

At IR+M, we believe engagement is an important part of good credit analysis and investment stewardship. Ongoing dialogue with issuers on material topics allows us to gain additional insights into complex risks and opportunities not otherwise captured in traditional research or ratings. Our engagement activities complement our robust, bottom-up research process.

### 2022 ESG Engagement Summary

Environmental, Social, and Governance (ESG) topics are nuanced and continue to evolve. Our dynamic bottom-up research process incorporates an evaluation of material ESG risks, helping to inform our overall assessment. Engaging with issuers allows our Investment Team to better understand the most material issues.

Our Investment Team focuses on fostering an effective and ongoing dialogue with management, which includes addressing material ESG factors that drive long-term value. Our Investment Team also participates in collaborative engagements with credit rating agencies, investment banks, and other industry groups. As part of our research process, engagements are conducted by our Research Analysts across our asset class coverage, ensuring robust due diligence.

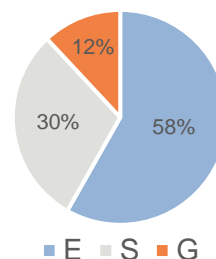
Our ESG research and proprietary ESG rankings are guided by our Key Issues Map, which outlines material risks and opportunities across fixed income asset classes, sectors, and industries. Our Key Issues Map also guides our discussions by illustrating potential engagement topics for our Investment Team to raise with issuers. We continuously look to improve our engagement process and tracking mechanisms to drive meaningful engagement outcomes and enhance our stewardship capabilities.

### Engagement Statistics

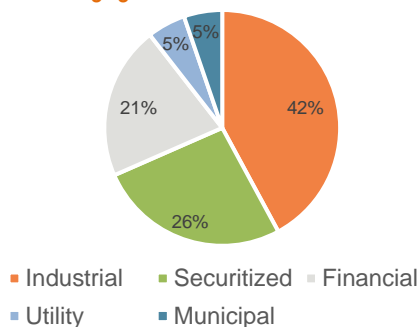
#### 2022 Engagement Summary

- In addition to our standard interactions with issuers where we often discuss material ESG issues, IR+M had quality engagements with approximately 50 issuers, industry bodies, and rating agencies across the corporate, municipal, and securitized fixed income markets.
- While some engagements covered multiple focus areas, more than half of our engagement activities involved climate change, making it the most common discussion topic in 2022.
- Most of these engagements occurred in person, enabling a two-way line of communication and allowing for direct questions and immediate responses.

Firmwide Engagement Topic Breakdown



IR+M Core ESG Strategy Engagement Sector Breakdown



#### Snapshot of Engagements in IR+M's Core ESG Strategy

- Reflective of our broader engagement activities, we participated in 19 engagements across 18 issuers within our Core ESG strategy.
- The majority of our engagements within this strategy occurred in the Industrial sector, specifically within Transportation, as we engaged with several Railroad companies throughout the year.
- The engagements within this strategy reached a broad geographical scope; our Research Analysts engaged with issuers from the United States, European Union, Canada, Hong Kong, Australia, and Japan.

As of 12/31/22. IR+M's ESG analysis includes all assets except cash and cash equivalents, such as Treasuries. Totals may not sum to 100 due to rounding. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M's views and opinions. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research + Management.

### Engagement Spotlight: Institutional Single-Family Rentals

The Single-Family Rental (SFR) market emerged after the Great Financial Crisis, as institutional buyers purchased portfolios of single-family homes out of foreclosure. The homes, largely concentrated in the southeast and southwest United States, were updated and put on the market to rent. SFR operators have proven that this model is a viable business and have grown their portfolios over the last 10 years; however, institutions own less than 2% of single-family homes available for rent. Most single-family rentals are small “mom and pop” investors, who typically own only a handful of properties. On the institutional side, several SFR REITs issue debt in the public bond market and SFR securitizations are a growing part of the CMBS market.



Source: Home Partners of America.

- We held engagement calls with eight of the larger SFR operators who comprise a majority of the market and asked the same series of questions on each call. We also tailored additional questions to specific issues related to each operator.
- Our questions spanned all three ESG pillars, with a particular focus on social themes.
- We covered topical issues including eviction rates and policies, maintenance costs and responsibilities, successful applicant profiles compared to the entire applicant pool, community involvement, and environmentally-focused housing upgrades.
- We participated in one operator’s inaugural fixed income investor day, attending property tours in a large metro area and hearing from senior leaders regarding their investment decisions, property maintenance, and residential support.

### The Intersection of Credit and ESG Factors

		ESG View	
		Positive	Negative
Credit View	Positive	<ul style="list-style-type: none"> <li>• Strong community relations</li> <li>• Long-term tenants</li> </ul>	<ul style="list-style-type: none"> <li>• Aggressive collection/eviction practices</li> <li>• Market rate rent hikes</li> </ul>
	Negative	<ul style="list-style-type: none"> <li>• Low eviction rates</li> <li>• Tenant-friendly policies</li> </ul>	<ul style="list-style-type: none"> <li>• Headline risk</li> <li>• Poor community relations</li> </ul>

### Findings

- **ESG is a relatively new focus.** Many of the SFR operators recently hired ESG-focused employees and released, or plan to release, their first ESG or Corporate Sustainability reports. Some operators indicated that this was their first engagement call focused on ESG.
- **Data is not always available.** The operators discussed the difficulty in obtaining data, specifically around some of the environmental metrics. In other cases, the operators choose not to disclose data, like their eviction numbers and policies. As SFR operators’ ESG efforts grow, we expect data availability and reliability to continue to improve.
- **SFR properties are geographically concentrated in the Sunbelt.** SFR operators acknowledged that their top markets typically have more landlord-friendly regulations, but insisted that they target areas with high population growth and reasonable opportunity for home price appreciation.
- **SFR operators are incentivized to keep renters in their homes.** Avoiding turnover, interim vacancies, and maintenance issues helps build and maintain a stronger pipeline of customers, which is critical to their business model.
- For additional details, please see our full [Engagement Spotlight](#) report.

Source: BofA Global Research as of 9/26/22. IR+M’s ESG analysis includes all assets except cash and cash equivalents, such as Treasuries. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M’s views and opinions. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research + Management.

## Case Studies

## Structured Finance Engagements

- Throughout the year, we focused many of our engagement efforts within the securitized space. As co-chairs of the Structured Finance Association's (SFA) Auto ABS and RMBS ESG Task Forces, we worked with other industry participants to provide comments and feedback on pertinent ESG data in an attempt to help standardize the desired metrics.
- We met with Moody's Analytics several times throughout the year as they seek to deliver enhanced ESG data for Auto ABS pools utilizing their solution ABS Auto ESG. We provided feedback on data that we'd find useful as an investor and discussed how this data would best be displayed and digested.
- We also met with both Fannie Mae and Freddie Mac numerous times. We discussed Fannie Mae's reporting and engaged with them on the newly introduced Social Index, discussing the implementation, thought process, and data.



## Retailers

- We engaged with a large U.S.-based retailer on two separate occasions. We used the opportunity to discuss issues related to climate change, as well as human and labor rights.
- Following the initial in-person meeting, we followed up to request additional information related to various supply chain metrics posted on its website. The issuer responded following their earnings quiet period.
- This engagement provided IR+M with insight into the entity's approach to sustainability and we were able to incorporate additional information into our ESG opinion of the issuer.

## Airports

- IR+M had the opportunity to meet with the management teams of several large regional airports, where we inquired about climate change initiatives, discussing topics such as LEED certification, solar farms, Airport Carbon Accreditation, and net zero targets.
- We incorporated the management team responses into our ESG opinions of the bond issuers and will continue to engage with municipal issuers on ESG topics while encouraging them to improve ESG data and reporting efforts.



**As lenders on behalf of our clients, we believe that incorporating ESG considerations into our analysis leads to a more complete understanding of potential issues and risks, and we expect this to ultimately result in superior risk-adjusted returns over the long-term.**

**Engagement is an important aspect of our ESG research process. Environmental, Social, and Governance themes will continue to evolve and express varying levels of risks and opportunities. In order to capture value not otherwise found within ESG ratings or traditional analysis, we believe that a robust research process that includes engagement will remain key.**