

# ESG: OFFERING SIGNPOSTS ON THE INVESTMENT JOURNEY

On a journey, signposts can provide important information about what may lie ahead. With more information, a traveler can make more informed decisions along the way.

In a similar way, environmental, social and governance (ESG) analysis can add information for investors as they make their way on their investment journey. While no investment approach is a guarantee to positive outcomes, like signposts along the roadway, ESG factors can highlight risks, suggest outcomes, or help align preferences, as investors plot their course.



## ESG ADDS INFORMATION TO INVESTMENT DECISION MAKING.

We believe that ESG analysis can provide a wider view of investment risks and opportunities. Integrating ESG into our investment process helps us price risk and return. Our goal is to derive a comprehensive perspective on whether a bond can compensate investors for risk relative to return.

## ADDITIONAL INFORMATION MAY POINT TO POTENTIAL RISKS.

The touchstone of ESG analysis is to identify material risks that are not apparent or might be easily overlooked in traditional financial analysis. Formalized, sector-specific, and proprietary ESG frameworks assist Breckinridge in this effort.



## INTEGRATING ADDITIONAL DATA MAY ALIGN WITH AN INVESTOR'S VALUES.

To develop customized fixed income accounts, Breckinridge believes that ESG factors can be used to align investors' financial goals with their personal values. For example, investors who wish to bias their investments to environmental stewardship, social equity, or community health, can utilize ESG factors to further their aims.

## ENGAGEMENT ON ESG ISSUES FACILITATES TWO-WAY COMMUNICATION FOR INVESTORS AND ISSUERS.

Information discovered during engagements with bond-issuers on ESG issues allows investors to explore best practices in sustainability. Engagement meetings also help to further refine credit quality research.

Engagement meetings may generate information which points to bond issuers that are more attentive to addressing ESG risks and reporting on their progress.



Prepared for Investment Professional and Institutional Use.

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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.

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