standard Deviation (%)	Benchmark 3-Yr Annualized Standard Deviation (%)	Portfolios in Composite at End of Year	Composite Dispersion (%)	Composite Assets ($USD Millions)	GIPS Firm Assets ($USD Millions)
2017	3.7	3.4	3.5	2.8	2.8	11	0.3	113	33,155
2016	1.0	0.8	2.7	N/A	N/A	9	0.1	91	30,417
2015	1.2	0.8	0.6	N/A	N/A	4	N/A	60	43,746
2014*	2.0	1.9	1.8	N/A	N/A	2	N/A	5	44,772

*Return is for period October 1, 2014 through December 31, 2014.

Brown Advisory Institutional claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Brown Advisory Institutional has been independently verified for the periods from January 1, 1993 through December 31, 2017. The Verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. GIPS® is a registered trademark owned by CFA Institute.

1. For the purpose of complying with the GIPS standards, the firm is defined as Brown Advisory Institutional, the Institutional and Balanced Institutional asset management divisions of Brown Advisory. As of July 1, 2016, the firm was redefined to exclude the Brown Advisory Private Client division, due to an evolution of the three distinct business lines.
2. The Sustainable Core Composite is comprised of all discretionary accounts with no material investment restrictions, which invest primarily in fixed income securities that have a target duration between four and seven years. At least 80% of the securities in each portfolio in this composite will have credit quality ratings of A or better at the time of purchase. Accounts included in the composite are invested primarily in taxable securities. The guidelines of accounts specifically indicate a preference for sustainability related investments. Bonds in composite accounts are evaluated according to a variety of environmental, social and governance factors. These factors are used by the portfolio manager to seek holdings with attractive ESG risk profiles and or bonds whose uses of proceeds meet the standards of the Green Bond Principles. ESG factors are not used for the purposes of absolute negative screening in composite accounts. The minimum account market value required for composite inclusion is $1 million. Prior to July 1, 2016 the minimum account market value required for composite inclusion was $2 million. Effective 1/1/2016 a significant cash flow policy was implemented for the Sustainable Core composite. Accounts with a greater than or equal to 14% external cash flow will be removed from the composite for the entire month that the external cash flow occurred. The account will be added back to the composite the following month if it meets the composite inclusion requirements. The external cash flow percentage is calculated using beginning market value.
3. This composite was defined and initially created on November 1, 2015.
4. The benchmark is the Bloomberg Barclays Aggregate Bond Index. The Bloomberg Barclays Aggregate Bond Index is an unmanaged, market-value weighted index comprised of taxable U.S. investment grade, fixed rate bond market securities, including government, government agency, corporate, asset-backed, and mortgage-backed securities between one and ten years. Bloomberg Barclays Indices are trademarks of Bloomberg or its licensors, including Barclays Bank PLC. An investor cannot invest directly into an index. Benchmark returns are not covered by the report of the independent verifiers.
5. The composite dispersion presented is an equal-weighted standard deviation of portfolio returns calculated for the accounts in the composite for the entire calendar year period. The composite dispersion is not applicable (N/A) for periods where there were five or fewer accounts in the composite for the entire period.
6. Gross-of-fees performance returns are presented before management fees but after all trading commissions, and gross of foreign withholding taxes (if applicable). Net-of-fee performance returns reflect the deduction of actual management fees and all trading commissions. Other expenses can reduce returns to investors. The standard management fee schedule is as follows: 0.375% on the first $10 million; 0.25% on the next $15 million and 0.20% on the balance over $25 million. Further information regarding investment advisory fees is described in Part II A of the firm's form ADV. Actual fees paid by accounts in the composite may differ from the current fee schedule.
7. The three-year annualized ex-post standard deviation measures the variability of the composite (using gross returns) and the benchmark for the 36-month period ended on December 31. The 3 year annualized standard deviation is not presented as of December 31, 2014 because 36 monthly returns for the composite were not available (N/A.)
8. Valuations and performance returns are computed and stated in U.S. Dollars. All returns reflect the reinvestment of income and other earnings.
9. A complete list of composite descriptions, policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
10. Past performance is not indicative of future results.
11. This piece is provided for informational purposes only and should not be construed as a research report, 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, including any mutual fund managed by Brown Advisory.
12. Some portfolios may utilize derivative securities. To date, any derivatives used have been CMOs and range accrual notes. Any CMO at the time of purchase must pass the FFIEC volatility tests.
13. Duration is a measure of interest rate risk.

The **correlation** coefficient is a statistical measure that calculates the strength of the relationship between the relative movements of the two variables. The range of values for the correlation coefficient bounded by 1.0 on an absolute value basis or between -1.0 to 1.0. If the correlation coefficient is greater than 1.0 or less than -1.0, the correlation measurement is incorrect. A correlation of -1.0 shows a perfect negative correlation, while a correlation of 1.0 shows a perfect positive correlation. A correlation of 0.0 shows zero or no relationship between the movement of the two variables. **Free cash flow** represents the cash that a company generates, net of any cash outflows to support its operations and maintain its capital assets.

The **Bloomberg Barclays US Aggregate Bond Index**, which until August 24, 2016 was called the Barclays Capital Aggregate Bond Index, and which until November 3, 2008 was called the "Lehman Aggregate Bond Index," is a broad base index, maintained by Bloomberg L.P. since August 24, 2016, and prior to then by Barclays which took over the index business of the now defunct Lehman Brothers, and is often used to represent investment grade bonds being traded in United States. Index funds and exchange-traded funds are available that track this bond index.