

# THEME-BASED ENGAGEMENT ADDS IMPORTANT INSIGHTS

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Breckinridge believes that thorough credit analysis requires an evaluation of both fundamental financial information and environmental, social and governance (ESG) factors. Through theme-based engagement discussions with corporations and municipalities as well as subject matter experts (SMEs), Breckinridge analysts gain a deeper understanding of ESG factors relevant to sectors, industries and individual bond issuers.

During 2018 and 2019, Breckinridge conducted nearly 200 engagements, using these opportunities to talk about ESG as well as credit matters. During the two-year period, analysts connected with 73 percent of the corporations issuing bonds held in Breckinridge portfolios. The expansive program continues in 2020 with more than 43 calls or meetings already conducted, consisting of 34 with corporate issuers and 9 with municipal issuers or SMEs.

## THEMATIC APPROACH DIGS DEEPER INTO ISSUERS AND ISSUES

Breckinridge will engage with corporate issuers on a variety of material ESG topics, covering a few topics in one engagement discussion. Additionally, Breckinridge focuses its engagement on key ESG themes in both the municipal and corporate sectors. Engaging directly with bond issuers deepens analysts' understanding of key ESG issuer- and issue-specific factors. Engagements with SMEs add dimension to the analysts' knowledge and depth to issuer interactions. (See [Municipal Engagement Yields Additional Insights](#).)

Breckinridge's program, both for general ESG and theme-based discussions, can help analysts to identify ESG leaders and laggards within sectors, industries and according to topics. Within a sector or industry, engagement can bring further insight into peer-to-peer analysis and inform the assignment of our analysts' internal ratings.

During 2019, Breckinridge engagements with municipal issuers by sector and theme included:

SECTOR	ISSUE / THEME
Higher Education	<i>Access and Affordability</i>
Healthcare	<i>Social Determinants of Health</i>
Transportation	Infrastructure Resiliency for Coastal Airports
Electric Utility	<i>Rate Design</i>
Cities, Counties	Disaster Insurance Programs

Thematic 2019 engagements with corporate issuers included:

SECTOR	ISSUE / THEME
Energy	<i>Carbon transition risk</i>
Chemicals, Mining	Waste Management
Retailers, Restaurants	Labor Management
Global Financials	Governance and Anti-Money Laundering

In 2020, themes for corporate engagements, both planned for and conducted thus far, include climate risks in lending and diversity and inclusion initiatives (banks); product quality and safety (healthcare/pharmaceuticals); data privacy and security (with issuers in the retail and technology sectors), energy management (with representatives of real estate investment trusts), and energy transition risk and initiatives (utilities).



Themes for 2020 municipal engagements, both planned for or conducted thus far, include post-COVID-19 budgets and impacts on community services, equity considerations in climate change planning, transparency and the Affordable Care Act and community challenges when going 100% carbon free.

### ENGAGEMENT'S IMPACT AT BRECKINRIDGE IS SUBSTANTIVE

A primary impact of corporate issuer engagement is signaling and advocating for better disclosure through alignment with Sustainability Accounting Standards Board practices (*In Pursuit of Sustainability Standards*). 2020 engagement with banks already has revealed key insights, especially relevant to the social component of ESG within that industry, which is examined in more detail ([link to Engagements Affirm Banks' Climate-Transition Plans.](#))

Further, over the course of 2018 and 2019, engagement with large, globally integrated oil and gas companies, as well as exploration and production businesses, gave greater insight into how these companies are managing carbon transition—the risks and opportunities present and emerging as the global economy evolves to a low-carbon future. Our key conclusion is that European companies are further advanced on assessment and management of carbon risk than their American counterparts.

Additional benefits accruing from municipal engagement efforts are the fact that issuers are seeking out Breckinridge for guidance as to how to best incorporate ESG into their operations and bond offering documents. For example, as reported by *The Wall Street Journal* in October 2019, the director of Florida's Division of Bond Finance held a phone conference with Breckinridge to learn how he could help enhance the state's bond offering (*Money Managers Gain Sway Over Muni Market*). Further, a sustainability official with Miami-Dade County, FL reached out to Breckinridge to learn about our methods for evaluating municipalities for climate risk.

Through its collaboration with SMEs, Breckinridge undertakes efforts in cooperation with leading organizations driving ESG and sustainability efforts worldwide including SASB, Ceres, the UNPRI (Principles for Responsible Investment), and the Wharton Risk Center at the University of Pennsylvania (See *Climate-Related Muni Bond Risk: A Q&A with Breckinridge Capital Advisors*).

### LEVERAGING ENGAGEMENT FOR WIDER INSTITUTIONAL KNOWLEDGE

Breckinridge leverages the insights gained by analysts through engagement by conducting a series of internal educational sessions for other employees. The ESG Education Series includes presentations on a range of sustainability topics led by employees and often featuring subject matter experts. The program helps to ensure the broad-based understanding of the value of ESG analysis in security selection as well as enhancing the firm's own cumulative knowledge of sustainability concepts and help drive internal sustainability efforts.

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