

A low-angle, upward-looking photograph of several modern skyscrapers with glass and steel facades, creating a sense of height and urban density. The sky is visible between the buildings.

CAPTRUST Investment Committee

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# Environmental, Social, and Governance (ESG) Investing

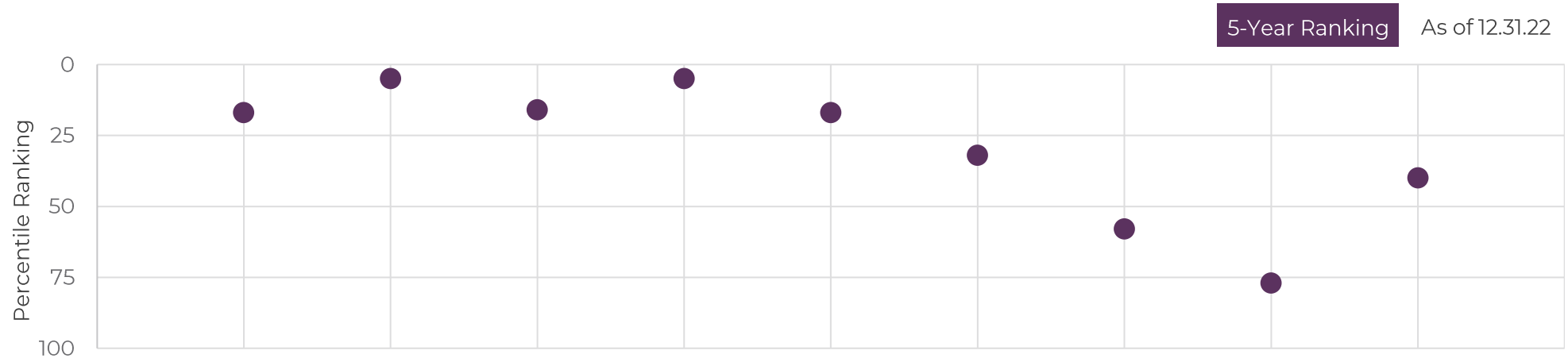


**CAPTRUST**

# ESG INVESTMENT MANAGERS—PERFORMANCE

CAPTRUST's ESG-focused active investment managers and passive index funds employed within discretionary portfolios have demonstrated consistency of performance, with 7 of 9 of our recommended strategies outperforming their respective peer groups' total returns over the last 5-years.

Asset Class	U.S. Stocks			International/Global Stocks				Bonds	
Investment Name	Calvert U.S. Large-Cap Core Responsible Index	Parnassus Core Equity I	Calvert U.S. Small-Cap I	Hartford Schroders International Stock I	Calvert International Responsible Index	Pax Global Environmental Markets I	Pax Ellevest Global Women's Leadership I	PIMCO Total Return ESG I	TIAA-CREF Core Impact Bond I
Strategy Approach	Passive	Active	Active	Active	Passive	Active	Active	Active	Active
Morningstar Peer Group	US Fund Large Blend	US Fund Large Blend	US Fund Small Blend	US Fund Foreign Large Blend	US Fund Foreign Large Blend	US Fund World Large Stock	US Fund World Large Stock	US Fund Intermediate Core-Plus Bond	US Fund Intermediate-Term Bond



This is not a mutual fund. Investment risks are not included here. Please visit [www.captrust.com/risk-disclosures](http://www.captrust.com/risk-disclosures) for a detailed description of the risks associated with investing by asset class and contact your CAPTRUST financial advisor to request a prospectus on one or all of the current holdings. Source: CAPTRUST Research; Morningstar as of 12.31.2021.

# ESG INVESTMENT MANAGERS—OVERVIEWS

## ESG All Equity

### Calvert U.S. Large-Cap Core Responsible Index

Passively managed mutual fund that seeks to track the performance of U.S. large-cap stocks overlaid with an ESG quantitative and qualitative security selection process.

### Parnassus Core Equity I

Actively managed mutual fund that invests in U.S. large-cap companies believed to have long-term competitive advantages and relevance, quality management teams, and positive performance on ESG criteria. The strategy focuses on high-quality companies that may perform better than the broad stock market during downturns and seeks to outperform its benchmark by capturing more of the stock market upside than downside.

### Calvert U.S. Small-Cap I

Actively managed mutual fund that focuses on long-term capital appreciation through U.S. small-cap stocks overlaid with an ESG quantitative and qualitative selection process.

### Hartford Schroders International Stock I

Actively managed mutual fund that focuses on long-term capital appreciation through non-U.S. stocks overlaid with an ESG quantitative and qualitative selection process.

### Calvert International Responsible Index

Passively managed mutual fund that seeks to track the performance of non-U.S. stocks overlaid with an ESG quantitative and qualitative selection process.

### Pax Global Environmental Markets I

Actively managed mutual fund investing in global companies that are developing innovative solutions to resource challenges in four key areas: new energy; water; waste and resource recovery; and sustainable food, agriculture, and forestry.

### Pax Ellevest Global Women's Leadership I

Actively managed mutual fund that is the first broadly diversified mutual fund that invests in the highest-rated companies in the world for advancing women through gender-diverse boards, senior leadership teams, and other policies and practices. Research indicates that companies with more women in leadership have higher returns on capital, greater innovation, increased productivity, and higher employee retention and satisfaction.

## ESG All Fixed Income

### PIMCO Total Return ESG I

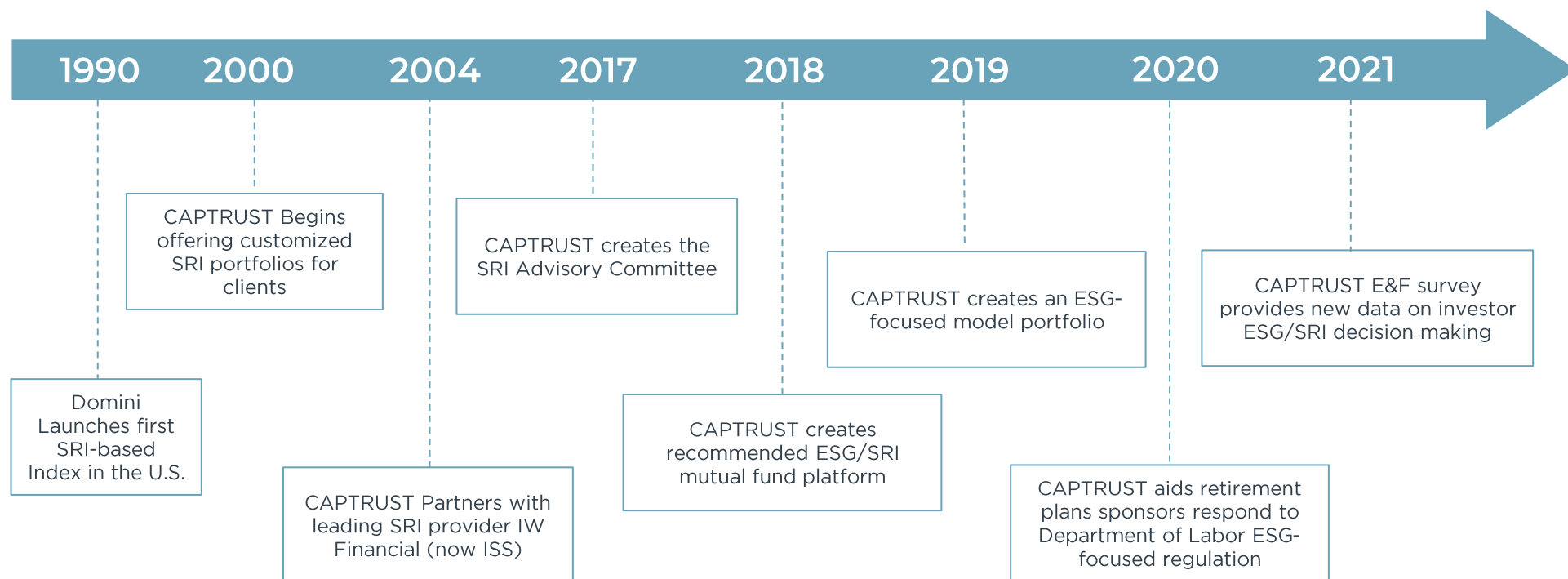
Actively managed mutual fund that focuses on maximizing total return while seeking capital preservation through prudent investing. This strategy uses ESG criteria to choose fixed income securities and to proactively engage with issuers to realize ESG objectives.

### TIAA-CREF Core Impact Bond I

Actively managed mutual fund that manages a core bond approach that invests across the investment grade, U.S. bond universe where leadership or direct and measurable environmental and social impact is attainable.

This is not a mutual fund. Investment risks are not included here. Please visit [www.captrust.com/risk-disclosures](http://www.captrust.com/risk-disclosures) for a detailed description of the risks associated with investing by asset class and contact your CAPTRUST financial advisor to request a prospectus on one or all of the current holdings. Source: CAPTRUST Research.

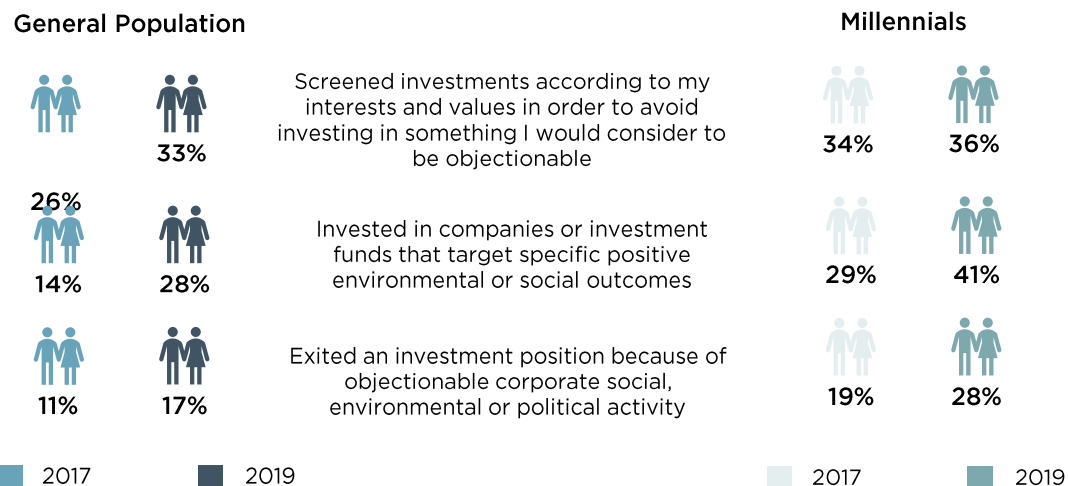
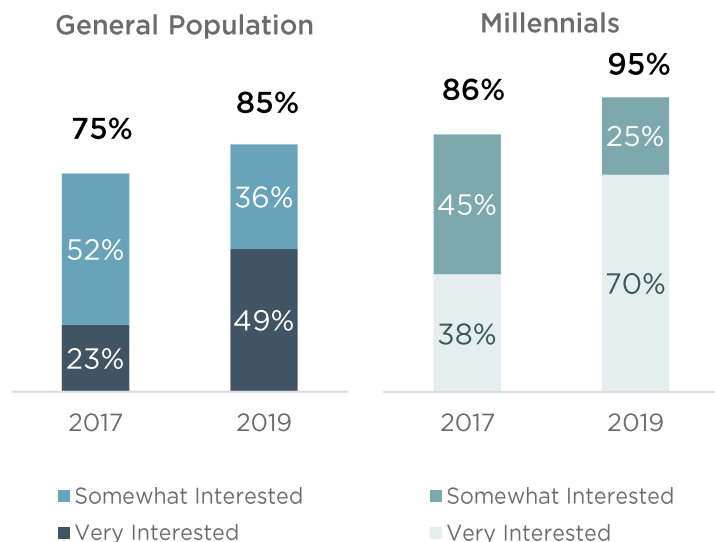
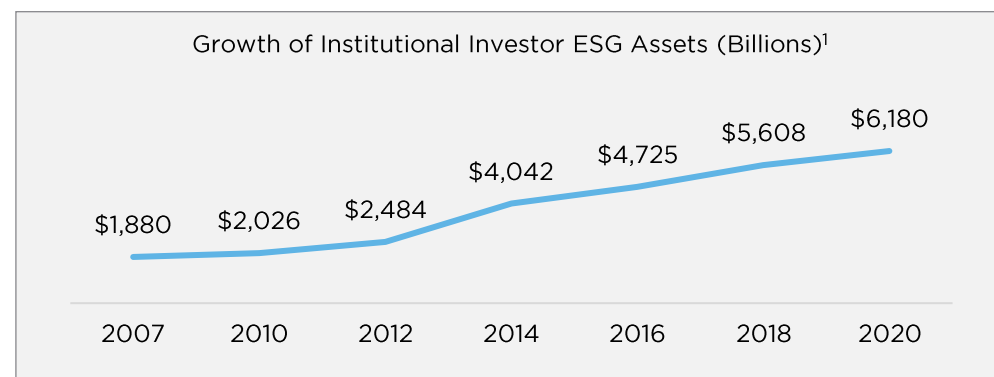
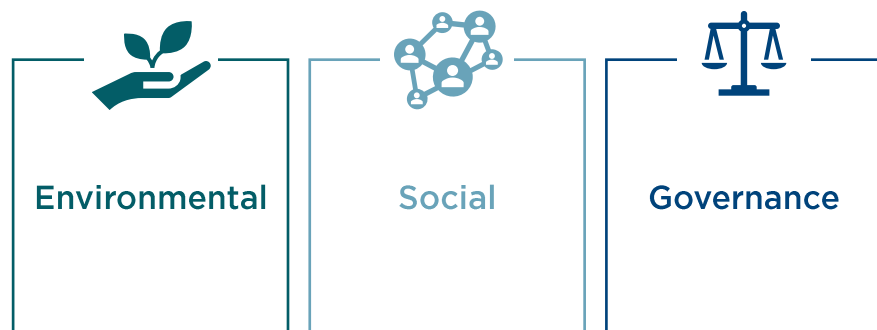
# TWO DECADES OF VALUES-BASED INVESTING



CAPTRUST possess a unique depth of experience and perspective which allows us to educate investors about values-based investing, and design strategies which create alignment between principals and portfolios. With two decades of implementation knowhow, CAPTRUST brings a proven track record of success.

Source: CAPTRUST Research. This presentation is being provided for educational purposes and is not intended as a solicitation to invest or participate in any trading strategy. The Information and statistics cannot be guaranteed to be accurate or complete.

# WHO IS ADOPTING ESG?



<sup>1</sup> Source: Report on US Sustainable, Responsible and Impact Investing Trends, The Forum for Sustainable and Responsible Investment (US SIF)

<sup>2</sup> Source: "Sustainable Signals, New Data from the Individual Investor" Morgan Stanley

Driven by investor demand, assets in responsible investing mandates have grown significantly. While not limited to any single group, Millennials are particularly attracted to options which align with the personal beliefs. While value-aligned investing can go by many names – such as socially responsible investing (SRI) – the most common industry term to describe the concept is "ESG Investing".

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# APPROACHES TO ESG INVESTING IMPLEMENTATION

If incorporation of ESG factors is desirable, there are multiple ways to accomplish implementation. Different methods offer contrasting approaches with different impact goals. Additionally, the methods often take the form distinct investment structures which investors may find more, or less, appropriate to employ in differing situations. Below we explore two of the most common ESG approaches.

## 1 Exclusionary Screening

Best suited for investors primarily concerned about not supporting companies with operations or values antithetical to your mission or priorities

This approach excludes companies from the investment manager's opportunity set allowing for continued execution of portfolio strategy – either active or passive

Exclusionary mandates often require utilization of a separate account structure which can be inefficient at low asset levels, but allows for investor-level customization

Often used by investors with a “zero tolerance” approach to themes like weapons or tobacco

## 2 Thematic Investing

Strategies seek to leverage current or prospective corporate ownership (equity) or financing (bonds) to take an activist position promoting identified goals

By combining assets with likeminded investors, managers can engage corporate leadership to make desired changes which may create more impact than exclusionary screening alone

Mutual funds and exchange-traded funds (ETFs) are well suited to execute specific themes

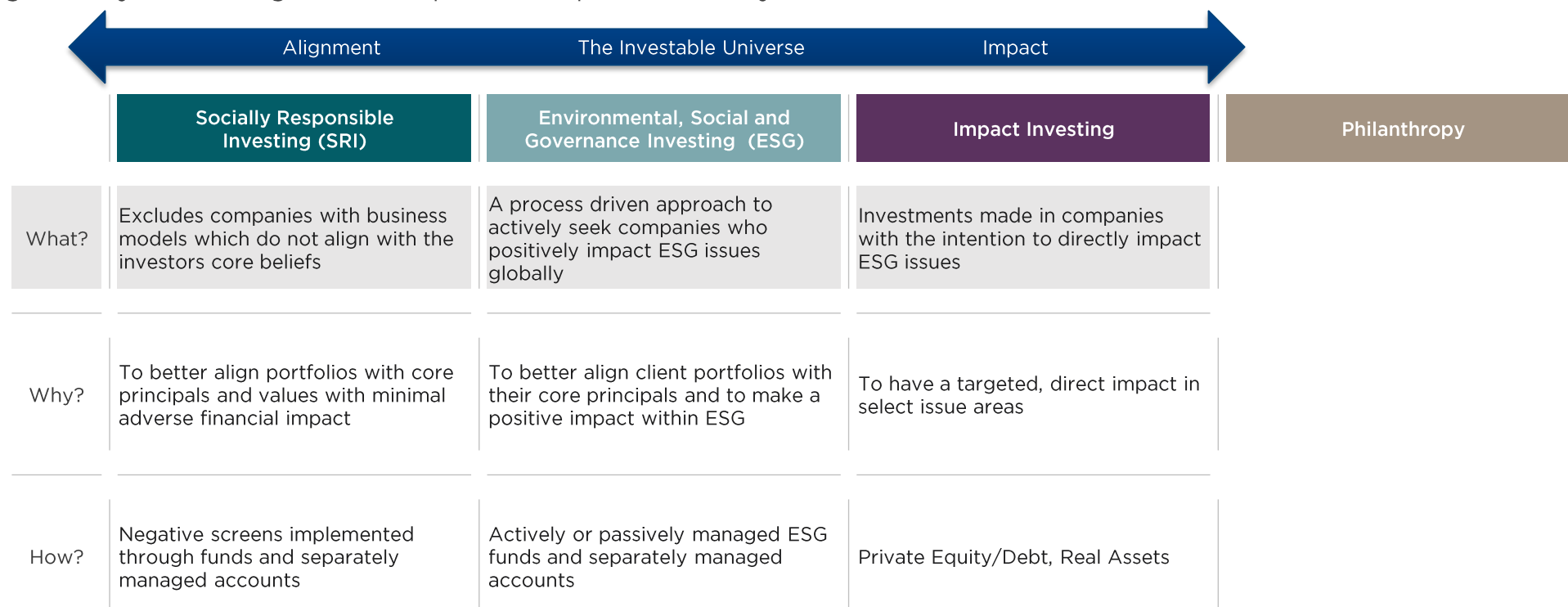
Common themes include low carbon emission, religious values, gender diversity and broad ESG

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# VALUES-BASED INVESTING: WHAT IT MEANS?

For generations investors have excluded companies with core values which do not align with their own principals. Historically, that meant negative/exclusionary screening assets, and today that practice remains to be the largest sustainable investment strategy. However, the adoption of environmental, social and governance issues (ESG) continues to grow with interest in different types of values-based investment options. Not only are investors looking for a financial gain, they are looking to make a positive impact on society.



When implementing values-based strategies, most investors employ either the Socially-Responsible or ESG philosophies. The following pages explore in more detail what ESG means in practice, the state of values-based investment ecosystem and practical implementation considerations.

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# THE COMPONENTS OF ESG

No universal definition exists for the pillars of Environmental, Social and Governance. The breadth of value-based priorities varies between investors as well as asset managers. Some focus on specific issues such as carbon emissions, others take a broader view of one or more of the categories. Below are sample ESG factors intended to help facilitate discussion about what specific values you want to express.

SAMPLE FACTORS		
ENVIRONMENTAL	SOCIAL	GOVERNANCE
<ul style="list-style-type: none"><li>• Carbon Intensity</li><li>• Fossil Fuel Reserve Ownership</li><li>• Water Usage Intensity</li><li>• Water Stress Regions</li><li>• Pollution</li><li>• Alternative Energy Utilization</li><li>• Green Building</li><li>• Energy Efficiency</li></ul>	<ul style="list-style-type: none"><li>• Labor Practices</li><li>• Human Rights</li><li>• Animal Welfare</li><li>• Data Protection and Privacy</li><li>• Diversity</li><li>• Business Involvement:<ul style="list-style-type: none"><li>• Major Disease Treatment</li><li>• Education</li><li>• Firearm</li><li>• Predatory Lending</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Independent Board of Directors</li><li>• Frequent Director Elections</li><li>• Common Equity Voting Protection</li><li>• Compensation Policies</li><li>• Accounting Control</li><li>• Risk Oversight</li><li>• Shareholder Engagement</li><li>• Management Structure</li></ul>

ESG investment strategies can focus on any one of the three factor categories, or even a single component part. Investors can also choose to incorporate all three groups of issues into their decision making process. Identifying what priorities exist will determine the appropriateness of an ESG framework as well as a suitable approach to integrating ESG.

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# SUSTAINABLE DEVELOPMENT GOALS

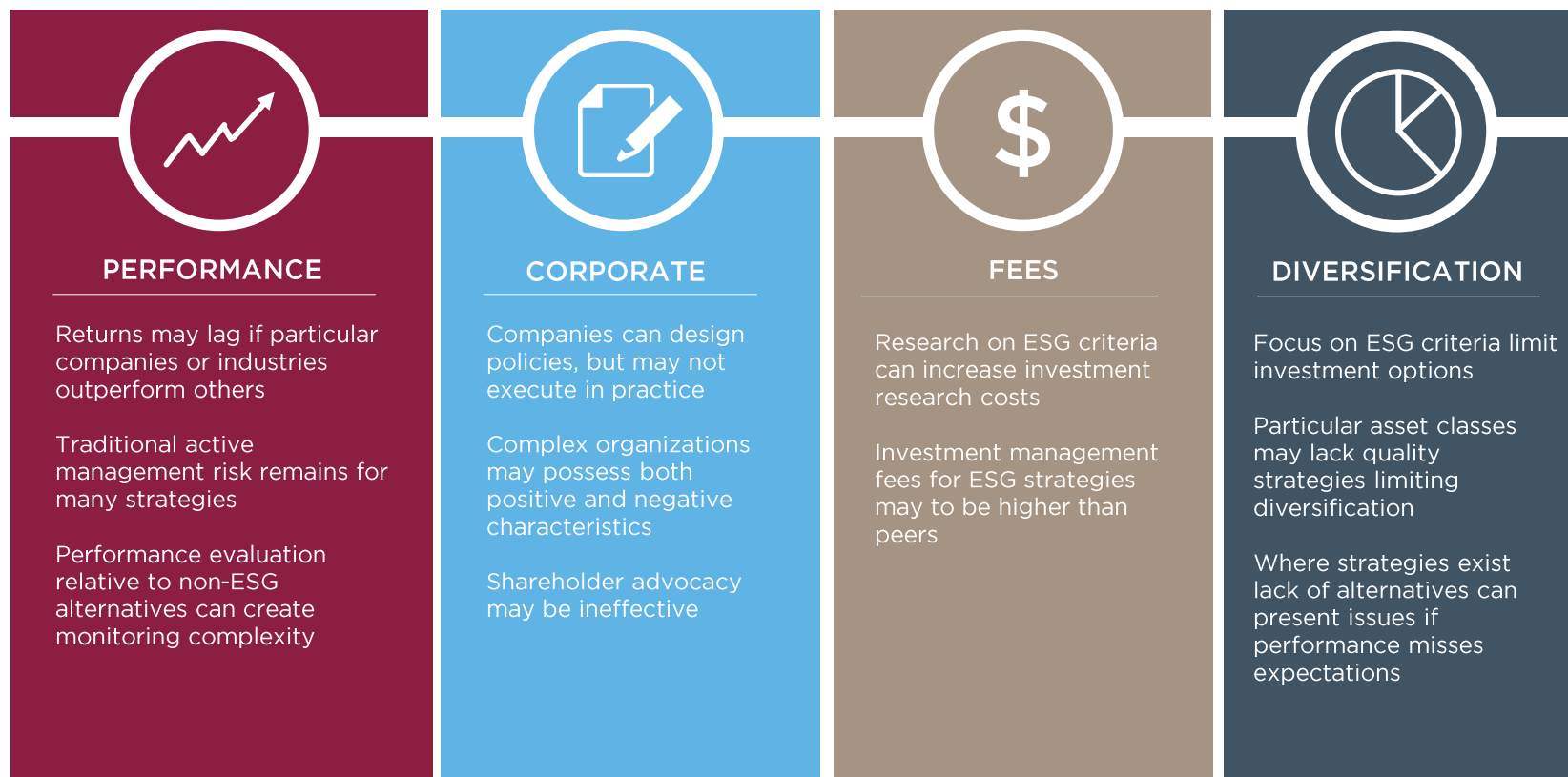
In 2015 more than 150 leaders adopted the Sustainable Development Goals, a blueprint to achieve a better and more sustainable future for all. These goals aim to end poverty, hunger and inequality, take action on climate change and the environment, improve access to health and education and promote peace and justice by the year 2030. Since the adoption of the SDGs investors have allocated more dollars to ESG related strategies and asset managers have offered investors with more investments that aim to make a difference and align with client values.



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# CHALLENGES OF ESG INVESTING

Incorporating Environmental, Social and Governance factors can align value priorities with financial decisions. A growing number of investment managers provide solutions for investment implementation. While ESG incorporation may have appeal, important concerns exist. Potential investors should weigh the challenges and potential shortfalls of executing ESG strategies relative to the potential benefit prior to determining whether to implement.



Investors should determine if incorporating ESG factors into their portfolio aligns with their priorities. Before implementing the strategy, establishing clear performance and impact goals will allow for evaluation to affirm the fitness of continued investments.

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# PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

Since their creation, the PRI have become an industry standard for asset managers and major investors participating in the ESG marketplace. Intended to be both voluntary and aspirational, signatories agree to six Principles for Responsible Investment.

We Will Incorporate ESG Issues Into Investment Analysis And Decision-making Processes.

We Will Be Active Owners And Incorporate ESG Issues Into Our Ownership Policies And Practices.

## PRI FACTS<sup>1</sup>

Principles Launched in  
2006

3,613 Signatories

Representation from  
50+ Countries

\$103.4 Trillion of AUM

We Will Seek Appropriate Disclosure On ESG Issues By The Entities In Which We Invest.

We Will Promote Acceptance And Implementation Of The Principles Within The Investment Industry.

We Will Work Together To Enhance Our Effectiveness In Implementing The Principles.

We Will Each Report On Our Activities And Progress Towards Implementing The Principles.

<sup>1</sup> Source: PRI Association

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# ECOSYSTEM—KEY CONTRIBUTORS TO ESG INVESTING

Asset owners like you actually demand and drive ESG investment through adoption of various Environmental, Social and Governance priorities. An ecosystem of industry contributors exists to support investors with key decisions and implement ESG strategies.

Some contributors like the Principles for Responsible Investment (PRI) Association and the Sustainability Accounting Standards Board (SASB) influence the ecosystem at a macro level by setting industry benchmarks. On the other hand, asset managers and consultants work directly with asset owners directly to implement ESG investment strategies.



## Principals for Responsible Investment (PRI) Association

- Primarily focused on setting standards for investors and asset managers
- Developed 6 Principles for Responsible Investment to which participants voluntarily adhere
- United Nations seeded independent global organization

## Sustainable Accounting Standards Board (SASB)

- Dedicated to creating standards for corporate reporting
- Goal to create high-quality, normalized corporate reporting on ESG factors
- Focused on publicly traded U.S. companies
- Independent organization with representatives from both investor community and industry

## Index & Data Providers

- Index providers research corporate characteristics to construct ESG factor aware market benchmarks
- Data providers provide ESG scoring of investment portfolios
- Major providers include FTSE, MSCI, S&P Dow Jones, and Morningstar

## Asset Managers

- Most investment managers who offer ESG options conduct their own research
- Many create strategies which investors can access
- May be capable of incorporating investor-specific ESG factors

## Consultants

- Help investors navigate ESG landscape
- Monitor asset managers for ESG compliance in addition to traditional due diligence
- If appropriate, can co-ordinate investor-specific ESG factors across multiple asset managers

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