COMPARATIVE & INTERNATIONAL EDUCATION SOCIETY
Investment Policy Statement
Adopted December 10, 2021 by Vote of the CIES Board of Directors

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I. Purpose of the Policy Statement

This Policy Statement outlines goals or investment objectives of the funds intended for long term investment, also referred to as the "endowment" of the Comparative & International Education Society (CIES). Since it is intended to provide guidelines for the investment managers responsible for managing the Plan's assets, this document is also designed to outline certain specific investment policies which will govern how those goals are to be sought. It is understood that there can be no guarantees about the attainment of the goals or investment objectives outlined here.

II. Information about the Plan Sponsor

CIES is a not for profit organization founded in 1956 to foster cross-cultural understanding, scholarship, academic achievement and societal development through the international study of educational ideas, systems and practices. The Society's members include more than 3,000 academics, practitioners, and students from around the world.

III. Information about the Plan

The Plan, established in 2013, is housed with Merrill Lynch, a Bank of America Company. CIES is committed to ensuring that our funds are managed using Socially Responsible screens. The socially responsible aspect of the portfolio considers the environmental, social and governance impact of each of the companies.

Our endowment consists of permanently restricted funds as well as temporarily restricted funds. The former include several endowment funds (e.g. Kneller, Kirk, Cain, Elizabeth Sherman Swing and

International Travel). The retained interest income that has accumulated from each of these funds is considered temporarily restricted.

IV. Responsibilities of Plan Representatives

Responsibility for overseeing the Fund and its investments rests with the Board. It is intended that the Board, as the proper fiduciaries of the Plan, may appoint investment managers to manage the Plan's assets. Also, the Board is responsible for defining the investment objectives and policies for the Plan's assets. It is expected that these objectives and policies will be used as selection criteria in the manager identification process and in the final selection of investment managers. The Board has the responsibility to recommend changes in investment policy and to implement approved policy, guidelines and objectives. The Board is responsible for evaluating each investment manager's performance as well as the manager's adherence to the Plan's investment policies. The Board has the responsibility to monitor and authorize changes to these policies. The Board can also depend on the advice and guidance of the Finance and Investment Committee, a Standing Committee of the Board. The Finance and Investment Committee shall be chaired by the Treasurer of CIES and shall oversee the CIES endowments and general funds and select investment funds that are consistent with the socially responsible and carbon reserve free investing policy and the broad risk and income objectives established by the Board of Directors. It will also advise the President, the Board and the Executive Committee on the Society's overall financial situation and fiscal needs and opportunities.

V. Responsibilities of the Investment Managers

The investment managers are independent, outside experts hired to work with CIES. Currently this service is provided by Merrill Lynch, a Bank of America company. Each investment manager is expected to manage the Plan's assets in a manner consistent with the investment objectives, guidelines, and constraints outlined in this statement. Each investment manager shall at all times be registered in good standing as an investment advisor under the Investment Advisors Act of 1940 or be a Regulated Bank or Trust Company, and shall acknowledge in writing that it is a fiduciary of the Fund. The Fund assets will be managed by professionals with proven, audited track records.

The investment manager is expected to operate within an overall asset allocation strategy defining the portfolio's mix of asset classes. This strategy, described below and in the manager specific investment policy, sets a long-term percentage target for the amount of the portfolio's value that is to be invested in any one asset class. The allocation strategy also defines the allowable investment shifts between the asset classes, above and below the target allocations.

Neither the investment manager, nor the Finance and Investment Committee, nor the Board shall make decisions on whether to invest in individual equities or securities. Instead, the Society shall utilize professionally managed investment funds.

VI. Socially Responsible and Carbon Reserve Free Investment Policy

CIES is committed to socially responsible and carbon reserve free investing and will use investment funds that apply screens to achieve these objectives. The goal is to have positive social and environmental effects while also achieving competitive financial returns.

CIES will select investment funds that consider Environmental, Social and Governance (ESG) factors and (1) avoid certain kinds of investments such as in tobacco, gambling or firearms, (2) favor investments that produce positive social benefits, and (3) select investments that have positive and measurable outcomes on targeted environmental and social issues. This framework is further explained in a May 2021 Merrill Lynch white paper "Impactonomics" that is attached as an informational Annex to this policy.

CIES will pursue carbon reserve free investing through a strategy where companies with superior environmental performance are prioritized and investment in energy companies and fossil-fuel burning utilities are excluded.

On a quarterly basis the investment manager will review well-performing investment funds that best meet the requirements of the Society's socially responsible and carbon reserve free investment policies.

VII. Investment Objectives

The overall investment objective for the Fund's assets is to focus primarily on growth in combination with income generation. This is a total return approach, emphasizing both growth in principal and current income. This investment objective translates into a MODERATE asset allocation for the funds identified as "endowment" or long term assets of the organization.

The Finance and Investment Committee will monitor the portfolio's performance on a quarterly basis and will evaluate the manager's progress toward meeting the investment objectives outlined below over three- to five-year rolling time periods, unless otherwise noted. The Treasurer will provide quarterly updates to the Board of the status of the investment accounts and the manner in which the Board-approved investment policies have been implemented.

It is desired that the aggregate portfolios produce a level of return higher than the "market", as represented by a benchmark index or mix of indexes reflective of the Plan's return objectives and risk tolerance. This benchmark or "policy index" to be used will be 60% of the returns generated by the Standard and Poor's 500 Index. The portfolio is expected to exceed the arithmetic mean return of this benchmark over three- to five-year rolling time periods.

The real return objective of the Total Portfolio is CPI + 4.00% also measured on an arithmetic mean basis, annualized over a three- to five-year time period.

VIII. Risk Tolerance

The portfolio's investment results are to be achieved at Moderate risk level. Primary emphasis is to strike a balance between portfolio stability and portfolio appreciation. Investors using this model should be willing to assume a moderate level of volatility and risk of principal loss. A typical portfolio will primarily include a balance of fixed-income investments and equities with a goal of relatively consistent annual returns, while acknowledging some potential for negative returns in any one year. Specifically, the risk level of the portfolio as measured by volatility (standard deviation) should be no higher than the 60% of the volatility level of the S&P 500 Index described in the prior section.

IX. Asset Allocation Strategy

In line with the portfolio's return objectives and risk parameters, the portfolio's mix of assets should be

maintained on average as 60% equities, 35% fixed income securities, and 5% cash or cash equivalents. Allowing for market movements, in aggregate, the ranges for these categories are as follows:
Stocks: 40% to 65%
Fixed Income: 30% to 50%
Cash : 0% to 15%

The assets of the Total Fund will generally be invested through a fully diversified approach using any combination of individual securities, mutual funds and exchange traded funds, with specialized complementary investment strategies. As mentioned earlier, the fund will use Socially Responsible and carbon reserve free screens. The socially responsible aspect of the portfolio considers the environmental, social and governance impact of each of the companies. Both managed and the bond mutual funds should be in good standing with the investment manager's due diligence team.

The strategic allocation for each asset class will be diversified as follows:

12% – 35% Large Cap Growth
12% - 35% Large Cap Value
4% - 12% Small/Mid Cap
8% - 15% International
32% - 40% Fixed Income
3% - 5% Cash

Deviations from the asset mix guideline may be authorized in writing by the Board when they determine that the aggregate deviation does not constitute a material departure from the spirit of the target allocation.

X. Rebalancing Policy

The risk tolerance and asset allocation parameters set forth above have been designed to provide the best investment returns while limiting risk to the portfolio. Over time, different investment styles will produce different results, changing the asset allocation of the portfolio. In order to adhere to these decisions, the portfolio must be rebalanced periodically.

The financial advisor will monitor the aggregate asset allocation of the Total Portfolio and of the individual manager portfolios and will rebalance to our target allocation on a quarterly basis.

XI. Investment Policies and Constraints

In general, the securities in the total portfolio should be of a quality that makes them readily liquid if there is a need to sell them. Equities should be issued by companies with a small to large market capitalization (market capitalizations greater than $100 million at the time of purchase). These securities include common stocks, convertible bonds and preferreds, and American Depository Receipts (or American Depository Shares). Fixed income securities include investment grade fixed and variable rate bonds and notes issued by the US Government and its Agencies and leading US Corporations. Investments in low-grade "junk bonds" and municipal securities will be prohibited.

Domestic securities purchased should be registered with the Securities and Exchange Commission, traded on a recognized national exchange or over-the-counter market, and conform to the liquidity constraints already described.

To provide for diversification in the portfolio, investments in any one individual security should not exceed approximately 5% of the total market value of the portfolio, with the exception of U.S. Government and Agency securities. Likewise, the investment in any one industry should not exceed approximately 25% of the total market value of the portfolio, with the exception of U.S. Government and Agency securities. Diversification will be maintained both between and within sectors and industries.

XII. Meetings and Communication with the Investment Consultant
Written reports of interim performance should be provided on a quarterly basis for telephone communication when needed. Any material event that affects the ownership of the investment manager firm or the investment management of this account must be reported immediately to the Board. The investment consultant should meet with the Board at least annually to review investment strategy, asset allocation and manager performance.

XIII. Performance Evaluation
As noted above, the Finance and Investment Committee will monitor the portfolio's performance on a quarterly basis and will evaluate the portfolio's success in achieving the investment objectives outlined in this document over a three- to five- year time horizon. An investment performance consultant will provide quarterly reports of the portfolio's performance.

The portfolio's performance should be reported in terms of rate of return and changes in dollar value. The returns should be compared to appropriate market indexes, for the most recent quarter and for annual and cumulative prior time periods. The portfolio's asset allocation should also be reported on a quarterly basis.

Risk as measured by volatility, or standard deviation, should be evaluated after five quarters of performance history have accumulated. An attribution analysis should also be performed, to evaluate how much of the portfolio's investment results are due to the manager's investment decisions, as compared to the effect of the financial markets. It is expected that this analysis will use the "policy index" defined in Section VI as a performance benchmark for evaluating both the returns achieved and the level of risk taken.

XIV. Spending Policy
The Board has authorized a spending policy where each quarter, the portfolio is rebalanced and 1% of the average prior 3-month balance is distributed to the CIES checking account. Any temporary change to this policy up to 3% in a single quarter must be authorized through a vote by the Executive Committee of the Board. All other changes would have to be authorized by a vote of the full Board.

XV. Plan Sponsor Approval
The investment policy as set forth in this document will be reviewed at least bi-annually by the Board of Directors and/or its designees for approval.

Approved by vote of the CIES Board of Directors on December 10, 2021

CHIEF INVESTMENT OFFICE

Impactonomics®

Performance Realities: Revisited

May 2021

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SUMMARY

Sustainable investing, once considered a niche investment strategy, has continued to grow in its usage and we see it as now being integral to the investment processes used by certain investors—institutions and individuals alike. With increasing demand for sustainable investments and better access to data and analytical tools, sustainable investment criteria may offer a powerful way to evaluate risks and uncover opportunities in the market.

While there are a number of ways to implement a sustainable investment strategy, each comes with its own benefits and challenges. By understanding the range of approaches and how they may affect a larger portfolio strategy, investors may be able to make more informed decisions about the sustainable investments that may help them pursue their financial goals as well as potentially have a positive impact on the environment, society and the world at large.

In 2017, the Bank of America Chief Investment Office (CIO) examined the performance characteristics of sustainable and impact investing in a whitepaper titled *Impact Investing: The Performance Realities*. Since then, the pace of change has accelerated and sustainable investing has become even more widespread and accessible.[1]

While once thought to mainly reflect investor social preferences, with consideration of risk and return as a secondary focus, a significant body of research now points to the ability of sustainable investing to also offer investors competitive returns and act as a useful tool to help manage risk in both public and private markets. In addition, there has been a proliferation of approaches and an increase in the number of strategies that investors can use to move a portfolio towards an overall sustainable profile or explore specific environmental or social themes.

In this paper, we sort through these approaches to help investors understand how to select strategies that align with both their preferences and financial goals, while seeking to dispel some of the misperceptions that continue to exist around risk and return in the sustainable investing space.

KEY POINTS

In this paper we examine a number of factors including:

- The evolution of sustainable investing from niche strategy to critical investment component.[1]
- Using environmental, social and governance (ESG) factors to help identify market risks and opportunities.
- Investing for the potential to "do well and do good."*
- Our approach to selecting sustainable and impact investments.

* All investing involves risk, including the possible loss of principal.

Defining sustainable investments

In its simplest terms, sustainable investing is the process of seeking positive social and environmental effects while targeting competitive financial returns. It is most often accomplished by combining traditional investment approaches with ESG (environmental, social and governance) analysis. Sustainable investments span the spectrum of asset classes, such as publicly traded equities, fixed income instruments and private investments.

[1] See box titled "Sustainable investing is seeing sustained growth" on next page.

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Drivers of growth in the sustainable space

The sustainable investing space has seen tremendous growth[2] and there are three key drivers that have accelerated—and we believe will continue to accelerate—the increase in the number of sustainable investing strategies and assets under management:

1. **The world is transforming faster than ever before,** changing consumption patterns, transportation, communication, health, wealth and even where and how we live. This, spurred by technological innovation, changes how we understand systemic challenges, including rising sea levels and fires, as well as social issues. These factors, individually and together, introduce new risks but also new opportunities that should be evaluated and incorporated into the way investors look at risk and return.

2. **A new generation of investors is emerging** with a desire to understand more about how their capital affects the world around them. According to a recent study by Morningstar, the difference in millennial, generation X and baby boomers preferences for sustainable investments was negligible, debunking the traditional belief that this type of investing is appealing only to millennials and women.[3] We believe that increasing knowledge about investors' environmental and social preferences will spur even greater demand and that this will become widely incorporated into more traditional investment approaches.

3. **Data and analytical capabilities are expanding** and we've seen more data being produced by companies, governments, and non-governmental organizations (NGOs). The advances that we're just beginning to see in the investment community's ability to create and analyze both traditional and non-traditional data sources may both enhance and change the types of information that will be used to make investment decisions in the future.

We believe that this acceleration will continue as six out of 10 institutional investors report that they already incorporate ESG factors into their analysis and a further 65% have stated that they "believe ESG will become a standard practice in the next five years."[4] Furthermore, a record number of investors and asset managers have become signatories of the United Nations-supported Principles for Responsible Investment (PRI),[5] with more than 3,000 of them, who manage over $100 trillion, having signed on.[6]

Sustainable investing is seeing sustained growth

- At the end of 2020, the group of sustainable open-end funds and exchange-traded funds available to U.S. investors numbered 392, up 30% from 2019. The group has experienced a nearly fourfold increase over the past 10 years, with significant growth beginning in 2015.[7]
- There were $16.6 trillion in U.S.-domiciled assets with ESG criteria in their investment analysis and portfolio selection at the end of 2019.[8]
- Assets invested using environmental criteria grew faster than those using social or governance factors over the past two years, increasing 57%, from $10.1 trillion to nearly $16.0 trillion.[9]
- Assets invested using social criteria grew 49% percent from 2018 to 2020, to $16.1 trillion.[10]

"A significant body of research now points to the potential for sustainable investing to also offer investors competitive returns and a useful tool to help manage risk in both public and private markets."

Examples of sustainability focus areas

Environmental:
Greenhouse gas emissions, energy usage, water usage, waste and pollution, carbon intensity, climate risk mitigation

Social:
Human rights, gender diversity, employee turnover, child and forced labor, local community involvement, working conditions

Governance:
Board independence, board diversity, incentivized pay, data privacy, ethics and anti-corruption, disclosure practices

"Sustainable investing is the process of seeking positive social and environmental effects while targeting competitive financial returns."

2 See box titled "Sustainable investing is seeing sustained growth".
3 Morningstar, *The True Faces of Sustainable Investing: Busting Industry Myths Around ESG*, April 2019.
4 Natixis *Looking for the Best of Both Worlds*, 2019.
5 The PRI is an investor initiative that works to achieve a sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulations.
6 United Nations Principles for Responsible Investment. Data as of April 2020.
7 Morningstar, "U.S. Sustainable Funds Continued to Break Records in 2020," February 25, 2021.
8 *US SIF Foundation 2020 Trends Report*.
9 *US SIF Foundation 2020 Trends Report*.
10 *US SIF Foundation 2020 Trends Report*.

“A-B-C”: A new approach to sustainable investing

The evolving sustainable investing landscape has necessitated a new way to describe the intent of different sustainable approaches to match the motivations that individual or institutional investors might have when selecting these investments. One such framework adapted from The Impact Management Project is the “A-B-C” approach that helps classify the impact objective of a given sustainable investing strategy.[11]

A: Avoid	B: Benefit	C: Contribute
Strategies that seek to reduce negative social or environmental effects and manage risk by limiting certain exposures.	Strategies that seek to support positive social or environmental practices and enhance potential for long-term competitive financial returns.	Strategies that seek to advance positive, measurable social or environmental outcomes and target opportunities where impact is intrinsic to financial performance.

The original ESG approach: “Avoid”

The first approach investors took was avoiding certain types of companies—for instance, certain religious groups laid out guidelines to their followers over the types of companies in which they should invest.[12] Another example that started in the 1970’s was divesting of companies that supported apartheid. The goal of avoiding certain companies was to create more socially responsible portfolios and is still widely used to reflect investors’ interests by avoiding certain types of companies or sectors. The “avoid” approach has evolved to also be deployed to help mitigate investment risks, such as screening out bad actors or avoiding an industry that is in structural decline.

As awareness about companies’ impacts on the environment and society grows, more and more investors are interested in understanding which companies may not align with their values. This creates demand for investments that screen companies out of their holdings. While avoiding certain investments may provide the benefit of better aligning a portfolio with an investor’s beliefs, this can be limiting as an investment approach.

A study by Aperio compared the potential performance of a set of negative screening strategies against the MSCI All Country World Index (ACWI).[13] The table below details the forecast tracking error, or the degree to which removing securities could lead a portfolio to have different results than the market.*

Exhibit 1: Effects of screening on forecast tracking error

Representative Screens	Forecast Tracking Error (%)
MSCI ACWI*	0.0
Aperio Global Tax-Loss Harvesting (No SRI)	0.56
Aperio Strategies	
Gambling: Exclude at 5% of Revenue	0.56
Gambling: Exclude at First $1	0.56
Clean Technology Solutions: 10% Weighted-Average Revenue	0.64
Fossill Fuel-Free**	0.69
All Menu Exclusions* **	**1.62**

For illustrative purposes only.

Source: Aperio Group, LLC; data as of 03/31/2020 for $10 million all-cash portfolio with asset-based pricing.

* See index definitions at the end of this document.

** Oil, Gas & Consumable Fuels industry and Carbon Reserves exclusion.

***Fracking; Tar Sands; Carbon Reserves; Nuclear; Oil, Gas & Consumable Fuels; Coal Companies; Energy Equipment & Services; Factory Farming; GMOs; Animal Testing: Pharma Only; Animal Testing: Non-Pharma; Fur; Civilian Firearms Production; Civilian Firearms Distribution; Military Weapons; Anti-LGBTQ; Predatory Lending; Private Prisons; Sudan; Iran; No Women on Company Board; No Racial or Ethnic Minorities on US Company Board; Adult Entertainment at first dollar; Alcohol at first dollar; Gambling at first dollar; Life Choice at first dollar; and Tobacco at first dollar.

* The study defined this difference as forecast annualized standard deviation of benchmark-relative returns that investors could likely expect. Standard deviation is a measure of risk, defined as deviation from an investment’s benchmark. A smaller standard deviation indicates lower volatility (and lower risk) than higher standard deviation.

[11] The “A-B-C” framework that helps classify the impact objective of a sustainable strategy was adapted from The Impact Management Project. The Impact Management Project (IMP) is a forum for building global consensus on how to measure, compare, and report ESG risks and positive impacts.

[12] Schroders, *A short history of responsible investing*, November 28, 2016.

[13] See index definitions at the end of this document.

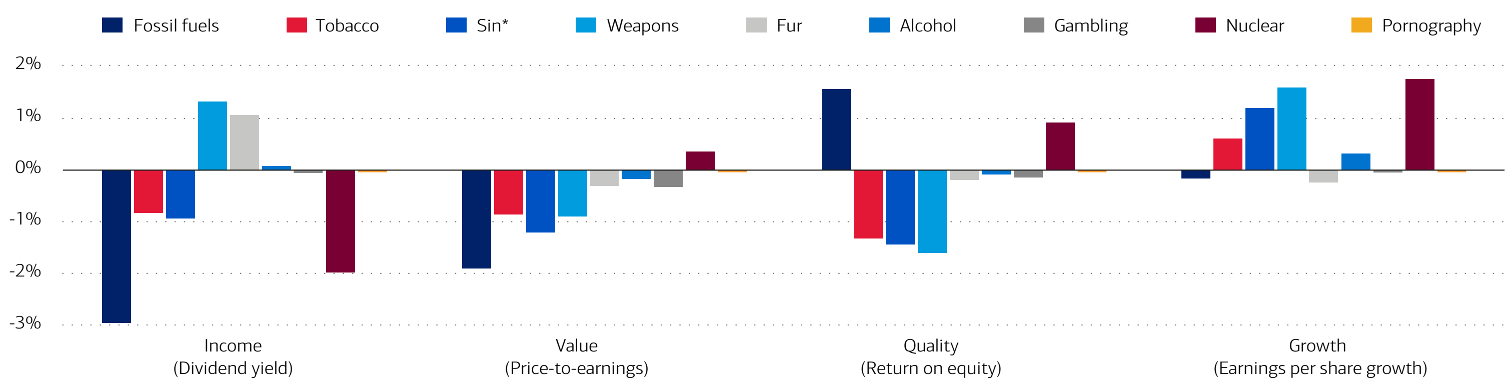
Removing a large number of securities can result in a portfolio that may have a harder time keeping up with the markets. The "avoid" approach may even amplify risk by eroding diversification through either leaving out certain holdings that could contribute positively to returns or potentially causing unintended concentration risk. While some investors accept this as the price for honoring their beliefs, many do not.

The negative performance impact of avoidance is also why there is still a misperception about sustainable investing requiring investors to give up return—the truth of the matter is more nuanced.

"There is still a misperception about sustainable investing requiring investors to give up return—the truth of the matter is more nuanced."

A study by Schroders found that while the impact of negative screens may be substantial in the short term reflecting their sensitivity to macroeconomic factors, the impact over the longer term may be much lower.[14] The study also concluded that the impact was dependent on the industry being excluded and could be mixed.[15] The chart below details the impact of negative screening across a set of industries and reflects how the removal of fossil fuel investments reduced quarterly yield, but increased the quality of the portfolio, with quality defined as return on equity. Further, combinations of negative screens could counteract each other—fossil fuel exclusion had a negative impact on dividend yield, but weapons exclusion had a positive effect.

Exhibit 2: Screens can have a big impact on the characteristics of the investible universe
Percentage change in average quarterly financial ratios of screened MSCI World Index[16] over 15 years



*Sin stocks include tobacco, alcohol, gambling and pornography. Exclusions for fossil fuels and all sin stocks are based on 10% revenue cut off, as defined by MSCI. Exclusions for weapons, fur and nuclear are based on business involvement, as defined by MSCI. Source: Schroders Demystifying Negative Screens 2017.

Exclusions over the long run

Tobacco is a common exclusion in sustainable portfolios. While on the surface it appears that excluding tobacco firms simply leads to underperformance, the reality is a bit more complex. In a study by the London Business School and Credit Suisse, tobacco companies outperformed the overall equity market between 1900 and 2014 by an annualized 4.5% in the US and by 2.6% in the UK (over the slightly shorter 85-year period of 1920– 2014).[17] The study by Schroders showed that although tobacco companies outperformed the MSCI World[18] global benchmark by 87% over 10 years, because the sector accounted for just 1.7% of the index, the difference between the standard and tobacco-free index was negligible.[19] Conversely, the MSCI ACWI ex Tobacco Involvement Index outperformed the MSCI ACWI every year from 2016 to 2020 as that industry entered a period of secular decline in developed markets.[20]

[14] Schroders *Demystifying Negative Screens* 2017.
[15] Schroders *Demystifying Negative Screens* 2017.
[16] See index definitions at the end of this document.
[17] Credit Suisse Global Investment Returns Yearbook 2015, February 2015.
[18] See index definitions at the end of this document.
[19] Schroders *Demystifying Negative Screens* 2017.
[20] MSCI as of December 31, 2020.
Past performance is no guarantee of future results.

Seeking to "Avoid" real investment risk

In addition to preference based strategies, many investors use divestment to avoid areas that they believe pose a material risk presented by structural changes happening in the world at large. For example, consider the coal industry. A study on coal divestment after the Paris Climate Agreement shows that anticipated structural changes to the coal industry may have actually had a meaningful effect on where investment dollars were directed.[21] While removing coal from a portfolio can be viewed as an investor preference, the reason the majority of investors removed coal was because of investment risk. We have observed natural gas expand as a go-to fuel for power generation, replacing coal because of lower operating costs and significant regulatory changes. Divestment combined with low natural gas prices and advances in renewable energy generation is eroding the value of coal assets and will keep pressure on coal for the foreseeable future. We've seen this result in a lower credit rating for the sector, making it a sector that many institutional investors cannot invest in by policy.

As you might expect, portfolios that seek to address certain ESG risks through screening out issuers that they believe either pose or will be affected by these risks, realize these risks at different rates. For example, a large social networking company lost 19% of its market value over fears around customer privacy in one day.[22] Other risks may take months to surface. A ride sharing company in 2016 paid hackers to cover up a cyberattack that exposed 57 million people's personal data, but did not acknowledge the hack, or the payment, until more than a year later.[23] Some risks may take decades to be recognized. A clear example here is the link between carbon emissions and climate change. That risk has long been acknowledged but we've recently seen investors in larger numbers, including pension managers, consider divesting fossil fuel companies. Notably, MSCI data indicates that investors who divested from fossil fuel companies would have had the potential for higher returns between 2010 and 2020, capturing an annualized return of 10.07% for those who invested in the MSCI ACWI ex Fossil Fuels Index[24] versus 9.13% for the MSCI ACWI index.[25] An investor may want to take tracking error of this kind in order to avoid a long-term risk of greater magnitude, but it could make the portfolio subject to periods of outperformance or underperformance relative to the broad market in the shorter term.

While these recent events are significant, investors who are looking to invest only in strategies that seek to avoid companies or sectors they find unacceptable should understand that from time to time these strategies can underperform. To moderate the effect of such underperformance in a portfolio, strategic diversification may be key. Specifically, an investor who uses an "Avoid" strategy might also consider incorporating a "Benefit" strategy, one that seeks beneficial social or environmental outcomes.

"Benefit": Incorporating ESG into the traditional investment selection processes

ESG factors don't just have to be used to identify companies to avoid. They can serve as a powerful roadmap to help guide investors towards companies that may offer a combination of potential competitive long-term returns as well as positive societal effects. By incorporating ESG-based information into a traditional investment approach, investors are adding to the information they use to make better informed investment decisions.

Incorporating ESG data has been shown to have two potential effects on a portfolio by seeking to do the following:

- First, it may help reduce overall portfolio risk.
- Second, it may lead to potential outperformance on a risk-adjusted basis by either reducing the risk (volatility) of an investment, or by identifying more competitive companies that potentially outperform their peers.

Business Roundtable: Redefining the Purpose of a Corporation[26]

The Business Roundtable, an association of chief executive officers (CEOs) of America's leading companies, has periodically issued Principles of Corporate Governance since 1978. Each version of the document issued since 1997 has endorsed principles of shareholder primacy—that corporations exist principally to serve shareholders.

In August 2019, the Business Roundtable released The Statement on the Purpose of a Corporation, which supersedes previous statements and outlines a modern standard for corporate responsibility. The new statement was signed by 181 CEOs, commiting to lead their companies for the benefit of all stakeholders, including their customers, employees, suppliers, communities and shareholders.

These companies are addressing difficult economic, environmental and societal challenges, and they are starting in their own backyards—partnering with communities to provide the investment and innovative solutions needed to revitalize local economies and improve lives.

[21] "Paris Agreement Triggers Divestment from Coal" United Nations Climate Change Council Release, January 30, 2018.
[22] Forbes, *Cybersecurity article—Contributor: Zak Doffman*, May 31, 2019.
[23] Bloomberg, *Cybersecurity article by Eric Newcomer,* November 21, 2017.
[24] See index definitions at the end of this document.
[25] Data provided by MSCI as of January 19, 2021.
[26] "Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans'", August 19, 2019.
Past performance is no guarantee of future results.

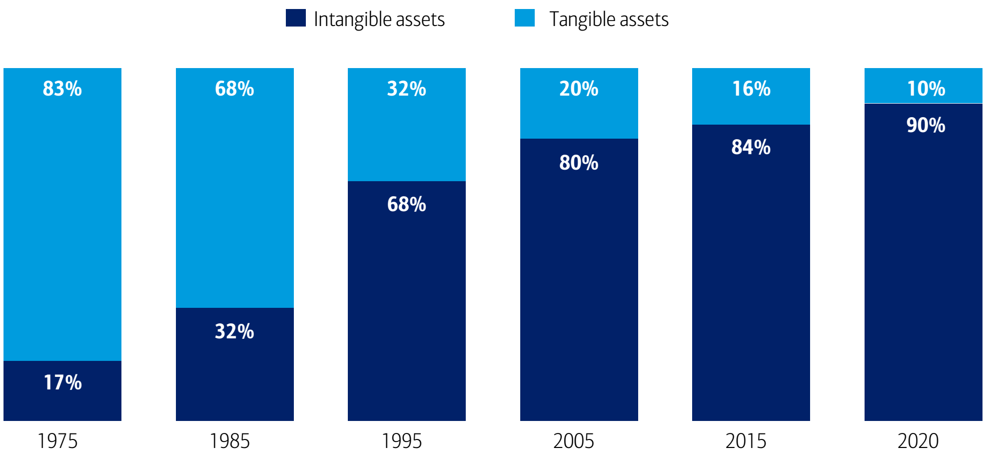
A wide range of studies have shown that investors do not have to sacrifice potential returns to create impact with their investment choices. Analysis of firms with good or improving environmental, social or governance characteristics have been shown to perform as well as—and may even outperform—their peers.[27] This offers investors a powerful way to pursue competitive returns while also creating change that addresses the challenges facing the world today.

"A wide range of studies have shown that investors do not have to sacrifice potential returns to create impact with their investment choices."

How managers use ESG to identify risks

Today's firms look very different than they have in the past. Forty years ago, tangible assets—items like property, factories and equipment—made up more than 80% of the value of the S&P 500 companies, while intangible assets represented the remainder.[28] Today, that ratio has been reversed, with 90% of value now comprised of intangible assets such as intellectual property, market share, brand awareness and perceptions of a company's effect on society and the environment.[29]

Exhibit 3: Components of S&P® 500 Market Value



Source: Ocean Tomo. "Intangible Asset Market Value Study" 2020. *Interim study update as of 7/1/2020.

"When most of the valuation of public companies is made up of intangible assets, seemingly nonfinancial measures such as a company's brand and reputation, and how they treat their employees and customers, have become key to the financial evaluation of a company."

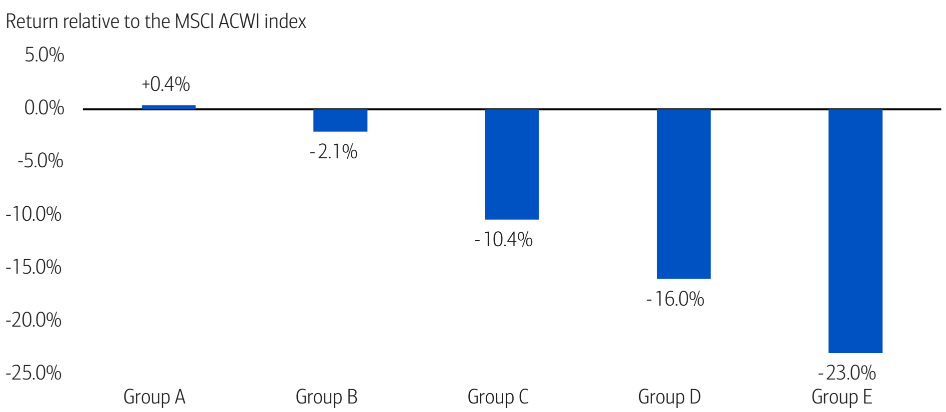
When most of the valuation of public companies is made up of intangible assets, seemingly nonfinancial measures such as a company's brand and reputation, and how they treat their employees and customers have become key to the financial evaluation of a company. As more data becomes easily accessible about companies' actions, they now should view their brand and reputation as assets that are increasingly important to investors. Many companies are now prioritizing ESG risks as part of their operational strategy, realizing that a significant ESG event anywhere in the extended enterprise could damage their reputation.[30] This is true across both private and public markets. In a recent poll by PricewaterhouseCoopers, 91% of private equity firms said that they "have an ESG policy in place or in development", up from 80% in 2013. Furthermore, 81% noted that "they report ESG matters to their boards at least once a year."[31] This commitment may offer these private equity investors two benefits: the ability to seek out new opportunities for return generation in the market and the ability to stand out in a crowded investment market.

[27] Hermes Investment Management *ESG investing: A Social Uprising*, 2018.
[28] Ocean Tomo, Intangible Asset Market Value Study, 2020.
[29] Ocean Tomo, Intangible Asset Market Value Study, 2020.
[30] Harvard Law School Forum on Corporate Governance, February 2019.
[31] PWC: *The Private Equity Responsible Investment Survey* 2019.

There are a number of ESG industry studies, and some have found that one of the potential benefits of investing in companies with strong ESG profiles is that it may help decrease the overall risk within a portfolio:

- BofA Global Research[32] identified that during the period from 2005 to 2017, an investor who only bought stocks with above-average Thomson Reuters' Environmental and Social scores five years ahead of a company's bankruptcy would have avoided 90+% of the bankruptcies that occurred.[33] Additionally, Savita Subramanian, head of Environmental, Social and Governance Research and U.S. Equity and Quantitative Strategy for BofA Global Research, concluded that ESG is one of the most effective predictors of earnings volatility."[34]
- MSCI compared the performance of companies based on their ESG categorization. Companies in the top quintile for ESG factors experienced fewer major drawdowns than the bottom-scoring quintile, both overall ESG scores and the individual pillar scores, and the top and bottom quintiles experienced the biggest difference in drawdown frequency at the tail.[35]
- BlackRock analyzed a globally-representative selection of sustainable indexes, each one made up stocks from a "parent" index that rated relatively high on sustainability factors. It found that during 2020, 81% of the sustainable indexes outperformed their parent index. This outperformance was even more pronounced during the first quarter when 94% of the sustainable indexes outperformed their parent index, another instance of sustainable funds' resilience that we have seen in prior downturns.[36]
- Fidelity looked at the performance of 2,660 firms over the first nine months of 2020, a period it describes as covering the first broad-based market crash and recovery of the sustainable investing era. Dividing the firms into groups according to their ratings based on an internal ESG framework, it found that each ESG grouping outperformed the one beneath it in the ratings, with the group with the lowest ratings losing 23% and the one with the highest ratings gaining 0.4% versus the MSCI ACWI.[37] (Exhibit 4)

Exhibit 4: A relationship between ESG scores and relative returns



Source: Fidelity International. Data as of October 2020. Groups A and B are at the highest-rated on ESG factors and Groups D and E and the lowest-rated. USD returns vs. MSCI AC World Index for first nine months of 2020.

[32] BofA Global Research is research produced by BofA Securities, Inc. ("BofAS") and/or one or more of its affiliates. BofAS is a registered broker-dealer, Member SIPC, and wholly owned subsidiary of Bank of America Corporation.
[33] BofA Global Research, *The ABCs of ESG*, September 2018.
[34] BofA Global Research, "10 reasons you should care about ESG," September 23, 2019.
[35] MSCI ESG Research, "Deconstructing ESG Ratings Performance: Risk and Return for E, S and G by Time Horizon, Sector and Weighting," June 2020. Major drawdowns were defined as ones ranging from a 50% to 90% reduction in company value measured from the time of the publication of the ESG score. Certain information contained herein (the "Information") has been provided by MSCI ESG Research LLC, a Registered Investment Adviser under the Investment Advisers Act of 1940, and may include data from its affiliates (including MSCI Inc. and its subsidiaries ("MSCI")), or third party suppliers (each an "Information Provider"), and may have been used to calculate scores, ratings or other indicators and it may not be reproduced or disseminated in whole or in part without prior written permission.
[36] Source: BlackRock. As of December 2020. This is a set of 32 globally-representative, widely analyzed sustainable indexes and their non-sustainable counterparts. Indexes are used for illustrative purposes only and are not intended to be indicative of any fund's performance. It is not possible to invest directly in an index.
[37] Fidelity International, Putting sustainability to the test: ESG outperformance amid volatility, November 2020. Most groups underperformed the MSCI index due to the huge gains for technology stocks, which are dispersed among the groups.

Sustainable practices also influence financing decisions

The benefits of sustainable practices are not limited to share price performance. ESG factors may also have a material impact on a company's operations. A study by Breckenridge found a direct correlation between a firm's ESG rankings and its capital cost of debt.[38] The researchers used options-adjusted spreads in the fixed income space to demonstrate this cost, with the average cost of capital for top-quintile firms coming in a full 48% lower than the average for firms in the bottom quintile. The study showed that firms with higher ESG scores tended to have better balance sheets, higher profitability and lower leverage.[39]

"A study by Breckenridge showed that firms with higher ESG scores tended to have better balance sheets, higher profitability and lower leverage."[38]

Beyond offering a potential return advantage, companies with sustainable practices may actually also be less risky—from a credit perspective, as compared to companies that have poor sustainability practices. The Principles for Responsible Investment, an international network of investors has observed that existing academic and market research supports the notion of "a link between ESG factors and creditworthiness."[40] Barclays found this link when looking at U.S. corporate bonds, finding that firms with higher ESG scores "had a better credit rating on average and lower average spreads than their low-ESG-scoring counterparts.[41] The data also showed that between 2009 and 2016, "bonds with high governance scores were subject to fewer downgrades by credit ratings agencies."[42]

One of the largest bond managers, PIMCO, has recently stated, "there is growing recognition in the marketplace that integrating ESG factors into traditional credit analysis adds a holistic and long-term perspective that aligns well with bond investing. Moreover, issuers often return to the bond market—unlike the stock market—in order to refinance old debt or seek new funding, giving bond investors a unique opportunity to identify risks, engage issuers and build relationships that influence change."[43]

This data helps underscore that using ESG-related criteria may help to augment traditional financial analysis, increasing an investor's ability to assess risks that sit outside of the balance sheet.

Industry is looking at ESG materiality and corporate performance

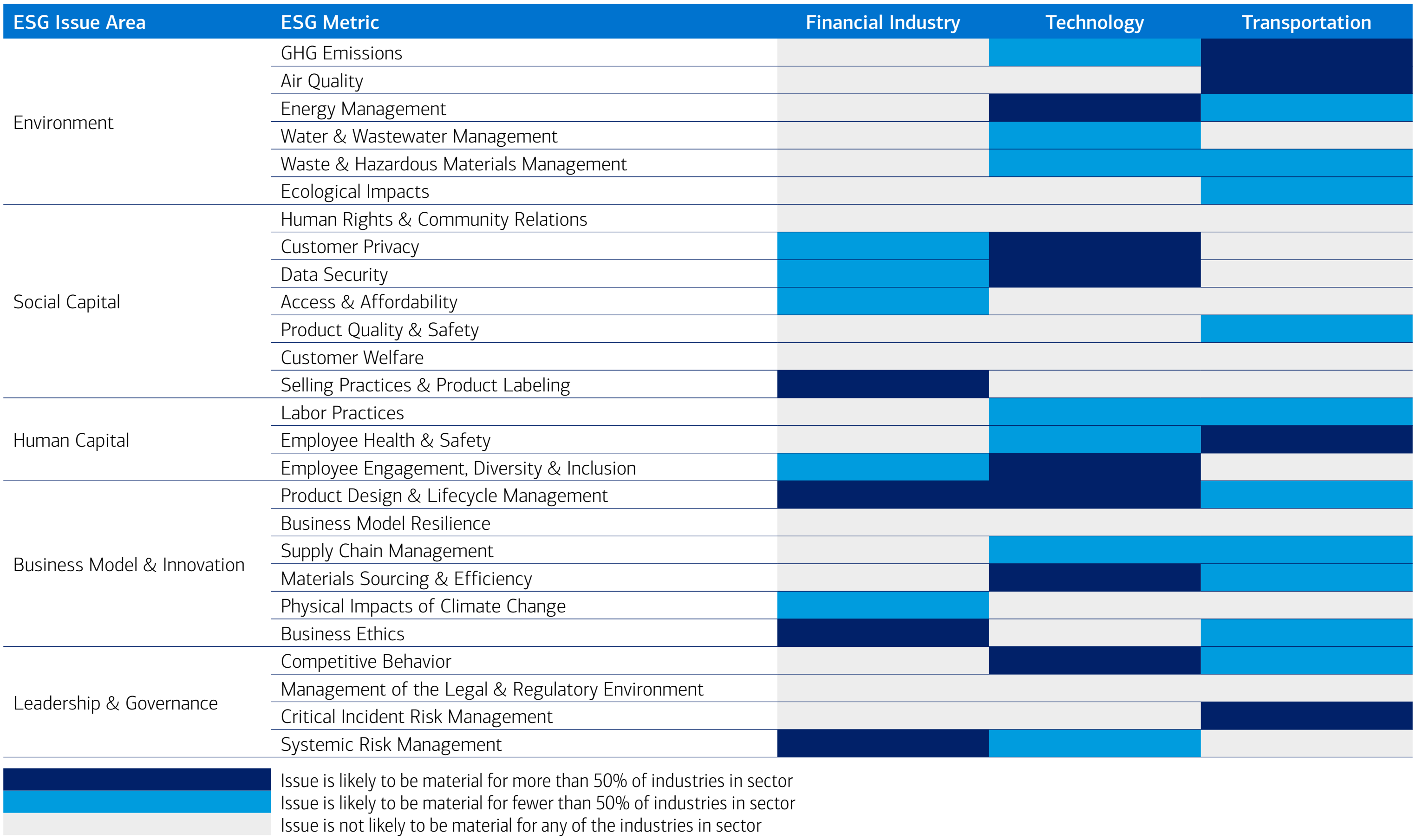
Both CEOs and investors are beginning to understand that these risks have a direct impact on the stock price or credit quality of a company. Fiduciaries are also increasingly focusing on material risks—risks that have a potentially significant impact on business operations, reputation and, most importantly, valuation at both a sector and company level—to help aid in reducing future portfolio underperformance. For example, for firms in the energy and transportation space, greenhouse gas emissions and air quality are going to play a much larger role than for financial and service firms where good governance and transparency concerns are more important direct risks to the business.

"Firms with good ratings on material sustainability issues significantly outperform firms with poor ratings on these issues."[44]

Working with industry experts, the Sustainability Accounting Standards Board, or SASB, has identified material ESG issues across each sector that affect the value of a company. Research by Harvard using the SASB definitions of materiality has shown that "firms with good ratings on material sustainability issues significantly outperform firms with poor ratings on these issues."[44] In an annual letter to chief executives for 2020, Larry Fink, chairman and CEO of BlackRock, called for the companies the firm invests in to publish a disclosure in line with the SASB guidelines by year-end, if they hadn't already, or to release similar data. BlackRock, he stated, believed the SASB provides "a clear set of standards for reporting sustainability information across a wide range of issues, from labor practices to data privacy to business ethics." The SASB cites more than 200 organizations in 21 countries with over $63 trillion in assets under management currently using or licensing its framework.

38 Breckenridge Capital Advisors/MIT Sloan, *Evaluating the Relationship Between ESG and Corporate Fixed Income*, 2016.
39 Breckenridge Capital Advisors/MIT Sloan, Evaluating the Relationship Between ESG and Corporate Fixed Income, 2016.
40 United Nations Principles for Responsible Investments, *Shifting Perceptions: ESG, Credit Risk and Ratings*, July 2017.
41 Barclays, *The case for sustainable bond investing strengthens*, October 2018.
42 Barclays, *The case for sustainable bond investing strengthens*, October 2018.
43 "Sustainable Investing: Understanding ESG in Bonds," PIMCO, June 2019.
44 "The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance," by Robert G. Eccles, Ioannis Ioannou and George Serafeim: Harvard Business School Working Paper 12-035, November 25, 2011.

Exhibit 5: SASB Materiality Map® for financial, technology and transportation industries



Source: Sustainability Accounting Standards Board. Data as of October 2019.

A Cautionary Tale: Using ESG ratings as the primary decision-making tool

While looking at a firm's ESG rating is a good starting point for analysis, investors need to take into consideration both traditional financial and other environmental, social or governance-oriented risks to make a holistic investment decision. Take for instance a large utility company. Given state law mandating use of renewable energy, the company was rated in the top quintile in the environmental category and had a high overall ESG score relative to peers as of late November 2018. When looking at just these metrics, investing in the company would have seemed sound.

If an investor had conducted further analysis that took into account historical data as well as forward-looking analysis about the risk of wildfires due to climate change, they may have been able to determine that historical data alone was no longer enough to account for the actual risk of climate change and actually suppressed the risk of wildfires impacting the company's stock performance.

The benefit of deeper analysis was illustrated by the decisions of Pax World, an investment manager who evaluated the company and felt that when "it came to measures of climate-change adaptation, or how companies have sought to protect their operations from extreme weather events, [the company] was less than impressive."[45] Pax decided to forego investing in it because of these larger environmental risks—a decision that proved wise when the firm faced a federal court ruling mandating it spend more than $75 billion to prevent outbreak of wildfires related to its electricity transmission activities, a reflection that it had not done enough to prevent past catastrophic blazes.

[45] MarketWatch.com, "How one investor avoided the PG&E bankruptcy," February 11, 2019.

Strong ESG practices may help drive strong, long-term performance

The most compelling evidence regarding performance of sustainable strategies is that firms that have made a proactive commitment to being environmentally and socially sustainable and keep a high degree of corporate transparency have the potential to exhibit strong, long-term performance results, as described in a number of studies:

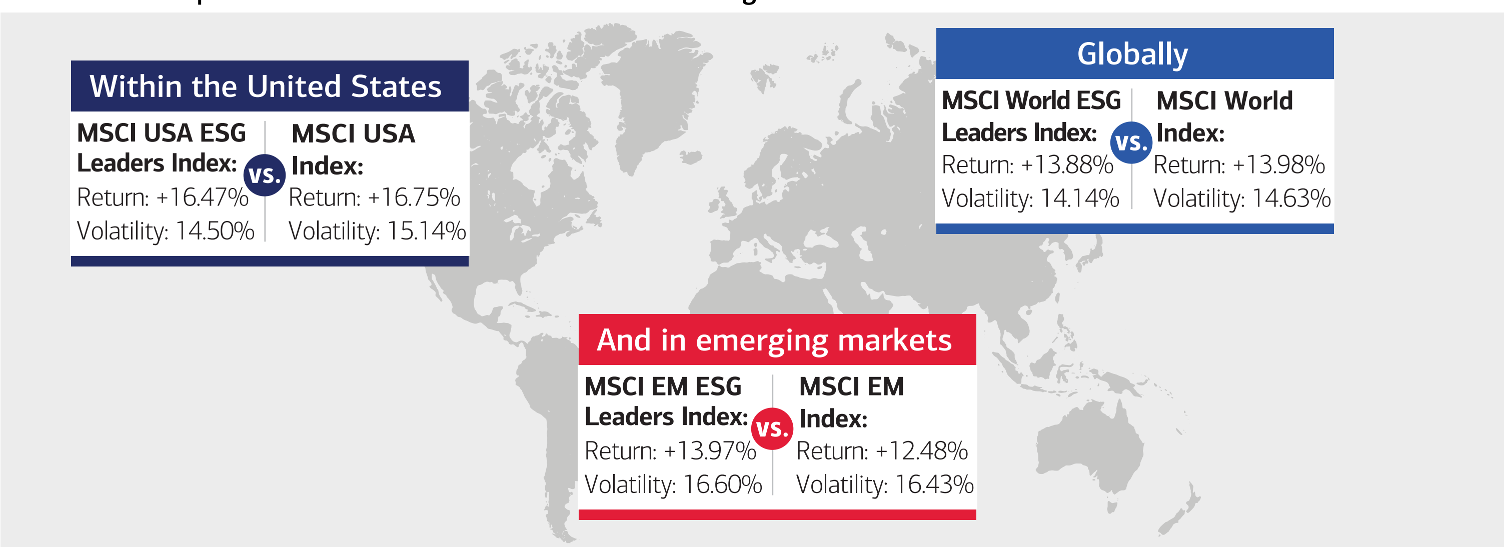
- Research using the Russell Global Research methodology on the Russell Global Large Cap Index[46] companies showed alpha* generation in the period from December 2012 to June 2017 for companies that perform well on ESG factors.[47]
- Hermes Investment Management found in 2018 that companies with good or improving environmental, social or governance characteristics outperform companies with poor or worsening characteristics. For example, companies with good or improving corporate governance tended to outperform companies with poor or worsening governance, by 24bps per month on average, from 31 December 2008 to 30 June 2018.[48] The social premium marginally increased from an average of 15bps per month in 2018 to 17bps in 2020.
- A study of the software industry revealed that similar to the overall technology sector, social factors, followed by governance factors, have been the strongest signals of future alpha as well as lower risk and improving ratings within both pillars have been a consistently effective signal in the short and long term. Analysis in 2017 showed that the shares of firms that have improved diversity and opportunity have outperformed their peers by 2.3% in the first year and 6.1% over three years.[49]
- McKinsey has found, in years-long research, an increasing correlation between a top-quartile ranking for diversity and financial outperformance. In 2019, companies in the top quartile for ethnic and cultural diversity had a 36% greater likelihood than the bottom quartile of outperforming in profitability versus the national industry median, up slightly from 33% in 2017 and 35% in 2014.[50]
- A study by MSCI showed that companies with high ESG ratings were more profitable and paid higher dividends.[51]

Importance of social factors during the pandemic

As many companies faced unprecedented fallout caused by the pandemic in 2020, it highlighted how social aspects can materialize in financial performance. Federated Hermes discovered in its analysis of social factors that while they have been effective in each of the last six calendar years, in 2020 they have proved especially important and correlated with outperformers in nine of the 11 Global Industry Classification Standard (GICS) sectors.[52] Similarly, Just Capital has observed significant alpha* correlated with superior workforce treatment, with the top quintile of companies outperforming the Russell 1000 by 4.7% and the bottom quintile underperforming by 4.3% in the year ending August 31, 2020.[53]

[52] Federated Hermes, "ESG investing How Covid-19 accelerated the social awakening," December 2020.
[53] Just Capital, "Chart of The Week: Companies That Prioritize Their Workers Continue to Outperform the Market," September 10, 2020.

Exhibit 6: A comparison of ESG Leaders and the market at large



Source: MSCI ESG Research, MSCI data showing annualized five-year return through 3/31/2021. See additional annualized returns at the end of this document. See index definitions at the end of this document. **Indices are unmanaged and results shown are not reduced by taxes or transaction costs such as fees. It is not possible to invest directly in an Index. Past performance is no guarantee of future results.** Certain information contained herein (the "Information") has been provided by MSCI ESG Research LLC, a Registered Investment Adviser under the Investment Advisers Act of 1940, and may include data from its affiliates (including MSCI Inc. and its subsidiaries ("MSCI")), or third party suppliers (each an "Information Provider"), and may have been used to calculate scores, ratings or other indicators and it may not be reproduced or disseminated in whole or in part without prior written permission.

[46] See index definitions at the end of this document.
[47] Russell Investments Research, *Materiality Matters: Targeting the ESG issues that can impact performance—the material ESG score*, February 2018.
[48] Hermes Investment Management *ESG investing: A Social Uprising*, 2018.
[49] BofA Global Research "ESG meets Tech: a closer look at the Software industry" November 2017.
[50] McKinsey & Co., "Diversity wins: How inclusion matters," May 2020.
[51] MSCI, *Foundations of ESG Investing, How ESG Affects Equity Valuation, Risk, and Performance*, July 2019.

* Alpha is the excess return of an investment over its benchmark or reference index. Alpha is also described as outperformance when compared to peer companies.

It is becoming more evident that much of this potential for outperformance can be attributed to a commonly known investment factor called quality. If you think about it in basic terms, high quality management teams that are responsible stewards of investor capital tend to think about both long-term risks and returns as well as opportunities for strengthening their franchise. We've seen these same managers have realized how ESG factors impact their operations, and it is why they are incorporating sustainable behaviors into their corporate practices.

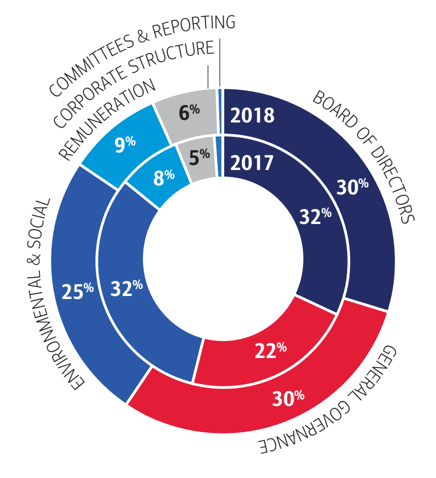
The power of driving sustainability with shareholder advocacy

In addition to looking at ESG factors, many investors are also using their power as a shareholder to drive additional "benefit" through shareholder proposals or proxy voting, and large asset managers are engaging in direct dialogue with firms to help drive ESG impact in addition to pursuing financial returns.

A great example of this activity is Climate Action 100+ —a global coalition of investors representing more than $35 trillion under management who have set out to engage with more than 150 of the world's largest corporate greenhouse gas emitters.[54] They seek to encourage "companies to improve board oversight of climate change, curb emissions and strengthen climate-related financial disclosures."[55] These efforts are significant in their scale and also because of the global and nearly universal threat climate change presents to all of us.

Institutional investors have also played a significant role in supporting equal opportunity in the workplace. Since the 1990s, for instance, they have been in dialogue with companies and advancing shareholder proposals to expand non-discrimination policies to include lesbian, gay, bisexual, transgender and queer (LGBTQ) employees.[56] Their engagement efforts have been anchored in economic arguments such as the ability to recruit and retain talent, and research that links diversity to superior corporate performance. When analyzed, 270 companies that provided inclusive LGBTQ work environments were shown to outperform global stock markets by as much as 3% annually.[57]

Exhibit 7: Investor proposals by category



Source: Activist Insight: *The Activist Investing Annual Review*, 2019.

Sustainable investing may "contribute" both to a portfolio's financial and societal goals

In addition to investments that benefit from companies taking into consideration sustainability factors, investors are also seeking ways to have positive and measurable impact on targeted environmental or social issues. We've observed investors increasingly searching for strategies that provide specific social and environmental outcomes in areas such as climate change, food scarcity, renewable energy and economic empowerment.

"We've observed investors increasingly searching for strategies that provide specific social and environmental outcomes in areas such as climate change, food scarcity, renewable energy and economic empowerment."

In 2015, the United Nations adopted the 2030 Agenda for Sustainable Development, which provides "a shared blueprint for peace and prosperity for people and the planet, now and into the future."[58] This roadmap focuses on 17 Sustainable Development Goals (SDGs) that were developed in conjunction with the private sector to engage in a global partnership to "improve health and education, reduce inequality and spur economic growth—all while tackling climate change and working to preserve our oceans and forests."[59] The SDGs frame a tremendous investment opportunity to address some of the world's biggest challenges. In 2019, the International Business Council of the World Economic Forum set out a framework to both urge corporations to disclose alignment with certain E, S and G metrics and facilitate achievement of the SDGs. We have adopted this framework to allow clients to better define their impact priorities and preferences, while also being able to invest in the US$12 trillion in market opportunities set out in the Better Business Better World report by the Business & Sustainable Development Commission.[60]

[54] Climate Action 100+: 2019 Progress Report, October 2019.
[55] Climate Action 100+: 2019 Progress Report, October 2019.
[56] Ceres: The Role of Investors in Supporting Better Corporate ESG Performance, April 2019.
[57] Ceres: The Role of Investors in Supporting Better Corporate ESG Performance, April 2019.
[58] United Nations Division for Sustainable Development Goals, October 2019.
[59] United Nations Division for Sustainable Development Goals, October 2019.
[60] United Nations Division for Sustainable Development Goals Blog, "SDGs Present an Estimated $12 Trillion Market Opportunity," August 25, 2017.

Exhibit 8: The 17 United Nations Sustainable Development Goals within the context of four CIO sustainable investing themes

People

Commitment to engaged and healthy workers

- Good health & well-being
- Empowerment & inclusion

Planet

Contributions to climate and environmental sustainability

- Climate action
- Natural resources

Principles of Governance

Commitment to ethics and societal benefit

- Corporate governance
- Corporate behavior

Prosperity

Contributions to equitable, innovative economic growth and sustainable communities

- Employment & economic vitality
- Sustainable communities

17 United Nations Sustainable Development Goals

Sources: Chief Investment Office (themes), United Nations Division for Sustainable Development Goals (SDGs),

In addition to helping corporations explain to the market how they are directing capital towards environmental and social issues, the SDGs also provide a way for both public and private markets managers to develop thematic investment strategies that in addition to seeking return and growth potential for a portfolio, offer investors potential direct impact into the issue areas in which they are interested.

Exhibit 9: Examples of issues encompassed by the United Nations Sustainable Development Goals

Financial inclusion	Affordable housing	Energy access
As of September 2016, some 1.6 billion people lack access to savings, credit, pensions and insurance.[61]	As of December 2019, the number of people living in slums or informal settlements grew to over 1 billion, with 80 percent attributed to three regions: Eastern and South- Eastern Asia (370 million), sub-Saharan Africa (238 million) and Central and Southern Asia (227 million).[62]	840 million people were without access to electricity in 2017.[63]
Food security	**Healthcare**	**Education**
An estimated 821 million people were undernourished in 2017.[64]	In 2018 an estimated 6.2 million children and adolescents under the age of 15 years died, mostly from preventable causes. Of these deaths, 5.3 million occurred in the first 5 years, More than half of these early child deaths are preventable or can be treated with simple, affordable interventions. [65]	Globally, an estimated 617 million children and adolescents of primary and lower secondary school age—more than 55 percent of the global total—lacked minimum proficiency in reading and mathematics in 2015.[66]

[61] McKinsey & Company, Digital Finance for All: Powering Inclusive Growth in Emerging Economies, September 2016.
[62] United Nations Department of Economic and Social Affairs: Statistics Division, December 2019.
[63] United Nations Department of Economic and Social Affairs: Statistics Division, December 2019.
[64] United Nations Department of Economic and Social Affairs: Statistics Division, December 2019.
[65] World Health Organization, Children: Reducing mortality, September 2019.
[66] United Nations Department of Economic and Social Affairs: Statistics Division, December 2019.

Thematic investing: A way to invest in defined impact

In the public markets, thematic investments do differ from the more diversified "benefit-oriented" strategies that have been discussed thus far and tend to have a more defined impact focus. However, due to the fact that they are investing in one or a handful of themes, there can be a smaller universe of companies or issuers in which to invest. As a result, they have the potential for outsized returns as they tend to be in new or higher growth parts of the market, but often with more risk, generally a higher volatility of return, especially in shorter time periods.

Thematic, impact-oriented strategies also may be diversifying to a portfolio, which is why multi-thematic strategies are generally employed to accommodate the fact that different themes will perform better than others in certain market conditions. The chart below shows how many themes can have either low or no correlation to each other.

Exhibit 10: Correlations of impact themes vs global equity market

	Affordable housing	Alternative energy	Clean water and sanitation	Digital divide	Education and job training	Financial inclusion	Health	Multi-theme	Resource efficiency	Resource stewardship	Safety and security	Sustainable agriculture & nutrition
Affordable housing	1.00											
Alternative energy	0.23	1.00										
Clean water and sanitation	0.17	0.30	1.00									
Digital divide	0.34	0.07	0.19	1.00								
Education and job training	0.18	0.12	0.25	0.11	1.00							
Financial inclusion	0.55	0.34	0.28	0.35	0.33	1.00						
Health	-0.10	0.07	-0.08	-0.11	0.07	-0.12	1.00					
Multi-theme	0.12	0.19	0.06	0.02	0.16	0.29	0.16	1.00				
Resource efficiency	0.17	0.47	0.33	0.09	0.26	0.29	0.10	0.32	1.00			
Resource stewardship	0.10	0.28	0.34	0.16	0.10	0.12	0.08	0.17	0.50	1.00		
Safety and security	-0.21	0.17	-0.16	-0.17	0.06	-0.10	0.46	0.22	0.15	-0.03	1.00	
Sustainable agriculture and nutrition	0.21	0.13	0.07	0.36	-0.05	0.10	0.09	0.10	0.14	0.22	0.06	1.00

Source: Wellington Management, 12/1/2015 -12/31/20, updated annually. Equally weighted portfolios were constructed representing each one of the 10 themes in Wellington Management's proprietary impact investing universe which consists of public companies identified as impact companies. The portfolios included each company held in their respective theme. Correlations for each thematic portfolio were determined by calculating the 1-year rolling weekly excess return over the MSCI All Country World Index.[67] Cross correlations of the excess returns were then computed.

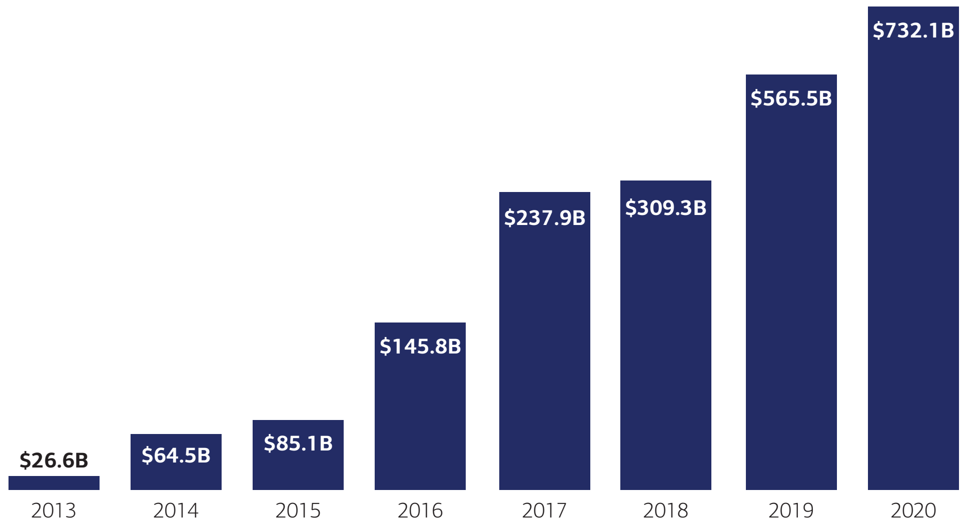
We believe that the challenge posed by a small investable universe likely will fall over time as more companies look to align their strategic goals to address environmental and social transformation. A 2019 report by the Brookings Institute stated that "our findings fit with a PricewaterhouseCoopers survey of more than 700 global companies, which reports that 72% of companies reference SDGs in annual corporate or sustainability reports, 50% identify priority SDGs, and 54% mention them in their business strategy." This indicates a clear trend as companies are adapting to a marketplace that is focused on sustainable practices, like those of the SDGs.[68]

We've seen the fixed income markets have an increase in issuances that target certain issues, including the steady growth of green, social, and sustainability-linked bonds and loans, corporate bond funds that invest in high impact issuances, as well as a number of interesting developments in the municipal market. While thematic and SDG-focused investments in the equity universe are generally global in mandate, the US municipal market gives investors a potentially unique way to direct capital to impactful projects in healthcare, education and sustainable cities and infrastructure.

[67] See index definitions at the end of this document.

[68] "How corporations are approaching sustainability and the Global Goals" George Ingram, Mai Nguyen and Milan Bala, Jan 8, 2019.

Exhibit 11: Social issuance drove sustainable debt to record high in 2020

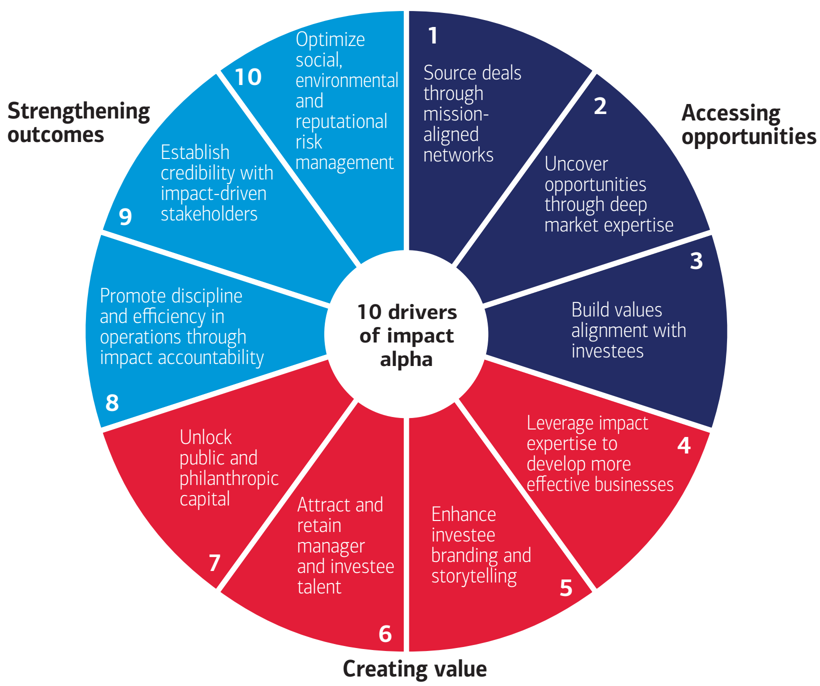


Source: Bloomberg, "Social Bonds Propel ESG Issuance to Record $732 Billion in 2020," January 11, 2021. Includes sales of green, social and sustainability bonds; sustainability-linked bonds; green loans, and sustainability-linked loans.

The public companies identified by Fortune magazine on their annual "Change the World" list, comprised of the firms that deliver profit-driven social impact, outperformed the MSCI World Stock Index[70] by an average of 3.9% between 2015 and 2017.[71]

It creates a market opportunity with the potential for outperformance versus a portfolio that is more diversified across sectors, for example. Impact-focused investment managers would argue that their expertise and operating approaches may be additive to the performance of the firms they invest in across the private market. A recent report authored by Tideline and Impact Capital Managers identified ten ways, beyond traditional methods, to add value in private equity. Impact investors use additional value-creation-tools, creating the potential for additional return drivers, or "impact alpha."[69]

Exhibit 12: Ten ways operating with an impact objective could potentially add value in private equity



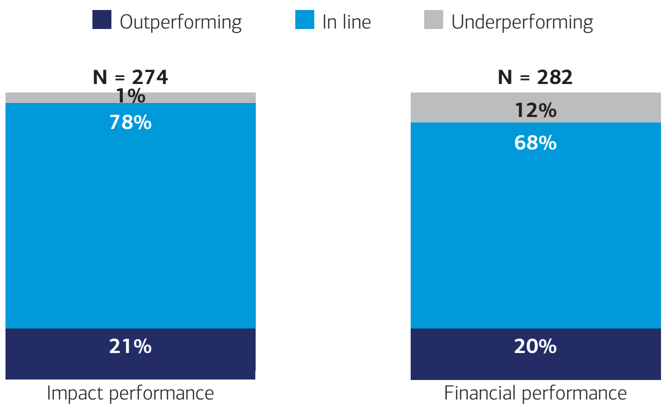
Source: Tideline and Impact Capital Managers, *The Alpha in Impact*, December 2018.

[69] Tideline and Impact Capital Managers, The Alpha in Impact, December 2018.
[70] See index definitions at the end of this document.
[71] Institutional Investor, "Where ESG Fails," By Michael E. Porter, George Serafeim, and Mark Kramer; October 16, 2019.

Also, research by Bain has shown that the benefit of these value-added drivers can deliver outperformance relative to traditional drivers of private equity value, or otherwise said, these value drivers are complementary to those traditionally used by impact managers to drive value in private equity investing.[72] Analysis of 450 private equity deals in the Asia-Pacific region from 2013 to 2018 shows deals that involved impact funds or on sectors considered "high sustainability" returned an average multiple on invested capital of 3.4x versus only 2.5x for other deals.[73] In an increasingly diverse marketplace, managers and investors are showing a strong commitment to both investing for impact and measuring their economic and impact performance. A recent Global Impact Investing Network survey of investors showed that investors feel that they are getting both the financial and impact performance that they expect.[74]

Exhibit 13: Performance relative to expectations

N = number of respondents shown above each bar; some respondents chose 'not sure' and are not included.



Source: Global Impact Investor Network (GIIN) *Annual Impact Investor Survey 2019*, June 2019.

[72] *Bain & Company Private Equity Investors Embrace Impact Investing*, Kiki Yang, Usman Akhtar, Johanne Dessard and Axel Seemann, April 2019.

[73] *Bain & Company Private Equity Investors Embrace Impact Investing*, Kiki Yang, Usman Akhtar, Johanne Dessard and Axel Seemann, April 2019. Deals were classified as having social and environmental impact if the investor is an impact investor or if the sector is closely related to ESG focus (water, waste, education, clean tech, ecology, renewables, etc.).

[74] Global Impact Investor Network (GIIN) Annual Impact Investor Survey 2019, June 2019.

Range of risk and return profiles for sustainable investments

Investors who begin the journey to integrate investments that "contribute" or advance measurable positive impact will find there is not just one risk and return profile to consider:

Exhibit 14: Range of risk and return profiles for sustainable investments under the "contribute" approach

	Public Markets		Private Markets
	Debt/Credit Based Impact Solutions	Equity Based Impact Solutions	Alternative or Opportunistic Impact Solutions
Above		Resource Efficiency Equities Thematic Sector Equity Fund	Alternative Energy Small & Medium Enterprises (SME) Financing Impact Venture/Growth Equity
Market	Green Bonds Impact oriented Municipal Debt	SDG/Impact focused public equities	SDG focused growth equity Impact oriented real assets/infrastructure
Below	Community Loan/Development Funds		Microfinance debt fund
	Lower Risk	↔	Higher Risk

Source: Chief Investment Office, January 2019.

This illustration details the sustainable investing universe across public and private investments related to the "contribute" approach and have a range of potential investment risks and returns. The risks of many impact investments are not necessarily greater than their traditional counterparts but are often different, and understanding what those risks are is critical.

For example, investors in an alternative energy strategy may be using capital to create a positive impact on the environment. In addition to having the potential for lowering carbon emissions, investors are expecting a higher return because alternative energy companies are working in a high-growth-oriented space. However, the scale of the alternative energy sector, while maturing, is still small and might not be able to absorb significant capital inflows or outflows. These issues of scale and capacity are common in the impact investing landscape, particularly in smaller private markets where many of the social venture strategies that have potential for commercial and impact success are still early in their development.

Conversely, investments in strategies such as microfinance and community development offer a significant potential for social impact, but often yield lower returns than traditional strategies with, for instance, non-rated credit risk. This is due to the fact that there needs to be a cap on the return that can be extracted from loans designed to benefit low-income communities and investments that offer low-cost products or services to populations living below the poverty line. However, many of these strategies, while often compared to high yield because of their lack of credit rating, actually have significantly lower risk as measured by historic default rates. The Convergences Microfinance Barometer noted that while loss provisions in microfinance averaged 2% per year, in the period between 2006 and 2016, loan write-offs actually averaged only 0.5% per year.[75] This compares to default rates in the high yield bond space that although dropped to 2.1% in 2018, have averaged 3.3% per year over the last ten years.[76]

There is also a wide range of return associated with new business models designed to move away from traditional philanthropy or government support to private, return-based social solutions. In these types of investments, or for investments in early stage social impact entrepreneur funding, investors can think about the risk they are taking as akin to venture capital risk, whereas the potential return could be anywhere from 0% to a significant upside.

However, as opposed to traditional philanthropy, the difference is that impact investing is designed with the objective of returning capital to investors with a return dependent on the program meeting certain metrics and realization of the targeted improvements. We believe one of the goals of impact investing is to create a mechanism for the markets to reinvest that capital, thus creating the potential to scale and magnify the social and environmental impact.

[75] Convergences Microfinance Barometer 2018.
[76] S&P Global Ratings, *2018 Annual Global Corporate Default and Rating Transition Study*, April 2019.

Sustainable and impact investments at Bank of America

At Bank of America, the Chief Investment Office Due Diligence team (CIO Due Diligence) is responsible for assessing strategies in order for them to qualify internally as sustainable or impact strategies. All strategies must meet both of our sustainability and investment standards to qualify. The key components of this process are to evaluate:

1. The quality and competitiveness of the investment strategy
2. The intentionality and depth of ESG integration

To meet the first standard, the strategy must meet our investment and business due diligence processes that look for investment strategies that have a high probability of meeting or exceeding their investment objectives. This means that all recommended sustainability strategies have the potential to meet or exceed the risk and return profiles of the full investment category including all sustainable and non-sustainable strategies.

For all strategies that we define as sustainable or impact, the manager must first meet the investment conviction standard, defined by CIO Due Diligence as ability of the manager to meet its stated investment objective, for a certain level of risk and on a forward looking basis. In order for the risk and return characteristics for sustainable and impact strategies we referenced in this paper to be potentially realized, the strategies have to meet our definition of investment conviction first.

Second, and only after an investment has passed our investment and business due diligence standards, we evaluate how deeply a manager integrates sustainability into their daily investment process. This evaluation considers the different approaches outlined in this paper, from strategies looking to avoid material investment risks, to those that are looking to invest in the most sustainable companies and issuers, to those that use thematic and social or environmental goal-driven data to inform their investment thesis. We perform analyses using various qualitative inquiries, such as going through the manager's portfolio to understand the sustainability thesis and the depth of the analyses the manager uses to inform its selection; how the decision making process works across sustainability specialists, research analysts and portfolio management teams; and how the manager uses ESG in the portfolio construction and ongoing risk management practices. We also use third party quantitative sustainability-focused data sets to perform independent checks on portfolio holdings to help determine the manager's depth of knowledge on certain environmental, social and governance issues, as well as to help us connect the sustainability characteristics of the strategy to its financial risk and return profile.

Finally, arguably the most important component of our strategy assessment, is the sustainability, outcome or impact goal of the strategy. Each manager we work with needs to be able to clearly articulate the goal of their strategy, and the setting and monitoring of these goals against our expectations is as important to us as setting and monitoring performance and risk expectations.

- For "Avoid" strategies, this might be as simple as an intention to decrease exposure to fossil fuels or avoid companies that may be prone to reputational risk.
- For "Benefit" strategies, a manager could have as an objective to have a better overall ESG profile than its benchmark, or to demonstrate how resource efficient companies perform better than their peers.
- For "Contribute" strategies, managers must demonstrate specific, measurable outcomes or impact for each individual investment, but also at the portfolio level. We believe that being able to track the sustainability and impact goals of an investment is as important as tracking the risk and return of these investments through a robust monitoring process.

"Our goal is to provide clients with a strong investment process that helps to increase the probability that both their financial and sustainability objectives can be pursued simultaneously."

IN CONCLUSION

The world is facing rapid change—environmental factors, societal shifts and increasing regulatory pressures are transforming the economy and society across so many aspects of daily life—the way we communicate, consume food and products, travel, places we live and ways we work. These shifts are impacting the markets in many ways, sometimes in ways that were not expected.

Luckily for investors, data and analytical processes that take into account these changing environmental and social factors are evolving at a fast pace. Firms are being more transparent about their business practices and long-term strategies, and governments and financial organizations are demanding more reporting to help investors make informed decisions. Many firms are also taking a new look at their role in the capital markets and realizing that sustainable businesses may equate to more knowledge of risks as well as growth.

We believe these trends are only going to accelerate and we see more and more investors using the concepts of sustainability that we've discussed as a key input into their investment strategy. We also believe that investors who embrace sustainable investing practices will be better able to position their portfolios for potential long-term success.

Index Definitions & Annualized Returns

MSCI ACWI ESG Leaders Index is a capitalization weighted index that provides exposure to companies with high Environmental, Social and Governance (ESG) performance relative to their sector peers. MSCI ACWI ESG Leaders Index consists of large and mid-cap companies across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. The Index is designed for investors seeking a broad, diversified sustainability benchmark with relatively low tracking error to the underlying equity market. The index is a member of the MSCI ESG Leaders Index series. Constituent selection is based on data from MSCI ESG Research.

MSCI Emerging Markets (EM) ESG Leaders Index is a capitalization weighted index that provides exposure to companies with high Environmental, Social and Governance (ESG) performance relative to their sector peers. MSCI EM ESG Leaders Index consists of large and mid cap companies across 24 Emerging Markets (EM) countries. The Index is designed for investors seeking a broad, diversified sustainability benchmark with relatively low tracking error to the underlying equity market. The index is a member of the MSCI ESG Leaders Index series. Constituent selection is based on data from MSCI ESG Research.

MSCI USA ESG Leaders Index is a capitalization weighted index that provides exposure to companies with high Environmental, Social and Governance (ESG) performance relative to their sector peers. MSCI USA ESG Leaders Index consists of large and mid cap companies in the US market. The Index is designed for investors seeking a broad, diversified sustainability benchmark with relatively low tracking error to the underlying equity market. The index is a member of the MSCI ESG Leaders Index series. Constituent selection is based on data from MSCI ESG Research.

MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,124 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI ACWI captures large and mid cap representation across 23 Developed Markets (DM) and 26 Emerging Markets (EM) countries. With 3,060 constituents, the index covers approximately 85% of the global investable equity opportunity set.

MSCI USA Index is designed to measure the performance of the large and mid cap segments of the US market. With 620 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

MSCI ACWI ex Fossil Fuels Index is based on the MSCI ACWI Index, its parent index, and includes large and mid-cap stocks across 23 Developed Markets (DM) and 26 Emerging Markets (EM) countries. The index represents the performance of the broad market while excluding companies that own oil, gas and coal reserves. It is a benchmark for investors who aim to eliminate fossil fuel reserves exposure from their investments due to concerns about the contribution of these reserves to climate change. The Index is a member of the MSCI Global Fossil Fuels Exclusion Indexes.

Russell Global Large Cap Index is a subcomponent of the Russell Global Index, designed to capture 98% of the global equity market capitalization available to institutional investors.

Exhibit 6 Supplemental Data

	1 year ending 3/31/2021		3 years ending 3/31/2021		5 Years ending 3/31/2021		10 Years ending 3/31/2021	
Group/Investment	Return (Cumulative)	Std Dev (Annualized)	Return (Annualized)	Std Dev (Annualized)	Return (Annualized)	Std Dev (Annualized)	Return (Annualized)	Std Dev (Annualized)
MSCI USA ESG Leaders Index	55.86%	17.00%	17.58%	17.92%	16.47%	14.50%	13.61%	13.36%
MSCI USA Index	59.33%	17.82%	17.44%	18.75%	16.75%	15.14%	14.06%	13.76%
MSCI World ESG Leaders Index	52.30%	16.62%	13.93%	17.46%	13.88%	14.14%	10.54%	13.59%
MSCI World Index	54.76%	17.11%	13.42%	18.11%	13.98%	14.63%	10.50%	13.97%
MSCI EM ESG Leaders Index	62.19%	14.82%	8.42%	19.21%	13.97%	16.60%	7.36%	16.82%
MSCI EM Index	58.92%	14.49%	6.87%	19.18%	12.48%	16.43%	4.02%	17.70%

Source: MSCI ESG Research, MSCI data as of 3/31/2021. **Indices are unmanaged and results shown are not reduced by taxes or transaction costs such as fees. It is not possible to invest directly in an Index. Past performance is no guarantee of future results.** Standard deviation is a measure of risk, defined as deviation from an investment's benchmark. A smaller standard deviation indicates lower volatility (and lower risk) than higher standard deviation. Certain information contained herein (the "Information") has been provided by MSCI ESG Research LLC, a Registered Investment Adviser under the Investment Advisers Act of 1940, and may include data from its affiliates (including MSCI Inc. and its subsidiaries ("MSCI")), or third party suppliers (each an "Information Provider"), and may have been used to calculate scores, ratings or other indicators and it may not be reproduced or disseminated in whole or in part without prior written permission.

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Asset allocation, diversification and rebalancing do not ensure a profit or protect against loss in declining markets.

Impact investing and/or Environmental, Social and Governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating.

Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Bonds are subject to interest rate, inflation and credit risks. Investments in foreign securities involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. Investing directly in Master Limited Partnerships, foreign equities, commodities or other investment strategies discussed in this document, may not be available to, or appropriate for, clients who receive this document. However, these investments may exist as part of an underlying investment strategy within exchange-traded funds and mutual funds.

Social impact bonds are a relatively new and evolving investment opportunity, which is highly speculative and involves a high degree of risk. An investor could lose all or a substantial amount of their investment.

An investment in **Green Bonds** involves risks similar to an investment in debt securities of the issuer, including issuer credit risk and risks related to the issuer's business. You should review the relevant offering document carefully before investing.

Alternative investments are intended for qualified investors only. Some or all alternative investment programs may not be in the best interest of certain investors. No assurance can be given that any alternative investment's investment objectives will be achieved. Alternative investments such as derivatives, hedge funds, private equity funds and funds of funds can result in higher return potential but also higher loss potential.

Mutual Fund Risk Considerations: Mutual funds are subject to investment risks, including possible loss of the principal amount invested. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. **For a discussion of the risks specific to a particular mutual fund, please refer to the fund's prospectus.**

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