

"Sustainable, Responsible or Impact Investing: Post Pandemic (and Election) Recommendations"

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What is Sustainable, Responsible or Impact Investing (SRI)?

Investing with both

Financial Goals - seeking superior market performance driven by economic fundamentals; and

Impact Goals - seeking positive social and/or environmental outcomes driven by your values or convictions

Why Sustainable, Responsible or Impact Investing (SRI)?

Sustainable, responsible or impact investing (SRI) has been shown to generate **long-term competitive** financial returns and **positive** societal impact.

What are the criteria that make an investment and SRI investment?

Environmental, Social and Governance (ESG)

Criteria are a **set of expectations** for a company's operations that reflect a company's commitment not only to shareholders but to the environment, community and workforce.

What do ESG criteria include?

Environmental criteria look at both performance against standards but also performance that benefits the environment.

Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates.

What do ESG criteria include?

Governance criteria deal with a company's leadership, benefit decisions for employees, executive pay, transparency, internal controls, and shareholder rights.

Why Are Investors Interested in Sustainable, Responsible or Impact Investing?

There are several motivations for sustainable, responsible and impact investing, including

- **personal values** and goals and
- **institutional mission**

but the most important is

- a belief, supported by research, that with less risk and better management, **better market performance** occurs.

Why Are Investors Interested in Sustainable, Responsible or Impact Investing?

Increasingly, investors are expressing a demand not only for attractive returns, but also for generating positive environmental and/or social impact.

In other words, **people want their investments to do more** than make money. They want to invest in companies that will bring change.

Scope of Interest

A wide range of investors - from millennials, to non-profits, to institutional investors - are making SRI investment decisions using new assessment tools that connect ESG performance with financial performance.

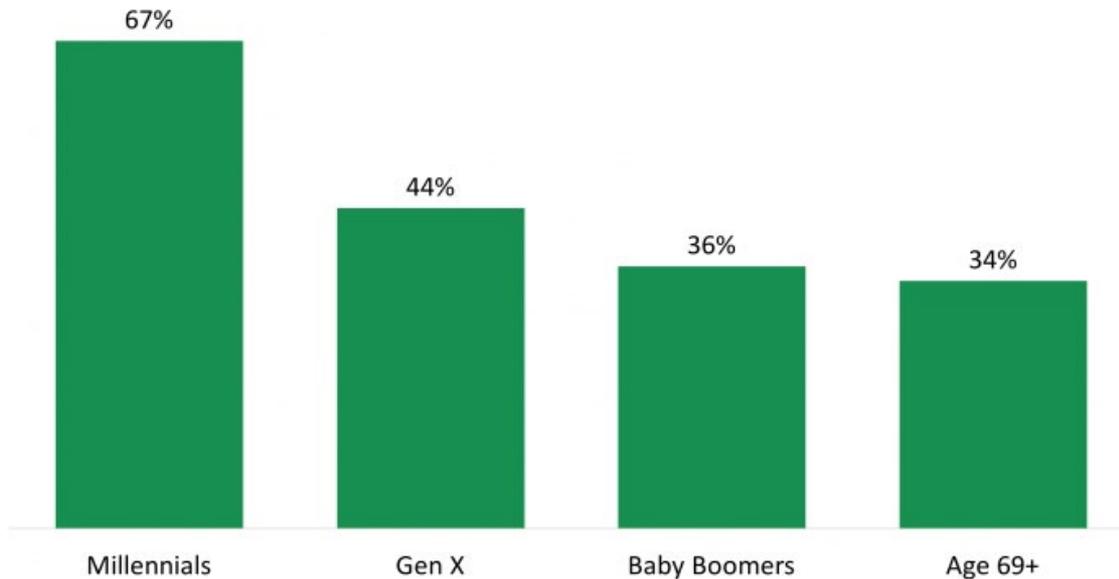
Who's Investing

Only 6 percent of investors over the age of 60 are even familiar with SRI investing while 80 percent of millennials are, according to a survey from Crossmark Global Investments.

Who's Investing

Percentage Of US Investors Who View Their Investment Decisions As A Way To Express Social, Political, Or Environmental Views

US, 2015



Source: US Trust, n=680

BI INTELLIGENCE

Investor Interest

- ▶ SRI options include individual stocks, mutual funds, exchange traded funds (ETFs), green bonds, green bond funds and other new alternative options.

Combining SRI principles with Post Election Investment Themes

- ▶ Long term global themes/mega-trends where business is leading include:
 - ▶ Climate Change
 - ▶ Health & Wellness
 - ▶ Aging & Improving Lives
 - ▶ Diversity
 - ▶ Water Scarcity
 - ▶ Food

Climate Change ETFs

Funds address the issue of climate change from a number of angles. Some support companies that are pursuing zero carbon footprint goals, while others invest exclusively in clean energy providers.

- ▶ iShares Global Clean Energy ETF (ICLN) - invests in 40 or so companies around the world that produce electricity from solar, wind, and other renewable sources.
 - ▶ 2020 142%, 2018-2020 218%

Climate Change ETFs

SPDR S&P 500 Fossil Fuel Reserves Free ETF (SPYX).

- ▶ tracks the performance of the S&P 500 companies that do not own fossil fuel reserves
 - ▶ 2020 20% (S&P 18%),
 - ▶ 2018-2020 51% (S&P 48%)

Health and Wellness ETFs

Invesco DWA Healthcare Momentum ETF (PTH).

- ▶ Provides exposure to exchange-listed companies with powerful relative strength characteristics from the Healthcare sector.
 - ▶ 2020 67%
 - ▶ 2018-2020 122%

Health and Wellness ETFs

ARK Genomic Revolution ETF (ARKG).

- ▶ Invests in companies that are expected to substantially benefit from extending and enhancing the quality of human and other life by incorporating technological and scientific developments and advancements in genomics into their business.
 - ▶ 2020 181%
 - ▶ 2018-2020 299%

Diversity ETFs

Impact Shares NAACP Minority Empowerment ETF (NACP).

- ▶ Invests in large and mid- cap companies that are "empowering to minorities".
 - ▶ 2020 26%
 - ▶ 2018-2020 45%

Water ETFs

Invesco Water Resources ETF (PHO).

- ▶ Invests in companies that create products designed to conserve and purify water for homes, businesses and industries.
 - ▶ 2020 21%
 - ▶ 2018-2020 56%

SRI Performance, 2020

According to Morningstar:

“73% of sustainable equity funds rank in the top halves of their Morningstar Categories and 25 of 26 ESG-focused index funds have outperformed their conventional index-fund counterparts.”

Factors Driving Investor Interest in SRI

4 factors are driving investor interest in sustainability.

- ▶ Growing public interest in climate change, water, diversity and social justice
- ▶ The **growth of analytics** and sophisticated modeling
- ▶ **Research** linking effective management of sustainability issues to strong financial performance
- ▶ **Shift in attitude** about the connection between strong sustainability performance, value creation, and risk reduction

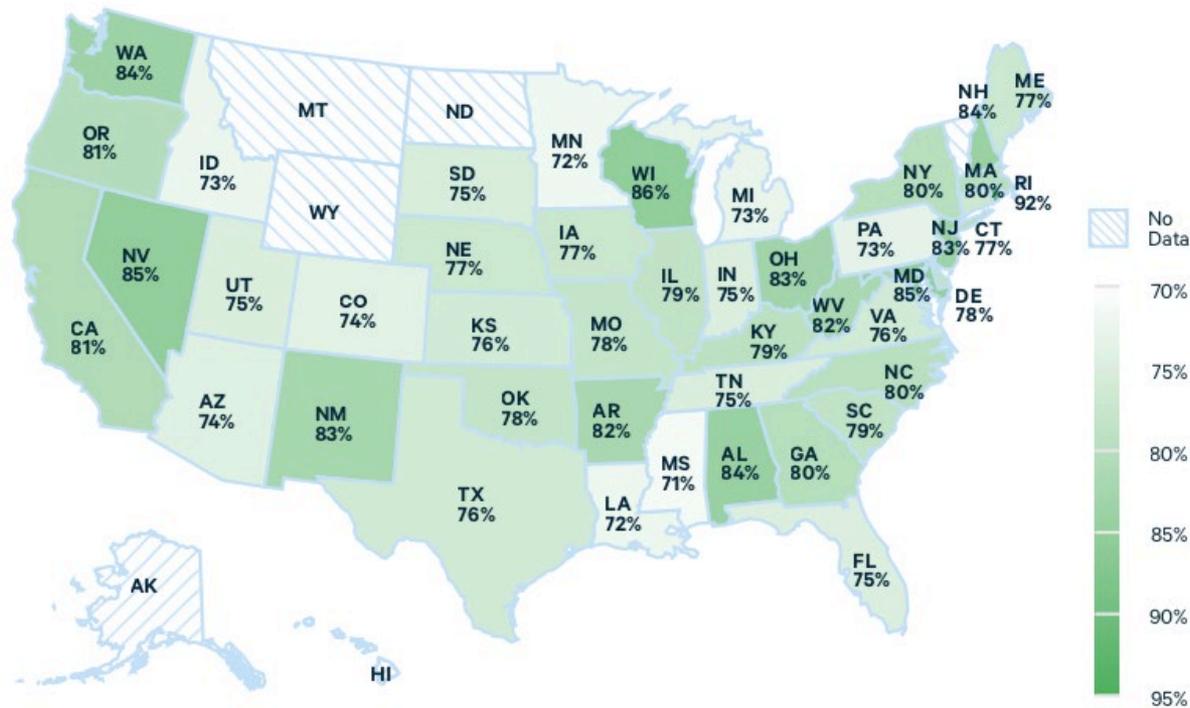
Factors Driving Investor Interest

Growing public interest in climate change, water, diversity and social justice

- ▶ Purchasing decisions are now being influenced by business association with environmental and social issues
- ▶ Increasing belief that business bears a responsibility for solving environmental and social issues

Climate Change as a Business Issue

Figure 11. Percentage of each state who believe the government should limit businesses' greenhouse gas emissions (2020)



Climate Change as a Business Issue

As of early October, 2020, more than 1,000 companies — **with a combined market cap of \$15.4 trillion and including one-fifth of the global Fortune 500 — had committed to setting science-based targets for reducing emissions in line with the Paris goals.**

The Trump Administration pulled the US out of the Paris Climate Accord, but business has responded by adopting emission goals consistent with the commitments that were required.

Factors Driving Investor Interest

The growth of analytics and sophisticated modeling

- ▶ Large firms like Bloomberg and Thompson Reuters now collect data on ESG issues
- ▶ Blackrock and other large investment firms have specialized departments examining ESG data.

Factors Driving Investor Interest

Research links effective management of sustainability issues to strong financial performance

- ▶ Harvard found that strong ESG performance **correlated** with strong valuations, revenue growth and lower costs of capital.
- ▶ Harvard also found that high-sustainability companies significantly **outperformed** sector peers in terms of stock market performance.

Factors Driving Investor Interest

Shift in attitude about the connection between strong sustainability performance, value creation, and risk reduction.

- ▶ A study by MIT found
 - ▶ 60% of investors believed that companies with a solid sustainability performance are **less of an investment risk**
 - ▶ 60% of investors strongly believe that solid sustainability performance lowers a company's cost of capital.

Investor Interest

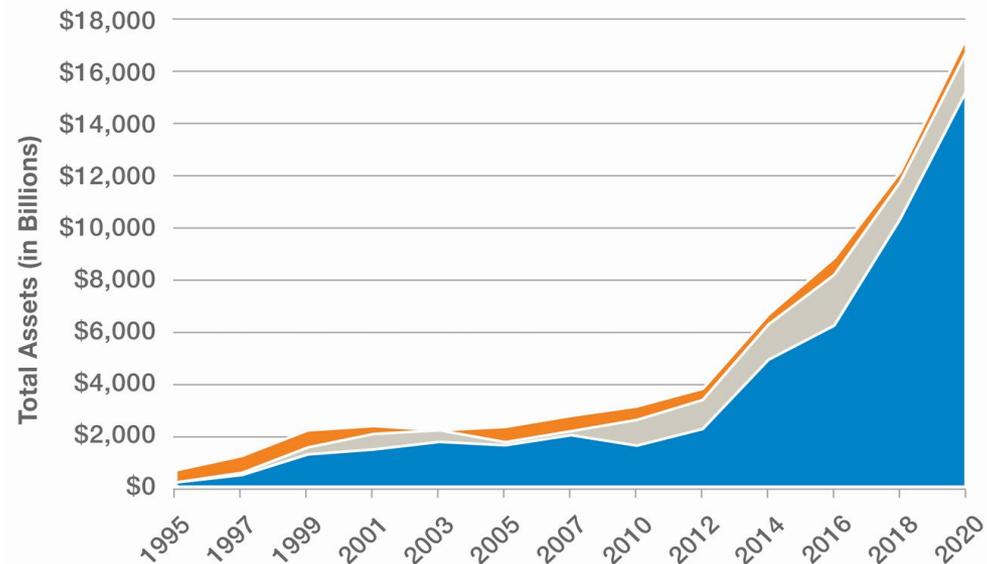
Overall conclusion of MIT study (2017) was that investors believe that good sustainability performance is a sign of good (and effective) management

SRI Investing: 1995 - 2020

FIGURE A

Sustainable Investing in the United States 1995–2020

■ ESG Incorporation ■ Overlapping Strategies ■ Shareholder Advocacy



SOURCE: US SIF Foundation.

Trends in Investing

- ▶ From 1995 to 2020, the amount of money invested in the SRI universe has increased nearly 14-fold, a compound annual growth rate of 13.25%.
- ▶ The number of ESG mutual funds has grown to 977 plus an additional 116 ETFs.

Trends in Investing

- ▶ **Green bond** sales have powered through 7 years of record issuance – a streak that should continue into 2021.
- ▶ Total issuance in 2020 exceeded \$400 billion, an increase of more than 100% from a year earlier, according to Bloomberg Intelligence.
- ▶ The NY Metro Transit Authority was the largest issuer in the US with \$2.7 billion of bonds certified under the Climate Bonds Standard.

Green Bond Issuance

Global Surge

Issuance of debt to fund green projects reached a record level last year

■ Corporate and government green bond issuance



Source: Bloomberg

Note: Moody's 2020 issuance estimates, including social and sustainability bonds

Bloomberg

Evaluating Companies

Morningstar provides rankings based on how the fund/ETF has performed - with adjustments for risks and costs - compared to peers in their category. Each investment receives separate ratings for three-, five- and 10-year performance, which it combines into an overall rating.

Evaluating Companies

Star ratings are graded on a curve; the top 10% of funds/ETFs receive five stars, the next 22.5% receive four stars, the middle 35% receive three stars, the next 22.5% receive two stars and the bottom 10% get one star.

Evaluating Companies

The standard Morningstar star rating is backwards-looking; it tells an investor which funds have performed best over a three-, five- or 10-year period. One common misconception is that Morningstar awards higher star ratings to funds it expects to perform better in the future, which isn't the case.

Evaluating Sustainability

In addition, Morningstar evaluates **4,500** companies worldwide, using **100 ESG criteria**

- ▶ Company performance is assessed on ESG issues relative to other firms in the same **global industry peer group**, using a 0-100 scale.

Evaluating Sustainability

Morningstar also rates 35,500 funds on the performance of their holdings in those 4,500 companies.

- ▶ For mutual funds, the rating is a holdings-based calculation using company-level ESG analytics.

Sustainability Ratings

MORNINGSTAR SUSTAINABILITY RATINGS OF VARIOUS SRI AND NON-SRI-SPECIFIC LARGE-CAP GROWTH FUNDS

Fund	Ticker	Morningstar Rating	10-Year Return	Morningstar Sustainability Score	Morningstar Sustainability Rating
Vanguard PRIMECAP	VPMAX	★★★★★	9.76%	53	
Parnassus Core Equity	PRBLX	★★★★★	9.90%	50	
Domini Social Equity	DSEFX	★★	5.89%	50	
Fidelity Growth Company	FDGRX	★★★★★	10.61%	47	

■ SRI Fund
 ■ Fund With No SRI Mandate

Investing on Your Own

Investors can take the Morningstar ratings of mutual funds or ETFs and develop their own investment portfolio or use this information in a discussion with an investment advisor.

New Frontiers in Investing

Technology has penetrated every aspect of the lives of millennials, and while older investors may be reticent to use technology in their investment decision, millennials aren't

What are Robo-Advisors?

Financial technology companies have disrupted personal investing. Just as manufacturing companies have replaced assembly line workers with robots, these companies have replaced financial advisors with robo-advisors, which use big data and algorithms to determine the best places to put clients' money.

What are Robo-Advisors?

SRI investment robo-advisors are very popular with millennials.

Robo-advisors create investment portfolios from existing investment options, including individual companies, ETFs, stock and bond mutual funds.

Starts with filling out a questionnaire about what is important to you.

What are the top SRI Robo-Advisors?

Betterment SRI Portfolio

Betterment was one of the first robo-advisors and now offers an SRI option for the large cap asset class. Also offers access to real people as advisors.

More info at <https://www.betterment.com/sri-portfolio/>

What are the top SRI Robo-Advisors?

Earthfolio

Invests exclusively using ten separate environmental, social and corporate governance (ESG) benchmarks.

More info at <https://www.earthfolio.net/>

What are the top SRI Robo-Advisors?

Ellevest

Ellevest was created by women for women. Women tend to live longer yet earn less than their male counterparts and have unique challenges when it comes to money. This robo-advisor was created to understand and meet those needs.

More info at <https://www.ellevest.com/impact-investing>

New/Alternative Investment Opportunities

Local Investing

- ▶ **Forward Community Investment -**
<https://www.forwardci.org/>
- ▶ **Legacy Solar Coop -**
<https://legacysolarcoop.org/>
- ▶ **Juhl Clean Energy Assets -**
<https://www.juhlcleanenergyassets.com>

New/Alternative Investment Opportunities

Peer to Peer Lending

▶ Prosper -

<https://www.prosper.com/>

▶ CNote -

<https://secure.mycnote.com/registration/addfunds>

New/Alternative Investment Opportunities

Microfinance

- ▶ Kiva - <https://www.kiva.org/>
- ▶ WCCN - <https://www.wccn.org/>
- ▶ Envest - <https://envestmicrofinance.org/invest-with-us/> (accredited only)

New/Alternative Investment Opportunities

Crowdfunding (supporting entrepreneurs)

- ▶ SeedInvest - <https://www.seedinvest.com/offerings>
- ▶ WeFunder - <https://wefunder.com/>
- ▶ Fundable - <https://www.fundable.com/>
- ▶ Cropital <https://www.cropital.com/>

New/Alternative Investment Opportunities

Real Estate

- ▶ RealtyMogul - <https://www.realtymogul.com/>
- ▶ Fundrise - <https://fundrise.com/>
- ▶ SmallChange - <https://smallchange.com/>

In Summary

As you think about investing, you **can** integrate your values for the environment, social equity and responsible businesses into your investment decisions.

Thank you!

