

5 Key ESG Trends in 2021

Overview

- The interest and adoption of ESG and impact investing continues to accelerate into the mainstream.
- This presentation is intended to provide you with a framework to:
 - Enhance your understanding of the current developments in the ESG and impact investing space
 - Equip you with talking points about timely sustainability topics in investing that may resonate with your clients
- Why now?
 - An opportunity to connect more deeply with your clients and your clients' children
 - An opportunity to differentiate your practice and engage with a broader potential client base



5 key ESG themes to watch in 2021

1

ESG Gets More Sophisticated

2

The Rise of the Hyper-Personalized Portfolio

3

Consensus is Building Towards Common Standards

4

The Era of Stakeholder Capitalism

5

Making Progress on the Path to Net Zero

ESG Gets More Sophisticated

Overview

- A greater depth and breadth of ESG and impact data is powering research, analytics, and reporting across the financial services ecosystem.
- This ecosystem is growing rapidly. Asset managers, investment consultants, wire houses, platform and research firms are now joined by new startups and are partnering and consolidating to offer unique tools to build and report on ESG portfolios.
- Investment managers are moving beyond negative screening or ESG as a “check the box” exercise and are now pursuing the integration of material ESG risks into multiple stages of the investment process.
- With record ESG product launches over the last 5 years, the market now has access to more options across asset classes, with longer track records.

Traditional platforms now offer high-quality ESG data and analytics tools

Investing in a Sustainable Future

Stay ahead of changing investor preferences with Morningstar's latest ESG research findings and in-practice ideas.

MORNINGSTAR

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) SOLUTIONS

Build sustainable investment strategies and create multi-asset class reports with flexible ESG data, research, and analytics for all phases of the portfolio lifecycle.

FACTSET

MSCI ESG Portfolio Analytics: Measuring and Benchmarking ESG Risks

MSCI 

ALADDIN[®] SUSTAINABILITY

Aladdin by BlackRock

ESG Solutions

Providing essential data requires that we go beyond the balance sheet. Our ESG solutions offer financially relevant analytics and timely data to assess risk, uncover opportunities and inform long term sustainable growth.

S&P Global

Consolidation of ESG data providers enriches data quality

ESG Data & Services: A **\$2.2B** total available market, with blue sky upside of **\$5.1B** by 2025 - *UBS*

2015	2016	2017	2018	2019	2020	2021
<p><small>September 15, 2015 01:00 AM</small></p> <p>ISS acquires sustainable investment research firm Ethix SRI Advisors</p> <p>ISS-Ethix</p>	<p>S&P Dow Jones Indices Acquires Trucost</p> <p>Trucost ESG Analysis S&P Global</p>	<p>ISS buys ESG research house Oekom in latest acquisition</p> <p>ISS ESG ethix • climate • oekom</p>		<p><small>October 02, 2019 at 9:43 AM EDT</small></p> <p>MSCI Completes Acquisition of Carbon Delta</p> <p>MSCI CARBON DELTA the environmental fintech</p> <p><small>April 15, 2019 01:00 AM</small></p> <p>Moody's acquires ESG research and data firm Vigeo Eiris</p> <p>MOODY'S ESG & Climate Risk</p> <p>vigeo eiris</p> <p>S&P Global to Acquire the ESG Ratings Business from RobecoSAM</p> <p>SAM Now a Part of S&P Global</p>	<p><small>JULY 6, 2020</small></p> <p>Morningstar, Inc. Completes Acquisition of Sustainalytics</p> <p>MORNINGSTAR SUSTAINALYTICS</p> <p><small>FACTSET ENTERS INTO AGREEMENT TO ACQUIRE TRUVALUE LABS</small> <small>October 20, 2020</small></p> <p>TRUVALUE LABS A FACTSET Company</p> <p><small>London Stock Exchange Group completes \$27bn acquisition of Refinitiv</small> <small>The deal had been approved by the European Commission after the London Stock Exchange agreed to making concessions</small></p> <p>London Stock Exchange Group REFINITIV</p>	<p><small>January 14, 2021 08:30 AM</small></p> <p>BlackRock invests in sustainability analytics and data platform</p> <p>CLARITY AI BlackRock</p>

Asset managers see the value in ESG information

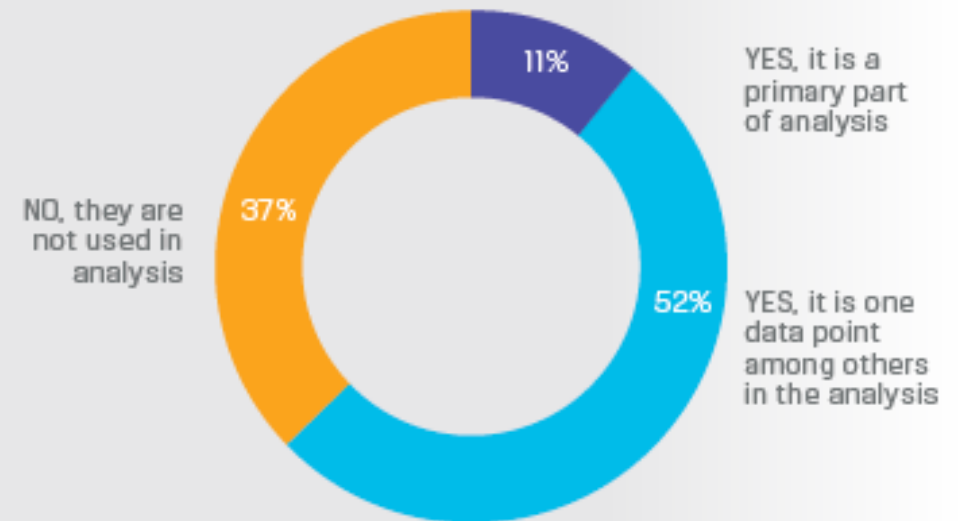
Exhibit 23

WHAT ARE THE MOST FREQUENTLY USED WAYS YOU INCORPORATE ESG INTO EQUITY EVALUATION? (SELECT ALL THAT APPLY)



DO YOU CURRENTLY USE ESG COMPANY RATINGS IN COMPANY ANALYSIS?

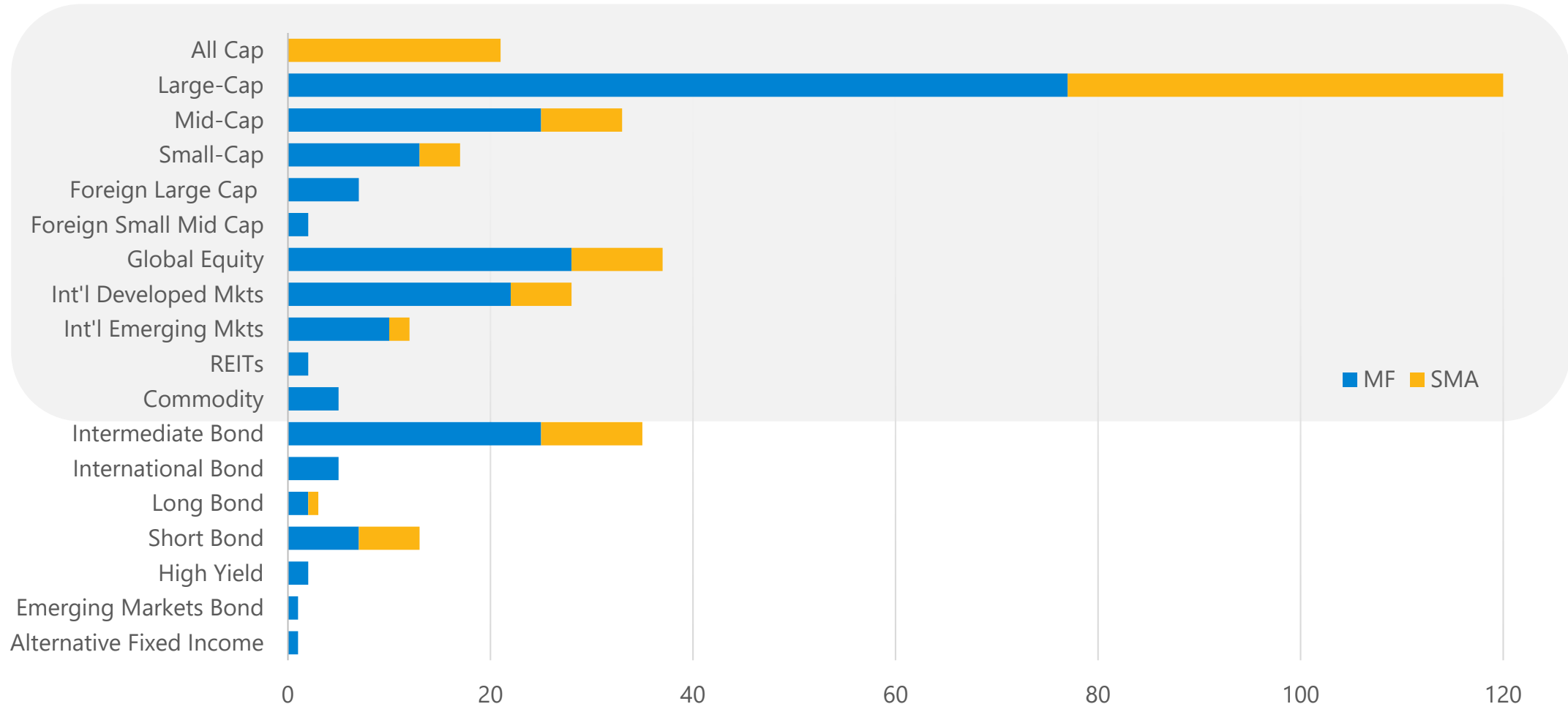
N=2,113



In the next edition of the CFA curriculum, **ESG content will increase by 130%**, with 23 readings in 7 topic areas.

Now there's enough ESG product to build diversified portfolios

NUMBER OF ESG & IMPACT STRATEGIES ON THE ENVESTNET PLATFORM



The Rise of the Hyper-Personalized Portfolio

Overview

- Investors of all ages, especially younger generations, are driving the demand for hyper-personalization and customization of portfolios that reflect their world views.
- Consumer trends, including buying local or organic foods, shopping at socially conscious brands, along with social movements, such as climate strikes, #metoo, and racial justice, are now translating to a desire to invest with these same social objectives.
- Technology is serving as a catalyst by:
 - Facilitating the real-time spread of information through social media
 - Enabling access for investors through wealth/retail platforms and direct indexing



Personal choices are now translating to investment preferences

Consumer trends like “buying local,” purchasing organic foods, and wearing socially conscious brands

How socially conscious young investors are putting their money where their ideals are



PUBLISHED SUN, FEB 17 2019 • 3:00 AM EST | UPDATED TUE, FEB 19 2019 • 3:17 PM EST

Markets

Millennials Finally Ready to Invest as Sustainably as They Shop



Climate strikes, Greta Thunberg, campaign against plastics

MARKETS

Climate change investing catches on with millennials who believe it's pressing — and profitable

PUBLISHED TUE, DEC 31 2019-3:08 PM EST | UPDATED TUE, DEC 31 2019-4:41 PM EST



WEALTH MATTERS

A Call for Investors to Put Their Money Toward a Green Future



The #MeToo movement, national women's marches, Lean In, the gender pay gap

'Be honest' about U.S. gender pay gap, investors tell firms



IMPACT INVESTING

#MeToo spurs investors to move money to companies that support women



PUBLISHED SUN, FEB 25 2018 • 11:00 AM EST | UPDATED THU, FEB 28 2019 • 11:22 AM EST

Women Can Close the Gender Wealth Gap by Investing



Women are paid less than men but earn more when they invest. The problem is women invest less than men.

BLM, ongoing protests advocating for racial justice

Digging deeper to root out racism in investment portfolios

Investors Want to Align Their Dollars with Racial Justice Demands

And technology is making hyper-personalization possible for retail investors

SUSTAINABLE INVESTING | FEATURE

How to Build Your Own ESG Portfolio

By Karen Hube June 21, 2019 7:34 pm ET

ADVISOR NEWS

Fidelity Teams Up With Ethic on ESG Investing



Merrill Lynch and Merrill Edge Launch Impact Portfolios, Broadening Opportunities for Investors to Align Their Investments With Their Values

Wednesday, May 2, 2018 9:00 am EDT

INVESTING

Invest Your Conscience with Ethical Trading Apps

From Betterment to Ellevest and Weathsimple, socially responsible investing apps are gaining steam. And those worried they'd have to sacrifice returns to do good may be pleasantly surprised.

Dynasty Adds Ethic ESG Offerings to TAMP

The RIA is adding customized products to increase ESG options for portfolios.

FINANCE - IMPACT INVESTING

You Can Now Invest in a 'Racial Justice' Index Fund

Morgan Stanley's Eaton Vance deal yields a golden nugget-- Parametric--and a means to own the direct-indexing super trend -- at a bargain \$7 billion

The New York wirehouse bought \$507 billion of AUM, but Seattle-based subsidiary Parametric, which has no equal in its category, is the key to the deal.

OpenInvest Provides Bank Of The West With Personalized ESG Investment Portfolios For Its Customers

BlackRock to Acquire Aperio - Leading Provider of Personalized Index Equity Solutions

Aperio's Customized Indexing Capabilities Enhance BlackRock's Wealth Platform with Tax-Managed Equities, Factors, and ESG Strategies

BlackRock's High-Touch Separately Managed Account Services Now Provide Whole Portfolio Solutions for Ultra-High Net Worth Advisors

Combining Two of The Hottest Trends in Investing: SRI/ESG Investing And Direct Indexing

Consensus is Building Towards Common Standards

Overview

- The industry is working together to adopt common ESG definitions and standards:
 - The **Sustainability Accounting Standards Board (SASB)** will emerge as the leading global ESG discloser framework for companies.
 - SASB's ongoing collaboration with the **Task Force for Climate Related Financial Disclosures (TCFD)** will support further alignment.
 - The **CFA Institute** is developing ESG disclosure guidance for investment strategies which will become the industry standard for asset managers.

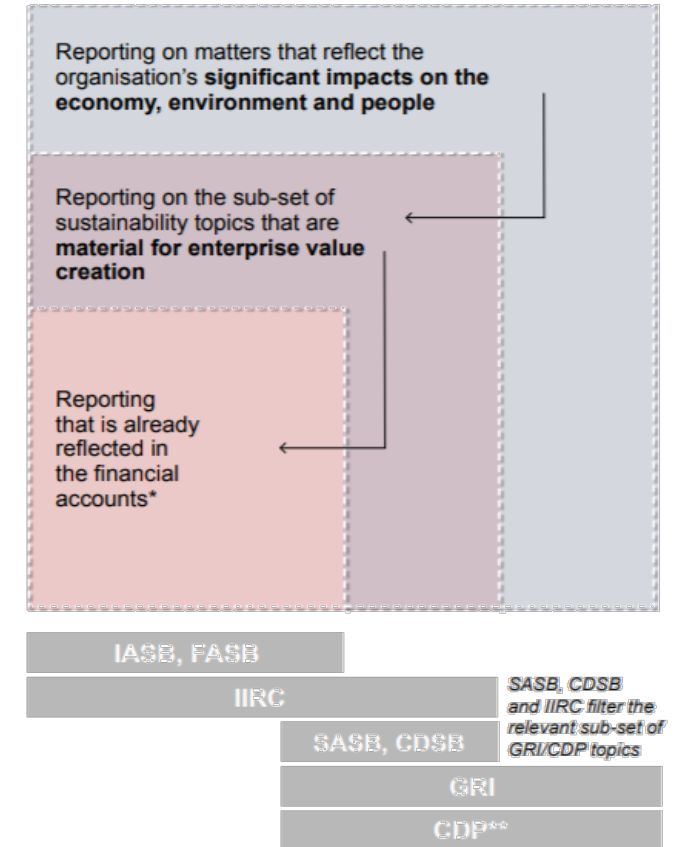


Coming soon: ESG disclosure standards for companies

In September 2020, CDP, CDSB, GRI, IIRC, and SASB announced a shared vision for a comprehensive corporate reporting system and a commitment to collaborate to achieve it:

Statement of Intent to Work Together Towards Comprehensive Corporate Reporting

Figure 2. Standards address distinctive materiality concepts



* Including assumptions and cash flow projections

** Reflects the scope of the CDP survey, insofar as it functions de facto as a disclosure standard for climate, water and forests, as well as the scope of CDP's data platform

Coming soon: ESG disclosure standards for investment products

CFAI is working on a **voluntary global disclosure standard** for investment strategies, planning to release an initial version in May 2021.

Published a consultation paper with input from a working group of **15 international volunteers** with expertise in ESG, asset owners, money managers, consultants, and service providers.

The paper **proposes definitions of six ESG-related features** of investment strategies.



78%
of practitioner
survey participants
support such
standards

The Era of Stakeholder Capitalism

Overview

- **Companies** are more aware of and responsive to the interests of stakeholders beyond just their shareholders; **their customers, suppliers, employees and communities.**
 - The pandemic has catalyzed this focus.
- **Shareholders** are increasingly voting their proxies in support of ESG resolutions.
 - Asset managers are putting pressure on companies to **better manage and disclose on material ESG risks** such as climate change, diversity, and governance issues.



COVID-19 pushes managers to focus on ESG issues



Social & Human Capital

- Employee Health & Safety
- Labor Practices
- Customer Support
- Community Support
- Data Security



Innovation

- Supply Chain Management
- Product Design
- Business Model Resiliency



Environmental

- Climate Change & GHG Emissions
- Air Quality



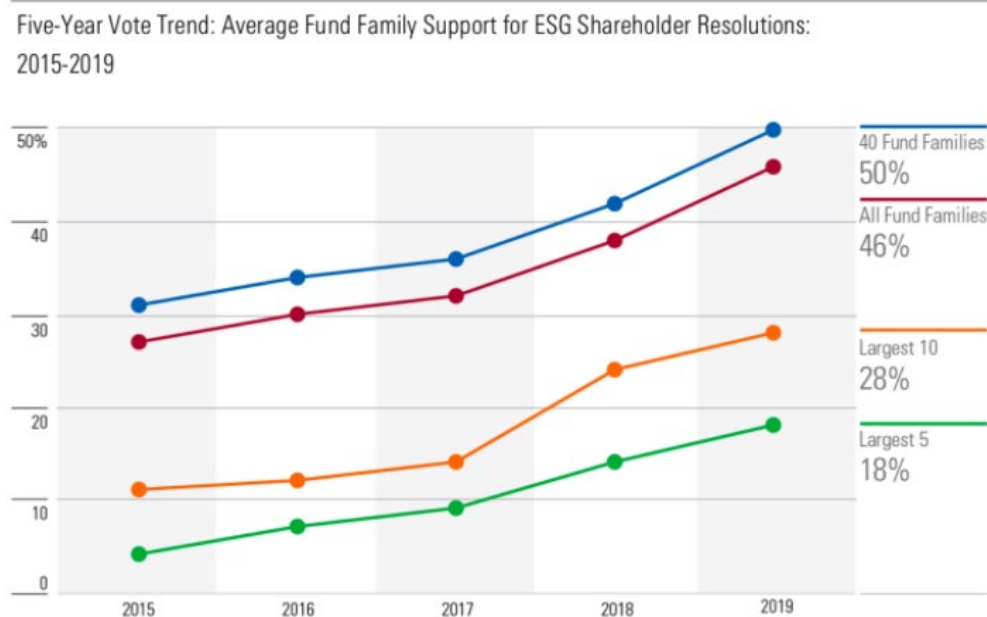
Leadership & Governance

- Disaster Planning and Business Continuity

Source: Cerulli

Managers increasingly support ESG votes

Across all fund families evaluated, average support for ESG shareholder resolutions was at 46% in 2019, up from 27% in 2015 ...



Source: Jackie Cook, Morningstar

... but the largest managers still lag behind on proxy support

Exhibit 6 How the Largest Sustainable Funds Voted

Fund	Fund Size (\$mil)	# Votes	% Support
Parnassus Core Equity	22,116.8	10	100
Calvert US Large Cap Core Rspnb Idx	3,354.5	41	100
Pax Large Cap Fund	1,004.4	10	100
American Century Sustainable Equity	3,030.0	20	65
Putnam Sustainable Leaders	5,751.5	11	64
TIAA-CREF Social Choice Eq	6,002.6	25	60
DFA US Sustainability Core 1	3,669.6	44	34
Vanguard ESG US Stock ETF	2,624.6	53	19
Vanguard FTSE Social Index	10,065.4	45	18
iShares MSCI KLD 400 Social ETF	2,488.1	19	16
iShares ESG MSCI USA Leaders ETF	2,697.4	18	11
iShares ESG Aware MSCI USA ETF	12,708.7	35	9

Note: Includes sustainable funds voting on at least 10 key resolutions.
Source: Morningstar Proxy Voting Database, Morningstar Direct. Data as of Nov. 30, 2020.

From "Sustainable Fund Proxy Votes Show a Range of Support for ESG Measures"

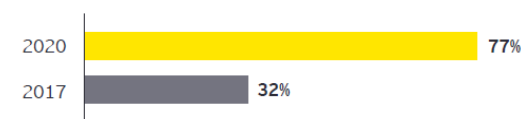
Workforce issues take center stage in 2020 proxy season

Harvard Law School Forum on Corporate Governance

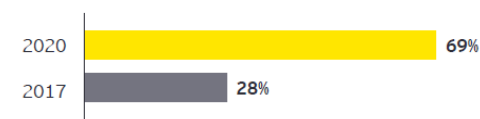
1. **Workforce issues** take center stage
2. Companies enhance **environmental governance and disclosures**
3. **Board diversity** and related disclosures advance
4. Virtual annual meetings surge

20 E&S-related shareholder proposals at U.S. companies received majority support, up from 12 in 2019 and 10 in 2018. – *Institutional Shareholder Services*

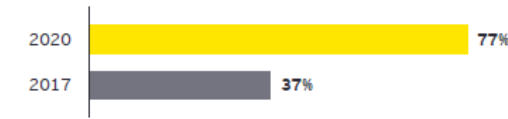
Proxy disclosures that highlighted company initiatives and commitments regarding human capital
(% Fortune 100)



Proxy disclosures that assigned board or committee oversight of human capital
(% Fortune 100)



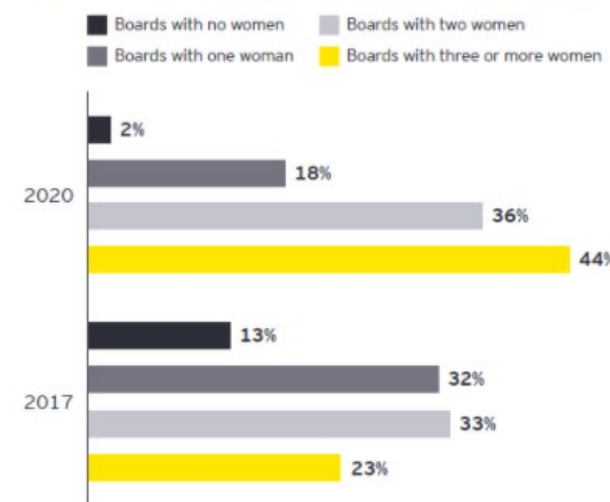
Proxy disclosures that highlighted company initiatives and commitments regarding environmental sustainability
(% Fortune 100)



Proxy disclosures that assigned board or committee oversight of environmental sustainability
(% Fortune 100)



S&P 1500 boards with three or more women increasing



Making Progress on the Path to Net Zero

Overview

- Climate change is an investment consideration impossible to ignore, with heightened frequency and severity of natural disasters, growing economic losses, and regulators increasingly recognizing it as a systemic financial risk.
- The pandemic highlighted how biodiversity loss as a result of climate change has increased the probability of pandemics. It also has highlighted the need for a low-carbon-focused economic recovery.
- Countries, companies, credit rating agencies, and asset managers are all turning their focus to climate issues.
- Climate change is a major focus area for investors, which has put pressure on companies to disclose climate risk exposures and management of carbon emissions.

Key players committed to combatting climate change

Key Commitments in 2020 – Countries

- **Biden administration** -- pledges carbon-free electricity production carbon-free by 2035; and, for the **U.S.** to have net zero carbon emissions by 2050.
- **EU** -- now looking at 55% carbon reductions by 2030 (versus 40% previously).
- **China** -- establishes a new goal to achieve net-zero carbon emissions by 2060.
- **New Zealand** and the **U.K.** -- became the first countries to say they'll require companies to disclose their climate risk.
- **Japan** -- pledges to become carbon neutral by 2050.

Key Commitments in 2020 – Companies

- **Bloomberg** reports that about 1,500 companies have announced net-zero emissions goals.
- **Walmart Inc.** -- working toward zero emissions from its global operations by 2040; plans to power its facilities with 100% green energy by 2035.
- **Amazon** -- on track to run on 100% renewable energy by 2025, five years ahead of schedule.
- **Microsoft** -- expects to be carbon negative and beginning to remove the carbon it has emitted since its founding, by 2030.

Key Commitments in 2020 – Asset Managers

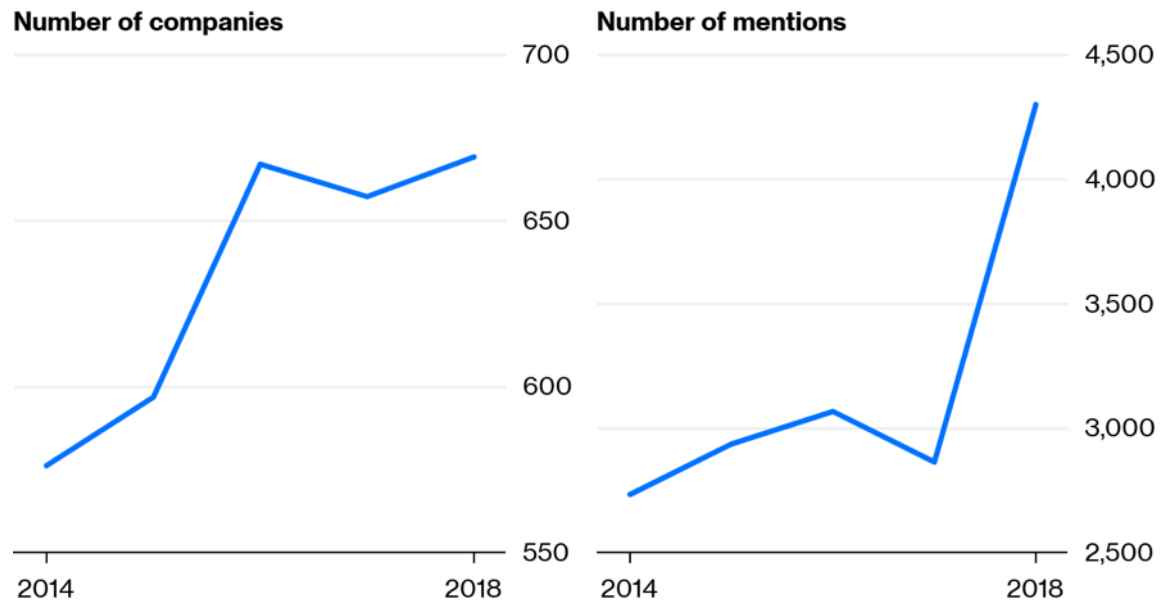
- The Net Zero Asset Managers Initiative includes a group of 30 asset managers overseeing a combined \$9 trillion.
- The Initiative supports efforts to limit global warming by **requiring carbon-neutral investment portfolios by 2050 at the latest.**
- \$7 trillion asset manager BlackRock makes climate change central to its investment strategy for 2021.

Companies, fund managers actively considering climate risks

Mentions of Climate Change in Public Companies' Filings

Flat in One Way, Soaring in Another

Mentions of "climate change" in public companies' filings

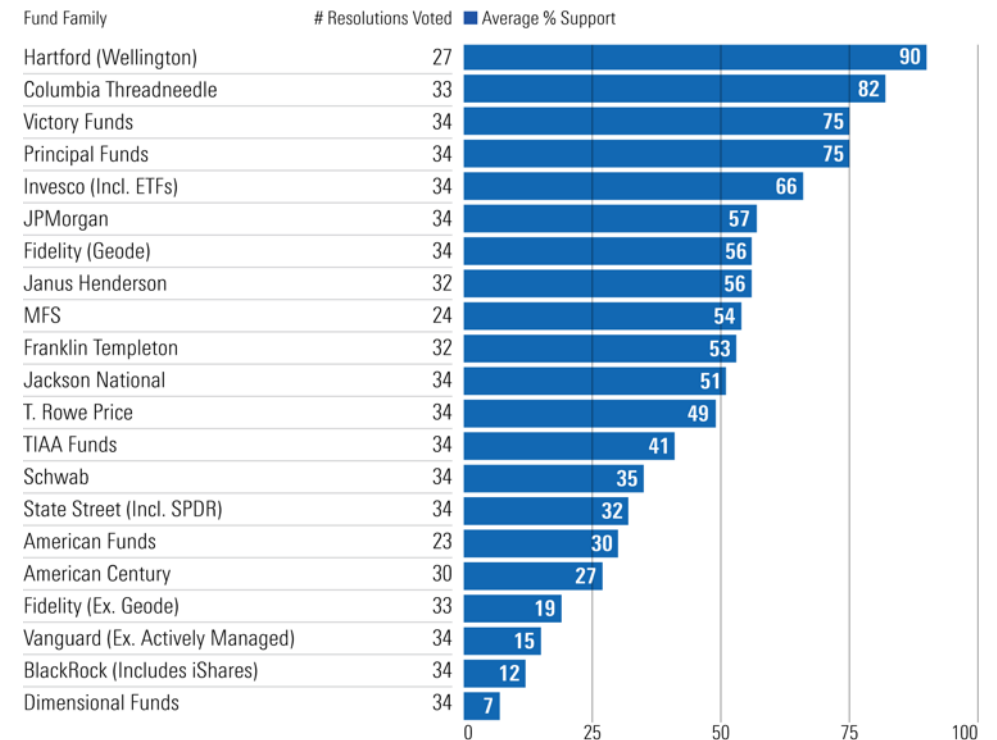


Note: Includes filings, presentations and call transcripts. Does not include research or news releases.

Source: Bloomberg

BloombergOpinion

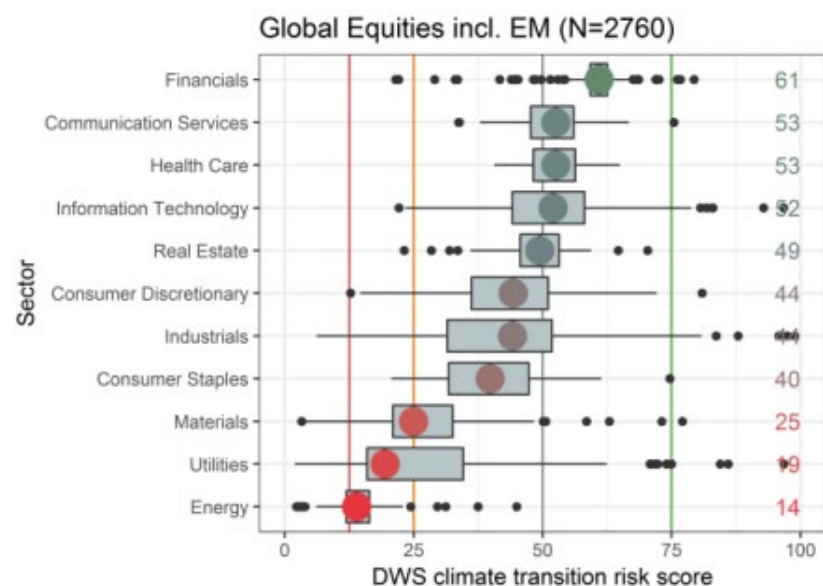
Proxy Votes on 2020 Key Climate Resolutions



Source: Morningstar's Proxy Database. Data as of 11/18/20.

Investors develop frameworks for climate risk and opportunities

FIGURE 2: IDENTIFYING CLIMATE TRANSITION INVESTMENT OPPORTUNITIES BY SECTOR



Source: DWS Investment GmbH (October 2019)

Climate Risk Analysis

7 tools to leverage PIMCO's fundamental research

Integrating material Climate risk into broad investment decisions				
Objective	Tool #	Focus	PIMCO Tool Name	Key Question
Lower Credit Risk	1	Economic Impacts (Top-down)	Climate Macro Tracker	How to assess and decrease portfolio exposure to financial risks brought about by climate change
	2	Credit Risk Impacts (Bottom-up)	Portfolio Climate Risk Heat Map	
	3		Issuer Climate Risk Score	
Reduce Carbon Emissions	4	Brown Bonds	Energy and Technology mix compared with the Paris Agreement (IEA Scenarios)	How to reduce portfolio exposure to activities contributing to global warming
	5	Carbon Intensity	Portfolio Carbon Intensity Analysis	How to reduce portfolio's carbon footprint
	6	Green Bonds	Green Bonds Score	How to increase portfolio's exposure to activities that help mitigate global warming
Both	7	Engagement	Expectations toward issuers on climate change	How to influence companies' strategy
Tools / Analytics to support construction of ESG portfolios				

For illustrative purposes only.
As of 31 October 2020 SOURCE: PIMCO

PIMCO

7

"If you aren't considering climate risk in your investments, you're betting against the laws of thermodynamics." - *Jeremy Grantham*

Conclusion

Now that investors know that they can reflect their values in their portfolio, there's no turning back. ESG investing is here to stay.

The ecosystem continues to expand, and technology, data, and access are driving that.

Your current and future client base will expect you to be knowledgeable. Envestnet is here to provide you with the best-in-class tools and analytics to help your clients make progress towards both their financial and ESG goals.

For additional resources, visit investpmc.com/impact

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