EXECUTIVE SUMMARY

For the last decade, the Chief Investment Office (CIO) has been focused on identifying and analyzing investment strategies that employ a sustainable lens to help deliver high-quality sustainable investments to our clients. We believe sustainable investing is a powerful tool that helps investors to drive specific financial outcomes and enhance return potential while aligning their investments with their values to help drive positive change and invest in the momentum of a changing world.

It is the CIO’s opinion that with significant structural changes in global demographics, technology and innovation, as well as better access to data and analytical tools, using sustainable investment criteria could offer a powerful way to evaluate risks and uncover opportunities in the market.

However, the proliferation of sustainable solutions, benchmarks and different definitions of sustainability have also created confusion and evoked some criticism. There are valid investment questions about whether sustainable and impact strategies are achieving their dual goals of generating positive social and environmental effects while generating returns, as well as politicization of the perceived goals of this type of investing and a changing global regulatory and accounting backdrop. While some of this criticism is valid, the CIO believes that investing with a sustainable approach that combines environmental, social or governance (ESG) analyses with financial and investment analysis can help investors make more informed investment decisions.

This paper sorts through these approaches to help clients and investors of all types understand how to select strategies that align with both their preferences and financial goals while seeking to dispel some of the misconceptions that continue to exist about risk and return in the sustainable investing space.

KEY POINTS

In this paper we examine a number of factors including:

- Sustainable investing has become a critical part of the investment process because of the significant evidence that supports its potential to reduce risk and improve total or absolute returns.¹
- Selecting sustainable investments is not as simple as looking at an investment’s ESG rating, fund name or marketing materials. There are several valid approaches to integrating sustainability and “one size does not fit all.”
- Successfully balancing financial outcomes and creating positive change requires skill and continuous integration into an investment process.

¹ See box titled “Sustainable investing is seeing sustained growth” on page 2.
The Demand: Structural shifts driving growth in sustainable and impact solutions

The sustainable investing space has seen tremendous growth, both in terms of available strategies and assets under management. The CIO believes there are three key drivers that have accelerated — and will continue to accelerate — this increase.

1. The world is transforming faster than ever before, spurred by technological innovation. Energy security, transportation, innovation in healthcare, education and food have led to an increased awareness of systemic challenges. These factors, individually and together, introduce new investment risks that investors need to consider but also some of the largest new opportunities for private capital we’ll see in our lifetimes.

2. A new generation of investors has emerged and is growing with a desire to understand more about how their consumption and investment capital affects the world around them. At the same time, we are seeing the largest intergenerational transfer of wealth, and younger investors are clearly interested in sustainability. More than half of millennial investors and 32% of Gen X investors are already participating in responsible investing. Beyond generational interest, 74% of women respondents were interested in increasing their ESG investments in their current portfolios, compared to only 53% of male respondents. And nearly half of households — across all wealth tiers — say that they would prefer to invest in a sustainable and impact-aligned way.

3. Enhanced data and analytical capabilities are creating the potential for both better investment solutions and greater impact. In many countries, climate risk and social data are required by policymakers. Non-governmental organizations (NGOs) are now partnering with capital markets providers to supply objective data. In 2021, 96% of S&P 500 and 81% of Russell 1000 companies published sustainability reports. Furthermore, one industry survey found that between 2019 and 2021, the percentage of institutional investors implementing ESG rose by 18%, climbing from 61% to 72%, and 59% of institutional investors say they now have a firmwide policy in place on responsible investing or ESG issues — up from 51% last year. At the same time, a record number of investors and asset managers have become signatories of the United Nations-supported Principles for Responsible Investment (PRI), with more than 3,400 of them, who manage over $120 trillion, having signed on.

Examples of sustainability focus areas

**Environmental:**
- Greenhouse gas emissions
- Energy usage
- Water usage
- Waste and pollution
- Carbon intensity
- Climate risk mitigation

**Social:**
- Human rights
- Diversity
- Employee turnover
- Child and forced labor
- Local community involvement
- Working conditions

**Governance:**
- Board independence
- Board diversity
- Incentivized pay
- Data privacy
- Ethics and anticorruption
- Disclosure practices

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1. See box titled “Sustainable investing is seeing sustained growth.”
Sustainable investing is more than ESG; it also requires the ABCs

Sustainable investing principles can be applied in any asset class. Most investors focus on three areas — environmental, social and governance factors — the E, S and G. Each area encompasses different objectives for the type of positive sustainability outcomes an investment intends to have. The evolving sustainable investing landscape has necessitated a way to categorize this intent.

Additionally, investors need to determine the best way to implement a sustainable investment approach. The CIO has adopted the A-B-C Framework, as seen in Exhibit 1, to help investors understand the sustainable and impact investing landscape. The main difference between the three categories is the strategy’s primary sustainability objective. Establishing this objective not only helps to differentiate between types of sustainable strategies but also helps to mitigate “greenwashing.”

<table>
<thead>
<tr>
<th>A: Avoid</th>
<th>B: Benefit</th>
<th>C: Contribute</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategies that seek to reduce negative social or environmental effects and manage risk by limiting certain exposures.</td>
<td>Strategies that seek to support positive social or environmental practices and enhance potential for long-term competitive financial returns.</td>
<td>Strategies that seek to advance positive, measurable social or environmental outcomes and target opportunities where impact is intrinsic to financial performance.</td>
</tr>
</tbody>
</table>

**Examples**
- Ex “sin stock” strategy.
- Low carbon index strategy.
- Strategy that excludes holdings with high risk of regulatory action due to poor labor practices.
- Passive strategy that selects holdings of companies leading on gender metrics.
- Strategy holistically using materiality-based ESG information to select “leaders” or improvers in each industry to construct portfolios.
- Strategy that invests in companies that are leading in running sustainable businesses or whose products create positive environmental or social benefits.
- Strategy that has an explicit goal of moving capital to the most resource-efficient companies.
- Thematic strategy with focus on United Nations Sustainable Development Goal (SDG) alignment where every holding has a positive contribution.
- Microfinance strategy, social impact bonds, Community Development Financial Institutions (CDFI) investing.

The original approach: “Avoid”

The first approach investors took was avoiding certain types of companies — for instance, certain religious groups laid out guidelines to their followers over the types of companies in which they should invest. Another example that started in the 1970s was the divesting of companies that supported apartheid. The goal of avoiding certain companies was to create more socially responsible portfolios and is still widely used to reflect investors’ interests by screening out certain types of companies or sectors. The “Avoid” approach has evolved to also be deployed to help mitigate investment risks, such as screening out bad actors or avoiding an industry that is in structural decline.

As awareness about companies’ impacts on the environment and society grows, more and more investors are interested in understanding which companies may not align with their values. This creates demand for investments that screen companies out of their holdings. While avoiding certain investments may provide the benefit of better aligning a portfolio with an investor’s beliefs, this can be limiting as an investment approach over some time periods, as seen in Exhibit 2.
### Exhibit 2: Historical performance of exclusionary-based MSCI ACWI Indexes (as of 12/31/2022)

<table>
<thead>
<tr>
<th>Index</th>
<th>1 year</th>
<th>3 years</th>
<th>5 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI ACWI Index</td>
<td>-18.36</td>
<td>4.00</td>
<td>5.23</td>
<td>7.98</td>
</tr>
<tr>
<td>MSCI ACWI excluding Tobacco Involvement Index</td>
<td>-18.52</td>
<td>4.01</td>
<td>5.33</td>
<td>8.03</td>
</tr>
<tr>
<td>MSCI ACWI excluding Fossil Fuels Index</td>
<td>-19.78</td>
<td>4.18</td>
<td>5.58</td>
<td>8.58</td>
</tr>
<tr>
<td>MSCI ACWI excluding Controversial Weapons Index</td>
<td>-18.13</td>
<td>4.52</td>
<td>5.78</td>
<td>8.51</td>
</tr>
<tr>
<td>MSCI ACWI excluding Coal Index</td>
<td>-18.43</td>
<td>4.34</td>
<td>5.68</td>
<td>8.59</td>
</tr>
<tr>
<td>MSCI ACWI Low Carbon Target Index</td>
<td>-19.07</td>
<td>3.82</td>
<td>5.21</td>
<td>7.98</td>
</tr>
<tr>
<td>MSCI ACWI Socially Responsible Investing Index</td>
<td>-22.46</td>
<td>5.10</td>
<td>6.74</td>
<td>8.90</td>
</tr>
</tbody>
</table>

Past performance is no guarantee of future results. Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Indexes are all based in U.S. dollars.

Removing a large number of securities via negative screening can result in a portfolio that may have a harder time keeping up different market environments, although this effect is muted over longer periods of time. The “Avoid” approach may even amplify risk by eroding diversification through either leaving out certain holdings that could contribute positively to returns or potentially causing unintended concentration risk. While some investors accept this as the price for honoring their beliefs, many do not, seeking alternative investment approaches that can meet both their performance and risk tolerance investing goals, as well as their values-based investing goals, while helping to hedge against the potential risk of complete avoidance of certain sectors. The CIO has observed that strategies that follow inclusionary approaches may exhibit more consistent risk-adjusted returns compared to strategies applying screens. We will address this further in the “Benefit” section, later in this paper.

### Seeking to “Avoid” real investment risk

As sustainable investing and ESG data has evolved, there has been the opportunity to link this data to material economic and price risks, so many “Avoid” strategies are rooted in investment risk analysis. For example, a study on coal divestment after the Paris Climate Agreement shows that anticipated structural changes to the coal industry may have actually had a meaningful effect on where investment dollars were directed.14 While removing coal from a portfolio can be viewed as an investor preference, the reason the majority of investors removed coal was because it has been getting more expensive than other energy sources and therefore has become an investment risk. At the same time natural gas expanded as a go-to fuel for power generation, replacing coal because of lower operating costs and significant regulatory changes. This has resulted in a lower credit rating for the sector, making it a sector that many institutional investors cannot invest in by policy.

As you might expect, portfolios that seek to address certain ESG risks through screening out issuers that they believe either pose or will be affected by these risks, realize these risks across different time horizons. We’ve seen multiple historical examples, including where a large social networking company was fined over 912 million euros within a period of just over a year for alleged data privacy law violations, and that combined with other issues the company faced led to a significant share price decline.15 Another example, where a food company was facing a reputational risk due to a battle with unionization efforts of employees, led some analysts to lower the price target for the stock significantly.16 Some risks may take decades to be recognized, such as climate-related shifts in the physical environment that may slow economic growth and increase the likelihood of disruptions and reductions in output, employment and business profitability. Furthermore, the substantial economic transformation required to mitigate and adapt to climate change may change which businesses remain competitive and profitable in the not-too-distant future.

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15 Security, Meta fined $275m for breaking EU data privacy law, November 29, 2022.
16 Lucas, "Starbucks' union battle is getting aggressive and expensive, and Wall Street is backing away," April 2022.
How investment managers use sustainability analysis to identify competitive companies

Today’s firms look very different than they have in the past. Forty years ago, tangible assets — items like property, factories and equipment — made up more than 80% of the value of S&P 500 companies, while intangible assets represented the remainder. Today, that ratio has been reversed, with 90% of value now comprised of intangible assets such as intellectual property, market share, brand awareness and perceptions of a company’s effect on society and the environment. See Exhibit 3 below.

Exhibit 3: Components of S&P® 500 Market Value

<table>
<thead>
<tr>
<th>Year</th>
<th>Intangible assets</th>
<th>Tangible assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>17%</td>
<td>83%</td>
</tr>
<tr>
<td>1985</td>
<td>32%</td>
<td>68%</td>
</tr>
<tr>
<td>1995</td>
<td>68%</td>
<td>32%</td>
</tr>
<tr>
<td>2005</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>2015</td>
<td>84%</td>
<td>16%</td>
</tr>
<tr>
<td>2020</td>
<td>90%</td>
<td>10%</td>
</tr>
</tbody>
</table>


When most of the valuation of public companies is made up of intangible assets, seemingly nonfinancial measures such as a company’s brand and how they are transforming to meet trends from digitization to human capital and consumer protection have become key to the financial evaluation of a company. But even outside of this structural change, the significant enhancements in ESG-focused data sets have enabled management teams to understand ESG risks and opportunities as part of their operational strategy. This starts with identifying the most material ESG factors that each company or sector needs to take into consideration.

Using data to identify materiality of factors in corporate analysis

Not all ESG data is equally important for all investments; context and materiality of ESG data points are crucial for good analysis and in order to avoid greenwashing, as some actors may highlight minimal effort sustainability improvements without meaningfully changing how they operate. Working with industry experts, the International Sustainability Standards Board (ISSB) has identified material ESG issues across each sector that affect the value of a company: see Exhibit 4. Research by Harvard using the ISSB definitions of materiality has shown that “firms with good ratings on material sustainability issues significantly outperform firms with poor ratings on these issues.” More recent research from Russell Investments affirms these results, finding that material issues, as defined by ISSB, were the most “promising signal” for informing investment decisions based on ESG performance.

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19 The Sustainability Accounting Standards Board (SASB) is now the International Sustainability Standards Board (ISSB).
Exhibit 4: ISSB Materiality Map® for consumer goods, financial, and infrastructure industries

<table>
<thead>
<tr>
<th>Dimension</th>
<th>General issue category</th>
<th>Consumer goods</th>
<th>Financials</th>
<th>Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>GHG emissions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Air quality</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Energy management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Water &amp; wastewater management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Waste &amp; hazardous materials management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ecological impacts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Capital</td>
<td>Human rights &amp; community relations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer privacy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Data security</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Access &amp; affordability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Product quality &amp; safety</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer welfare</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Selling practices &amp; product labeling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Capital</td>
<td>Labor practices</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Employee health &amp; safety</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Employee engagement, diversity &amp; inclusion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Model &amp; Innovation</td>
<td>Product design &amp; lifecycle management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Business model resilience</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supply chain management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Materials sourcing &amp; efficiency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Physical impacts of climate change</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leadership &amp; Governance</td>
<td>Business ethics</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Competitive behavior</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Management of the legal &amp; regulatory environment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Critical incident risk management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Systemic risk management</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

High Material: Issue is likely to be material for more than 50% of industries in sector.
Lower Material: Issue is likely to be material for fewer than 50% of industries in sector.
Immaterial: Issue is not likely to be material for any of the industries in sector.


In addition to looking at material risks, there are multiple studies that support the potential benefits of investing in companies with strong ESG profiles to reduce the overall risk within a portfolio:

- **BofA Global Research** identified that during the period from 2005 to 2015, 15 out of 17 (90%) bankruptcies in the S&P 500 were companies with poor Environmental and Social scores five years prior. Additionally, Savita Subramanian, head of ESG Research and U.S. Equity and Quantitative Strategy for BofA Global Research, concluded that ESG is the best measure found for signaling future risk, superior to leverage or other risk and quality factors.

- A study by Refinitiv observed that the U.S. stocks associated with more ESG controversies, including environmental, business ethics and public health controversies, have underperformed since 2012 through September 2020 relative both to stocks with low controversy and to an equal-weighted index.

**“Benefit”: Allocating capital to create a stronger, more resilient market**

ESG data and thorough analysis can do more than help investors avoid risk; they can also serve as a powerful roadmap to help guide investors, in our opinion. By identifying companies that may offer a combination of potential competitive long-term returns as well as positive societal effects, investors can actually benefit from the momentum of a changing world. To do this, investors need to incorporate ESG-based information into a traditional investment approach, adding to the information they use to make better informed investment decisions.

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23 Refinitiv, “Breaking ESG controversies online,” Sep. 9, 2021. The spread between companies with the highest and lowest number of controversies was 2.3% annually. The study also found that stocks with higher ESG controversies are clearly and consistently more volatile over the next month than stocks with fewer ESG controversies.
Incorporating ESG data has been shown to have two potential effects on a portfolio: it may enhance risk-adjusted performance or lead to stronger long-term total return through the identification of more competitive companies that potentially outperform their peers.

**Strong sustainability practices may help drive the potential for strong, long-term performance**

The most compelling evidence regarding performance of sustainable strategies is that firms that have made a proactive commitment to being environmentally and socially sustainable and keep a high degree of corporate transparency have the potential to exhibit strong, long-term performance. Morningstar observed that, in 2022, the broad Morningstar U.S. Sustainability Index returned -18.09%, outperforming its parent index, the Morningstar U.S. Large-Mid Cap Index, which returned -19.5% in 2022. This is further supported by research from BlackRock that found a negative and statistically significant relationship between a company’s carbon emission intensity and gross profitability.

- Research by Rockefeller Asset Management showed that top-quintile ESG improvers outperformed the Bloomberg U.S. 3000 Index by 3.0% annualized, while decliners underperformed by -0.8% annualized in analysis covering U.S. equities from 2010 to 2020. Rockefeller assigns their Rockefeller ESG Improvers Scores (REIS) as “a score that ranks a company’s improvement in performance on material ESG issues relative to industry peers” and ESG decliners would be the contradiction of this.

- In 2021, Hermes Investment Management found that companies with good or improving ESG characteristics, on average, outperform companies with poor or worsening characteristics. For example, companies with good or improving corporate governance tended to outperform companies with poor or worsening governance, by up to 24bps per month on average, from December 31, 2008 to June 30, 2020. Additionally, the social premium (or the “S” in ESG) marginally increased from an average of 15bps per month in 2018 to 17bps in 2020.

- Environmental factors in commodity-oriented sectors were among the best signals of future return on equity and earnings risk.

- And our own BofA Global Research found that “companies with above-average diversity on their leadership teams reported revenues from innovation that were as much as 19 percentage points higher than those with below-average management diversity. Those with top-quartile gender diversity were also more likely to see higher revenues than lower-quartile peers.”

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24 Morningstar, “ESG Investing Keeps Pace with Conventional Investing in 2022,” January 2023. Morningstar U.S. Sustainability TR 1 year was -18.09, 3 year was 7.38, 5 year was 9.39, and 10 year was 12.26. Morningstar U.S. Large-Mid Cap TR 1 year was -19.50, 3 year was 7.22, 5 year was 9.15, and 10 year was 12.35. Morningstar data as of 12/31/2022.


Sustainable analysis can also help investors as a potential indicator of credit quality

The benefits of sustainable practices are not limited to equity share price performance. A study by MSCI found that, on average, companies with high ESG scores experienced lower costs of capital compared to companies with poor ESG scores in both developed and emerging markets. During a four-year study period, they found the average cost of capital of the highest-ESG-scored quintile was 6.16% compared to 6.55% for the lowest-ESG-scored quintile. The cost of equity and debt followed the same relationship.30

Companies with sustainable practices may also exhibit less credit risk when compared to companies that have poor sustainability practices. A BofA Global Research study found that ESG is impacting conventional bond spreads. To illustrate this impact, they compared the credit spread of the oil and gas sector to the investment grade average and found that new issue coupons were 50bps to 70bps higher on average for the oil and gas sector in 2021. They “see evidence that the perception of ‘brown industries’ and/or investment alternatives to oil and gas is leading to higher borrowing costs.”31 ESG-related criteria may help to augment traditional financial analysis, increasing an investor’s ability to assess risks that sit outside of the balance sheet.

ESG is also a value indicator in private markets

While much research focuses on the impact of ESG factors on publicly traded companies, the same factors apply to private markets. In a survey of more than 200 private equity firms, over 65% of survey respondents identified value creation as one of their top three drivers of responsible investing.32 In 2019, survey respondents identified risk management as their largest driver of ESG activity — the 2021 survey places this at fourth place now, with only 40% of respondents ranking risk management as a top driver for ESG investing.

One reason for the shift from ESG as a risk management tool to a value creation tool within private equity could be the greater realization that ESG provides real business opportunities that limited partners don’t want to miss out on. The Global Impact Investing Network identified private equity as the most common asset class in the impact investing industry, with over 75% of private equity investors making impact investments. These investments account for 28% of total impact assets under management.33

Net Zero

“Net Zero” refers to a state in which the amount of greenhouse gases (GHG) going into the atmosphere is balanced by the amount removed from the atmosphere.34 Companies adopting the Net Zero Standard are required to set both near-term and long-term science-based targets, halving emissions by 2030, and by 2050 producing close to zero emissions while neutralizing any residual emissions that are not possible to eliminate.35

Net Zero has rapidly moved to the mainstream. In 2019, Net Zero pledges covered just 16% of the global economy, but, by 2021, nearly 70% had committed to be Net Zero by 2050.36 This creates opportunities for investment in developing technologies as well as risks for companies, including increasing costs of capital, which do not keep up with competition in meeting the targets. It is estimated that $131 trillion will need to be invested in clean energy technologies between now and 2050.36

Do ESG ratings “Benefit” investors?

Much of the controversy in whether sustainable investments meet their sustainability objectives and financial goals is based on analysis using ESG ratings. In May of 2022, a well-known electric vehicle company was excluded from the S&P 500 ESG Index because its ESG ratings had dropped.

While ratings can be useful as a tool for comparison, it is crucial to understand how they are decided. Each ratings provider determines the weighting of different ESG metrics and what data they are using, causing varying results across the third-party ESG ratings landscape and much confusion. Therefore, it is most important to note that:

• Any rating depends on proprietary methodology and therefore has inherent subjectivity to it.
• All ratings are only as good as the underlying data.
• And maybe most important, some ratings both are backward looking and do not consider the financial condition of the company so they shouldn’t be compared to traditional credit ratings.

Most ratings focus heavily on the existence and disclosure of policies that do not always translate into practice and also ignore positive outcomes companies may achieve through their products and services. “A company may get a high ESG score because it ranks well from a governance standpoint. It may not have a gender pay gap. The chasm between average and executive compensation may be small. And all this may offset the fact the company is a big polluter.”37

Furthermore, the weighting methodologies for different raters differ significantly across E, S and G characteristics causing outcomes to be quite dissimilar. Therefore, when investors use one firm’s rating, they are tacitly accepting the provider’s decisions on which data points are important and their calculation methodology. In reality, investors may have varying views on whether ESG aspects should be a priority and which underlying data points help to evaluate those aspects.

This subjectivity and the fact that ratings are actually trying to evaluate hundreds of different aspects of a company’s ESG profile and boil them into one value is reasonable criticism. But it doesn’t completely invalidate sustainable or ESG investing as a sound investment approach or mean that ratings are useless. As long as the user has evaluated and agrees with the approach, they can rely on ratings to help make decisions. Ratings can help more easily compare companies and assess overall portfolio-level ESG profiles. And while they should not be used as a forward-looking investment tool, there are many studies that do show a historical correlation between better ESG ratings and improved investment portfolio risk and return characteristics.

In a commitment to simplification, we have updated our pillar framework, realigning metrics under the three pillars: People, Planet, Principles of Governance.

Sustainable investing may “Contribute” both to a portfolio’s financial and societal goals

A “Benefit” strategy is one that seeks beneficial social or environmental outcomes by investing in companies or issuers that will be competitive because they are incorporating sustainability into the way they manage their businesses. This strategy in part relies on multiple allocators investing in this way to create a systemic, positive outcome. However, investors can also allocate to strategies that seek to create a direct and measurable outcome or impact. The “Contribute” strategy provides investors who seek to address targeted environmental or social issues with opportunities to make an impact while also seeking to make a return, as opposed to pure philanthropy. We’ve observed investors increasingly searching for strategies that provide specific social and environmental outcomes in areas such as climate change, food scarcity, renewable energy and economic empowerment.

In 2015, the United Nations adopted the 2030 Agenda for Sustainable Development, which provides “a shared blueprint for peace and prosperity for people and the planet, now and into the future.” This roadmap focuses on 17 Sustainable Development Goals (SDGs) that were developed in conjunction with the private sector to engage in a global partnership to “improve health and education, reduce inequality and spur economic growth — all while tackling climate change and working to preserve our oceans and forests.” The SDGs frame a tremendous investment opportunity to address some of the world’s biggest challenges. SDGs are another way to help evaluate investor preferences and values beyond E, S and G. See Exhibit 5 below.

Exhibit 5: The 17 United Nations Sustainable Development Goals within the context of three CIO sustainable investing themes

Sources: Chief Investment Office (themes), United Nations Division for Sustainable Development Goals (SDGs).
In a commitment to simplification, we have updated our pillar framework, realigning metrics under the three pillars: People, Planet, Principles of Governance.

Creating “Benefits” that “Contribute” to the clean energy revolution

A close look at the energy sector shows how smart analysis and targeted investment can help direct capital to both “Benefit” and “Contribute” approaches. There is a misconception that all sustainable investment approaches divest entirely from the energy sector. While some strategies may divest because they have a specific mandate to do so, others tend to invest in companies that are on the forefront of the energy transition and in other sectors fueling that growth. It is where these strategies deploy capital that actually may create a “Benefit” by seeking out more resilient, long-term opportunities or even “Contribute” to carbon neutrality by directing capital to high-risk, high-reward technologies. Analysis of the Morningstar Sustainable Investment universe indicates examples of both global and domestic equity strategies having exposure to the energy sector similar to their respective traditional benchmarks.  

Seeing that very few sustainable strategies remove the entire energy sector, since this would prevent them from investing in best-in-class and renewable energy companies as referenced above, the effect on average was more muted. Furthermore, over the longer-term, sustainable strategies performed in line with traditional peers, if not better, on both a total and risk-adjusted basis. Morningstar analysis as of March 2022 found that 71.2% of Morningstar’s Sustainability indexes have outperformed traditional market equivalents over the past five years. In 2021, despite the outperformance of the energy sector with total return of over 50%, it contributed only 1.5% to the S&P 500’s 28.7% gain that year, given the average weight of the sector of less than 3%. In 2022, the energy sector went up to a 4.5% weighted average, which translated into an almost 2% contribution to return for the year while the sector return was close to 65%. It is more substantial but in a longer time frame, the effect is less pronounced. For example, three years prior the energy sector was one of the worst performing in the benchmark with approximately -33% return in 2020.

In the face of recent geopolitical conflict underscoring the role traditional fossil fuels play in securing a country’s energy security, it is unlikely that energy transformation and efforts to curb carbon emissions will cease because of the conflict overseas. In fact, the acceleration of alternative energy development and production is driven by economics, and higher fossil fuel prices raise the relative competitiveness of green energy. Lower renewable energy costs may also accelerate companies seeking out these solutions to lower cost of their inputs.

In the longer term, competitive pricing of alternative energy may even propel some nations to shift to clean energy for a different reason — energy independence. Indeed, the opportunity for renewables and capacity required is great and the world cannot just switch to alternative energy sources. There are major risks around both the availability and geography of inputs and supply chain, which can be evaluated through ESG and traditional analysis. Ultimately, ESG data provides additional insights to the long-term prospects for investment in the energy sector and assessment of current state of businesses. Even with this substantial investment, renewable energy sources are estimated to provide 65% of the world’s total electricity supply by 2030, with the rest of energy use coming from traditional sources such as natural gas and oil.

41 Factset, February 2023.
Thematic investing: A way to invest in defined impact

In the public markets, thematic investments do differ from the more diversified “Benefit-oriented” strategies that have been discussed thus far and tend to have a more defined set of outcomes, if not a direct impact objective. However, due to the fact that these investments tend to target one or a handful of themes, there can be a smaller universe of companies or issuers in which to invest. As a result, outcome- or impact-oriented strategies have the potential for outsized returns as they tend to be in new or higher-growth parts of the market, but often with a higher volatility of return, especially in the public markets and over shorter time periods. This is why multi-thematic strategies are generally employed: to accommodate the fact that different themes will perform differently across different market conditions.

In addition to providing the capital needed to develop new markets and new solutions, thematic-oriented strategies also may be diversifying to a portfolio. Exhibit 6 below shows how many themes can have either low or no correlation to each other, which implies that adding themes to a traditionally balanced portfolio could offer additional sources of both return and risk.

Exhibit 6: Correlations of impact themes vs global equity market

<table>
<thead>
<tr>
<th>Affordable housing</th>
<th>Affordable housing</th>
<th>1.00</th>
<th>1.00</th>
<th>0.17</th>
<th>0.17</th>
<th>0.17</th>
<th>0.12</th>
<th>0.49</th>
<th>-0.06</th>
<th>0.16</th>
<th>0.16</th>
<th>0.17</th>
<th>-0.15</th>
<th>0.27</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternative energy</td>
<td>1.00</td>
<td>1.00</td>
<td>0.17</td>
<td>0.17</td>
<td>0.33</td>
<td>0.12</td>
<td>0.49</td>
<td>0.16</td>
<td>0.20</td>
<td>0.16</td>
<td>0.19</td>
<td>0.16</td>
<td>0.19</td>
<td>0.27</td>
</tr>
<tr>
<td>Clean water and sanitation</td>
<td>0.23</td>
<td>0.24</td>
<td>0.18</td>
<td>0.24</td>
<td>1.00</td>
<td>0.18</td>
<td>0.18</td>
<td>0.28</td>
<td>0.13</td>
<td>0.20</td>
<td>0.10</td>
<td>0.27</td>
<td>0.19</td>
<td>0.31</td>
</tr>
<tr>
<td>Digital divide</td>
<td>1.00</td>
<td>1.00</td>
<td>0.24</td>
<td>0.13</td>
<td>0.27</td>
<td>0.11</td>
<td>0.24</td>
<td>0.27</td>
<td>0.10</td>
<td>0.20</td>
<td>0.11</td>
<td>0.31</td>
<td>0.29</td>
<td>0.29</td>
</tr>
<tr>
<td>Education and job training</td>
<td>0.18</td>
<td>0.18</td>
<td>1.00</td>
<td>0.18</td>
<td>0.18</td>
<td>0.18</td>
<td>1.00</td>
<td>0.18</td>
<td>0.27</td>
<td>0.18</td>
<td>0.10</td>
<td>0.12</td>
<td>0.31</td>
<td>0.08</td>
</tr>
<tr>
<td>Financial inclusion</td>
<td>0.18</td>
<td>0.08</td>
<td>0.28</td>
<td>0.27</td>
<td>0.27</td>
<td>0.03</td>
<td>0.28</td>
<td>0.27</td>
<td>0.08</td>
<td>0.08</td>
<td>0.13</td>
<td>0.03</td>
<td>0.46</td>
<td>0.04</td>
</tr>
<tr>
<td>Health</td>
<td>0.19</td>
<td>0.00</td>
<td>0.19</td>
<td>0.19</td>
<td>0.18</td>
<td>0.27</td>
<td>0.19</td>
<td>0.17</td>
<td>0.29</td>
<td>0.18</td>
<td>0.46</td>
<td>0.15</td>
<td>-0.04</td>
<td>0.17</td>
</tr>
<tr>
<td>Multi-theme</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Resource efficiency</td>
<td>0.08</td>
<td>0.03</td>
<td>0.28</td>
<td>0.08</td>
<td>0.03</td>
<td>0.18</td>
<td>0.08</td>
<td>0.03</td>
<td>0.18</td>
<td>0.18</td>
<td>0.46</td>
<td>0.15</td>
<td>-0.04</td>
<td>0.17</td>
</tr>
<tr>
<td>Resource stewardship</td>
<td>0.31</td>
<td>1.00</td>
<td>0.29</td>
<td>1.00</td>
<td>0.29</td>
<td>0.47</td>
<td>1.00</td>
<td>0.47</td>
<td>0.47</td>
<td>0.47</td>
<td>0.16</td>
<td>0.15</td>
<td>-0.04</td>
<td>0.29</td>
</tr>
<tr>
<td>Safety and security</td>
<td>0.03</td>
<td>1.00</td>
<td>0.19</td>
<td>1.00</td>
<td>0.19</td>
<td>0.16</td>
<td>1.00</td>
<td>0.16</td>
<td>0.16</td>
<td>0.16</td>
<td>0.03</td>
<td>0.03</td>
<td>1.00</td>
<td>0.03</td>
</tr>
<tr>
<td>Sustainable agriculture and nutrition</td>
<td>1.00</td>
<td>0.03</td>
<td>1.00</td>
<td>0.03</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Source: Wellington Management, 12/1/2015 - 12/31/22, updated annually. Equally weighted portfolios were constructed representing each one of the 10 themes in Wellington Management’s proprietary impact investing universe, which consists of public companies identified as impact companies. The portfolios included each company held in their respective theme. Correlations for each thematic portfolio were determined by calculating the one-year rolling weekly excess return over the MSCI All Country World Index. Cross correlations of the excess returns were then computed.

Fixed income markets have an increase in issuances that target certain issues, including the steady growth of green, social and sustainability-linked bonds and loans, corporate bond funds that invest in high-impact issuances, and a number of interesting developments in the municipal market. Between 2017 and 2021, the global issuance of impact bonds increased by more than 500%, surpassing $1 trillion in annual issuance. Additionally, the U.S. municipal market gives investors a potentially unique way to direct capital to impactful projects in healthcare, education and sustainable cities and infrastructure.

Examples of impact investments in public bond market

<table>
<thead>
<tr>
<th>Green Bond</th>
<th>Social Bond</th>
<th>Sustainability Bond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond where use of proceeds is directed toward a renewable energy project</td>
<td>Bond financing food security access for individuals living below the poverty line</td>
<td>Use of proceeds finances a combination of green and social projects (SDG-linked bonds, Paris Agreement-linked, etc.)</td>
</tr>
</tbody>
</table>


See index definitions at the end of this document.

Range of risk and return profiles for sustainable and impact investments

Sustainable and impact investments range the risk and return and asset class spectrum. However, in aggregate, sustainable and impact investments do have the potential to meet investor return expectations while also meeting the impact outcomes. Investors who begin the journey to integrate investments that “Contribute” or advance measurable positive impact will find there is not just one risk and return profile to consider.

Exhibit 7: Range of risk and return profiles for sustainable and impact investments under the “Contribute” approach

<table>
<thead>
<tr>
<th>Public Markets</th>
<th>Private Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt/Credit-Based Impact Solutions</td>
<td>Equity-Based Impact Solutions</td>
</tr>
<tr>
<td>Resource Efficiency Equities</td>
<td>Thematic Sector Equity Fund</td>
</tr>
<tr>
<td>Resource Efficiency Municipal Debt</td>
<td>SDG/Impact focused public equities</td>
</tr>
<tr>
<td>SDG/Impact focused real assets/infrastructure</td>
<td>Impact Venture/Growth Equity</td>
</tr>
<tr>
<td>Community Loan/Development Funds</td>
<td>Microfinance debt fund</td>
</tr>
</tbody>
</table>


Along with this emerging evidence, many sustainable and impact strategies also provide access to some of the most significant economic and structural changes, including the energy transition, building of sustainable cities and infrastructure, healthcare and education innovation, and many others.

Sustainable and impact investments at Bank of America Corporation

The CIO Due Diligence team is responsible for evaluating strategies in order for them to qualify internally as sustainable or impact strategies. All strategies must meet both sustainability and investment standards to qualify for a sustainable classification. The assessment for both criteria is performed simultaneously. The key components of this process are to evaluate the quality and competitiveness of the investment strategy by establishing investment conviction. In parallel, for sustainable strategies, the CIO Due Diligence team reviews the intentionality, consistency and depth of ESG integration.

While there is a spectrum of approaches to integrating sustainability into a strategy, when determining sustainability status, the CIO Due Diligence team requires all strategies to meet two criteria in order to qualify for a sustainable classification:

**Intentionality:** Strategy is structured with clear sustainability objectives. The investment decision-making process reflects this.

**Consistency:** Sustainability criteria are part of the process at all times.

Our goal is to provide clients with a strong investment process that helps to increase the probability that both their financial and sustainability objectives can be pursued simultaneously.
To meet the first standard, the strategy must meet our investment and business due diligence processes that look for investment strategies that have a high probability of meeting or exceeding their investment objectives. This means that all recommended sustainability strategies have the potential to meet or exceed the risk and return profiles of the full investment category including all sustainable and non-sustainable strategies.

For all strategies that we define as sustainable or impact, the investment manager must first meet the investment conviction standard, defined by the CIO Due Diligence team as the ability of the investment manager to meet its stated investment objective, for a certain level of risk and on a forward-looking basis. In order for the risk and return characteristics for sustainable and impact strategies we referenced in this paper to be potentially realized, the strategies have to meet our definition of investment conviction first.

We also simultaneously evaluate how deeply an investment manager integrates sustainability into their daily investment process. This evaluation considers the different approaches outlined in this paper, from strategies looking to avoid material investment risks, to those that are looking to invest in the most sustainable companies and issuers, to those that use thematic and social or environmental goal-driven data to inform their investment thesis. We perform analyses using various qualitative inquiries, such as going through the investment manager’s portfolio to understand the sustainability thesis and the depth of the analyses the investment manager uses to inform its selection; how the decision-making process works across sustainability specialists, research analysts and portfolio management teams; and how the investment manager uses ESG in the portfolio construction and ongoing risk management practices. We also use third-party quantitative sustainability-focused data sets to perform independent checks on portfolio holdings to help determine the investment manager’s depth of knowledge on certain ESG issues, and to help us connect the sustainability characteristics of the strategy to its financial risk and return profile.

Finally, arguably the most important component of our strategy assessment is the sustainability, outcome or impact goal of the strategy. Each investment manager we work with needs to be able to clearly articulate the sustainability objective of their strategy, and the setting and monitoring of these goals against our expectations is as important to us as setting and monitoring performance and risk expectations.

- For “Avoid” strategies, this might be as simple as an intention to decrease exposure to fossil fuels or to avoid companies that may be prone to reputational risk.
- For “Benefit” strategies, a manager could have as an objective to have a better overall ESG profile than its benchmark or to demonstrate how resource-efficient companies perform better than their peers.
- For “Contribute” strategies, a manager must demonstrate specific, measurable outcomes or impact for each individual investment, but also at the portfolio level. We believe that being able to track the sustainability and impact goals of an investment is as important as tracking the risk and return of these investments through a robust monitoring process.

The power of driving sustainability with shareholder advocacy

In addition to making investment decisions informed by ESG factors, many investors are also using their power as shareholders to drive positive change through shareholder proposals or proxy voting. And we are seeing large asset managers engaging in direct dialogue with firms to help drive ESG impact in addition to pursuing financial returns.

A great example of this activity is Climate Action 100+ — a global coalition of more than 615 investors representing over $65 trillion under management who have set out to engage with more than 160 of the world’s largest corporate greenhouse gas emitters. They seek to drive “faster corporate climate action in line with the global goal of reaching Net Zero emissions by 2050 or sooner.” The coalition cites numerous examples of successfully engaging with companies to increase disclosure, accelerate decarbonization pathways and set science-based targets, among other goals, and 72% of the covered companies aligned disclosures with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.

While the CIO does not classify strategies that only employ shareholder advocacy tactics as sustainable due to the limited ability for most individual asset managers to single-handedly change outcomes, we do believe it is a powerful tool that fiduciaries have to help management teams understand ESG risks and opportunities.

44 Climate Action 100+, 2021 Year in Review: A Progress Update, January 2022.
IN CONCLUSION

The world is facing rapid change — environmental factors, societal shifts and increasing regulatory pressures are transforming the economy and society across so many aspects of daily life — the way we communicate, consume food and products, travel, places we live and ways we work. These shifts are impacting the markets in many ways, sometimes in ways that were not expected.

Luckily for investors, data and analytical processes that take into account these changing environmental and social factors are evolving at a fast pace. Firms are being more transparent about their business practices and long-term strategies, and governments and financial organizations are demanding more reporting to help investors make informed decisions.

Many firms are also taking a new look at their role in the capital markets and realizing that sustainable businesses may equate to more knowledge of risks as well as growth.

The CIO believes these trends are only going to accelerate, and we see more and more investors using the concepts of sustainability that we’ve discussed as a key input into their investment strategy. The CIO also believes that investors who embrace sustainable investing practices will be better able to position their portfolios for potential long-term success.
Index definitions

**Bloomberg U.S. 3000 Index** is a float market-cap-weighted benchmark of the 3000 most highly capitalized U.S. companies.

**Morningstar Minority Empowerment Index** is designed to provide exposure to U.S. companies that have embedded strong racial and ethnic diversification policies into their corporate culture and that ensure equal opportunities to employees irrespective of their race or nationality. The index pursues social objectives by selecting companies with high Minority empowerment scores, while companies with controversies are deemed ineligible.

**Morningstar U.S. Gender Diversity Index** pursues objectives that align with ESG standards in reference to gender diversity. Built with the data and scoring methodology of Equileap, the index is designed to emphasize companies in the U.S. market that have strong gender diversity policies embedded in their corporate culture and that ensure equal opportunities to employees, irrespective of their gender.

**Morningstar U.S. Large-Mid Cap Index** provides a comprehensive depiction of the performance and fundamental characteristics of the large-mid-cap segment of the U.S. equity markets.

**Morningstar U.S. Low Carbon Risk Index** is designed to provide exposure to companies that are aligned with the transition to a low-carbon economy, within the large- and mid-cap segment of their respective parent indices. The index targets a low carbon risk score and low exposure to fossil fuels at portfolio level, while ensuring that the portfolio is diversified across sectors and regions and minimizing portfolio active risk with respect to the parent benchmark.

**Morningstar U.S. Market Index** measures the performance of U.S. securities and targets 97% market capitalization coverage of the investable universe. It is a diversified broad market index. This index does not incorporate ESG criteria.

**Morningstar U.S. Sustainability Dividend Yield Focus Index** is designed to track the performance of companies with attractive dividend yields and strong financial quality while mitigating ESG risk.

**Morningstar U.S. Sustainability Extended Index** is designed to reduce ESG risk by targeting stocks with low ESG Risk Ratings, representing 67% of the Morningstar U.S. Large-Mid Index by float market capitalization.

**Morningstar U.S. Sustainability Index** is designed to reduce ESG risk by targeting stocks with low ESG Risk Ratings, representing 50% of Morningstar U.S. Large-Mid Index by float market capitalization.

**Morningstar U.S. Sustainability Leaders** is designed to provide exposure to Morningstar U.S. markets large-cap stocks that have the lowest ESG risk in their parent universe. This index is diversified across sectors and regions, targeting top 50 companies within the selection universe.

**Morningstar U.S. Sustainability Moat Focus Index** targets stocks with low-to-medium ESG risk and Morningstar Economic Moat Ratings of wide trading at the lowest price/earnings ratios. Moat ratings and fair value estimates are determined through independent research conducted by the Morningstar Equity Research team.

**Morningstar U.S. Sustainable Environment Index** provides exposure to equities that have low environmental risk scores while targeting 50% coverage by float market capitalization of the large- and mid-cap stocks of the parent market index. The index is a subset of corresponding Morningstar country/region indexes (market indexes) and excludes constituents with high environment controversy ratings and severe carbon risk scores.

**Morningstar Women’s Empowerment Index** is designed to deliver exposure to large- and mid-cap U.S. companies that have strong gender diversity and equal opportunity employment policies embedded in their corporate culture, as measured by Equileap’s data and scoring methodology.

**MSCI ACWI** captures large- and mid-cap representation across 23 Developed Markets (DM) and 26 Emerging Markets (EM) countries. With 3,060 constituents, the index covers approximately 85% of the global investable equity opportunity set.

**MSCI ex Tobacco Involvement Index** uses company research provided by MSCI ESG Research to determine eligibility for index inclusion. In particular, the indexes use MSCI ESG Business Involvement Screening Research to identify companies that are involved in the tobacco business. The index excludes all companies classified as a producer of tobacco and deriving 5% or more aggregate revenue from production, distribution, retail and sale of tobacco related products.

**MSCI ACWI ex Controversial Weapons Index** is based on MSCI ACWI, its parent index, which captures large- and mid-cap representation across 23 DM and 24 EM countries. The index excludes companies from the parent index that have involvement with the production of cluster bombs, landmines, chemical and biological weapons, and depleted uranium weapons. Constituent selection is based on data from MSCI ESG Research.

**The MSCI ACWI ex Coal Index** is based on the MSCI ACWI Index, its parent index, and includes large and mid-cap stocks across 23 DM and 24 EM countries. The index represents the performance of the broad market while excluding companies that own coal reserves. It is a benchmark for investors who aim to eliminate coal reserves exposure from their investments due to concerns about the contribution of these reserves to climate change. The index is a member of the MSCI Global Fossil Fuels Exclusion Indexes.

**The MSCI ACWI Low Carbon Target Index** is based on the MSCI ACWI Index, its parent index, and includes large and mid-cap stocks across 23 DM and 24 EM countries. The index is a benchmark for investors who wish to manage potential risks associated with the transition to a low-carbon economy. The index aims for a tracking error target of 0.3% (30 basis points) while minimizing the carbon exposure. By overweighting companies with low-carbon emissions (relative to sales) and those with low potential carbon emissions (per dollar of market capitalization), the index reflects a lower carbon exposure than that of the broad market. It uses MSCI ESG CarbonMetrics data from MSCI ESG Research Inc.

**The MSCI ACWI SRI Index** includes large and mid cap stocks across 23 DM countries and 24 EM countries. The index is a capitalization-weighted index that provides exposure to companies with outstanding ESG ratings and excludes companies whose products have negative social or environmental impacts. The index is designed for investors seeking a diversified Socially Responsible Investment benchmark comprised of companies with strong sustainability profiles while avoiding companies incompatible with values screens.

**MSCI ACWI ex Fossil Fuels Index** is based on the MSCI ACWI Index, its parent index, and includes large and mid-cap stocks across 23 DM and 26 EM countries. The index represents the performance of the broad market while excluding companies that own oil, gas and coal reserves. It is a benchmark for investors who aim to eliminate fossil fuel reserves exposure from their investments due to concerns about the contribution of these reserves to climate change. The index is a member of the MSCI Global Fossil Fuels Exclusion Indexes.

**S&P 500 ESG Index** is a broad-based, market-cap-weighted index that is designed to measure the performance of securities meeting sustainability criteria, while maintaining similar overall industry group weights as the S&P 500.

* DM countries include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UK and the U.S. EM countries include: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.
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Risk management and due diligence processes seek to mitigate, but cannot eliminate risk, nor do they imply low risk.

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Investments have varying degrees of risk. Some of the risks involved with equity securities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Bonds are subject to interest rate, inflation and credit risks. Investments in foreign securities involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. Investing directly in Master Limited Partnerships, foreign equities, commodities or other investment strategies discussed in this document, may not be available to, or appropriate for, clients who receive this document. However, these investments may exist as part of an underlying investment strategy within exchange-traded funds and mutual funds.

Social impact bonds are a relatively new and evolving investment opportunity, which is highly speculative and involves a high degree of risk. An investor could lose all or a substantial amount of their investment.

An investment in Green Bonds involves risks similar to an investment in debt securities of the issuer, including issuer credit risk and risks related to the issuer’s business. You should review the relevant offering document carefully before investing.

Alternative investments are intended for qualified investors only. Some or all alternative investment programs may not be in the best interest of certain investors. No assurance can be given that any alternative investment’s investment objectives will be achieved. Alternative investments such as derivatives, hedge funds, private equity funds and funds of funds can result in higher return potential but also higher loss potential.

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