
GALLIARD'S APPROACH TO ENVIRONMENTAL, SOCIAL & GOVERNANCE INVESTMENT

GALLIARD'S RESPONSIBLE INVESTMENT PHILOSOPHY

At Galliard, we believe the role of fixed income in client portfolios is to generate income while providing safety of principal. Galliard's fixed income portfolios are managed with a conservative approach, while maintaining high quality and broad diversification through a disciplined-value investing process with an emphasis on risk control.

As defined by the UN PRI, Responsible Investing is "a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership¹." Galliard agrees with this definition and we believe it is our fiduciary duty to seek to understand the extent to which Environmental, Social and Governance ("ESG") factors are likely to impact the performance of an investment over the long term. While Galliard does not have ESG-specific products or strategies, our approach requires an acute awareness of risks that might compromise creditworthiness. Galliard views ESG related items as potential risks that could negatively impact portfolio returns for our clients.

ESG INTEGRATION AND ANALYSIS

Fundamental research and relative value analysis are the cornerstones of Galliard's team-based portfolio decision making process. Galliard's Credit and Structured Teams incorporate dedicated research, sector portfolio management and trading for their respective sectors. Within the investment structure, research analysts and traders are fully integrated into the day-to-day management of portfolios, providing a real-time credit perspective into the portfolio oversight process. With respect to fundamental security analysis, the Credit Team is responsible for the analysis of the corporate and taxable municipal sectors, while the Structured Team focuses on the securitized sectors, including MBS, ABS, and CMBS. Each sector team reviews investment ideas in a collaborative, team-based approach where robust discussion and differing viewpoints are encouraged in determining an overall credit opinion. ESG factors are incorporated into these discussions as applicable.

Galliard established an ESG Working Group that is responsible for overseeing adherence to and implementation of our ESG program. The ESG Working Group reports directly to Galliard's Fixed Income Strategy Committee.

One of the challenges in integrating ESG factors into our investing process is the availability and comparability of good data from issuers. During meetings with issuers, Galliard analysts frequently discuss material ESG issues and encourage issuers to improve their reporting of ESG factors.

CORPORATES

Galliard's Credit Team collects and analyzes publicly available information and subscribes to third-party analysis, including MSCI ESG Research. The Team incorporates ESG considerations as part of the credit underwriting process in reviewing the sustainability of a company's business model. During monthly credit meetings, we also review current holdings for positive or negative credit movements versus the MSCI ESG-ratings (if available).

GALLIARD'S APPROACH TO ESG INVESTMENT

MUNICIPALS & NOT FOR PROFIT

Within the municipal and not-for-profit sectors, credit-material ESG factors may vary depending on the type of issuer and the availability of data. Less traditional ESG-related information is available for Municipals & Not for Profit issuers, including ESG ratings. For example, as part of an issuer's credit analysis we may consider a municipality's susceptibility to climate change over the investment time horizon or analyze the use of bond proceeds and capital planning. Overall, there is less uniformity to the quantitative and qualitative ESG factors for municipal and not-for profit issuers.

SECURITIZED

Material ESG factors are incorporated into the evaluation of securitized assets, primarily in the ABS sector involving consumer loans and leases, as well as in business sectors such as agriculture and construction equipment, trucking and transportation, equipment loans and leases, and small business finance. In addition to environmental factors related to the aforementioned collateral types, we are also cognizant of the potential for predatory lending and poor servicing practices.

SUMMARY

Galliard considers a variety of factors when researching investments and the evaluation of ESG related risks is an important component of the fundamental research process in identifying high quality issuers that will use the capital we provide them in a responsible and sustainable manner. As a UN PRI signatory, Galliard has adopted and implemented these principals into the underwriting and our credit analysis, and we are committed to supporting ESG initiatives where we believe such initiatives are in the best interests of our clients.

For more information on Galliard's approach to ESG investing, contact your Galliard relationship manager.

¹ <https://www.unpri.org/an-introduction-to-responsible-investment/what-is-responsible-investment/4780.article>; accessed 12/15/2020

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