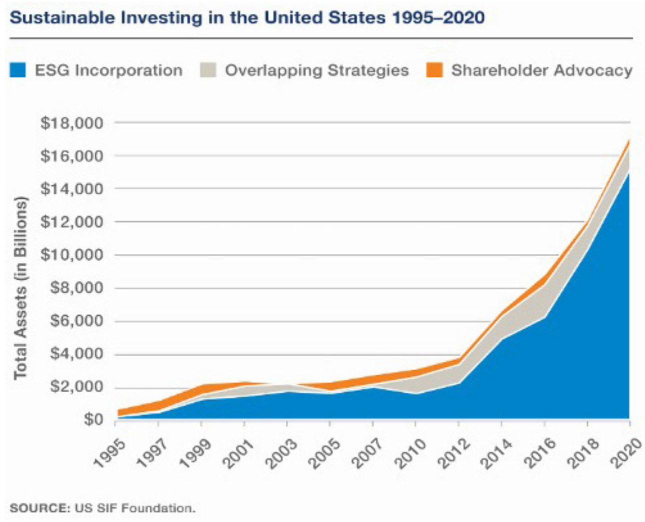
THE FULL SPECTRUM:
Sustainable Investing

Socially responsible investing (SRI) incorporates the values of the investor in investment selection. The practice has its roots in the 1960s when some investors wanted to avoid investing in tobacco products and apartheid South Africa. Over the years, investors have broadened the areas of concern to include issues such as the environment, treatment of labor, board diversity, and religious beliefs. Today environmental, social and governance (ESG) factors are commonly used to evaluate investments. We use the term "Sustainable Investing" to encompass the entirety of approaches.

Since our founding in 1998, we have offered sustainable investment options. At that time those offerings came with a caveat: "Prepare for potentially lower returns and much higher expenses". The universe of companies that had a socially responsible platform in their organization was small, and the work necessary to mine that information and build a portfolio was difficult, time-consuming, and expensive. Fast-forward to today and that world no longer exists.

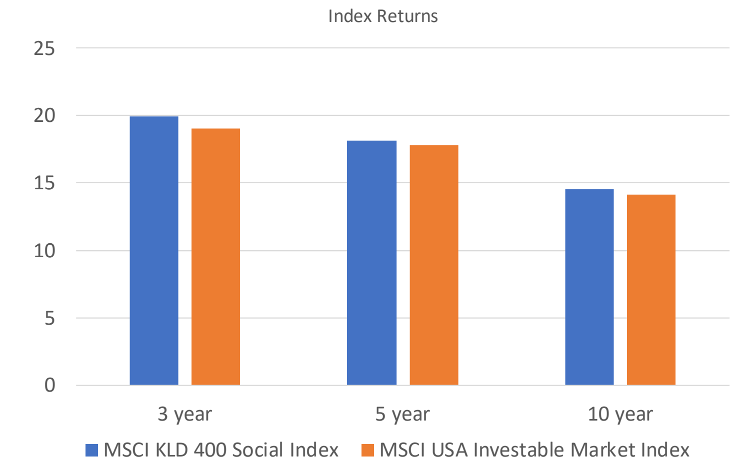
SEVERAL IMPORTANT EVOLUTIONS HAVE OCCURRED:

1. **The cost of SRI research has decreased.** Advances in technology and the availability of data have lowered the cost for investment companies and portfolio analysts to identify competitive SRI investments for their clients. In general, fees for ESG-screened investments today are only slightly higher than traditional investments.
2. **Increased professionalism.** Over the years, many organizations (e.g., Morningstar, MSCI, BlackRock, Domini, Calvert) have developed robust and sophisticated methods to assess ESG factors. Today, ESG analytic tools are widely available to investment managers.
3. **Higher demand.** Early investors were mission-based institutional investors: pension funds, foundations, churches, and the like. Since those early days, sustainable investing has gone mainstream. Today $17.1 trillion are managed with a sustainable mandate, accounting for 33% of all professionally managed assets in the U.S. Of this total, 27% is owned by individuals.
4. **Corporate America is adopting ESG standards.** Many U.S. corporations are announcing sustainable goals such as reducing their carbon footprint, increasing diversity on their board, and improving labor relations.
5. **Climate change has economic costs.** Insurance companies have been accounting for the costs of global warming for decades. The U.S. military actively plans for global warming events and is building infrastructure to respond to the impacts of climate change. If these organizations think the cost is real, it's prudent for us to account for the costs to our portfolios.



6. **Many sustainable investment options available.** There are more than 600 SRI mutual funds and ETFs available in the U.S. and most asset classes have multiple options.

7. **Performance is comparable.** History has disproven the idea that an SRI investor must sacrifice performance.



SOURCE: MSCI.com as of April 30,2021

ISSUES OF CONCERN

1. **The definition of sustainable investing is not standardized.** There is not even agreement on the name: Is it socially responsible, sustainable, or impact Investing? ESG factors are commonly used to screen investments, but where does this leave religious screens? Whose standard is used to measure ESG factors? Approaches vary widely.

2. **Not all sustainable investments are created equal.** Amid the current spike in interest among investment firms, many mutual funds are popping up claiming to be SRI but that on closer examination do not meet our standards. Just including "ESG" in the fund name doesn't automatically make it a force for sustainability.

3. **Beware band-wagon marketing.** Company pronouncements about ESG goals and changed behavior should be met with caution. As President Reagan said, "trust, but verify." Will companies follow through on their commitments?

4. **Which method fits the investment and the investor?** There are negative and positive screens, advocacy & engagement, and community investments. How do we evaluate the effectiveness of the various activities?

OUR VIEW

We believe that sustainable investing is the future of long-term investing.

Social and environmental developments in the economy work in favor of companies that purposefully integrate ESG into their businesses. In our investment portfolios, we include sustainable options if the investment fundamentals and cost of those options are comparable to traditional options. In areas where sustainable options are not available or of insufficient quality, we continue to use traditional investments.

We have been involved in SRI advocacy and investing for 25 years. With access to institutional-quality research and investment management tools, we can build portfolios that meet our standards for sustainability, at a lower cost and with more diversification than most individual investors can do on their own.

MORE INFORMATION

Research about sustainable investing is ongoing. For a sampling, try these two sites.

ussif.org/index.asp – The Forum for Sustainable and Responsible Investment is a membership organization that promotes sustainable investing.

unpri.org – The Principles for Responsible Investment Association is a private UN-sponsored organization that conducts research into ESG investing.

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