

# Today's speaker



Host

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Client Relationship Manager

@ Ethic

## What we'll cover today

- ✓ What is ESG?
- ✓ Industry outlook & data landscape
- ✓ Ethic's unique approach
- ✓ Q&A

# What is ESG?

# What is sustainable investing?

**It all comes down to one simple thing:**

Helping your clients  
see their values in  
their investments

## A lot of acronyms and terms...

ESG (environmental, social, and corporate governance); SRI, responsible investing, social impact, and sustainable investing...

Ultimately we're seeking to:

- ✓ Reflect values
- ✓ Have impact
- ✓ Manage risk
- ✓ Invest with more information

# ESG industry outlook & company behavior case studies

# Industry trends

# Some notes on **sustainability**

## Common misconceptions

- Performance constraints
- Product limitations
- Too expensive
- Limited demand / trend

## Break away from the noise

- Quality performance<sup>1</sup>
- Product expansion
- Standard pricing
- Impact is here to stay**

*1. There is no guarantee that sustainable investing will yield positive performance. All investments involve risk, are not guaranteed, and may lose value.*



## ESG staying power, at a glance

85%

of investors considered ESG factors in their investments in 2020 <sup>1</sup>

42%

growth in professionally managed assets using ESG factors, 2018-2020 <sup>2</sup>

\$53T

in global assets expected to apply ESG criteria by 2025 <sup>3</sup>

1. "The ESG Imperative: 7 Factors for Finance Leaders to Consider" 2021, Gartner
2. "Report on US Sustainable and Impact Investing Trends 2020" 2020, US SIF
3. "ESG assets may hit \$53 trillion by 2025, a third of global AUM" 2021, Bloomberg

# Values-aligned investor **interest**<sup>1</sup>

Historically, investors have expressed their values with their money in other ways, but the trend is coming to stock selection.

- ✓ 91% of surveyed are most likely to report that they **incorporate behaviors in their daily life as a way to support the values** and causes they believe in.
- ✓ 78% of surveyed investors **report donating money** to causes or organizations.
- ✓ **63% percent say they are likely to purchase stocks or funds** associated with companies that align with their values. Slightly more, **68%, are likely to avoid stocks or funds** associated with companies that contradict their values.

1. <https://news.gallup.com/poll/389780/investors-stand-esg-investing.aspx>

## Values-aligned investor **concerns** in 2021

44%

of investors identified **greenwashing** as their #1 concern in ESG<sup>1</sup>

42%

of investors identified **high costs** as their #1 concern in ESG<sup>1</sup>

38%

of investors identified **underperforming traditional portfolios** as their #1 concern in ESG<sup>1</sup>

1. Quilter 2021. "Greenwashing tops investors' concerns around ESG products, new research finds."

## Why **greenwashing** may now be the top concern

140

ESG ratings providers exist today across countries and asset classes <sup>1</sup>

534

sustainable open-end and exchange-traded funds available to U.S. investors in Dec 2021, 36% Y-o-Y growth <sup>2</sup>

17%

of assets in sustainable funds are repurposed funds, adopting new sustainability mandates <sup>2</sup>

60%

Of sustainable assets are in active funds; 3 years ago, active funds claimed 81% of sustainable assets <sup>2</sup>

1. <https://theimpactinvestor.com/esg-rating-agencies/>

2. "Sustainable Funds U.S. Landscape Report" 2022, Morningstar

# Company behavior trends

# Using **shareholder activism** as a catalyst for change: Exxon & Engine No. 1

## **3 board seats overturned in 2021**

- Hedge fund owning 0.02% of Exxon's shares
- Goal for Exxon to reduce its carbon footprint
- An example of ho

## **Major asset managers involved**

- BlackRock, Vanguard and State Street (~20% of Exxon's >4 million shares) voted against Exxon's leadership and gave Engine No. 1 powerful support.
- The campaign to the institutional investors was in-line with their own 2050 carbon emissions goals

1. New York Times. "Exxon's Board Defeat Signals the Rise of Social-Good Activists."

# Putting **reputational risk** above profits: McDonalds leaves Russia

“We have a commitment to our global community and must remain steadfast in our values.”

-Chris Kempczinski, McDonalds Chief Executive

## **McDonalds to 'de-arch' Russia**

In May 2021, McDonalds announced that it would:

- Close 847 restaurants in Russia
- A local buyer would no longer use the McDonald's name, logo, branding, etc.
- Expected one-time loss of \$1.2-\$1.4 billion

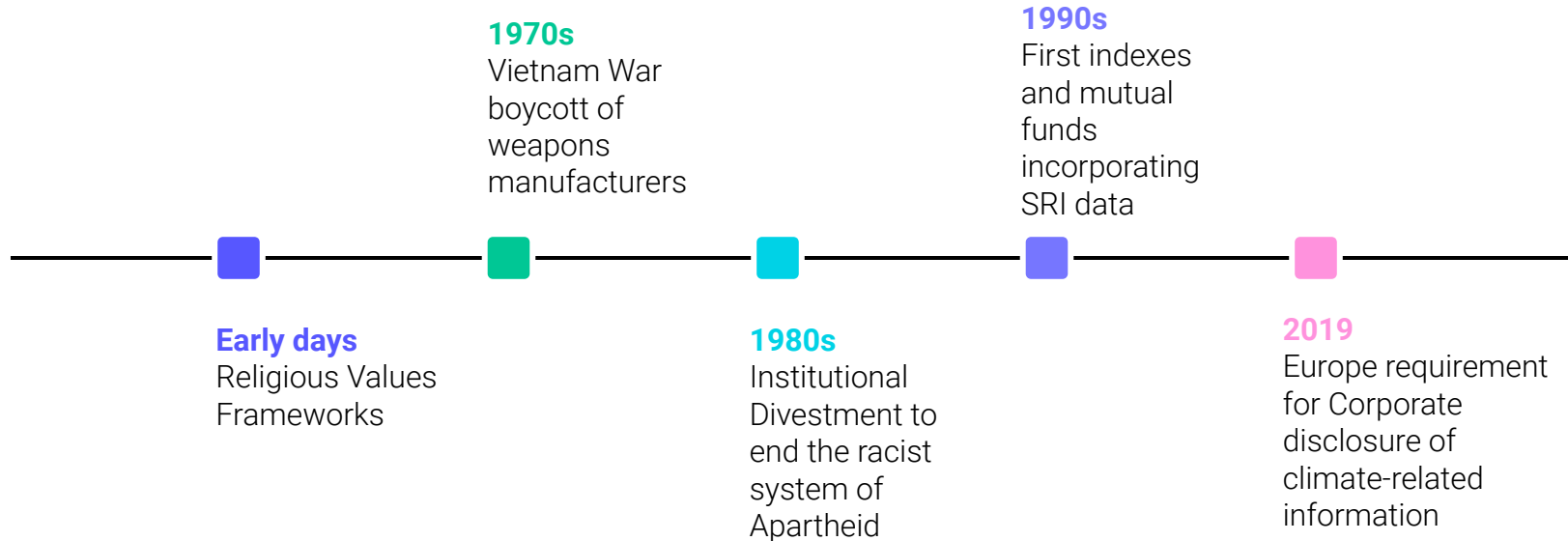
1. WSJ. "McDonald's to Exit From Russia After Three Decades."

2. New York Times. "After 32 years, McDonald's plans to sell its Russia business."

# ESG product landscape



## Values-aligned investing & asking companies to take responsibility for their actions has been an **evolution**



1. "A Brief History of Sustainable and Impact Investment: It's Still Not Too Late to Save the Planet." Domini

# Today's **spectrum** of ESG offerings

## **ESG risks**

Evaluate materiality of ESG to financial performance.

## **Negative screening**

Divestment from public companies with negative impacts.

## **Targeted themes**

Invest in companies having positive impacts or in a specific focus area.

## **Active ownership**

Participate in socially responsible proxy voting and shareholder activism efforts.

# Informed by a **proliferation of sustainability data**

## ESG risks

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Focused on what **shareholders** care about.

- Physical risk
- Transition risk
- Regulatory risk
- Technology change
- Board structure
- Supply chain management

## Negative screening

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Focused on what **stakeholders** care about, including shareholders, employees, consumers, etc.

### Top down

- Factory farming
- Fossil fuel industry
- For-profit education
- Fast food & soda
- Gambling

### Bottom up

- Remuneration
- Private prisons
- Carbon emissions
- Diversity policies
- Opioid involvement

## Targeted themes

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Invest in **only** companies in a specific focus area.

- Clean water
- Affordable housing
- Renewable energy
- Cannabis
- Religious values

## Other drivers at play

### **The Biden Administration**

The SEC is considering rules that support:

- Greater impact disclosures
- Enhanced transparency

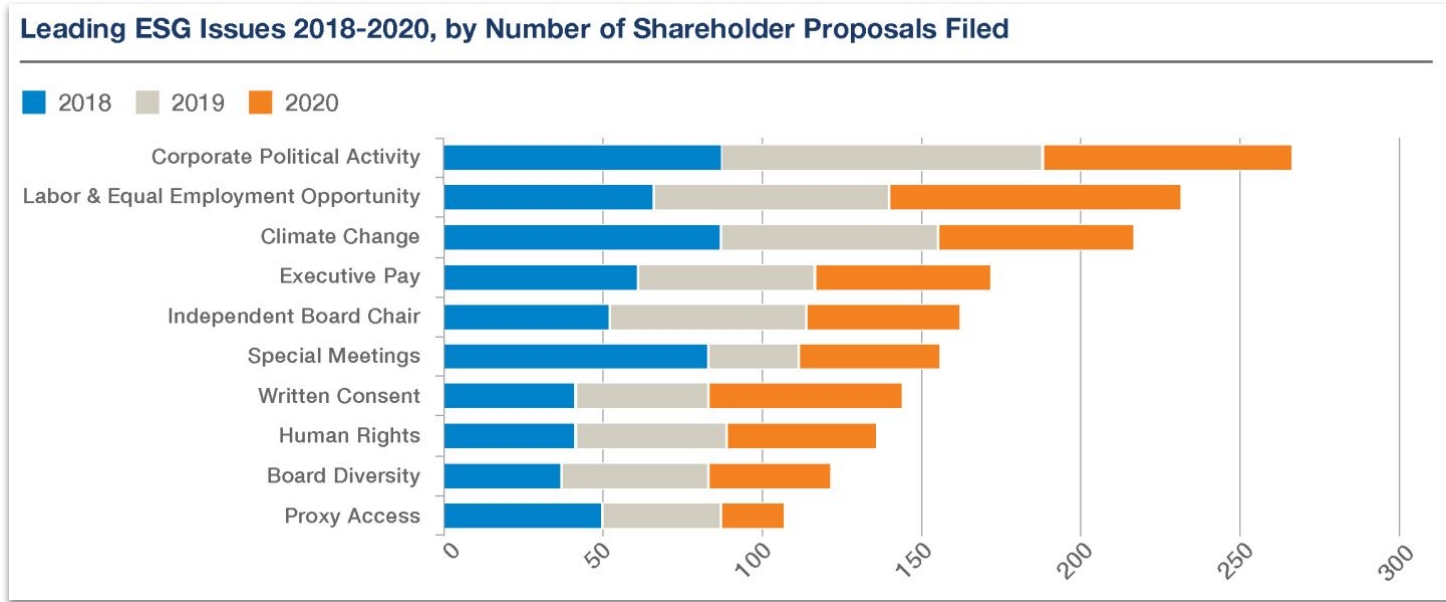
Both of which could accelerate adoption of ESG.  
Bringing uniformity to the ESG taxonomy seems to be the goal of both US and global regulators.

### **Major asset managers**

Blackrock, Vanguard and others are:

- Demonstrating greater support for sustainable investing
- Facing scrutiny about their proxy voting records vs. public impact commitments

Active ownership is an important piece of **changing corporate behavior**



# We believe **personalization** is the future

Whether it is individuals or institutions, everyone has values.

And sustainable investing can mean different things to different people.



Source: US SIF

# How does Ethic fit into the landscape?

ethic.

**Hello, we're Ethic. We're working  
toward a future where all investing  
is sustainable investing.**



**We build uniquely  
personalized equity  
SMAs**

**Values** 

- ✓ 19 Sustainability Pillars
- ✓ Award-winning ESG approach<sup>1</sup>
- ✓ Active proxy engagement

**Financials** 

- ✓ Direct indexing strategies
- ✓ Tax optimized approaches
- ✓ U.S. and global benchmarks

**Note: We encourage access to vote proxies on behalf of clients for all portfolios.**

*1. Investment news' innovation awards. InvestmentNews recognizes the crucial role firms play in cultivating and implementing innovative answers to the financial advice industry's greatest problems, such as retirement readiness, inefficient practices and inadequate educational resources. Award is chosen by editors and based on information provided re: platform features*

# Our approach to sustainability



# Sustainability is constantly evolving.

At Ethic, we believe that as the world changes, so do your opportunities for impact.

Our sustainability model is designed to continually incorporate the latest research and perspectives to help you best express your impact goals through your investments.

# Our thoughtful approach to sustainability

## 01

**Utilize frameworks from leading academic journals and NGOs in the field.**

Industry research:

- ✓ SASB
- ✓ UN SDGs
- ✓ UN Women's Empowerment Principles
- ✓ IPCC
- + and more

## 02

**Ingest 4,000+ data points from 5 data providers.**

Data providers used:

- ✓ MSCI
- ✓ Sustainalytics
- ✓ TruValue Labs
- ✓ Refinitiv
- ✓ AFSC

## 03

**Create 19 proprietary sustainability pillars for clients to prioritize their unique values.**

Sustainability pillars:

- ✓ Climate Change
- ✓ Racial Justice
- ✓ Corporate Ethics
- ✓ Clean Water
- + 15 more...

## 04

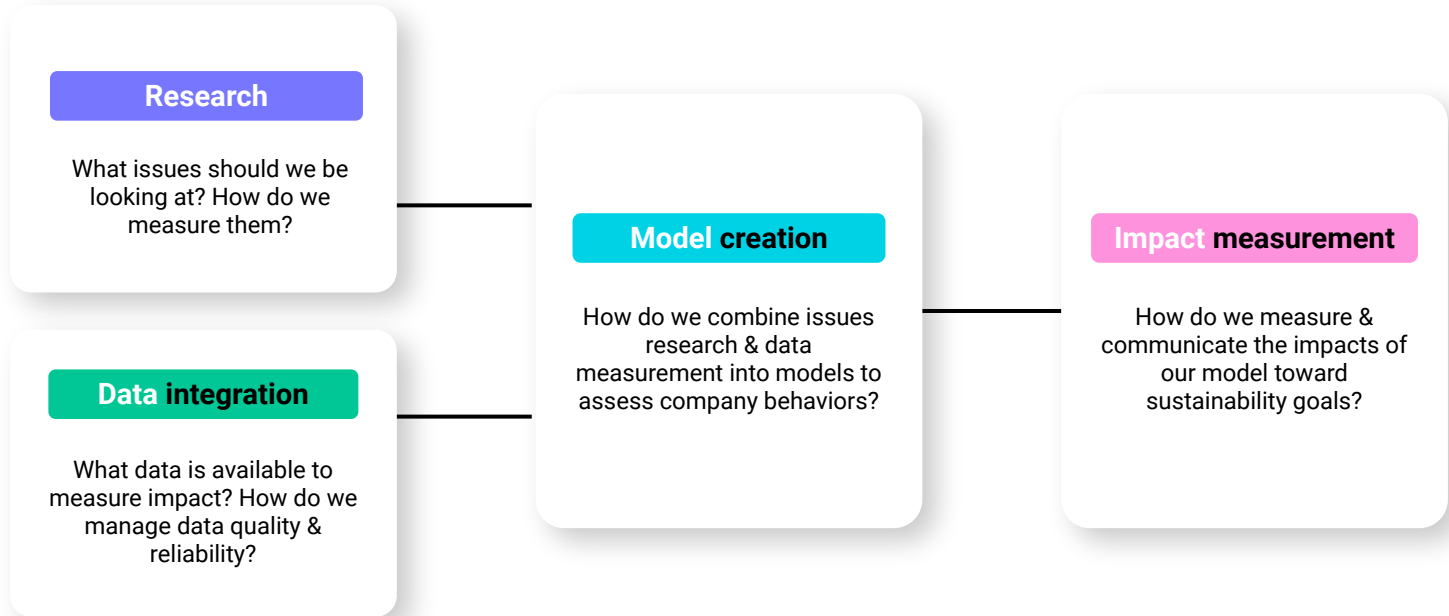
**Monitor the evolving sustainability data and research landscape over time to continuously enhance our approach.**

Rigorous approach:

- ✓ Evaluate 30 + data providers
- ✓ Review pillars annually
- ✓ Evolve sustainability model
- ✓ Incorporate diverse data sets
- + and more

As of April 30, 2022

## Ethic Sustainability Model



**The Ethic Sustainability Pillars** reflect 19 significant environmental, social, and governance issues facing the world today.

1. Climate Change
2. Clean Water
3. Animal Welfare
4. Pollution
5. Deforestation
6. Agriculture
7. Racial Justice
8. Education
9. Poverty
10. Democracy
11. Immigration Justice
12. Human Rights
13. Women's Rights
14. LGBTQ Justice
15. Health & Wellness
16. Worker Treatment
17. Corporate Ethics
18. Corporate Diversity & Inclusion
19. Financial System Stability



## Our sustainability data

### 35+ providers assessed

- S&P/Trucost
- ISS
- FTSE Russell
- RepRisk
- Equileap
- ...

### 10+ custom research topics

- For-profit education
- Factory farming
- Fast food and soda
- Etc.
- More, pending client needs

### 5 core data providers

- MSCI
- Sustainalytics
- Refinitiv
- TruValue Labs
- American Friends Service Committee

### 4,000+ indicators

- Revenues from products or services
- Material ESG risk assessments
- Measured quantities, e.g., volume of waste generated, # women employees
- Policy quality assessments
- Company-disclosed values
- Media sentiment analysis

## Our securities coverage

### 10,500+ companies covered

- US
- Global Developed
- Select Emerging markets

As of April 30, 2022

# Climate Change case study

The vision & research

## The vision

The Climate Change Pillar seeks to limit the negative health and environmental impacts of a changing climate.

## Anthropogenic causes

Driven by human (and company) activities contributing factors of climate change. The framework we use to categorize the causes of climate change is based on the **Intergovernmental Panel on Climate Change** (IPCC)'s research.

## Climate risk

The framework we use to understand climate risk is based on the work of the **Task Force on Climate-Related Financial Disclosures** (TCFD).



# Climate Change case study

## Data integration & model creation

### Industry approach

Relevant screens include:

- Deriving 5% or more revenue from oil sands extraction and all companies
- Deriving 5% or more revenue (either reported or estimated) from the mining of thermal coal and its sale to external parties or thermal coal based power generation.

e.g. iShares ESG Aware MSCI USA ETF<sup>1</sup>

### Ethic approach

Assess companies' business activities that cause warming

- Carbon dioxide emissions
- Nitrous oxide emissions
- Methane emissions
- Carbon monoxide emissions
- Black carbon (i.e., soot) emissions
- Deforestation activities

Assess companies' business activities that support the fossil fuel industry

- Exploration, extraction, refining, transportation of fossil fuels
- Service and equipment providers
- Marketing and advertising providers that work with the largest fossil fuel companies
- Banks funding new fossil fuel projects

Assess companies' financial and reputational risk related to climate change

- Physical risk (i.e., operational risk relating to changes in weather or climate)
- Transition risk (i.e., risk related to political, legal, technological, or market-related changes due to climate change)

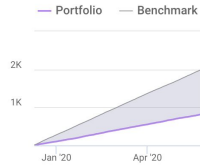
1. <https://www.ishares.com/us/products/index-screen-definitions/esg-aware>

2. "Industry approach" and "Ethic approach" are not comprehensive of the products' sustainability criteria

# Quantify your clients' impact and the progress they're making towards their sustainability goals

## Water usage ownership

### Your ownership

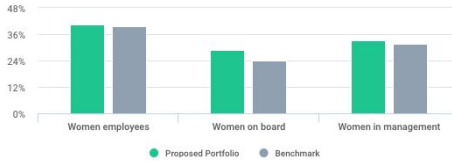


### Your savings equivalency

Your portfolio owns 1,196 m<sup>3</sup> less than the benchmark

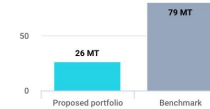
- 27,269 Showers Taken
- 7,900 Loads of Laundry

## Gender diversity benchmarks



## Carbon emissions ownership

### Ownership comparison



### Your savings equivalency

Your proposed portfolio owns 53 MT less than the benchmark

- 131,493 Miles Driven
- 5,989 Gallons of Gas
- 6 Homes' Energy
- 122 Barrels of Oil



Equivalencies are calculated from "Residential Uses of Water" American Water Works Association and "Per Capita Water Use" U.S. Geological Survey. Please note, these estimates are approximate using the following assumptions. 1m<sup>3</sup> of water = 22.8 showers. 1m<sup>3</sup> of water = 6.605 loads of laundry.



Women in majority-male workplaces report higher rates of gender discrimination than those in balanced workplaces. (Parker, Kim. "Gender Discrimination More Common for Women in Mostly Make Workplaces." Pew Research Center, 7 Mar. 2018.) This graph compares the average percentage of women in the workforce in the U.S. as of April 30, 2022.



Equivalencies are calculated from U.S. EPA's Greenhouse Gas Equivalencies Calculator ([epa.gov](https://www.epa.gov/greenhouse-gas-equivalencies-calculator)). Please note, these estimates are approximate using the following assumptions: 1 MT of carbon emissions = 2481 miles driven., 1 MT of carbon emissions = 113 gallons of gas., 1 MT of carbon emissions = 115 homes' energy use for a year., 1MT of carbon emissions = 2.3 barrels of oil.

All visuals are included for illustrative purposes only.

## More about our customization

✓ Benchmark selection

✓ Proxy voting advocacy

✓ Tax management

✓ Custom inputs/constraints

**Footnote:**

For clients that have opted into proxy voting services, Ethic has the discretion to vote proxies in accordance with our internal policies and procedures.

## Leverage advocacy to create impact

Ethic currently uses ISS to vote proxies on behalf of your clients. With proxy voting, your clients may have the opportunity to:

01

Vote to move the needle on corporate board diversity.

02

Request, or vote on, a company's climate transition plan.

03

Request enhanced political spending disclosures for better risk assessment.

# Q & A

Send additional questions to [corinne@ethic.com](mailto:corinne@ethic.com)

# Disclosures

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