ESG & SOCIALLY RESPONSIBLE INVESTING

Your Quick Guide

Although environmental, social, and governance (ESG) investing and Socially Responsible Investing (SRI) are becoming increasingly popular, not everyone is knowledgeable about the details and how materiality-based research can improve performance. This guide aims to provide an overview of ESG investing and SRI attributes.

WHAT IS ESG INVESTING?

ESG investing is based on a set of criteria that are used to assess potential investments. Typically, these criteria include a company's performance in relation to its environmental impact, how it manages its relationships with employees, customers, and suppliers, and how it addresses governance issues such as executive compensation, internal controls, and shareholder rights.

QUANTIFYING A STRATEGY: ESG Metrics

What are ESG Metrics?

ESG metrics are indicators of a business's environmental, social, and governance performance, helping to assess potential risks. Company leaders may integrate these principles into policies, reports, and operations by analyzing or benchmarking. ESG metrics are essential for investors to evaluate the impact of their investments responsibly. Though not mandatory in some industries, companies can report ESG factors in annual or sustainability reports to update investors and the public. However, there isn't a standardized approach for calculating or presenting ESG metrics.

Why are these important?

ESG metrics are critical for measuring a business's performance in areas that can impact the outside world. They help investors identify risks associated with a specific organization or project and determine companies that may have long-term financial stability and high ROI. Additionally, socially conscious investors may use ESG data to identify companies with risk factors that may affect the world's environmental or social climate, aligning their financial support with philanthropic values. This metric enables them to fund companies that align with their values and make a positive impact.

COMMON *ESG* FACTORS

Environmental

- Carbon emissions
- Water scarcity
- Energy management
- Environmental impact of supply chain
- Environmental impact of product

Social

- Human capital development
- Privacy and data security
- Product quality and safety
- Workplace diversity
- Workplace safety

Governance

- Board structure
- Corruption and supply chain management
- Accounting policies and controls
- Executive compensation vs. average employee pay

WHAT IS *SRI* (SOCIALLY RESPONSIBLE INVESTING)?

Providing a more narrow approach to investing, SRI focuses on investing in companies that aligh with specific ethical or social criteria. SRI investors screen potential investments based on a range of factors, such as environmental impact, social justice issues, or human rights records.

HOW *ESG* INVESTING DIFFERS FROM *SRI*

A lack of standardization in terminology has created confusion over how ESG investing and SRI differentiate, and about which is the best action for investors to take.

→ Through ESG investing, market participants consider in their decision-making, the ways in which environmental, social, and governance (ESG) risks and opportunities can have material impacts on companies' performance. Investors who use ESG in their decision-making are aim to invest sustainably while keeping financial returns as the primary objective of their investing.

→ Sustainable investing, sometimes known as socially responsible investing (SRI) or impact investing, puts a premium on positive social change by considering both financial returns and moral values in investments decisions. This strategy emphasizes financial returns as a secondary consideration after the investors' moral values have been accounted for in their decision-making.

Source: S&P Global, Investopedia

COMMON SRI APPROACHES

1

Negative Screening:

- This approach involves excluding companies or industries that are deemed to have a negative impact on society or the environment, such as tobacco or fossil fuel companies. Investors may also exclude companies that violate human rights, engage in unethical business practices, or have poor labor standards.

2

Positive Screening:

- This approach involves actively seeking out companies that have a positive impact on society or the environment. Investors may look for companies that are leaders in sustainability, have strong corporate social responsibility programs, or contribute to their communities.

3

Impact Investing:

- This approach involves investing in companies or funds with the intention of generating a measurable, positive social or environmental impact, in addition to financial returns. Impact investors may focus on specific areas, such as clean energy or affordable housing, and seek out investments that align with their values and goals.

4

Shareholder Advocay:

- This approach involves using shareholder power to influence corporate behavior and promote social and environmental change. Investors may file resolutions, engage with management, or participate in proxy voting to encourage companies to improve their practices and policies.

Environmental, Social and Governance (ESG) investing refers to a class of investing that is also known as" sustainable investing." This is a term for investments that seek positive returns and long-term impact on society, environment and the performance of the business. There are several different categories of sustainable investing including, impact investing, socially responsible investing (SRI), ESG and values- based investing. The performance of an ESG fund may not match or correlate to that of its Index, either on a daily or aggregate basis due to factors such as fund expenses, imperfect correlation, rounding of share prices, changes to the composition of the Index, regulatory policies, high portfolio turnover and the use of leverage (if any). ESG investing carries unique risks and under certain market conditions, the fund may underperform funds that do not utilize a responsible investment strategy.

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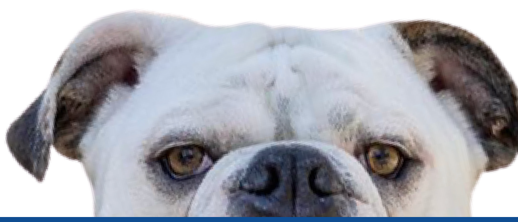

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