Primers

THE IMPACT

Public Equity

Investing for Impact

The ImPact is a membership network of family enterprises (family offices, foundations, and businesses) that are committed to making investments with measurable social impact. The ImPact provides families with the knowledge and network they need to make more impact investments more effectively, and uses sophisticated technology for data aggregation, analysis, and reporting to shift the narrative of impact investing from one of inputs (dollars committed) to outcomes (impact created). Our purpose is to improve the probability and pace of solving social problems by increasing the flow of capital to investments generating measurable social impact.

PUBLIC EQUITY AND IMPACT INVESTING:
A PRIMER FOR FAMILIES

Public equity is a core component of a diversified investment portfolio. Public equity investments may offer liquidity, dividend income, and/or appreciation in value. For decades, asset owners have worked to align their public equity investments with their values. Today, many investors in public equity consider social and environmental issues in their investment selection processes. Given the diversity and demonstrable track records of these strategies, families may find public equity to be an accessible asset class as they develop impact investment portfolios.

Families can make public equity impact investments in several ways. First, they can screen their portfolios according to ethical or environmental, social, and governance (ESG) criteria. Second, they can invest in specific public companies whose products or services directly address social and environmental challenges. Third, they can engage in shareholder activism to encourage companies in which they are invested to improve ESG practices.

The purpose of this primer is to explore the different public equity impact investment strategies that families use to achieve their overall impact and financial objectives. This document is intended to be explanatory, and not a source of investment advice.

Key Characteristics

Here are some key characteristics of public equity impact investments:

Familiarity: Impact-oriented public equity strategies share many of the familiar characteristics of their conventional investment counterparts. Impact-oriented strategies can generate comparable and even superior financial return to conventional strategies. Impact-oriented strategies are reasonably liquid, and are accessible through investment vehicles without restrictive barriers to entry or exit.

Transparency and Track Record: There are dozens of data providers and thousands of analysts covering public companies, which are required by law to disclose any information on their finances and operations that could influence the decision-making of a reasonable investor. Since the 1970s, investment managers have used these data to design public equity strategies that allow asset owners to align their investments with their values. Today, there is a large and transparent marketplace of public equity funds that utilize ESG data, and many of these funds have substantial track records.

Risk Management: Public equity offers investors an opportunity to diversify their holdings across companies, industries, business models, and geographies. Such diversification may reduce overall risk and volatility within or across investment portfolios. By incorporating key ESG factors into their investment selections, investors may be able to further reduce their portfolios' risk and volatility.

Complex Enterprise Impact: All publicly traded companies have significant social and environmental impact. They create this impact through their core products and services, and also through their basic operations. Accounting for the total impact a company creates is complex: a solar panel manufacturer may create a product that has positive environmental impact, but treat the employees constructing those panels very poorly. A soft-drink manufacturer may produce an unhealthy product, but be a global leader in gender pay parity.

"Public equity" is an asset class through which investors can buy ownership in shares or stock of a company through a public market, such as the New York Stock Exchange.

Public equity impact investing can offer:

- ☑ High liquidity*
- ☑ Regular income
- ☑ Diversification across sectors
- ☑ Long-term value appreciation
- ☑ Impact at scale

*Compared to investments in other asset classes, such as private equity.

A growing body of evidence shows that companies with a strong sustainability focus financially outperform comparable companies with poor sustainability records.

Given the complexity of public company operations, families must make thoughtful decisions about they use public equity investments to achieve their specific impact objectives.

Indirect Investor Impact and Shareholder Engagement

Most public companies do not depend on stock markets for their financing, so shareholders do not directly fund the impact that companies create. Instead, families can shape company behavior by engaging corporate boards and management, voting in support of impact-focused shareholder proposals, and participating in market signaling along with other investors. Families can also impact the composition and behavior of public equity funds by speaking to fund managers about how the fund incorporates ESG issues and shareholder engagement and voting into its investment strategy.

Principal Motivations for Public Equity Impact Investing

We see three key motivations driving families to make public equity impact investments:

Values Alignment

Families can align their investments with their values (or philanthropic mission) by incorporating social and environmental factors into their public equity investment decisions. Families may consciously exclude companies whose products or practices conflict with their values, or proactively invest in companies with strong social and environmental records.

Social and Environmental Impact Drive Long-term Outperformance

Social and environmental factors can be major drivers of the long-term financial performance of public equity investments. A growing body of evidence shows that companies with a strong sustainability focus financially outperform comparable companies with poor sustainability records. This outperformance may be a result of reduced risk or business growth. Companies with strong sustainability and governance practices enjoy better brand favorability and lower reputational risks—critical factors at a time when, according to a recent study, intangible assets like brand recognition, customer loyalty, and intellectual property provide 84% of the total market value of S&P 500 companies.[1]

Using Business to Address Specific Social and Environmental Challenges

The dynamism of business and the scale of capital markets are necessary to address specific social and environmental challenges. Families can invest in public companies whose core products and services address social and environmental challenges at scale, such as renewable energy providers or low-cost vaccine manufacturers. Families can also encourage companies to improve their environmental, social, and governance practices through shareholder engagement and voting on shareholder resolutions.

Environmental, Social, and Governance (ESG) Criteria

Investors can achieve impact through public equity investments by considering ESG factors in their investment process. ESG criteria include a range of issues. Here are some examples:

Environmental Criteria ("E"): Greenhouse gas emissions, waste management, energy efficiency, and use of clean energy.

Social Criteria ("S"): Human rights, industrial safety, labor relations, and relations with local communities.

Governance Criteria ("G"): Shareholder rights, corporate transparency, and board diversity.

Actionable Investment Strategies

Negative Screens or Socially Responsible Investing (SRI)*

The application of ethical screens to public equity investments is the oldest and most common form of impact investing. Families may apply "negative screens" to their portfolios to exclude whole industries or individual companies with poor environmental or social records. This practice has traditionally been called "socially responsible investing.*" Historically, SRI investment funds have excluded "sin" stocks of alcohol, tobacco, weapons, and gambling companies. In response to the urgent realities of climate change, families are increasingly interested in funds that exclude certain fossil fuel-related companies or industries.

ESG or Sustainable Investing

A growing number of investors use ESG factors as "positive screens" to identify sustainable companies. By investing in these "best-in-class" companies, families can build values-aligned portfolios and seek long-term financial outperformance. ESG investors may analyze non-financial information that companies self-report, and/or utilize third-party analyses of ESG factors. The specificity and rigor with which fund managers use ESG data varies widely. Some managers use ESG factors simply as part of a "check-the-box" process of risk mitigation. Other fund managers, such as Generation Investment Management, have developed sophisticated sustainability analyses that define their investment theses.

Thematic or "Solutions-Oriented" Portfolios

Families can create thematic or "solutions-oriented" portfolios by investing in businesses whose core products or services directly address specific social and environmental challenges. The present opportunity set is large and growing. There are many publicly traded clean technology companies, and the health and wellness and sustainable consumer products sectors have grown dramatically in recent years. The universe of public companies focused on specific social and environmental challenges expands as start-ups go public or are acquired by existing public companies. In 2014, the education technology company 2U went public, and its first action as a publicly traded company was to release its company impact report.

Families can also invest in funds whose investment strategies address specific social issues. The Pax Ellevate Global Women's Index Fund, for example, adds a gender lens to its basic ESG analysis, and invests in public companies whose boards and executive management teams have substantial female leadership.

Investors should be mindful that thematic strategies may have a narrow sector focus and, therefore, may be subject to greater risk and volatility than funds with diversified sector allocations.

Shareholder Engagement and Voting

Beyond screened or tailored portfolios, investors can create substantive social and environmental impact through shareholder engagement and voting. Families, along with other investors, can influence a company's behavior by engaging directly with its board and management, and/or casting votes on ESG-related shareholder resolutions.

Shareholder resolutions are usually non-binding proposals to change a company's environmental, social, or

Beyond screened or tailored portfolios, investors can create substantive social and environmental impact through shareholder engagement and voting.

* Today, uses of the terms "socially responsible investing" and "SRI" are not limited to negative screening investment strategies. Some practitioners use "socially responsible investing" and "SRI" as umbrella terms for all investment strategies that integrate social and environmental factors into investment decision-making.

> The explicit preferences of shareholders create market signals that can shape corporate behavior.

governance policies. Any investor who owns more than $2,000 worth of stock in an American public company for one year before an annual resolution-filing deadline can submit a shareholder resolution to be voted on at the company's annual shareholders meeting. Shareholders who do not attend the annual meeting can vote on these resolutions by "proxy;" many SRI and ESG funds cast proxy votes on behalf of their investors. Investors can also engage in a dialogue with a company individually, in coordination with other investors and shareholder advocacy organizations, or through financial advisors and third-party managers.

A Note on Fund Management Strategies: Active versus Passive

Public equity funds may be actively or passively managed. An actively managed fund has a dedicated investment team that analyzes and selects stocks for investment. The goal of an actively managed fund is to beat the performance of a relevant benchmark index. There are several ESG indexes that impact-oriented fund managers use, such as the MSCI Global Sustainability Index series or the S&P Dow Jones Sustainability Index family. Fund managers analyze company-specific financial and ESG data, market trends, and the economy as a whole to identify stocks that are mispriced by the market. Active management takes work, so these funds charge their investors higher management fees than do passively managed funds.

Some investors believe that it is impossible, over a long term, to outperform the market through active stock selection. Instead, "passive" investors seek to match the performance of market indexes by investing in funds designed to replicate the composition of those indexes. Passive strategies require minimal investment management, so these funds charge their investors lower fees than do actively managed funds.

Active management may be necessary to implement tailored impact strategies, but families seeking "market-rate" returns should note the difference between a fund's gross (pre-fee) returns and its net (post-fee) returns—in some cases, management fees can cause a fund's net returns to underperform its benchmark.

Overview of Impact Considerations

Families can create a variety of impact outcomes through their public equity portfolios, depending on the investment strategy they use.

Negative (SRI) and Positive (ESG) Screens

The stock market is so big, and the strategies of investors so diverse, that no individual shareholder can affect change in (or through) a company by investing in or divesting of that company. Collectively, though, the explicit preferences of shareholders create market signals that can shape corporate behavior.

The preferences of investors play an even more critical role in affecting the social and environmental footprints of public companies when they align with movements of consumers, advocates, and regulators. In the case of divestment, sustained and concerted action by investor, advocacy, and consumer groups can change public perception of a company and increase media and regulatory scrutiny, thereby threatening company sales, employee recruitment and retention, and supply chain relationships. Taken together, these actions can threaten a company's profits and increase the perceived risk of investment for shareholders of or lenders to the company (or industry) in question. When shareholders and lenders perceive heightened risk, they increase the return premium they expect to receive from a company; this increase in "cost of capital" can have a material effect on a company's financial performance, incentivizing management to improve corporate practices and ameliorate investors' concerns.[2]

Companies with poor environmental, social, and governance records suffer higher costs of capital than their competitors; companies with strong environmental, social, and governance records enjoy lower costs of capital than their competitors. This is a clear signal to companies that markets value sustainability. By investing in funds with an explicit ESG lens, families can intensify this market signal, further incentivizing companies to measure, manage, and optimize their social and environmental performance.

Investors can obtain in-depth ESG data and analysis for companies and funds from a number of sources, including Bloomberg, CSRHub, Morningstar, MSCI, Sustainalytics, and Vigeo Eiris.

Shareholder Engagement

Shareholder engagement is the most direct way for families to create social and environmental impact within their public equity portfolios. Recent shareholder campaign wins show that investors can steer companies towards more sustainable practices. In 2012, Ceres, a sustainable business and investor network, conducted a study of the 230 sustainability-related shareholder resolutions filed by its members in the preceding three years. Ceres found that half of the resolutions resulted in commitments to action from the subject companies. According to Ceres's analysis, more than 75% of those commitments were fully or substantially fulfilled.

An example of a successful shareholder resolution: Palm oil production is a major driver of tropical deforestation, which causes ecological devastation and contributes to climate change. Responding to shareholder resolutions, Hershey and General Mills were among several global companies that committed to responsibly source 100% of their palm oil. These major corporate commitments significantly affected global consumer product supply chains, causing suppliers of more than 55% of the world's palm oil to produce or trade "100% deforestation-free" palm oil.[3]

Families can work with shareholder advocacy groups such as Ceres and As You Sow to file shareholder resolutions on a wide range of environmental and social issues, including reduction of greenhouse gas emissions, adoption of fair-labor practices in supply chains, and recycling. There are also several organizations, such as As You Sow and Proxy Impact, that provide proxy-voting guidelines that families can use to cast their own votes on shareholder resolutions. Families also play an important role in encouraging fund managers to join with other investors to file and vote on impact-oriented shareholder proposals.[4]

Companies with strong environmental, social, and governance records enjoy lower costs of capital than their competitors.

Overview of Financial Considerations

Environmental, social, and governance factors have a material effect on companies' financial value. A growing body of evidence shows that companies with strong ESG records can outperform their competitors over time.

A 2011 Harvard Business School study examined the performance of 180 American companies in the 1990s and 2000s. The researchers grouped the companies into "high sustainability" and "low sustainability" cohorts; they found that the companies that embedded strong sustainability policies in their strategies and operations outperformed their competitors by almost 4% a year. By the end of the 18-year study period, compounding growth resulted in the "high sustainability" companies having market capitalizations that were almost double those of their "low sustainability" competitors.[5]

The authors of the Harvard study attributed this outperformance of "high sustainability" companies to several factors, including more engaged workforces, more secure licenses to operate, more loyal and satisfied customer bases, better relationships with stakeholders, greater transparency, more collaborative communities, and better ability to innovate.

> **As ESG factors can contribute directly to companies' long-term financial performance, they can be critical indicators of risk for investors.**

As ESG factors can contribute directly to companies' long-term financial performance, they can be critical indicators of risk for investors. A recent study showed that 80% of institutional investors are already considering ESG issues in their investment decisions, and nearly three-quarters of them cite risk mitigation as a primary motivation.[6] Forward-looking companies that actively mitigate environmental and social risks may have a competitive advantage over those lacking such long-term vision.[7]

Going Forward

More investors are actively incorporating social and environmental impact into their public equity investment decisions. This trend will likely increase over the coming years for several reasons:

- More intermediaries, including large mainstream investment firms, are responding to client demand by offering investors access to a variety of impact-oriented public equity investments via mutual funds, separate accounts, and ETFs.
- Standards for sustainability reporting are improving. The Global Reporting Initiative (GRI) provides guidelines for corporate sustainability reporting. Organizations such as the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC) are working on mainstreaming "integrated reporting," enabling corporations to disclose material sustainability information to investors along with mandatory financial data.
- Greater availability of ESG data and increasingly sophisticated methods of ESG analysis enable investors and fund managers to better assess corporate sustainability practices and devise investment strategies accordingly. This could lead to more capital flowing to companies with strong ESG profiles, forcing their peers to adopt more sustainable practices to stay competitive.
- A rising generation of venture-funded impact companies will go public, including companies legally registered as Benefit Corporations. Benefit Corporations have as part of their corporate purpose the creation of positive social and environmental benefit, and a legal mandate to act in the interest of all of their stakeholders (including workers, communities, and the environment), and not only their shareholders.[8]
- Climate change, demographic shifts, and resource scarcity are expected to have a tremendous impact on future market environments. Many companies, and even whole industries, face major downside risk as the effects of these long-term trends unfold. A growing number of analysts are assessing the risk of "stranded assets" to the fossil fuel industry and, indeed, the financial system as a whole. Alternatively, innovative companies that can adjust to shifting market conditions and provide solutions to these challenges in the areas of energy, agriculture, healthy living, and water and waste management could be positioned to grow.

APPENDIX A

Example Investments

DFA INTERNATIONAL SUSTAINABILITY CORE 1 PORTFOLIO

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	Sub-Saharan Africa	Product-Based	**Market-Rate**
Fixed Income	Environmental Conservation	Middle East & North Africa	People-Based	Concessionary
Private Equity	Sustainable Consumer Products	Central & South America	Place-Based	Off-Market
Venture Capital	Housing & Community Development	Asia & Oceania	Process-Based	
Real Assets	Agriculture & Food	Eastern Europe & Russia	Behavior-Based	
Hedge Funds	Energy & Resource Efficiency	Western Europe	Model-Based	
Social Impact Bonds	Safety & Security	USA & Canada	**ESG-Screened**	
Cash	Healthcare & Wellness	Emerging Markets	SRI-Screened	
	Access to Finance	**Developed Markets**		
	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Diversified			

Dimensional Fund Advisors (DFA) is a USA-based investment manager that uses quantitative models to build investment funds. DFA's International Sustainability Core 1 Portfolio invests in companies in developed markets, excluding the USA. Beyond this geographic restriction, the fund does not systematically exclude any industries or companies from investment, but does incorporate certain ESG factors into its portfolio models, with a particular emphasis on greenhouse gas emissions. The fund has a "market-rate" return profile, and intends to beat the performance of the MSCWI World ex-USA Index.

CALVERT U.S. LARGE CAP CORE RESPONSIBLE INDEX (CALCOR)

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	Sub-Saharan Africa	Product-Based	**Market-Rate**
Fixed Income	Environmental Conservation	Middle East & North Africa	People-Based	Concessionary
Private Equity	Sustainable Consumer Products	Central & South America	Place-Based	Off-Market
Venture Capital	Housing & Community Development	Asia & Oceania	Process-Based	
Real Assets	Agriculture & Food	Eastern Europe & Russia	Behavior-Based	
Hedge Funds	Energy & Resource Efficiency	Western Europe	Model-Based	
Social Impact Bonds	Safety & Security	**USA & Canada**	**ESG-Screened**	
Cash	Healthcare & Wellness	Emerging Markets	SRI-Screened	
	Access to Finance	Developed Markets		
	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Diversified			

Calvert Investments is a USA-based investment manager with a 40-year history of creating SRI- and ESG-screened investment products. Calvert offers both active and passive public equity investment strategies. The CALCOR fund has a passive investment strategy, based on a proprietary index Calvert has created. In creating the index, Calvert assigns an ESG score to each included security based on quantitative assessment of its ESG performance. The composition of the index is reviewed on an ongoing basis using this ESG analysis. The index includes companies across industries, with substantial holdings in technology, consumer, and financial industries. Calvert actively participates in shareholder advocacy and shareholder engagement through proxy voting and shareholder resolutions.

SONEN GLOBAL EQUITY FUND

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	Sub-Saharan Africa	**Product-Based**	**Market-Rate**
Fixed Income	Environmental Conservation	Middle East & North Africa	People-Based	Concessionary
Private Equity	**Sustainable Consumer Products**	Central & South America	Place-Based	Off-Market
Venture Capital	Housing & Community Development	Asia & Oceania	Process-Based	
Real Assets	**Agriculture & Food**	Eastern Europe & Russia	Behavior-Based	
Hedge Funds	**Energy & Resource Efficiency**	Western Europe	Model-Based	
Social Impact Bonds	Safety & Security	USA & Canada	**ESG-Screened**	
Cash	**Healthcare & Wellness**	Emerging Markets	SRI-Screened	
	Access to Finance	Developed Markets		
	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Diversified			

Sonen Capital is a San Francisco-based impact investment management firm that advises clients and builds impact investment products across asset classes. Sonen's Global Equity Fund is a multi-manager strategy, meaning the fund invests through multiple specialized third party sub-advisors. In selecting these sub-advisors, Sonen includes both ESG-screened and "solutions-oriented" strategies. Sonen actively looks for strategies with "best-in-class" sustainability performance based on certain ESG indicators, and targets environmental impact—specifically, water, renewable energy, and resource efficiency. Sonen is seeking competitive returns with lower risk versus its benchmark, MSCI ACWI. Sonen engages in shareholder advocacy and proxy voting on ESG issues.

ETHO CLIMATE LEADERSHIP INDEX ETF (ETHO)

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	Sub-Saharan Africa	Product-Based	**Market-Rate**
Fixed Income	Environmental Conservation	Middle East & North Africa	People-Based	Concessionary
Private Equity	Sustainable Consumer Products	Central & South America	Place-Based	Off-Market
Venture Capital	Housing & Community Development	Asia & Oceania	Process-Based	
Real Assets	Agriculture & Food	Eastern Europe & Russia	Behavior-Based	
Hedge Funds	Energy & Resource Efficiency	Western Europe	Model-Based	
Social Impact Bonds	Safety & Security	**USA & Canada**	**ESG-Screened**	
Cash	Healthcare & Wellness	Emerging Markets	**SRI-Screened**	
	Access to Finance	Developed Markets		
	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Diversified			

Etho Capital is an investment management company dedicated to creating investment products that address climate change. This fund has a passive investment strategy, based on Etho's proprietary Climate Leadership Index. Etho quantitatively analyzes the greenhouse gas emissions of approximately 5,000 commonly traded companies and maintains an index of 400 stocks of companies whose carbon emissions are at least 50% below their industry's average. The index is completely fossil fuel-free, and also includes additional ESG screens. The fund's holdings are USA companies, and diversified across industries (excluding fossil-fuel companies).

2U (TWOU)

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	**Education**	Sub-Saharan Africa	**Product-Based**	**Market-Rate**
Fixed Income	Environmental Conservation	Middle East & North Africa	People-Based	Concessionary
Private Equity	Sustainable Consumer Products	Central & South America	Place-Based	Off-Market
Venture Capital	Housing & Community Development	Asia & Oceania	Process-Based	
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	Access to Finance	Developed Markets		
	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Diversified			

2U is a USA-based education technology company that partners with top-tier nonprofit colleges and universities to offer online degree programs. The company provides schools with a comprehensive cloud-based technology platform to educate students globally, eliminating barriers to quality education such as the cost of facilities, student location, and time. 2U actively tracks its social impact, including student performance, engagement, and retention rates. The company was founded in 2008 and was venture capital-backed until it went public in 2014.

APPENDIX B

Glossary

Asset Class: A group of investments that share common profiles of risk, liquidity, and return. Analysts generally group investments into four major asset classes: cash, debt or fixed income, pubic equity, and alternative investments. Within alternative investments, common sub-asset classes are private equity, venture capital, and real estate/ real assets.

Benefit Corporation: A new class of corporation that voluntarily meets different standards of corporate purpose, accountability, and transparency. Benefit Corporations: 1) have a corporate purpose to create a material positive impact on society and the environment; 2) are required to consider the impact of their decisions not only on shareholders but also on workers, community, and the environment; and 3) are required to make available to the public, except in Delaware, an annual benefit report that assesses their overall social and environmental performance against a third-party standard (Benefit Corporation Website).

Cost of Capital: The rate of return a company must pay to its debt and/or equity investors in order to receive their investment. Investors set their required rate of return for investments according to the perceived riskiness of an investment—the higher the perceived risk, the greater a "risk premium" an investor requires of an investee.

Divestment: The process of selling an asset for either financial or social goals. Divestment is the opposite of investment.

Dividend Income: A distribution of a company's earnings to its shareholders in the form of cash, shares of stock, or other property. A company's board of directors sets its dividend policy.

ETF (Exchange Traded Fund): A publicly traded security designed to mimic the performance of an index (e.g., the S&P 500), commodity, or collection of assets. ETFs are a popular example of "passive" investment management, and resemble index funds in many ways. ETFs tend to be more flexibly traded and lower cost than most index funds.

Index Fund: A type of mutual fund that is "passively" managed, with a portfolio constructed to replicate the performance of a relevant index, such as the S&P 500, by matching its components.

Liquidity: The measure that shows how quickly an investment can be bought or sold with little or no impact on price. Cash is the most liquid asset, followed by publicly traded stocks and bonds. Private investments are less liquid than publicly traded assets because they are harder to sell.

Market-Rate of Return: The average rate of return for a particular set of comparable investments.

Materiality: Issues or information that matter to the decision-making of a company's management, its investors, and other stakeholders are "material" to that company. All companies that trade on USA-based stock exchanges are legally required to disclose all information (financial, ESG, and other non-financial) necessary for a reasonable investor to make an informed investment decision.

Risk: The chance that an investment's financial return will be different than what was expected. Risk includes the possibility of losing some or all of the value of the original investment.

Stranded Assets: Investments made by a company that cannot produce their expected lifetime return due to changes in regulatory, market, and/or environmental conditions. Fossil fuel companies, for example, own the rights to carbon-based fuel reserves (oil, gas, or coal in the ground), and the financial valuations of these companies depend on the expectation that the companies will be able to extract and sell those assets in the future. Some analysts predict that future regulatory, market, and environmental changes due to climate change will "strand" these assets, making their extraction and sale financially unviable to the companies that have invested in them.

Volatility: A statistical measure that refers to the amount of uncertainty or risk about the size of changes in an investment's value. A lower volatility, for example, means that the value of a security does not fluctuate dramatically, but changes at a steady pace over a period of time.

Endnotes

[1] To learn more, visit: http://www.oceantomo.com/2015/03/04/2015-intangible-asset-market-value-study.

[2] To learn more about research on the impact of divestment, refer to http://www.smithschool.ox.ac.uk/research-programmes/stranded-assets/SAP-divestment-report-final.pdf.

[3] To learn more, visit: http://www.ceres.org/files/in-briefs-and-one-pagers/proxy-power-shareholder-successes-on-climate-energy-sustainability and http://www.sustainablebrands.com/news_and_views/supply_chain/mike_hower/more_half_global_suppliers_commit_100_sustainable_palm_oil.

[4] To learn more, visit: "The Impact of Equity Engagement", Croatan Institute, http://croataninstitute.org/total-portfolio/publication/impact-of-equity-engagement, 2014; "The Impact of Sustainable and Responsible Investment", USSIF, http://www.ussif.org/files/publications/ussif_impactofsri_aug2013_final.pdf, 2013

[5] Eccles, R., Ioannou, I., Serafeim, G. "The Impact of Corporate Sustainability on Organizational Processes and Performance". Management Science, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1964011, 2011

[6] "Sustainability goes mainstream: Insights into investor views". PwC, http://www.pwc.com/us/en/pwc-investor-resource-institute/publications/sustainability-goes-mainstream-investor-views.jhtml, 2014.

[7] For extensive reviews of the evidence linking ESG factors and investments' financial performance, see Deutsche Bank's "Sustainable Investing: Establishing Long-Term Value and Performance" and Arabesque Partners and Oxford University's "From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance", available at https://www.db.com/cr/en/docs/Sustainable_Investing_2012.pdf and http://www.arabesque.com/index.php?tt_down=51e2de00a30f88872897824d3e211b11.

[8] Benefit corporations are often confused with Certified B Corporations ("B Corps"). While they share many common features, Benefit Corporation is a formal legal structure and "B Corp" is a non-legal certification standard for social businesses. The "B Corp" certification and its associated processes are maintained by the nonprofit B Lab. To learn more, visit http://www.bcorporation.net.

[9] To learn more about stranded assets, visit http://www.carbontracker.org

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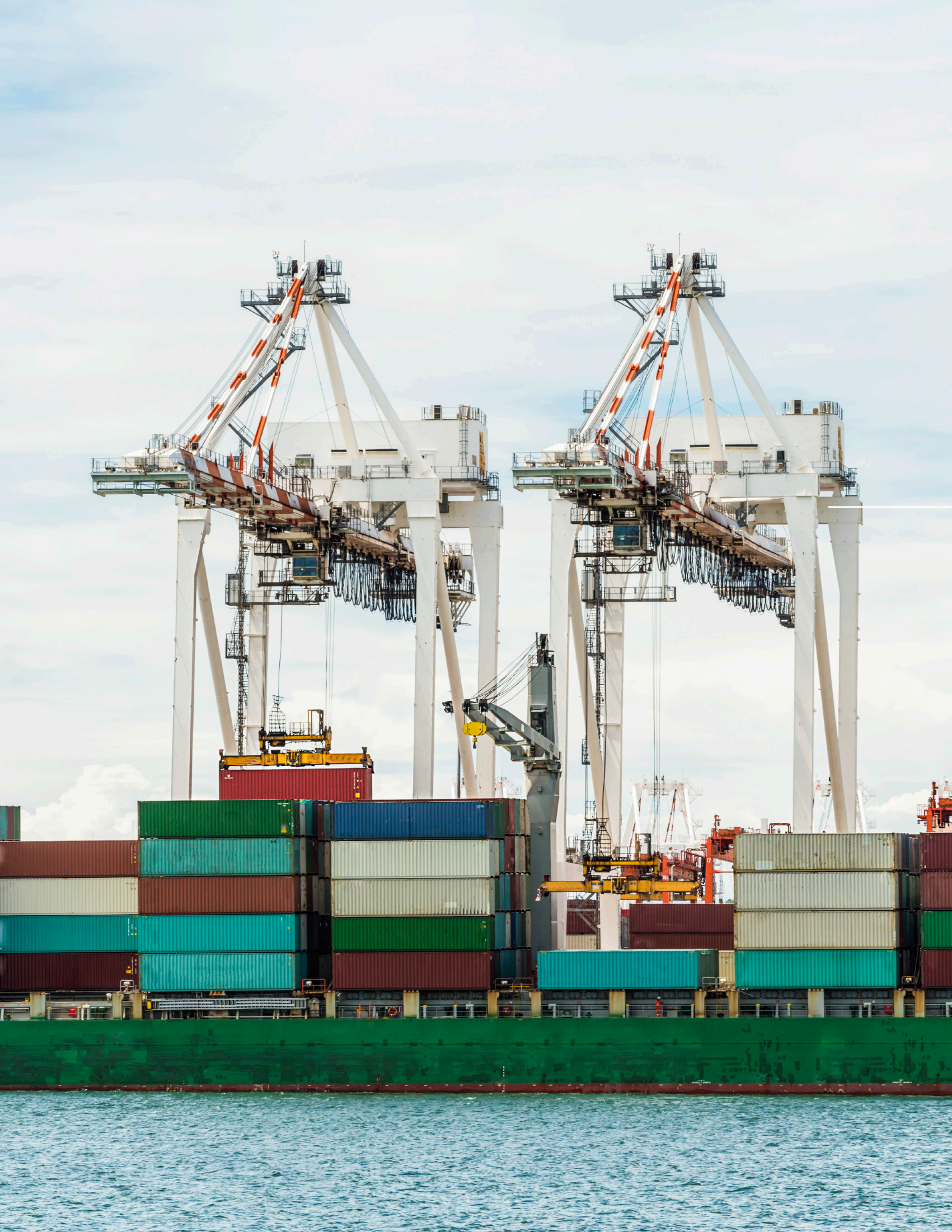

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