Introduction to Responsible Investing
The Many Forms of Responsible

- Environmental, Social, Governance (ESG)
- Socially Responsible
- Impact
- Sustainable
What is ESG?

<table>
<thead>
<tr>
<th>Environmental</th>
<th>Social</th>
<th>Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy consumption</td>
<td>Human rights</td>
<td>Quality of management</td>
</tr>
<tr>
<td>Pollution</td>
<td>Child and forced labor</td>
<td>Board independence</td>
</tr>
<tr>
<td>Climate change</td>
<td>Community engagement</td>
<td>Conflicts of interest</td>
</tr>
<tr>
<td>Waste production</td>
<td>Health and safety</td>
<td>Executive compensation</td>
</tr>
<tr>
<td>Natural resource preservation</td>
<td>Stakeholder relations</td>
<td>Transparency &amp; disclosure</td>
</tr>
<tr>
<td>Animal welfare</td>
<td>Employee relations</td>
<td>Shareholder rights</td>
</tr>
</tbody>
</table>
History of ESG

• Roots can be traced back to the 1960s
• First products were available in the 1980s
• Started with elimination of “sin stocks”
  – Alcohol, Tobacco, Firearms, Casinos
• Evolved into an estimated $20T industry with highly specialized investment styles

Source: MSCI
Parabolic Growth

**Sustainable Growth**
Investors using socially responsible criteria hit $12 trillion in U.S. assets

- Assets under management

Source: US SIF

Bloomberg
Socially Responsible and Impact

• Pairing an investment theme with what matters to you
• Using investment dollars to effect change at the highest level
• Examples:
  – Gender diversity (ETF Ticker: SHE)
  – Catholic values (CATH)
  – Women empowerment (WOMN)
iShares MSCI KLD 400 Social ETF (DSI)

- Tracks a market-cap-weighted index of 400 companies deemed to have positive environmental, social and governance characteristics by MSCI
- Expense Ratio: 0.25%
- AUM: $1.42B

Source: ETF.com
Impact Shares YWCA Women’s Empowerment (WOMN)

- Tracks an index of large- and midcap US equities that are selected and weighted to maximize exposure to firms that score highly on gender diversity
- Expense ratio: 0.76%
- AUM: $4.06M

**Top 10 Holdings**

<table>
<thead>
<tr>
<th>Company</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microsoft Corporation</td>
<td>6.07%</td>
</tr>
<tr>
<td>Amazon.com, Inc.</td>
<td>5.64%</td>
</tr>
<tr>
<td>Apple Inc.</td>
<td>5.41%</td>
</tr>
<tr>
<td>Johnson &amp; Johnson</td>
<td>2.90%</td>
</tr>
<tr>
<td>JPMorgan Chase &amp; Co.</td>
<td>2.85%</td>
</tr>
<tr>
<td>U.S. Dollar</td>
<td>2.31%</td>
</tr>
<tr>
<td>Intel Corporation</td>
<td>2.14%</td>
</tr>
<tr>
<td>Bank of America Corp</td>
<td>1.97%</td>
</tr>
<tr>
<td>Exxon Mobil Corporation</td>
<td>1.83%</td>
</tr>
<tr>
<td>AT&amp;T Inc.</td>
<td>1.62%</td>
</tr>
<tr>
<td><strong>Total Top 10 Weighting</strong></td>
<td><strong>32.94%</strong></td>
</tr>
</tbody>
</table>

Source: ETF.com
TAN and FAN

- Invesco Solar ETF
  - First Solar, Inc. 10.52%
  - SolarEdge Technologies, Inc. 9.20%
  - Enphase Energy, Inc. 7.40%
  - Xinyi Solar Holdings Ltd. 6.38%
  - Sunrun Inc. 6.05%
  - Canadian Solar Inc. 4.84%
  - JinkoSolar Holding Co. Ltd. 4.84%
  - SunPower Corporation 4.66%
  - Daqo New Energy Corp. 4.31%
  - Scatec Solar ASA 4.20%
  - Total Top 10 Weighting 62.4%

- First Trust Global Wind Energy ETF
  - Orsted 9.21%
  - Siemens Gamesa Renewable Energy 8.47%
  - Vestas Wind Systems A/S 7.99%
  - Northland Power Inc. 6.57%
  - China Longyuan Power Group Co., Ltd. 5.85%
  - Pattern Energy Group Inc. 4.23%
  - Renewables Infrastructure Group Inc. 4.08%
  - Boralex Inc. Class A 3.26%
  - Nordex SE 2.67%
  - Iberdrola SA 2.33%
  - Total Top 10 Weighting 54.66%

Source: ETF.com
Data Providers

- MSCI
- Bloomberg
- Morningstar
- Calvert
- Sustainalytics
- RobecoSAM
Comparing Different Providers

- Criteria and scoring algorithms vary across the data provider landscape
- Correlation of scores amongst major providers:

<table>
<thead>
<tr>
<th></th>
<th>Sustainalytics</th>
<th>MSCI</th>
<th>RobecoSAM</th>
<th>Bloomberg ESG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainalytics</td>
<td>1</td>
<td>0.53</td>
<td>0.76</td>
<td>0.66</td>
</tr>
<tr>
<td>MSCI</td>
<td></td>
<td>1</td>
<td>0.48</td>
<td>0.47</td>
</tr>
<tr>
<td>RobecoSAM</td>
<td></td>
<td>1</td>
<td></td>
<td>0.68</td>
</tr>
<tr>
<td>Bloomberg ESG</td>
<td></td>
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Source: State Street Global Advisors
Issues & Risks

• Using a single score to assess overall ESG level
  – Conflicts within one company across ESG spectrum (Ex: Facebook)

• What does ESG mean to YOU?
  – Getting granular

• Wall Street sees the profit opportunity
• Many funds fail to gain traction
Pacer Military Times Best Employers (VETS)

- US Companies with veteran- and military-friendly employment practices
- Inception date: 4/10/18
- Expense ratio: 0.60%
- AUM $2.86M

Source: ETF.com
The Devil is in the Details

**S&P 500**
- Microsoft Corporation: 4.20%
- Apple Inc.: 3.62%
- Amazon.com, Inc.: 3.19%
- Facebook, Inc. Class A: 1.76%
- Berkshire Hathaway I: 1.67%
- Johnson & Johnson: 1.54%
- JPMorgan Chase & Co.: 1.50%
- Alphabet Inc. Class C: 1.37%
- Alphabet Inc. Class A: 1.34%
- Exxon Mobil Corporation: 1.31%

Total Top 10 Weighting: 21.5%

**WOMN**
- Microsoft Corporation: 6.07%
- Amazon.com, Inc.: 5.64%
- Apple Inc.: 5.41%
- Johnson & Johnson: 2.90%
- JPMorgan Chase & Co.: 2.85%
- U.S. Dollar: 2.31%
- Intel Corporation: 2.14%
- Bank of America Corp: 1.97%
- Exxon Mobil Corporation: 1.83%
- AT&T Inc.: 1.82%

Total Top 10 Weighting: 32.94%

Source: ETF.com
Performance

- 41 of the 56 Morningstar ESG indexes outperformed their non-ESG equivalents
- Outperformance especially focused in Europe and Asia
- New paradigm or short-term outperformance?

Source: Morningstar
Implementation

• MSCI identified three client objectives for ESG implementation
  – Integration
    • To improve investment results
  – Personal Values
  – Positive impact
    • Using investment dollars to effect social change
BFG Implementation

- Model Portfolios
  - Great place to start
  - General ESG overlay
- Model Portfolios + Thematic Tilts
- Ability to match your values with your investments
## Example Model Portfolio

### Cheapest ESG ETF Portfolio, January 2019

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Fund</th>
<th>Asset Class</th>
<th>Weight</th>
<th>Expense Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESGV</td>
<td>Vanguard ESG U.S. Stock ETF</td>
<td>U.S. Equity</td>
<td>40%</td>
<td>0.12%</td>
</tr>
<tr>
<td>EASG</td>
<td>Xtrackers MSCI EAFE ESG Leaders Equity ETF</td>
<td>Developed Markets Equity</td>
<td>30%</td>
<td>0.14%</td>
</tr>
<tr>
<td>ESGE</td>
<td>iShares ESG MSCI EM ETF</td>
<td>Emerging Markets Equity</td>
<td>5%</td>
<td>0.25%</td>
</tr>
<tr>
<td>EAGG</td>
<td>iShares ESG U.S. Aggregate Bond ETF</td>
<td>Fixed Income</td>
<td>15%</td>
<td>0.10%</td>
</tr>
<tr>
<td>PPTY</td>
<td>U.S. Diversified Real Estate ETF</td>
<td>REITs</td>
<td>5%</td>
<td>0.53%</td>
</tr>
<tr>
<td>XKCP</td>
<td>SPDR Kensho Clean Power ETF</td>
<td>Commodities</td>
<td>5%</td>
<td>0.45%</td>
</tr>
</tbody>
</table>

**Blended Expense Ratio**: 0.17%

Source: ETF.com; data as of Jan. 10, 2019.
Next Steps

• Contact us
  – drath@Bouchey.com
  – (518) 720-3333 x110

• Portfolio review

• Implementation
Disclosure

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