

# ESG INVESTING & SHAREHOLDER ENGAGEMENT



An alphabet soup: related terms, different focus



Investing through an ESG lens involves considering many themes

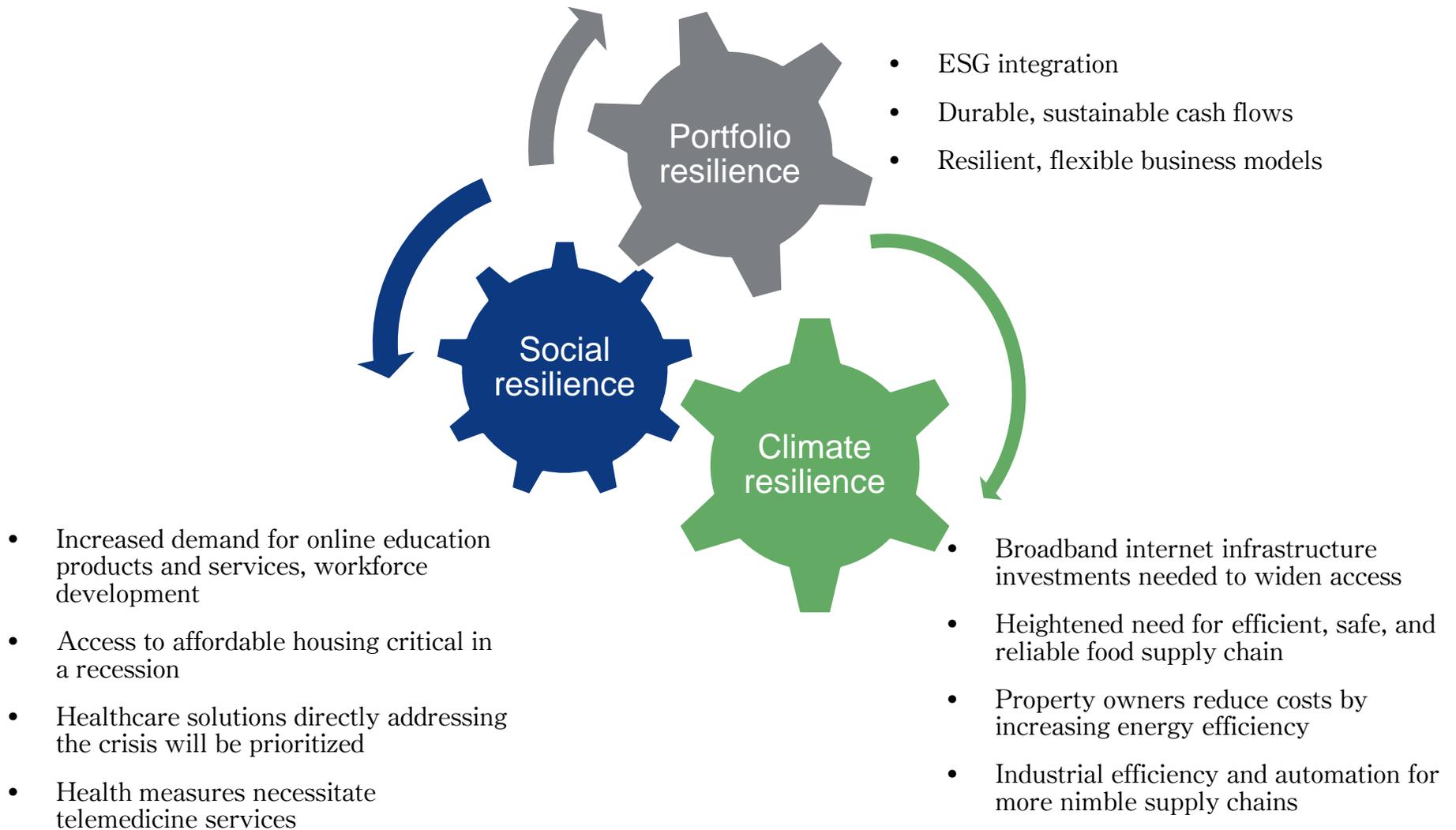
**SOCIAL PROGRESS**

<b>SOCIAL EQUITY</b>	<b>EDUCATION</b>	<b>HEALTH &amp; WELLNESS</b>	<b>CIVIC PRACTICES</b>
Community Development	Education Technology	Access to Healthcare	Civic Engagement
Workforce Development	Charter Schools	Diagnostics and Detection	Anti–Corruption
Economic Access	Student Loan Financing	Population Health	Arts & Culture
Affordable Housing		Prevention	
		Drug Discovery	

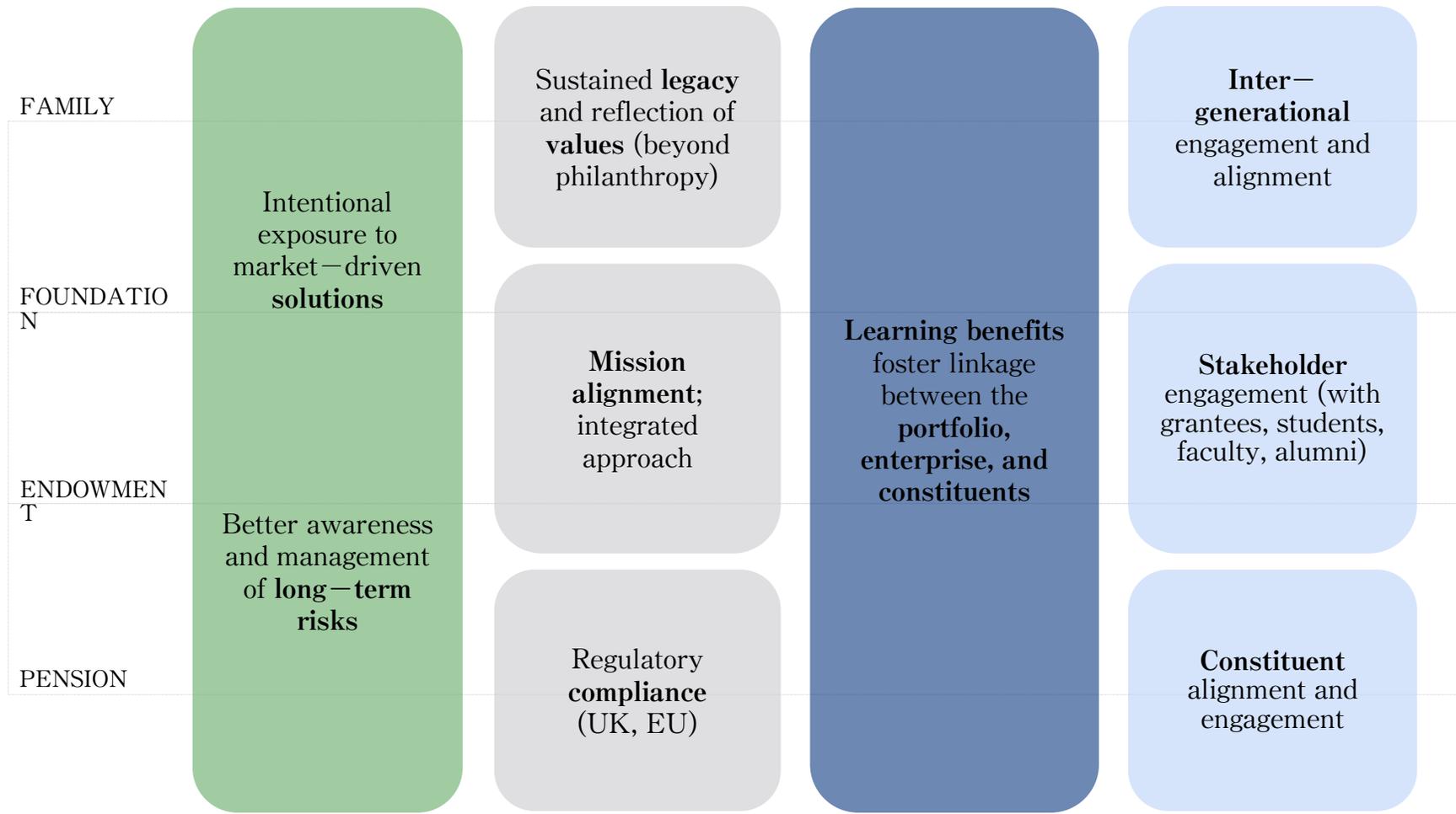
**ENVIRONMENTAL SUSTAINABILITY**

<b>BUILT ENVIRONMENT</b>	<b>FOOD SYSTEMS</b>	<b>ENERGY SYSTEMS</b>	<b>LAND &amp; WATER</b>
Real Estate Efficiency	Agriculture	Renewable Energy	Land Conservation
Energy, water, waste	Food Processing	Infrastructure	Mitigation Banking
Sustainable Infrastructure	Health Food Retail	Grid Innovation	Sustainable Timber
		Battery Storage	Water Technology
		Sustainable Transport	Water Infrastructure

## Applying a systems lens reveals interactions between portfolios and the economy to build future-proof portfolios in the age of COVID-19



Investors are motivated by a multitude of factors *in addition to* financial returns



# Investing through an ESG and impact lens help tip the scale in our favor, and that of future generations

## Grow

Intelligent and thoughtful investing in impact and opportunity themes can **enhance long-term value**

## Protect

Proper integration of environmental, social, and governance (ESG) factors can **protect long-term value**

Human capital, entrepreneurship

Technological innovation

Social cohesion

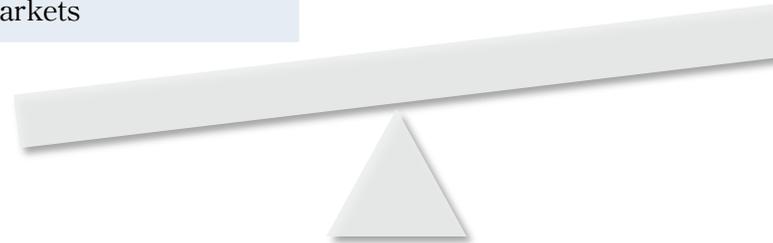
Healthy markets

Inequality

Poor governance

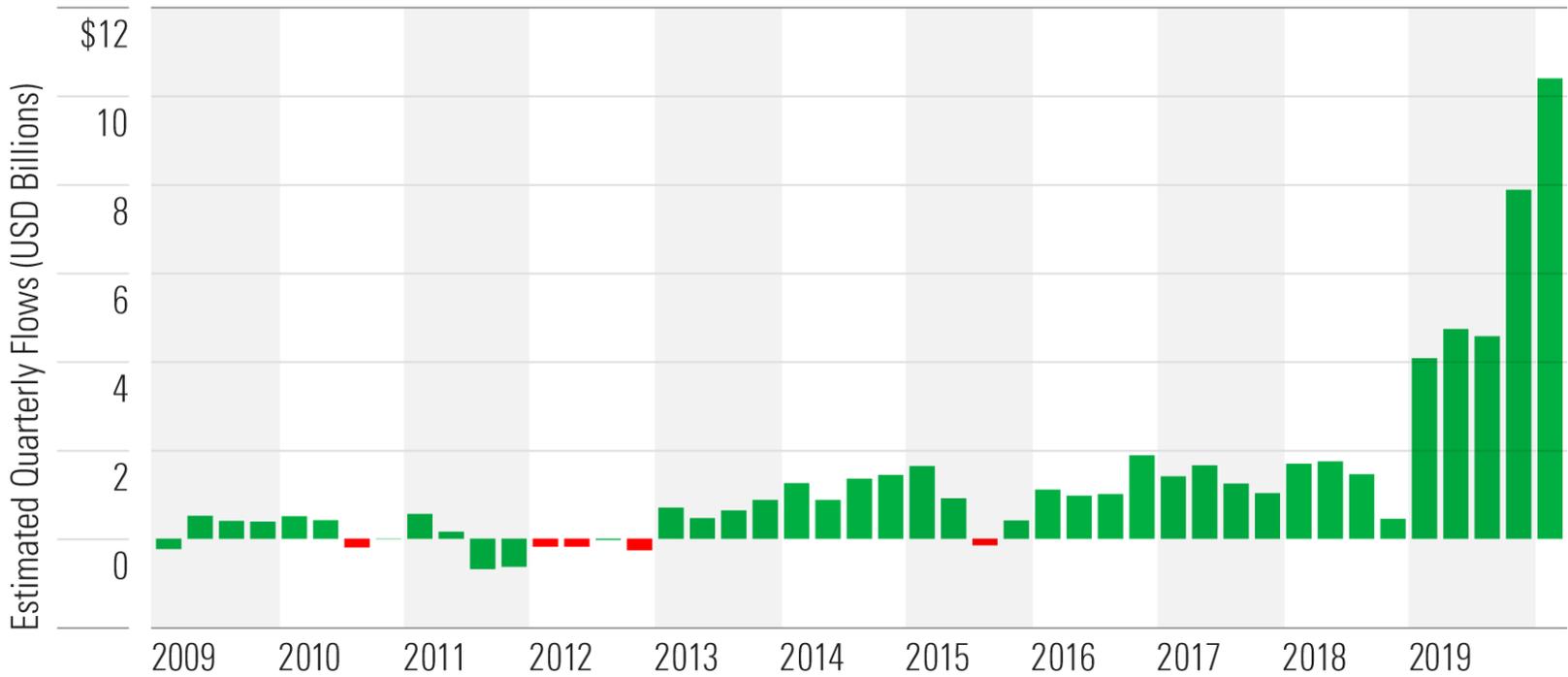
Resource scarcity

Climate change, environmental degradation



## Asset owners are catching on with surging growth of ESG investing

### Sustainable Funds U.S. Quarterly Flows



Source: Morningstar Direct. Data as of 3/31/2020. Includes open-end and exchange-traded funds available to U.S. investors. Includes funds that have been liquidated; does not include funds of funds

There are investable options at any point along the ESG and impact spectrum

STRATEGY	NEGATIVE SCREENS	PROACTIVE INTEGRATION	THEMATIC EXPOSURE	HIGH IMPACT
SUMMARY	Consistent with values	Mitigates risks Pursues opportunities	Targets sector specific equities	Achieves alignment with mission Highly targeted
SECTOR EXAMPLES	Firearms Tobacco Coal Tar Sands	Environment Diversity Community Relations	Water Renewable Energy Resource Efficiency	Climate Solutions Education Place-Based

- Shareholder engagement can be applied strategically and tactically across these investable options
- Each investor has their own approach to balancing investment & divestment

## Investors have a variety of tools to engage with asset managers on ESG topics

### Strategic

Clarify and prioritize issues in investment policy

Establish governance

Engage with coalitions, form partnerships

### Tactical

Send investment policy statement to managers

Send ESG questionnaires to managers

Conduct ESG audit of underlying portfolio holdings

Participate in shareholder resolutions & vote proxies

Allocate capital to align with ESG policy

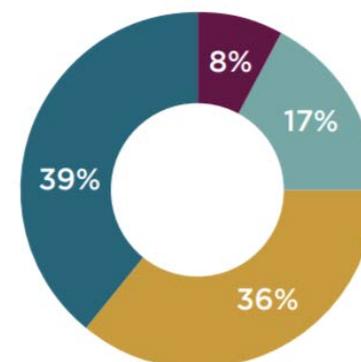
## Engagement data on corporate disclosures on climate risk show room for improvement

- ESG risks include box ticking focused on policy and process or simply marketing and greenwashing
- ShareAction 2019 study showed large managers failing to support over 90% of climate change shareholder resolutions despite being public endorsers of climate initiatives

### Worst performers in ShareAction report<sup>1</sup>

Asset Manager	Member of key climate engagement initiatives <sup>2</sup>	TCFD Supporter	% Climate votes for
Capital Group	No	No	4.9%
T. Rowe Price	No	No	5.3%
Blackrock	Yes	Yes	6.7%
J.P. Morgan	Yes	Yes	6.7%
Vanguard	No	Yes	8.3%
Fidelity	Yes	Yes	9.3%
Wellington	Yes	Yes	9.8%

### Quality of reporting on engagement activities<sup>3</sup>



- Representative sample of engagement activities
- Some examples of engagement activities
- Disclosing only number of engagements
- No engagement-related disclosure

Asset owners have an opportunity to engage with managers on proxy voting decisions and deeper engagement efforts with portfolio companies

ESG investing and shareholder engagement are about rationalizing risk-adjusted returns, investment philosophy, and investor values for long-term benefit

