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Chris Hyzy: Hello, this is Chris Hyzy, Chief Investment Officer. ESG, described as Environmental, Social, and Governance factors, has evolved significantly since the earlier days when the discussion was more about avoidance. Avoid areas known as the sin stocks or targeting areas to improve such as the broader climate and creating the green effect. Now there's a much more robust, much deeper, and wider effort around sustainability, making an impact, the improvement factor, and simply being responsible. Dialogue around stakeholder capitalism, community advancement, and all inclusive opportunity based society and how this is spreading through the private sector and what it means from an investor's perspective, a portfolio composition perspective, continues to gather positive momentum. We believe portfolio efficiency per dollar of investment capital rises significantly when invested within a sustainable and impact lens. Now perhaps in the very near future ESG can be further described as Every Society's Gain. Today, we will discuss this and more with Anna Snider, the Head of Due Diligence for the Chief Investment Office; Jackie Vanderbrug, Head of Sustainable and Impact Investment Strategy also in the Chief Investment Office; and finally, Marisa Sullivan, ESG Equity Strategist in Bof AGlobal Research. Welcome, everybody.

Let's start with Jackie. Jackie, the field of sustainable investing has been around for quite some time as we've already discussed. Now given the volatility in the market influenced by the global pandemic, has it taken a back seat and where are we in the evolution of this overall investment approach?

Jackie Vanderbrug: Yeah. Thanks, Chris and thanks everyone for joining. As you noted, we've often shared that sustainable investments have moved from their historic roots that avoiding or what was often known as negative screening to a sophisticated array of approaches now where we are seeing the integration of environmental, social, and governance data into the investment process and Chris, that is to both see new opportunities and to avoid risk. So in that evolution, we would say we're at the end of early innings or in some sense at a huge inflection point. It is a shift that has been driven partially by investor interest which has moved from interest to demand and in this shift of data from limited to abundant but what I would also say is that the movement that we are seeing now has been growing for some time. It's just this moment is absolutely accelerating it.

Chris Hyzy: Let's take it a step further given today's global challenges. When you look at climate change, climate transition should we say, health pandemic that we're all going through and likely to continue for the foreseeable future, and also most recently and very importantly racial inequality, how is this reflected in the movement towards and within sustainable investing?

Jackie Vanderbrug: Yeah. It's brought what we might have thought could've taken a back seat in such a massive challenge as we've had the three that you're speaking of to the forefront, so this health crisis, the racial reckoning, they're accelerants as was the challenge around a shift to a low carbon economy. At some level I would say they're accelerants in understanding this mispriced risk say, in the transition to a lower carbon economy where is it that certain firms are at risk and others are moving forward? It's also an opportunity to see what was previously either unrealized or unseen opportunity for instance, in firms that lead on diversity or including. and it's increased the awareness I think of all of us in terms of the inter-connected nature of the economy, the fact that pandemics don't stop at borders, the fact that the supply chain matters to all of us, that the sick leave or the employee benefits that one company has are reflected in how we all experience service from that firm and the safety for all of us. So in some sense, Chris, this disruption that we're having is accelerating across all three of those challenges that you mentioned.

Chris Hyzy: That's great. Now let's switch to Anna. Anna, our industry is let's just say famous for creating acronyms, famous for jargon that may not apply across the broader spectrum of clients and investors or just broader society itself so let's talk a little bit about how the industry is still coalescing around the term taxonomy, the framework, the categorization of ESG and approaches overall to sustainable investing. How does our Chief Investment Office at Bank of America approach sustainable investing and what is our framework?

Anna Snider: Yeah, I agree. We are an acronym loving industry. Sometimes too much. The sustainable investing industry, ESG industry, has certainly become more self-aware of the confusion that I think a lot of the different naming of different types of investment strategies and intended outcomes have taken in terms of confusing even the most sophisticated investors, and so we've decided to adopt and adapt a framework that was actually created by an organization that is taking a look at this problem among others called the Investment Management Project who basically has boiled down and simplified all of the different approaches of sustainable investing. The framework that we're now using to talk about what the intended outcomes of all of these different strategies are is A, B, C or Avoid, Benefit, and

Contribute. I think that it helps us really be able to make sure that, when we're talking with you, our clients, making sure we understand what your motivations are around investing in sustainability and what's really important to you. So Avoid, as you and Jackie have mentioned, is really sort of taking out sectors but also identifying structural investment risks like climate transition or energy transition risks that we need to be thinking about when we're constructing portfolio. B, Benefit, is really looking to move capital to companies who are sustainable, competitive, and profitable because they are thinking about environmental, social, and governance as well as all of their stakeholders when they are managing a business, and so that is what the benefit is. We have a lot of clients especially as a lot of press around ESG and responsible investing and obviously, the social issues and the environmental issues that Jackie just mentioned. We have clients that come in and say, "I just want to invest in a portfolio of sustainable or responsible companies or companies that are really thinking about these types of issues," and that's what the benefit category is meant to capture. Then C, your Contribute, is just really what it says. These are strategies that contain and are intentionally geared towards solving global issues. They're geared towards positive outcomes or solutions and there are strategies that do all three A, B, and C but in particular these are strategies that have or adhere towards a potential positive impact. We've also developed another way to look at strategies vis-à-vis what exposures they may have to certain environmental and social and issues around community and prosperity of society at large.

Chris Hyzy: When you take a look at the client lens of this and just as you said before and trying to keep it simple and most of the time simple is best, are the framework around A, B, C – Avoid, Benefit, and Contribute and then into the four Ps. You want to describe just quickly what the four Ps are and how that overall is being viewed today in terms of client interest? Then

Jackie, what are some of the motivations for families to incorporate sustainable investments in their portfolios under the guide of what Anna just described? So Anna, let's go back to you first.

Anna Snider: Sure. So the four Ps and thanks for clarifying. The four Ps are People, Planet, Principles of Governance, and Prosperity and they obviously relate nicely to what we call still and refer to as the environmental, social, and governance aspects of investing but this allows us to organize our measurement and the metrics we're using to look at individual investment strategies in a way that corresponds with both the way our firm is looking at these issues and the way that people who are using the sustainable development goals are adhering their investment strategies towards solving those issues that are outlined in the sustainable development goals. It's essentially a good matching process that we've created.

Chris Hyzy: Excellent. Jackie, what about some of the motivations that families are incorporating in their sustainable investments within their portfolios and what are some of the approaches that you've seen some of our clients begin to take?

Jackie Vanderbrug: Yeah. Chris, I'll mention three motivations. The first starts with where Anna left off which is thematic. We definitely see clients coming to us very interested in contributing around the transition to a low carbon economy or focused around economic opportunity for all and a number of other themes. We also see what is more historic values based approach come and saying, "It is my family's commitment to economic opportunity or to the environment of which we live in and because of that, I would like to potentially screen out certain areas or practices from companies," and then finally - and this area is growing really quickly, Chris – is what I would call the interest in responsible companies. Right? That looking broadly at the world and saying, "For the world to work for all of us, I am interested in those companies that are responsible, that are taking care of their employees, their clients, and the communities in which they operate. I also believe that those responsible companies will be long term solid performers." So in some sense all three of these are wrapped in that aspect of clients looking to achieve their long term goals, both their long term financial goals and the broader vision that they have for the world that we all inhabit. This gets to the other I would say less sort of motivation in terms of that either thematic or values but something we're seeing a lot of which is that sustainable investments connect generations. With sustainable investments, the emerging younger generation whether that's Millennials or Gen X, is having conversations with their parents – Boomers or the Silent Generation – about the future of cataplasm, about a more inclusive capitalism, a capitalism that is more, not less and so what's happening in terms of how that comes forward, we're seeing families have the opportunity to invest in new ways and that does start with that A, B, C framework that Anna mentioned. So depending on the motivation, you might start with finding some areas where managers are contributing to a theme that your family is passionate about. You might start with a broad based approach to benefiting companies that are more responsible or some specific avoidance. The one miss I would note is that there is a sense that people feel like this has to happen overnight and we actually see most clients start small and then build over a few years.

Chris Hyzy: Well, certainly the learning curve has been very, very steep both in the investment world and society at large and we expect that to continue as the rise of ESG certainly moves forward but necessarily becomes a major part of what we do, how we invest, and certainly how we analyze portfolios and that brings me to the data and insights part of all of this. Marisa, you and the team have said that ESG is not just a bull market phenomenon, but actually – a very important phrase here – a bear market necessity. So share with us some of your recent finding throughout the downturn and recovery.

Marisa Sullivan: Thanks, Chris. So exactly right, this was an area of pushback that we had gotten from investors coming into this year was that ESG was really more of a nice to have feature when times are good but that when the going gets tough in a market downturn, companies and investors would just turn back to the more traditional ways of looking at the way they run their business and that ESG might not matter as much anymore, but what we actually found during this most recent bear market was quite the opposite. First, let me start with the investment flows perspective. What we actually saw was that ESG investors were very sticky during the downturn. We found in our data at 22 straight weeks of inflows into ESG funds since the beginning of the year and this was at elevated levels. So we've seen an increase in investor interest in ESG funds and assets flowing into ESG funds and this was against a backdrop of record equity outflow, so that alone we thought was fascinating but aside from just the funds and the flows, from a performance standpoint we saw some really interesting findings. When we looked at the performance of equities from peak to trough and we looked at the S&P 500 and then we also looked at markets within Europe, we actually found that ESG focused strategies actually generated significant outflow between 5 – 10 percentage points and much of that was driven by social factors which makes sense in light of the fact that this was a pandemic and it had an important social element to it. So what we found too was that from a performance standpoint some very interesting signals around how ESG can enhance outcomes and past performance and from a risk standpoint, we also saw that companies with higher ESG scores had smaller cuts to their 2020 earnings, so this also supported our view – and we've written about this petty extensively – that considering ESG factors can help you identify companies that are likely to see superior financial stability. So from a flow standpoint, from a performance standpoint, from a risk standpoint, what we found at the beginning of this year and even to today is really the fit that ESG is not just a tool for bull markets but really becomes even more of a necessity in periods of economic or market stress.

Chris Hyzy: Yeah, and that gets back to the portfolio efficiency discussion that I discussed quickly at the outset in terms of the combination of performance analysis and risk management as you've mentioned. Now, often investors wonder at this point if ESG performance is simply driven by a particular sector or size of a company. What does your analysis tell you?

Marisa Sullivan: Yeah. No, I think that's a fair question and one we've certainly gotten. Is it just that good companies aren't [unintelligible] stocks or bad ESG companies are just energy which is [headed] to underperform and we don't think that's really just the case. So what we've tried to do in our research is to try to control for size biases or sector biases when we assess the performance of ESG. One of the ways we do that is we look at performance relative to an equal weight benchmark and again, here we find evidence that buying stocks that are highly rated on ESG can generate alpha but we also looked at performance within sectors to see if ESG makes a difference. What we also found again was that just using the 1Q bear marker as an example, we also found that companies that scored well on these ESG factors outperformed companies in their same sector that didn't score as well. So we don't think ESG performance is just the result of a sector or sized tilt. We think it's much broader than that because we think you can actually help predict companies that are likely to see better fundamentals.

Chris Hyzy: Yeah, that's a great point. Just given the fact that we do tend to aggregate a lot of numbers together within sectors and whether the company is a technology company or not, sometimes because it uses a ton of technology, it is branded a technology company. We see that time and time again but to the point of the structure of the economy we often call making an impact within the economy impact-onomics. When you think about the structure of the US economy, with the significant value particularly today and certainly in the future of intangible assets as it relates to value in the economy, how does this relate to ESG data role in all this?

Marisa Sullivan: Yeah. So you're right, one of the trends that we observed as we've transitioned into this information economy is that balance sheets are becoming increasingly opaque. A record 70% of S&P 500 assets are intangible today. So what this means is that most of the metrics that we've historically used to assess asset quality might not cut it. That's going to mean that we're going to need other tools and we think that ESG is a really great way to get insight into some of these intangibles, things like the company brand equity or its culture or how to retain talent and foster innovation, whether it might have lax environmental practices that might get it into some costly legal trouble. So these are all things that ESG factors can generate insights into and therefore help improve an investment process again, both from a risk management standpoint and from a return standpoint.

Chris Hyzy: That's great. That's great. Oftentimes during bull markets people tend to forget about the risk management end of things but both in up markets and down markets and it's clearly a very important aspect of not just portfolio strategy, but investing in general.

Now let's switch to Anna. Anna, analyzing the management community, asset management community and our partners in that arena, given what Marisa just talked about in terms of the performance metrics, measurement and analysis, the sector angle to this, the intangible asset angle to this, but just broadly speaking, bull market/bear market trend, what are you seeing in the broader asset management partner community?

Anna Snider: We've been tracking the solutions that we have on our platform relative to their traditional peers, which is by the way how we look at any sustainability approach where we're not using sustainability benchmarks or sustainability peer groups only. We believe as a CIO office that this is something that is an investment approach that should be stacked up against all peers. We're seeing that on average, and we've charted this now over multiple quarters including the first quarter of this year and second quarter of this year, where our managers, our sustainable managers are out performing their peers to the tune of 70% or 80%. In the first quarter it was actually a little higher, on average 80% or 90% versus in terms of both totals return and risk adjusted return but we think that's not driven, as Marisa was saying, simply by this fixed sector overweight or underweight play. It is driven by investing in management teams that are actually really thinking about the issues both in the short term and how to manage their business and in the longer term, and that is why you see often people say, "Well, there's a quality factor here," but our research and Marisa's team's research have said that there's not. It's not the quality factor at play. This is something different and that's why we believe that more asset managers – and we've said this for a very long time - but I think more asset managers are looking at this type of data and saying, "You know, this really I think enhances and augments my investment process to really look at environmental, social, and governance factors as a way to just get more information that I can use to invest," and that's not just for fundamental equity or credit investors, that is for active and passive strategies, quantitative and qualitative or fundamental strategies. You're seeing that this data and the power of the additional information that you can glean from company or issue analysis really is the key here and not some correlation or luck. It is skill that you're seeing here in terms of how people evaluate these things.

Chris Hyzy: Jackie, Marisa talked a lot about the ability to manage risk and digging deeper into that is the avoidance of areas or potential practices that certain companies that let's just say do not uphold the stakeholder capitalism flag. From that standpoint, what do you hear on a future trend basis? What do you hear about a shift to stakeholder capitalism? What is it and how might it affect investors in the coming years?

Jackie Vanderbrug: Yeah. If you haven't heard the concept of stakeholder capitalism, I believe you absolutely will. Just to summarize it, it is where we see companies that are delivering for all of their stakeholders or their employees or their customers and for the communities in which they operate that that will support their ability to deliver for their shareholders over the long term. In some sense, what stakeholder capitalism does, Chris, is it's addressing a key shortfall of the shareholder capitalism privacy that we had by elevating social environmental issues which have at times been undervalued by a system where the focus was exclusively on profits or efficiency. We're seeing organizations from the business roundtable in the US to the world economic forum endorse this concept. It's really important to get that this is not a call for instance for replacing capitalism with socialism. It is an acknowledgement that the role of the corporation goes beyond simply dollars and cents or stock prices and dividends and in the long term it is that holistic system between employees and customers and communities and investors that work together. So when you think about this from the investor perspective, we think that the consumer, the employee, the regulator, they all are going to have a long term memory here in terms of their thinking about what's happening during this pandemic and corporate actions and as has been mentioned by Marisa and Anna, there's more consistent cross industry data available for investors to hold these companies accountable.

Chris Hyzy: Thanks, Jackie. Sticking with the future trends and very exciting segue from an exciting topic into the future trends continuing here is with Marisa. How do you see ESG playing into the major growth themes coming through this early stages of a new secular bull market and then out the other side given everything that Jackie described, what Anna's seeing in the management community, the analysis that you've done and the rest of the team have done, and most importantly really the difficult healthcare crisis that we're still going through at this time. Take us through some of the ESG factors that are playing into the major growth themes in this coming bull market.

Marisa Sullivan: Yeah. Thanks, Chris. Look, it's hard to imagine that environmental, social, and governance considerations wouldn't play a critical role in many of the growth themes that we've written about in future and the dynamics that we're experiencing today. I mean if you think about a recovery and building more resilient and innovative and profitable companies and business models, I think it's going to require both companies and investors to think about ESG factors like [climate] risk and resiliency. If you look at the headlines today and you think about the impacts it could have on the bottom line in the future, I think as Jackie's spoken about and the importance of social practice. We've really seen that come through this year where now – I think beforehand the S in ESG maybe took a little bit of a backseat I think in part just because it's harder to quantify than things like carbon emissions or some of the governance characteristic of a company, but as we've seen this year, factors around employee benefits and employee safety and product safety and customer wellbeing. I mean these are all factors that really matter and it really impacts the bottom lines of companies, so we think that the rise of the S is clearly a theme that we've seen this year and we think it's going to continue. This I think goes hand in hand with what Jackie talked about with stakeholder capital is the idea that companies would do well by thinking about not just their employees but for example, their supply chains and we've written about this extensively within research around what does the future of supply chains look like and we definitely think there is an ESG angle as you consider not just the resiliency of your supply chain from a climate perspective, but potential for supply chain risks as it relates to human capital and the way that you treat your employees and how you source your products, so we think stakeholder capitalism is going to be another key theme.

I would just say from an investor perspective, I mean we're seeing both institutional and individual investors become increasingly interested in sustainable investing. We see that in our survey data. Big jumps in the number of investors incorporating ESG into their process and you're starting to see that in the numbers. We've seen investors are rewarding companies that have greater transparency on ESG and that performed better on ESG characteristics with higher multiple and especially this year and just to drive home the importance of the S in social factors, we've actually seen a re-rating in companies that perform well on social factors really this year. So I guess bottom-line is I think it's going to be difficult to separate what's an ESG theme from what's a broader market theme as we move forward. They're really integrated.

Chris Hyzy: That's a great way to segue to the last question. You mentioned, Marisa, about it's going to be difficult to separate ESG from the broader investment spectrum, and that's clearly the trend that we're seeing and clearly what we expect in the years ahead but in terms of opportunities on the client end of things, it's important for us to talk about the power to have an impact. Anna, last question before we wrap up for today. What opportunities do clients have to look forward to as they look to use their power to have impact through their investment portfolios?

Anna Snider: Thanks, Chris. We see this every day in both the evolution of investment processes in products that already exist to incorporate sustainability as we've talked about, but there's also been an explosion in products and solutions. I, as head of our manager research group, I have the pleasure of I think seeing one of the most innovative times that I've ever seen in the asset management industry around product development and creation aided of course by data and Big Data and AI but also aided by public and private sector and entrepreneurial hyper-focused on solving environmental and social issues across both the public and private markets. This extends across equity markets, fixed income markets, as I said, private markets. It's focused on the environment, on healthcare, on innovation to create jobs, and mobilize economically disadvantaged communities, financing enterprises founded and owned by gender and racially diverse teams to address economic inequality and I think that you can today create a portfolio across asset classes even if you have a simple US equity and muni fund, you can find really strong solutions where actually you are making an impact by financing public business and by financing community government and local and state governments who are looking for solutions to these issues through the muni markets and you can get as sophisticated or as – you can delve into the private markets where again, the innovation and entrepreneurial spirit that you're seeing in venture capital, in growth equity, and in private equity and even the debt markets and infrastructure, real assets – is really something to take note of. So we are really focused on providing across asset class opportunities to have an impact in these different areas. So as always, we're always happy- your advisors and your portfolio managers is always happy to talk to you about these opportunities.

Chris Hyzy: Thank you, Anna. As Anna, Jackie, and Marisa described throughout our discussion today, ESG has evolved significantly. The ecosystem has evolved significantly since the earlier days when the discussion was just more about avoidance. Now there's a much more robust, must deeper and wider effort around sustainability, making an impact, the improvement factor, and simply being responsible as we said at the outset. Now dialogue around stakeholder capitalism, community advancement, an all inclusive opportunity based society and how this spreading through the private sector and what it means from an investor's perspective also continues to gather significant momentum. We firmly believe that portfolio efficiency per dollar of investment capital rises significantly when invested within a sustainable and impact lens. As we talked about in the beginning again, perhaps in the very near future ESG can be further described as Every Society's Gain. That'll do it for today. Thanks for listening.

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