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ENVESTNET

BlackRock

The importance of sustainable investing

Sharing Perspectives

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Introduction

In a new series from **Envestnet** and **BlackRock**, we offer insights on key trends facing advisors and our views on the future. Our goal is to provide advisors with valuable knowledge and themes to keep an eye on. Throughout our industry's history, we have seen incredible innovation and transformation. From the breadth of investment solutions to the accessibility of data and technology, we continue to find new ways to navigate toward what matters most to clients: creating portfolios that align with their financial goals.

In the first of this series, we highlight our shared perspectives on sustainable investing: how investors' needs are evolving to prioritize sustainability-related issues; how sustainable investing has become more accessible through solutions, data and technology; how innovation is opening the door for more personalized portfolio construction; and how advisors can incorporate sustainable investment strategies into their practice.

This whitepaper defines the evolving sustainable space and provides advisors with new perspectives to help improve portfolio resilience and add more value to client relationships.

The sustainable investment opportunity: More accessible today

Data and analysis

More data has been brought to the table than ever before, leading to better data-driven insights to help meet client needs

Solutions

Improved technology and product availability have democratized access to sustainability in client portfolios, and all at a competitive cost

Improved client experience

When client conversations are focused on financial materiality and values, advisors can personalize portfolios to align with client needs

Approaches to sustainable investing at Envestnet

At Envestnet, sustainable investing encompasses a range of approaches that recognize the interconnectedness between environmental health, social equity and long-term economic performance. These investments are made with the intention to protect and enhance long-term value by addressing environmental, social and/or governance (ESG) risks or solving environmental and social challenges. Sustainable investing approaches include values alignment, ESG integration and impact investing.

Investors on Envestnet's platform commonly look to sustainable investments to pursue the following goals:

- Values alignment: Minimizing exposure to individual companies or entire industries whose business practices conflict with an investors' personal convictions.
- ESG integration: The practice of incorporating environmental, social and governance information into investment decisions to help enhance risk-adjusted returns.
- Impact investing: The intent to generate positive, measurable social and environmental impact alongside a financial return.

As more investors seek to pursue their sustainable goals alongside competitive financial returns, sustainable investing has accelerated into the mainstream.

Sustainability: Here to stay

Interest in sustainable investing continues to grow, and we believe advisors should consider incorporating sustainability into their service offerings. We believe sustainability issues are investment issues and must be addressed when making investment decisions to drive better portfolio sustainable characteristics over the long term. Sustainable investing can also allow advisors to focus on what's most important to clients while building a new business model that will help enable them to stand out from the crowd and pursue a new opportunity for growth.

Here are four sustainable investing trends to watch:

1 The tectonic shift toward sustainable investing

The accelerating shift towards sustainable assets has resulted from a range of drivers, including more data, more regulations, wealth transfer and increasing urgency around climate change.

More data has created a more analytic and uniform way to evaluate the sustainability characteristics of companies, and subsequently investment portfolios. We see enhanced sustainability data every day. In 2011, approximately 20% of S&P 500 companies disclosed sustainability data.[1] Today, 90% provide some sustainability reporting.[2]

Global regulations are also advancing sustainable investing. Global ESG capital market policies and regulations have nearly doubled since 2015.[3]

When we look at the impending transfer of nearly $24 trillion of wealth from baby boomers to their children, we expect to see sustainability as an increasingly central consideration for younger generations.[4]

Also, as we look to the mounting enormity of climate change, investors are increasingly recognizing that climate risk is investment risk, and are looking to incorporate both climate risks and opportunities into portfolios.

These drivers are fueling a global reallocation of capital towards more sustainable companies. We expect this move to continue over many years, impacting asset prices over the coming decades. We believe advisors have a historic opportunity to help clients participate in this reallocation of capital today.

The tectonic shift toward sustainable investing

In 2011
20%
of S&P 500 companies disclosed sustainability data.[1]

Today
90%
provide some sustainability reporting.[2]

New types of investment vehicles

From 2018 to 2021, nearly
2X
the number of sustainable open-end funds and ETFs are available to U.S. investors.[5]

Sustainability influences risk and return

During 2021
74%
of sustainable funds ranked in the top half of their respective Morningstar categories over the past 5 years.[5]

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2 Better technology delivers personalization and new types of investment vehicles

With new technology and tools, advisors can personalize risk exposure in client portfolios. For example, with greater access to technology and institutional quality risk analytics, advisors can utilize the tools they need to better position and build portfolios with sustainable investments.

We also see a widening array of sustainable investment solutions available in the marketplace. At the end of 2021, the group of sustainable open-end funds and ETFs available to U.S. investors numbered 534, up 36% from 2020 and nearly double the number of investments available at the end of 2018. The group has experienced a fivefold increase over the past 10 years.[5] Additionally, wealth managers are increasingly using sustainable models to scale their practice. Further, technology solutions such as advanced portfolio analytics make it easier to assess ESG risks and opportunities in portfolios, and overlay capabilities make it easier to personalize portfolios at more scale.

With analytics at the core and technology to drive scale, advisors have greater access to products plus the ability to assess sustainable investments in the context of holistic portfolio construction.

3 Sustainability influences risk and return

Alongside the greater transparency and availability, there is a growing consensus that sustainability can influence risk and return. During 2021, 74% of sustainable funds ranked in the top half of their respective Morningstar categories over the past 5 years.[5]

In terms of investor sentiment, we see an increasing recognition for the importance of good corporate citizenship. When companies fail to consider their role in addressing sustainable issues, they expose themselves to additional risk. For example, environmental, social and governance (ESG) insights may capture risks and opportunities not captured by traditional financial analysis. We believe improving data on sustainability provides more insights into companies' exposure and more transparency for investors.

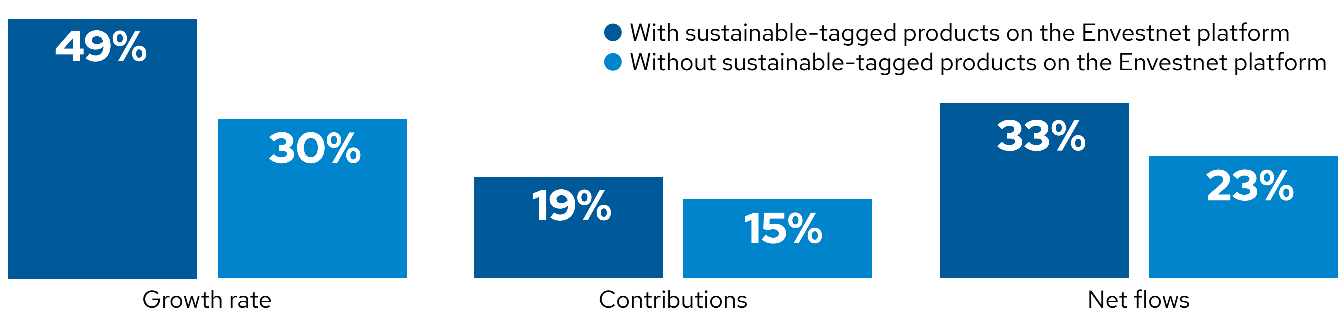
4 Sustainable investing deepens advisor-client conversations

Advisors have started to embrace the concept of sustainable investing. Envestnet witnessed record adoption of sustainable investing in 2020. Assets in the 431 sustainable investment strategies on the Envestnet platform grew 81% over the previous year, with more than 17,000 advisors using sustainable strategies.[6] And according to BlackRock Portfolio Solutions, 29.5% of advisor portfolios held at least one sustainable mutual fund or ETF at the end of 2021, compared to 11% at the end of 2019.[7]

When advisors can stay ahead of trends, they are viewed as more insightful and valued by their clients. According to the Money Management Institute (MMI), aligning values leads to higher client satisfaction. MMI research shows that overall client satisfaction jumps from 66% to 77% when values are reflected in investments.[8] Furthermore, based on Envestnet Analytics' 18-month analysis of advisors with at least 10% of their assets invested in the Envestnet platform's sustainable-tagged products versus those without, the former experienced higher asset growth rates (49% versus 30%), contributions (19% versus 15%) and net flows (33% versus 23%).[9]

As a result of the COVID-19 crisis, investors accelerated their sense of community and care for the world, leading even more to think about sustainable investing opportunities. When advisors can align purpose and performance, we believe they can better serve clients and differentiate themselves from the competition.

Envestnet Analytics' 18-month analysis of advisors with at least 10% of their assets invested in the Envestnet platform's sustainable-tagged products versus those without[9]



Sustainability changes the broader client conversation

According to BlackRock and Cerulli data,

only 34%

of U.S. investors said they were familiar with "sustainable investing," but

72%

were in favor of investing with firms with positive, E,S, or G preferences.[10]

However, according to an Envestnet RIA Focus Forum poll,

only 45%

of advisors currently utilize some form of sustainable investing with their clients, with

28%

actively considering it and

27%

with no immediate plans to utilize it but wanting to learn more.[11]

Move the sustainable investing conversation forward

Sustainability-related issues are top of mind for investors. Furthermore, there is recognition that investing sustainability has the potential to deliver competitive performance. We believe advisors have an opportunity to differentiate themselves by making values and the investment merits of sustainable investing more central to client conversations.

According to BlackRock and Cerulli data, 71% of Americans are interested in sustainable investing.[12] This interest was across generational, geographical and gender-based segments. While it has been shown that women and millennials had slightly higher rates of interest, we see interest broadening out to all investor segments.

Here are three ways to integrate sustainability into your practice:

1 Commit to learning more about sustainable investing.

In the evolving world of sustainable investing, learning is key. To help advisors feel more confident in starting the sustainable investing conversation, there are many forms of learning resources and tools to support education. Advisors can help clients see what's possible as they look to incorporate sustainable investing.

2 Start the sustainable investing conversation — and communicate proactively and consistently.

Depending on where clients or prospects are in their understanding of sustainable investing and interest in integrating it as part of their portfolio, start the conversation in a way that is geared to their unique situation. What does the investor care about most — is it screening out particular issues, incorporating ESG considerations from a risk and opportunity standpoint or creating a positive impact?

Use the conversation to communicate a distinctive value proposition for your practice and your connectivity through technology. Demonstrate how technology supports many areas of your business — from financial planning to portfolio construction. Become an essential advisor to clients by delivering a value proposition focused on your ability to listen actively and always think ahead, with your clients' unique needs and values in mind.

When you better understand what matters most to your clients, you become essential in helping them navigate financial decisions through every stage of their lives.

3 Implement sustainability with technology, portfolio analytics and solutions

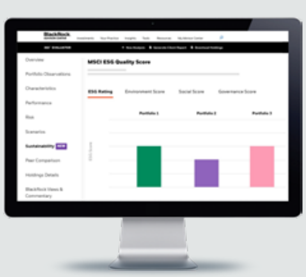
With our sophisticated technology resources, run a client portfolio through an analysis. Look at the specifics of what's going on in a client's portfolio across key financial and sustainability attributes like exposure breakdowns, expenses, risk factors, ESG ratings, business involvement exposures and much more. For example, when advisors can stress test a portfolio, they can identify potential risk areas and ensure that the entire portfolio is aligned to financial goals and values.

Tools to help you get started with sustainable investing

Whether you are looking for sustainable ETFs or mutual funds, model overlays, or total portfolio solutions, Envestnet and BlackRock offer many investment and technology solutions that can help you implement sustainable portfolios.

- With portfolio analytic tools powered by BlackRock's Aladdin® platform, including the 360° Evaluator available on the Envestnet platform, advisors have the most convenient and integrated solution available. The sustainability tab within 360° Evaluator enables advisors to measure the sustainability characteristics of clients' portfolios including MSCI ESG ratings and scores as well as climate risk analysis.
- Envestnet's Next Generation Proposal includes an innovated feature called Sustainable Investment View. This tool allows advisors to quickly identify clients' social and environmental values, review their existing portfolio for misalignment, find more highly aligned investment strategies, and provide comprehensive ESG and impact reporting in the proposal and on an ongoing basis through regular client reporting.
- BlackRock offers iShares® sustainable ETFs, mutual funds and model portfolios available through Envestnet to help you start integrating sustainability in client portfolios. Additionally, Envestnet offers a multitude of investment solutions and other tools to help you build sustainable portfolios.
- Through a partnership with Envestnet and The Investment Integration Project, an organization dedicated to advancing sustainable investment strategies for managing systemic risks and solving systemic problems, advisors can learn why they should consider sustainable investing in their practices, define different approaches they can take, and lead them to a path toward discussing sustainable with clients.
- BlackRock's Advisor Center Sustainable Digital Experience provides resources to help you understand sustainable investing, engage clients and construct sustainable portfolios.

When you feel confident that you understand all you need to know about sustainable investing, you are better equipped to begin conversations with clients.



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Summary: Sustainability at the core

We are committed to helping advisors uncover opportunities in the marketplace while adding the most value for what clients need today. **By incorporating data, technology and personalized portfolio construction with sustainable investing into your practice, you can broaden your service offering and differentiate yourself from your peers.**

When advisors can offer clients the potential benefits of portfolio resilience and the ability to act on their values through sustainable investing, they can achieve a powerful combination. We look forward to introducing more **Sharing Perspectives** over the year. Stay tuned for our next perspective on tax optimization trends and our view of the future.

To learn more about the integrated investment technology solutions advisors have at their disposal, contact us today.

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1 Source: Governance & Accountability Institute, Inc. 2020. 2 Ibid. 3 Source: Goldman Sachs Global Investment Research, December 2019. 4 Here's how to prepare your heirs for the $68 trillion 'great wealth transfer' CNBC.com, last modified on February 25, 2019, https://www.cnbc.com/2019/02/22/how-to-prepare-your-heirs-for-the-68-trillion-great-wealthtransfer.html. 5 Morningstar Sustainable Funds U.S. Landscape Report. As of January 2022. 6 Envestnet, as of December 31, 2020. 7 Source: BlackRock. Analysis based on 17,372 portfolios as of 12/31/19, and 19,552 portfolios as of 12/31/2021. The analysis contained in this report was performed based on portfolios that were shared with BlackRock by advisors during a consultation with the Portfolio Solutions team or through their use of BlackRock's online Advisor Center, powered by Aladdin. BlackRock does not share individual advisor information or data/characteristics of individual portfolios. All portfolio data collected is presented in aggregate. We should note that the portfolios analyzed represent a subset of the industry, and not its entirety. As such, there may be certain biases present in the data that reflect the advisors who choose to work with BlackRock to analyze their portfolios. The universe of sustainable mutual funds and/or ETFs was defined by BlackRock based on descriptions of funds' investment objectives and Morningstar Sustainability classifications. 8 MMI, Advisory Solutions: Expectations and Experiences, 2020. 9 Envestnet Analytics, as of May 31, 2022. Includes both Envestnet platform and Tamarac platform users. 10 Source: BlackRock and Cerulli as of 2021. 1,000 Americans investors interviewed were diversified by geography with avg investible assets of $930K with an average income of $140K. 11 This poll was administered by Envestnet at the RIA Focus Forum webinar on Impact Investing, March 4, 2021. 12 Source: BlackRock and Cerulli as of 2021. 1,000 Americans investors interviewed were diversified by geography with avg investible assets of $930K with an average income of $140K.

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An investment's environmental, social and governance ("ESG") strategy limits the types and number of investment opportunities available and, as a result, may underperform other investments that do not have an ESG focus. An investment's ESG strategy may result in investing in securities or industry sectors that underperform the market as a whole or underperform other investments screened for ESG standards.

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