



Strategy Insight

Sustainable Investing in Fixed Income

2Q2017

This insight piece describes how our collaboration partners at Breckinridge Capital Advisors navigate the field of fixed income investments through a sustainability lens. Collaboration Capital provides investment solutions across the full asset class spectrum in both traditional and sustainable styles. We utilize a number of providers in both private and public fixed income, proudly including Breckinridge. Public fixed income plays a large and integral role in almost any investment policy, however, it often doesn't receive the recognition it deserves.

Breckinridge is a Boston based, independently owned investment advisor with approximately \$27 billion under management. The firm has specific expertise in ESG integration. Jem Hudson, the Director of Engagement at Breckinridge, recently published the piece below which touches on the investment environment in sustainable investments, Breckinridge ESG integration and the added value of collaboration with like-minded professionals and firms. Collaboration Capital shares the belief in the benefits of collaboration. Please enjoy Jem's comments. The added emphasis is ours. As always, we welcome your comments.

Sustainable & Impact Investing Now

There is an undeniable momentum driving sustainable and impact investing. Once viewed as "niche" and "nascent," the ecosystem of sustainable and impact investments has become one of the most dynamic areas in finance and investing today. But behind the buzz and enthusiasm, there is a vibrant community of discerning investors and hard-working thought leaders, practitioners and field-builders who are pressing ahead to move the entire space forward.

Our work here at Breckinridge offers us a unique opportunity and privilege to partner with individuals like these in a continuing dialogue that stimulates learning and innovation. Whether through meetings with thought leaders and impact experts, in-depth discussions with investment



consultants or brainstorming sessions with foundations and endowments, we are intently listening to the signals across the space.

Indeed, we believe that sustainable and impact investing are reaching the mainstream at a brisk pace, primarily in response to **growing interest from clients who are beginning to embrace the investment case for sustainability and impact.** As the space continues to evolve in 2017, we see five key areas of focus that will shape the conversation and determine how assets will be allocated.



First, we believe that clients are becoming increasingly advanced in their understanding of the investible universe. As such, they are looking for sophisticated investment opportunities in which thorough investment

research and analysis is coupled with clear prioritization of sustainability and impact. As part of this “flight to quality,” clients increasingly opt for customized strategies that reflect their individual impact goals.

Second, investors are starting to seek managers that pursue active shareholder/bondholder engagement. While the integration of environmental, social and governance (ESG) factors is an essential building block toward driving impact, some investors believe it is important to go one step further. By reaching out to investees to discuss sustainability-related issues, **investment managers serve as critical change agents on behalf of their clients.**

Third, as the conversation about impact becomes ever more granular and sophisticated, investors are eager to evaluate the impact of their investments through innovative reporting frameworks. Indeed, impact reporting is arguably one of the most frequently discussed topics among field-builders and practitioners within the sustainable and impact investing space. There is a real sense of camaraderie, with a belief that everyone is learning together.

Fourth, investors of all stripes are expressing real hunger for tools and resources that help evaluate sustainable and impact investments. To be clear, the space is rich in data and insights, but new resources continue to be needed as the space grows and evolves. For example, the Sustainability Accounting Standards Board (SASB) has catalyzed significant interest in sustainable investing by offering a steady stream of tools that facilitate investment analysis.

Lastly, and perhaps most importantly, investors continue to pay close attention to the authenticity of intent in sustainable and impact investing. True authenticity of targeted impact increasingly matters just as much to them as the quality and sophistication of investments. **We continue to see a clear generational trend toward investments in which the impact story is clear and compelling – investments that “walk the talk.”**

At Breckinridge, we work tirelessly to serve our clients, and we continue to be inspired by the depth and breadth of their interest in sustainability and impact. This has empowered us to be bold, to push our thinking and evolve our analysis. We strive for excellence in all that we do, engage¹ with issuers across sectors, continue to innovate on impact reporting², eagerly participate in industry efforts to develop tools and frameworks, and we truly and authentically “walk the talk” by fully embracing corporate sustainability³.

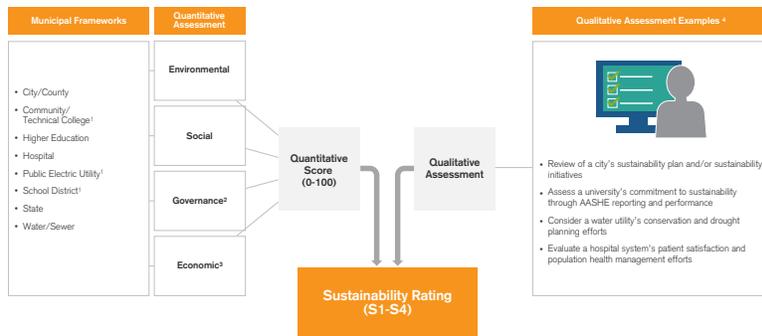
As we discussed in our recent writings⁴, we believe that **addressing important social and environmental issues through market-based solutions has never been more urgent**, and that investors play a critical role in this process. It is heartening to see the extent to which investors have taken on this responsibility.

But we believe that investors have influence in more tactical ways that matter just as much. By demanding investment excellence and authentic commitment toward sustainability and impact, investors are continuing to challenge managers and advisors to innovate, therefore catalyzing change and driving the entire ecosystem forward.

JEM HUDSON
 Director of Engagement
 Breckinridge Capital Advisors

Environmental, social and governance (ESG) factors are fully integrated into Breckinridge’s in-depth fundamental research:

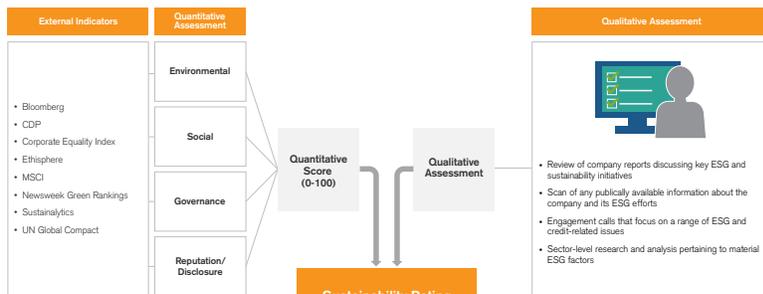
MUNICIPAL: ESG RESEARCH APPROACH



Our ESG integration methodology combines a quantitative assessment of ESG factors alongside a review of qualitative ESG considerations to derive a composite sustainability rating

Notes: (1) Currently in transition from the previous model where the score was linked to a sustainability rating to our new process in which the analyst is informed by the score but assigns the final sustainability rating. (2) Not applicable for City/County and States as they are aligned with the Social Progress Index that emphasizes social and environmental indicators. (3) Applicable only to City/County and States. (4) Examples are for illustrative purposes only and represent a sample of factors considered.

CORPORATE: ESG RESEARCH APPROACH



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- 1 <https://www.breckinridge.com/insights/details/how-corporate-engagement-presents-a-fuller-picture/>
- 2 <https://www.breckinridge.com/insights/details/impact-reporting-a-new-path-forward/>
- 3 <https://s3.amazonaws.com/fastspot-101614/files/uploads/2016-breckinridge-sustainability-report.pdf>
- 4 <https://www.breckinridge.com/insights/details/investors-and-the-fierce-urgency-of-now/>

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