Q 3 | 2021

The Colony Group

Investing with Values

Q3 2021 Observations

Sustainable investing continues to both prosper and evolve. Issues related to the pandemic, social justice, and the environment accelerated its adoption in 2020, and this momentum has carried over into this year. However, investors are becoming more sophisticated and focused with their preferences, objectives, and expectations. They are paying more attention to, and demanding more from, the companies they invest in, the managers they invest with, and the specific impact and real-world outcomes of their investment choices. Surveys suggest that investors are shifting their priorities to focus on realizing tangible outcomes

In a 2020 CFA Institute survey, thematic investing increased 14% versus the 2017 study as the preferred approach to access the space (Future of Sustainability In Investment Management: From Ideas to Reality) while nearly half of respondents in a recent Schroders study noted thematic investing as their preferred approach. (Schroders 2021 Institutional Investor Study).

and positive impact, supplanting the old standards of corporate alignment and regulatory pressure. In addition, avoiding greenwashing seems to have replaced investment performance as a top concern among global sustainable investors.

We believe that investors are seeking more specificity in the desired sustainable goals for their portfolios. The rise of thematic investing as a preferred approach to implementing sustainable investments reflects this shift. The environment, water, and sustainable infrastructure were often cited as favored themes. In past newsletters, we have highlighted the importance of thematic investing and discussed specifically environmental and water-themed investing. We discuss renewable infrastructure in the "Trends to Watch" section below.

Real world outcomes and tangible results have become a key priority

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54%	57%
say positively impacting society and planet is their key driver for sustainable investing	believe "successful" engagement equals real world outcomes that can demonstrate a measurable improvement for company's stakeholders

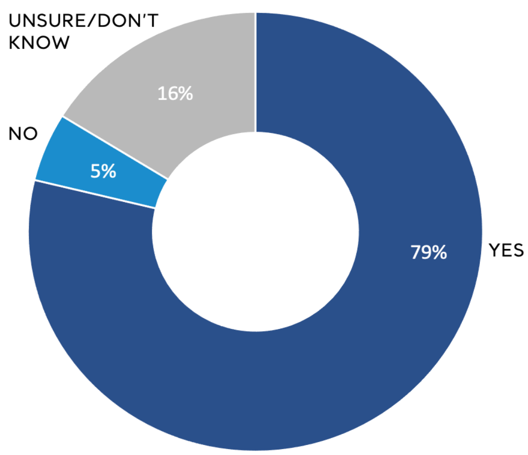
SOURCE: Schroders 2021 Institutional Investor Study

Furthermore, investors are seeking managers that are more than responsible investors; they want evidence of responsible ownership as well. We've long advocated for an active ownership approach where investment managers engage companies to help them build more sustainable outcomes for their stakeholders. The Schroders survey suggests that investors agree. 57% of respondents defined successful company engagement as an example of a real-world outcome that can have measurable improvement for a company's stakeholders.

Concerns related to investment performance, a top issue just a couple of years ago, have steadily declined. This development is not surprising. Thankfully, the performance of sustainable funds over the last several years has shown that earning competitive returns is an achievable goal. The importance of stakeholder capitalism as a source of alpha has accelerated recently, precipitated in part by the events of 2020, and there is growing acceptance among investors that understanding how a company is managing material ESG risks and opportunities may lead to better investment decision-making.

According to Schroders, the number one concern of sustainable-minded investors is so-called "greenwashing" (see below for examples) where companies or funds overstate ESG metrics in order to attract capital. Investors are seeking more than just feel-good statistics. Essentially, greenwashing represents a "say-do gap" (Investments and Pensions Europe, "ESG: Greenwashing under scrutiny," July/August 2019) that investors are increasingly paying attention to. Due diligence is key to identifying greenwashing as is increased disclosure and investor education. Regulators have taken notice. Europe introduced the Sustainable Finance Disclosures Regulation in March of this year, and the SEC has launched initiatives aimed at investment advisors managing ESG strategies.

IN YOUR OPINION, DO YOU THINK THAT THERE IS A NEED FOR IMPROVED STANDARDS AROUND ESG PRODUCTS TO DIMINISH "GREENWASHING"?



SOURCE:CFA Institute, Future of Sustainability Investment Management: From Ideas to Reality

EXAMPLES OF GREENWASHING

1. A company misrepresents its products as being more environmentally sound or friendly than they actually are.
2. A corporation may tout pro-environmental policies or practices when in reality it's an egregious carbon emitter.
3. Fund managers may claim to integrate ESG criteria into their investment processes when they do not or claim an environmental or social impact that is not documented through easily accessible metrics.
4. A manager may have a proxy voting record that is quite inconsistent with an emphasis on sustainability or ESG concerns.

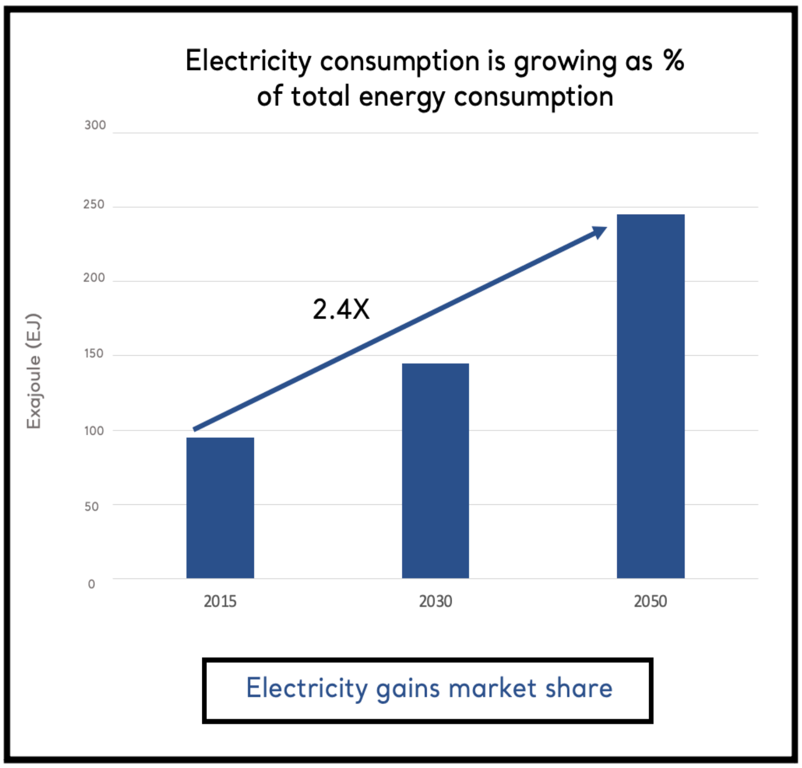
We believe the next phase of sustainable investing will be characterized by an investor base that is more sophisticated, intentional, and focused on the alignment of their objectives with the companies and managers they invest in or with. Thoughtful portfolio construction that integrates tangible impact and values alignment can go a long way towards helping investors succeed at both their financial and impact goals.

Sustainable Investing Trend To Watch: Renewable Infrastructure

Electricity consumption as a percentage of total worldwide energy consumption is expected to grow from a 19% market share in 2015 to 49% by 2050. Certainly, the electrification of transportation will be a primary contributor to this growth, but strong growth is expected in other important sectors, such as real estate and industrials. Moreover, electicity generation will increasingly be sourced from renewables. Renewables, led by wind and solar, may capture 70% of investments in the electricity sector over the next decade. (BNEF New Energy Outlook, 2019).

Renewable-power infrastructure is a key beneficiary of both of these trends. Investing in companies within this sector may provide long-term financial opportunities as well as targeted impact for decarbonization and emissions reduction. Financially, renewable infrastructure may offer more consistent cash flow and earnings due to the long-term nature of contracted assets, declining cost curves, and predictable dividends. Utilities that are leaders in low carbon electricity generation, zero emission renewables developers, and grid operators providing a measurable decarbonization impact are examples of renewable infrastructure. Clients who are investing in Colony's Sustainable Investing Solutions have a strategic allocation to global renewables infrastructure as part of their real asset allocation.

The transition to a renewable-power infrastructure, while well underway, seems poised to accelerate. The head start by early adopters is likely to serve as a sustainable competitive advantage for these companies. This give us confidence that the sector will likely offer competitive financial and sustainable returns for investors.



As of 30 June 2019. Sources: Mckinsey; Irena, June 2020, Renewable Power Generation Costs in 2019. This page contains projections, there is no guarantee these projections will be met.

Colony Investing Solutions

Some statistics of interest from The Colony Group's Sustainable Investing Solutions equity portfolio:

0%
Tobacco Exposure

0%
Controversial Weapons Exposure

34% Less*
Carbon Intensity

72% Less*
Direct Emissions

40% Less*
Indirect Emissions

**Relative to MSCI All Country World Index*
SOURCE: Morningstar Direct

For more on Sustainable Investing Solutions, read our [Sustainable Investing Primer] or our recent article in Worth magazine on [thematic investing].

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For more information about Colony's Sustainable Investing Solutions, please reach out to your wealth advisor or contact us at info@thecolonygroup.com.

Sustainable Investing in Action

FINANCIAL

- Global sustainable fund assets almost doubled in the past six months to reach $3.9 trillion USD at the end of September.

ENGAGEMENT

- Due to Boston Trust's engagement efforts, Hyatt has set ambitious DEI targets, including doubling the representation of women and people of color in leadership roles by 2025.
- Calvert's four-year engagement with a steel company led to the adoption of several initiatives to curb carbon output. These included the company's goal to be carbon neutral by 2050 for its electric arc furnance (EAF) steel operations, the acheivement of interim emissions-reduction, renewable energy milestones by 2025 and 2030, and an increase in the use of renewable electrical energy for its EAF steel mills to 10% by 2025 and 30% by 2030.
- Ecofin engaged with Gulf Energy Thailand and the Deputy Energy Minister of Vietnam about their efforts to offer renewables and gas-powered based solutions in Vietnam in lieu of proposed greenfield coal-fired power stations.

CORPORATE RESPONSIBILITY

- GM committed to eliminating all tailpipe emissions for light duty vehicles by 2035.
- Lowe's joined the OneTen coalition to train, hire, and advance the careers of one million black Americans over the next ten years.
- Microsoft has committed to remove from the environment all the carbon it has emitted since its founding by 2050. In addition, Microsoft is one of only a few companies planning to become water positive by 2030.

SOURCE: Morningstar, Bloomberg, and engagement reports & publicly available information from funds

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