# ENGAGING TO DEEPEN INSIGHT

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| SIGNATORY TYPE | **Investment manager** |
| OPERATING REGION | **United States** |
| ASSETS UNDER MANAGEMENT (AUM) | **US$30bn*** |
| FIXED INCOME AUM | **US$30bn*** |
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## WHY ENGAGE WITH ISSUERS?

We believe that the rigorous integration of environmental, social, and governance (ESG) factors deepens our understanding of the underlying value and risk profile of each investment opportunity. As fixed income investors, we have a longer time horizon, and believe that understanding the long-term risk-return profile of an investment requires an expanded, more forward-thinking analysis.

Through this process, we aim to invest in companies and municipalities that are particularly thoughtful and strategic in their approach to sustainability and clearly prioritise material ESG factors. We determine materiality based on external standards such as those provided by the Sustainability Accounting Standards Board (SASB), coupled with our internal sector-level and issuer-level materiality assessment.

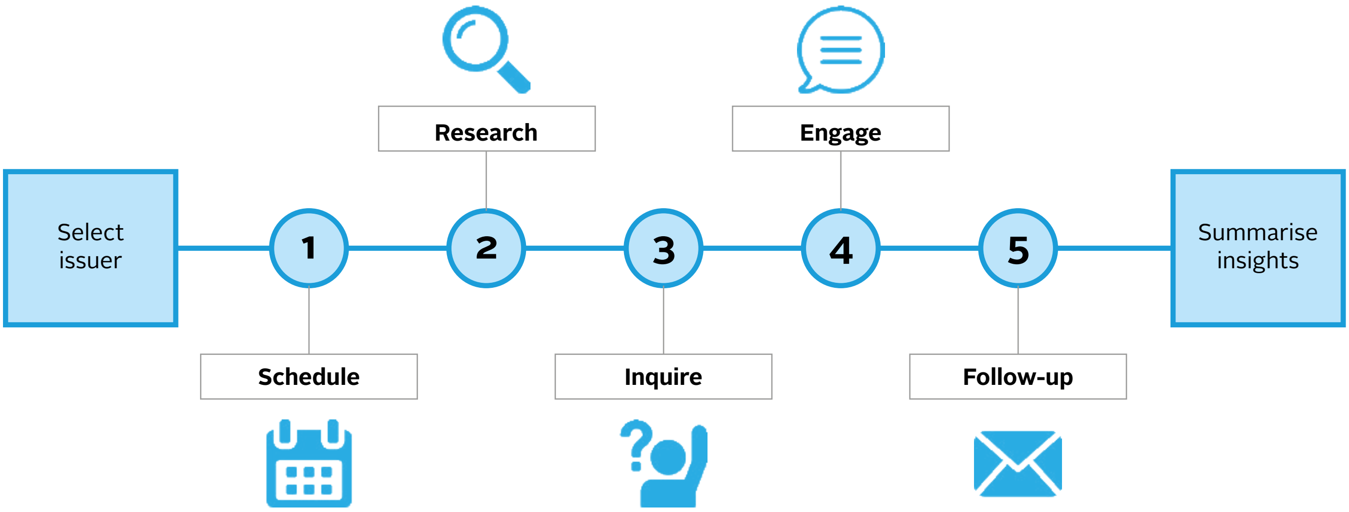
Despite an encouraging recent rise in corporate leadership regarding sustainability, our ESG research has revealed a number of challenges:

- First, while most companies agree that it is important to report on their sustainability efforts, many struggle to articulate their ESG approach through a clear, coherent narrative. This comes into particular focus in their preparation of annual sustainability reports, which vary greatly in intent, structure and content.
- Second, the idea of defining the business value of ESG efforts is still relatively new. While companies are getting better at measuring and quantifying their social and environmental impact, precisely evaluating the financial benefits of these efforts continues to present some challenges.
- Third, although companies are aware they are being rated by third-party ESG research providers, they have limited insight into them and their influence. As such, they may not be paying adequate attention to their scores, which can impact the accuracy and relevance of those scores.

We believe that corporate engagement can play a critical role in addressing some of these challenges. To this end, our corporate engagement process aims to connect all the disparate "dots" to paint the overall picture of a company.

* As at 30 September 2017

**Figure 1: Breckinridge's Corporate Engagement Process. Source: Breckinridge**

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| SELECT ISSUER | Our engagement process targets issuers on our coverage list. We select issuers based on our investment research analysts' ongoing issuer review priorities and any particular sector-level interest. |
| 1. SCHEDULE | We schedule engagement calls in alignment with our internal issuer review timeline. In certain instances, we also time engagement around any particularly noteworthy ESG-related news regarding issuers we cover. |
| 2. RESEARCH | Before each engagement call, we conduct in-depth research on the company. We review any publicly available information and reference scores by ESG rating providers such as MSCI and Sustainalytics. Our key insights are summarised in a brief document that we send to issuers ahead of each engagement call. |
| 3. INQUIRE | Alongside our prep document, we provide issuers with questions ahead of each engagement call. This includes ESG as well as credit-related questions. On the ESG side, we focus on a range of questions that we find to be relevant across all sectors. We also look to inquire about material ESG factors, which are more sector/issuer specific. |
| 4. ENGAGE | Our engagement calls are designed to be constructive and positive. We typically start each call by noting that, as fixed income investment managers, we are not looking to press issuers on any specific actions. Instead, we are primarily focused on learning and asking questions, as outlined under "Inquire" above. However, we do offer feedback and guidance where appropriate, especially in areas such as integrated reporting. |
| 5. FOLLOW UP | After each engagement call, we follow up with companies on any open items as needed. We also encourage future dialogue. |
| SUMMARISE INSIGHTS | We summarise takeaways in an engagement report, which is available to members of our investment team and others across the firm. |

## ENGAGEMENT IN PRACTICE

### PRIORITISING A FINANCIAL SERVICES COMPANY FOR ENGAGEMENT

We held an engagement call with a leading global bank to discuss their sustainability efforts and address a range of credit-related questions. This was meant as a follow-up to our call with them a year prior, which created a sense of rapport. The call followed the structure outlined above.

### ENGAGEMENT CALL

Our engagement call included multiple participants from Breckinridge, as well as the issuer. On the Breckinridge side, the call was led by our director of engagement and our analyst who covers the sector. On the issuer side, there were multiple executives both from the bank's sustainability functions, as well as from investor relations. This is consistent with most of our engagement calls, as issuers tend to be eager to discuss their sustainability initiatives.

During our discussion, we focused on the strategic significance of sustainability at the bank because we believe that this ultimately informs the overall effectiveness of its sustainability efforts. By understanding how an issuer is integrating sustainability into its strategic planning, we are able to draw clearer linkages between ESG efforts and the issuer's key financial performance metrics such as revenues, costs, assets, liabilities, and risk profile.

We were impressed by the degree of integration of sustainability into the bank's most important long-term strategic decisions. Additionally, we discussed their commitment to driving change through innovative impact initiatives, as well as through their investment products and services.

Our engagement call also delved into reporting. The bank publishes detailed information about its ESG efforts as well as its impact initiatives, and this type of reporting helps investors and other stakeholders understand how sustainability fits within the bank's overall business strategy. Corporate governance is also discussed in the issuer's annual shareholder letter due to its strategic significance. We also offered insight into our own use of different types of sustainability and impact reports and why we think they are important for investors.

We rounded out the ESG portion of the call with a range of questions pertaining to material ESG factors, third-party ESG ratings and diversity and inclusion, among others. This was followed by several credit-related questions.

### FOLLOWING UP

As is the case with many other engagement calls, we closed the call by agreeing to remain in regular dialogue with the issuer about their sustainability practices, including future engagement calls and participation in the bank's stakeholder outreach efforts. In doing so, our hope is to stay current on any material updates from the bank, while also having the opportunity to offer input at critical decision points where investor feedback is requested.

## CONCLUSION

We believe that our engagement process helps us expand our impact through three key levers.

First, it deepens our insights regarding individual issuers, as well as their sectors. By enabling us to ask the clarifying questions that are especially relevant from the credit investment standpoint, our engagement discussions with issuers inform our sustainability assessment. These insights, in turn, help inform portfolio management and trading decisions, depending on circumstances.

Second, our engagement discussions with issuers enable us to provide feedback. As discussed above, quality of issuer-level ESG/impact reporting is a key topic during our engagement calls and meetings with issuers. We typically ask them a number of questions, and we also offer our perspective as to what type of reporting is most useful to us as investors, and to our clients.

Third, we believe that our engagement process can ultimately elevate the overall standards for the entire sustainability ecosystem, which may help accelerate the allocation of capital towards sustainably managed companies. In particular, by asking the more probing questions, we are hoping to clear the path for higher-quality overall dialogue between issuers and investors.