

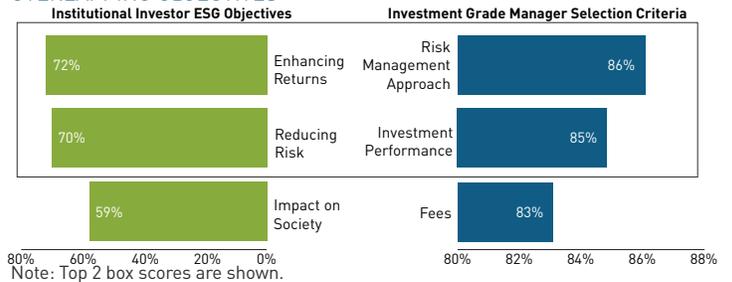
# INVESTMENT GRADE AND ESG: A PERFECT MATCH

New Breckinridge Capital Advisors and Greenwich Associates Study Shows Investment Grade Fixed Income as Leading Asset Class for ESG among Institutional Investors

U.S. institutional investors are using environmental, social and governance (ESG) criteria in investment grade fixed income more than any other asset class.

Among the 80 institutions interviewed for a new study by Breckinridge Capital Advisors and Greenwich Associates, investment grade fixed income is the leading asset class for ESG use, topping domestic equities. This is because ESG and high grade bonds can play similar roles in institutional portfolios, and there is often a high degree of overlap in objectives and methodologies. Respondents believe both emphasize risk management as a means of mitigating downside risks, preserving capital and potentially enhancing long-term risk-adjusted returns.

## OVERLAPPING OBJECTIVES



## In Pursuit of Better Investment Outcomes, Alongside Altruism

Although many early ESG investors adopted ESG criteria for altruistic reasons, institutions have seen that ESG can identify non-financial risks that might be overlooked or minimized through traditional investment analysis. Nearly half the institutions participating in the study say they are more confident in trusting an investment process that accounts for non-financial elements of company performance. Because of ESG's ability to uncover non-financial risks, the addition of ESG can make an investment grade fixed income portfolio more resilient.

## Unique Opportunity to Integrate ESG into Institutional Portfolios

Our study showed that given recent market events, institutional portfolios are overweighted to stocks and underweighted to fixed income in general and to investment grade fixed income in particular. The imminent rebalancing represents an opportunity for institutions to introduce or expand the role of ESG in their portfolios. Due to the considerable overlap in objectives and methodologies, we believe institutional investors should consider investment grade fixed income as both a starting point and a foundation for the broader integration of ESG across investment processes and portfolios.

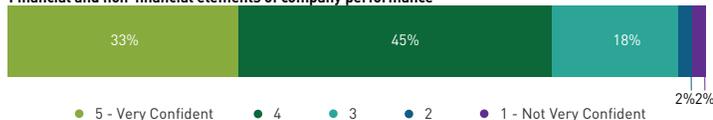
## INVESTMENT PROCESS PREFERENCES

Confidence in Investment Process that Assesses Financial/Non-Financial Performance

### Only financial elements of company performance



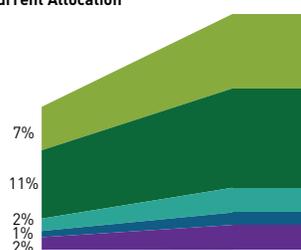
### Financial and non-financial elements of company performance



## CURRENT VS. TARGET ALLOCATIONS

Investment Grade Fixed Income Portfolio

### Current Allocation



### Target Allocation



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DISCLAIMER: Breckinridge Capital Advisors commissioned Greenwich Associates in November and December 2020 to conduct a study designed to gain a better understanding of how midsize institutional investors are using ESG in their fixed income portfolios, and how market volatility and current economic and social conditions are affecting their strategies with regard to both fixed income and ESG investments. Greenwich Associates gathered, reviewed and analyzed the data received to produce the final results presented in this report. Breckinridge participated in the design and development of the questionnaire and respondent selection criteria. 80 in-depth telephone interviews were conducted with decision-makers at U.S. institutions with assets under management (AUM) between \$200 million and \$1 billion. Corporate and public pension funds made up more than half of the research sample, which also included endowments, foundations and other types of institutional investors. One-third of study participants use ESG in their portfolios. Information contained in this report is subject to change and may be superseded by subsequent market events or other reasons. Breckinridge does not represent that any of the information is timely or complete, and it should not be relied upon as such. Please find the full report on our [website](#).

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All investments involve risk, including loss of principal. Diversification cannot assure a profit or protect against loss. Fixed income investments have varying degrees of credit risk, interest rate risk, default risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer-term securities. Income from municipal bonds can be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the IRS or state tax authorities, or noncompliant conduct of a bond issuer.

Breckinridge believes that the assessment of ESG risks, including those associated with climate change, can improve overall risk analysis. When integrating ESG analysis with traditional financial analysis, Breckinridge's investment team will consider ESG factors but may conclude that other attributes outweigh the ESG considerations when making investment decisions.

There is no guarantee that integrating ESG analysis will improve risk-adjusted returns, lower portfolio volatility over any specific time period, or outperform the broader market or other strategies that do not utilize ESG analysis when selecting investments. The consideration of ESG factors may limit investment opportunities available to a portfolio. In addition, ESG data often lacks standardization, consistency and transparency and for certain companies such data may not be available, complete or accurate.

Breckinridge's ESG analysis is based on third party data and Breckinridge analysts' internal analysis. Analysts will review a variety of sources such as corporate sustainability reports, data subscriptions, and research reports to obtain available metrics for internally developed ESG frameworks. Qualitative ESG information is obtained from corporate sustainability reports, engagement discussion with corporate management teams, among others. A high sustainability rating does not mean it will be included in a portfolio, nor does it mean that a bond will provide profits or avoid losses.

The effectiveness of any tax management strategy is largely dependent on each investor's entire tax and investment profile, including investments made outside of Breckinridge's advisory services. As such, there is a risk that the strategy used to reduce the tax liability of the investor is not the most effective for that investor. Breckinridge is not a tax advisor and does not provide personal tax advice. Investors should consult with their tax professionals regarding tax strategies and associated consequences.

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Separate accounts may not be suitable for all investors.

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