

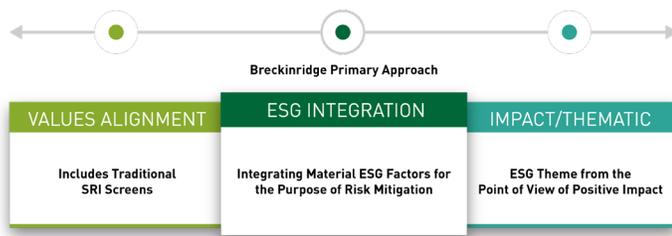
# WHY ESG INTEGRATION MATTERS

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Sustainable investing as a broad term is defined in different ways by various market participants, but the various sustainable investing strategies offered can be grouped into three primary categories: values aligned, ESG integration, and impact or thematic.

FIGURE 1: SUSTAINABLE INVESTING SPECTRUM



Sources: Breckinridge, Morningstar, Principles for Responsible Investment.

Values aligned strategies, also known as socially responsible investing or SRI, emphasize screening out companies or sectors that conflict with the investor's mission or beliefs. Thematic strategies, on the other hand, target investment opportunities based on impact objectives, such as concerns about climate change or global health.

Finally, ESG integration is defined as incorporating environmental, social and governance (ESG) considerations into traditional financial analysis.

Integrating material environmental, social and governance (ESG) factors into the investment process has been the subject of much debate for some time. At Breckinridge, we believe that considering extra-financial issues, including material ESG factors, is an additional tool that we can utilize to gain a deeper understanding of the risk profile of an investment opportunity.

Put another way, our interest in ESG factors is additional

diligence in evaluating an investment. We are constantly seeking to identify factors that could potentially be relevant and material to our investment analysis. That said, it is also about our time horizon. Our investment approach is rooted in the idea that understanding the long-term risk-return profile of an investment requires an expanded, more forward-thinking type of analysis.

These are the key principles behind our ESG integration philosophy, which we've been refining since 2011. Through careful assessment of the material ESG considerations within an investment opportunity, we believe we have been able to learn more about companies and municipalities whose bonds we buy.

As part of this process, we often ask ourselves questions such as: What is the underlying risk of a company's governance practices? What are the potential benefits that can be derived from a company's reduced environmental footprint? Why is a municipality issuing debt and how will this additional project capital benefit its residents?

Once we gather information through careful research, our analysis of financial and extra-financial factors enables us to determine a relative value for a bond. What we discover and believe about each bond available to us may be different from the way other market participants see the same opportunity.

Where others may see a typical industrial company, we see a leader in employee safety with superb employee retention and a strong credit risk profile. Where others may see unnecessary research and development expenses, we see an innovative company looking to reposition itself for the future by developing more sustainable products.

We believe that our detailed and long-term-oriented research approach helps us make better informed

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decisions when constructing and managing client portfolios. We recognize that ESG integration is an evolving investment concept, that will continue to mature over time,

and we believe that a keen focus on critical investment fundamentals—detailed research and a long-term investment horizon—has timeless relevance.

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