



# The Breckinridge Net Zero Approach

Breckinridge will work with clients who choose to follow a net zero pathway for corporate bonds.

## Primary Goal: Achieve Portfolio Net Zero Emissions by 2050

Breckinridge offers customizations in accordance with the goals of investors seeking to transition corporate bond holdings to net zero greenhouse gas (GHG) emissions by 2050 consistent with a maximum temperature rise of 2 degrees or less.

### To achieve net zero emissions by 2050, our security research and portfolio management teams will:

#### Employ active management, bottom-up research and proactive portfolio positioning guided by proprietary climate transition risk analysis and broader ESG research

- Our approach to achieving portfolio level alignment is consistent with the Paris Aligned Investment Initiative's (PAII) Net Zero Investment Framework.
- We seek to identify and invest in bonds issued by corporations with above average and/or improving net zero alignment.
- Our climate transition risk model includes both quantitative data and qualitative analysis to assess overall net zero alignment at the individual company level and portfolio level.
- We measure current GHG emissions profiles, including absolute emissions versus benchmark.
- We evaluate each issuer's net zero targets (if set) and whether targets are sufficient to reach net zero.

#### Engage annually with 70 percent of financed emissions in high-emitting sectors

- Starting in 2013, we launched an ESG issuer engagement process integrated across the research team.
- Our issuer engagement process includes collaborative engagements with Ceres and other industry, governmental, non-governmental, and academic organizations.
- We are a co-lead Climate Action 100+ engagement investor on three companies, a foundational effort for net zero engagements due to its GHG emissions focus.
- Our net zero engagements with high-emitting issuers assess commitment, encourage progress and inform net zero qualitative evaluations.

#### Set and follow escalation policy triggers, which will guide portfolio-level decisions

- Our annual emissions trajectory at the holdings and portfolio levels monitors alignment with required "fair share" pathway.
- Our annual net zero alignment assessments include quantitative and qualitative criteria.
- Through the assessments, we seek to identify companies falling below necessary net zero pace for future investment or engagement actions.

#### Seek to invest in climate solutions

- We seek to identify bonds issued by corporations pursuing product or service innovations related to climate mitigation solutions and opportunities.
- These bonds may include corporate and multilateral development bank green bonds financing climate mitigation projects.
- We also seek to identify suitable sustainability-linked bonds, with goals tied to GHG emissions reduction targets.

#### Seek to drive net zero progress

- Our collaborations with peers, government and non-government organizations, investors, academics, and thought leaders reflects the intentionality Breckinridge brings to advancing ESG and net zero efforts, allowing Breckinridge to share intellectual capital and contribute to efforts to achieve net zero GHG emissions by 2050 consistent with a maximum temperature rise of 2 degrees or less.

## The Net Zero Asset Management initiative (NZAMi) and Breckinridge Capital Advisors

Breckinridge's investment team believes:

- Climate risks are mispriced in the markets.
- Net zero frameworks enhance our ability to assess climate-related risks and identify investment opportunities.
- Our existing investment process and corporate objectives are consistent with NZAMi.

### NZAMi does not change our investment philosophy, it reinforces it.

Our mission is to facilitate a sustainable flow of capital from long-term investors to responsible companies and municipalities.

The NZAMi is consistent with our mission and our pursuit of deeper insights as investment risks evolve.

### Our research suggests trends are moving economies toward a low- or no-carbon future.

- We observe an increasing number of countries plotting a net zero future.
- Our analysis finds that a growing list of companies are setting net zero targets in response to increasing regulatory requirements.
- We see increasing demand among investors for equity and bond issuers to disclose climate change adaptation and mitigation strategies.<sup>1</sup>

## Breckinridge's record of accomplishment in sustainable investing

2011

- Formally implemented ESG research analysis
- Officially launched sustainable strategies

2012

- Became a UN PRI signatory
- Joined Ceres Investor Network on Climate Risk (INCR)

2013

- Became a B Corp
- Became a MA registered Benefit Corporation
- Became a CDP signatory

2014

- Began supporting Sustainability Accounting Standards Board (SASB) (now the Value Reporting Foundation)
- Published first Corporate Sustainability Report (CSR)

2015

- Reached \$1 billion in sustainable AUM
- Became a Green Bond Principles signatory
- Became LEED certified building resident
- Contributed to Blackrock Ceres 21<sup>st</sup> Century Engagement Guide

2016

- Joined SASB's Investor Advisory Group (IAG)
- Advanced our city/county framework to align with the Social Progress Index (SPI)
- Advanced our corporate engagement efforts
- Joined CECP's Strategic Investor Initiative (SII)

2017

- Advanced our state, school district and hospital frameworks
- Became a SASB Alliance member
- Updated our gender lens methodology and strategy

2018

- Enhanced our assessment of municipal climate risk
- Advanced our municipal water & sewer utility framework
- Introduced our municipal transportation framework
- B Corp 2018 Best For The World Honoree in the Customer and Governance categories<sup>2</sup>

2019

- Updated our municipal community college framework
- Introduced a climate risk score that adjusts prepayment speeds for mortgage-backed securities
- B Corp 2019 Best For The World Honoree in the Customer, Governance and Changemaker categories<sup>2</sup>
- CIO Industry Innovation Awards 2019 ESG Manager winner<sup>3</sup>

2020

- Enhanced corporate sector-based ESG research process
- Pension Bridge's Institutional Asset Management Award for Active US Fixed Income Strategy of the year winner<sup>4</sup>

2021

- Celebrated our tenth year of formally integrating ESG research analysis
- B Corp 2021 Best For The World Honoree<sup>2</sup>
- Issued first comprehensive ESG Issuer Engagement Report
- Signed the Net Zero Asset Managers initiative

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ENDNOTES:

1. ISS Governance 2021 Annual Global Outlook.
2. Every year, B Lab recognizes the top-performing B Corps creating the greatest impact through their businesses. These B Corps are named Best for the World™ as their verified scores in the five impact areas evaluated on the B Impact Assessment community, customers, environment, governance, and workers are amongst the global top 5% in their corresponding size group.
3. The Industry Innovation Awards are sponsored and administered by Chief Investment Officer magazine. A nomination request is published by the magazine each year through a general announcement published on its website. Nominations are accepted through a digital survey or by completing and emailing the magazine's 2018 CIO nomination form. Finalists and winners are chosen by the CIO editorial team in conjunction with an Advisory Board of CIOs. Awards are announced at the magazine's annual Innovation Gala. Breckinridge sponsored a table at, and attended, the Innovation Gala Awards dinner on December 12, 2019.
4. The Pension Bridge Institutional Asset Management Awards 2020 are sponsored by The Pension Bridge, which conducts conferences for senior investment professionals. Awards were open to any funds/strategies that included institutional investors. Judging was conducted in two stages: 1) quantitative elements derived leader boards to generate category shortlists, and 2) shortlists judged by a panel of judges based on their knowledge and qualitative criteria. Awards were announced on September 24, 2020.

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