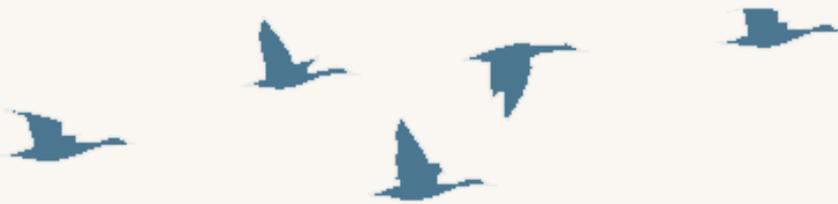


Our Approach to Sustainable Investing



Executive Summary

In an interconnected global economy with rising population and consumption, it is increasingly important that investors, businesses, governments, and societies recognize and factor in the costs of externalities. Externality costs are those incurred by companies through environmentally damaging business activities. These costs can result in unpriced consequences for the environment, society and, ultimately, financial performance.

As an investor, you can factor in the costs of externalities by implementing an investment strategy that is specifically designed to create environmental and social impact across your portfolio. MASECO offers a range of strategies to apply values-based investing, from sustainable and socially responsible mutual funds to venture philanthropy through donor-advised funds. Investments are evaluated carefully and approached with the same financial analytical rigor as any other investment to identify suitable opportunities that aim to deliver impact as well as performance.

What is sustainable investing?

Sustainable investing as an investment philosophy has evolved over several decades. While concrete definitions are difficult to pin down, there are three identifiable strands:

- Ethical investing – identifying companies that share your values and morals.
- Socially responsible investing (SRI) – typically avoiding companies that violate human rights or social criteria and/or that produce or distribute specific products such as armaments, tobacco, alcohol, gambling, pornography.
- Sustainable investing – focuses more attention on environmental issues, social and governance (ESG) screening. This approach typically amalgamates ethical investing with SRI, investing in companies that are actively changing their corporate behaviour and products or services to achieve environmentally sustainable outcomes.

Sustainable investing is one approach within the broader Socially Responsible Investing (SRI) universe. While "sustainability" may have different meanings to different people, the term is often associated with general concern for the environment. The United Nations describes sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs"(Bruntland Commission, 1987). With this in mind, business practices that exhaust resources or cause irreversible changes to the earth's climate are considered unsustainable.

Business rationale sustainable investment

Sustainable investing uses markets to reallocate capital to companies that are integrating responsible corporate behaviour and sustainable outcomes into their business and industries. Capitalism is an efficient way to allocate resources and wealth. It is the idea that capitalism can maximize long-term economic value creation by reforming markets to address real needs while considering all costs and integrating ESG metrics into the decision-making process. It applies to the entire investment value chain from entrepreneurial ventures to publicly traded large cap companies. Investing with future generations in mind will help transition economies to sustainable substitutes.

What should I expect the investment to deliver?

Returns vary from investment to investment. All sustainable investments are not created equal. MASECO offers a sustainable portfolio allocation utilising funds with at least a five-year track record displaying historic market rates of return.



Sustainable Methodology

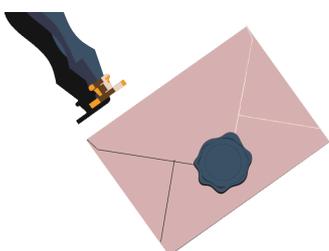
Many SRI approaches involve the use of positive or negative screening. The criteria forming these screens are based on subjective standards that may be difficult to measure. Additionally, the screening methods are typically applied to business practices in absolute (or binary) terms, which result in a company stock being either included or excluded.

This all-or-nothing approach may result in reduced diversification and a smaller investment opportunity set. Companies with strong environmental policies might be excluded because of a single detail, or an entire category of firms might be deemed ineligible because of an industry's environmental reputation. Since companies have varying degrees of environmental commitment, their business practices are better characterised along a spectrum. An investment methodology that reflects this spectrum may better serve investors.

MASECO's approach looks at all major sectors, emphasising investment in companies with high environmental sustainability scores and minimising or excluding investment in companies with low scores. This inclusive approach progressively weights companies according to their degree of sustainability commitment, resulting in a larger investible universe, broader diversification across industries and a more robust application of environmental values in a portfolio.

The combined approach gives investors a way to reinforce environmentally sustainable business practices while pursuing their long-term investment goals through a broadly diversified strategy.

Many approaches to sustainability investing either exclude or include certain businesses or entire sectors based on a measure of their sustainability. The price investors pay for these absolute and binary screens creates a bias towards certain sectors of the market, which may or may not be rewarded. Investors are therefore entitled to ask whether adopting a sustainable investment philosophy enhances or detracts from investment performance.



Making a market portfolio sustainable

It starts with a core market portfolio to capture the return of equities. Then increases exposure to companies that have high ratings for sustainability practices and reduces or eliminates exposure to companies with low ratings.

Companies are broadly rated using three key criteria, each of which will receive roughly the same weighting:

- **Climate Change - 30%**

Considers a company's carbon emissions per dollar of revenue. The analysis evaluates the thoroughness and transparency of carbon reporting by companies participating in the Carbon Disclosure Project, an organisation that works with companies to measure and disclose their greenhouse gas emissions. It also considers a company's use or production of clean energy and alternative fuels, energy-efficient programs and the production of goods promoting energy efficiency

- i. **Carbon intensity (CO₂ emissions/\$revenue)**

Weighting 20%

Own emissions and emissions from purchased energy normalized by revenue. Sector-average given to non-Carbon Disclosure Project (CDP) companies.

- ii. **Climate change solution users**

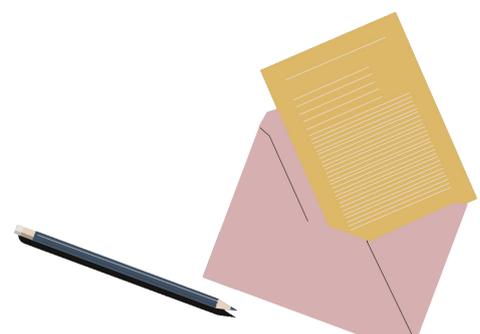
Weighting 5%

Use or production of clean energy, alternative fuels, energy efficient programs, sale of goods promoting energy efficiency.

- iii. **Climate change reporting**

Weighting 5%

Thoroughness and transparency of carbon reporting.



- **Environmental vulnerability - 35%**

Focuses on a company's environmental impact, particularly where that impact is causing harm. This includes issues with hazardous waste, substantial fines or penalties stemming from environmental law violations. This screen considers concerns, including damage to natural resources and environmental controversies with an impact on communities.

- i. **Hazardous waste**

Weighting 10%

Accrued environmental remediation liabilities normalized by revenue.

- ii. **Environmental regulatory problems**

Weighting 10%

Substantial fines, civil penalties, settlements and controversies involving air, water, and other environmental regulations.

- iii. **Substantial (toxic chemical) emissions**

Weighting 10%

Toxics Release Inventory (TRI) data for air, water, ground, and injection wells, normalized by revenue.

- iv. **Environmental controversy**

Weighting 5%

Damage to natural resources that may not be regulated, such as the gasoline additive methyl tert-butyl ether (MTBE), cutting old-growth forests, mountain-top mining, asbestos contamination.

- v. **Environmental negative economic impact**

Weighting 5%

Involvement in environmental controversies that have negatively affected communities.

- **Environmental Strength - 35%**

Examines a company's processes and systems for managing and reducing overall impact on the environment. The analysis considers systems that track resource use and waste production, pollution prevention (including clearly defined goals) and regular progress reports. Scoring also reflects other initiatives, such as the substantial use of recycled materials or revenue derived from products and services with environmental benefits.

- i. **Environmental management systems**

Weighting 7%

Commitment to environmental management systems such as ISO14001 and other programs such as the Environmental Protection Agency's Performance Track and Responsible Care programmes.

- ii. **Pollution prevention**

Weighting 7%

Clearly defined goals in the reduction of the use and production of hazardous or toxic materials accompanied by systematic reports on progress toward those goals.

- iii. **Recycling**

Weighting 7%

Substantial users of recycled material or firms in the recycling industry.

- iv. **Environmental initiatives**

Weighting 7%

Noteworthy acts of environmental protection, partnerships with non-profit organizations or noteworthy operational practices to minimize resource use.

- v. **Beneficial products and services**

Weighting 7%

Revenue derived from innovative products with environmental benefits such as remediation and environmental services.



Companies with the lowest ratings are given a multiplier of zero, which eliminates them from eligibility; the highest-rated companies receive a gradually increasing positive weight in the portfolio. In this way, the strategy emphasizes investment in companies with high sustainability score. By applying this approach within industries, the strategy maintains broad diversification and avoids elimination of entire industries or sectors. It also offers the investor an opportunity to match their values with their investment exposures.

Analysis across sectors and different company sizes

The methodology is consistently applied to all companies and within each industry sector. This approach prevents the elimination of an industry sector that may be seen as less environmentally friendly than others—while acknowledging that companies within a sector may engage in differing levels of sustainable business practices. This approach ensures that the portfolio remains highly diversified across industries. The approach has the added benefit of rewarding companies within each industry that are doing better than their peers from a sustainability standpoint and penalizing companies that are doing worse than their peers. The weighting scheme creates a tilt towards sustainable companies, and because the overlay is applied at the industry level, it avoids industry bias.

Company size can significantly affect scoring in absolute terms. A large company, even operating at maximum efficiency, will have much higher total emissions than a small company in the same industry.

MASECO's BlendedValuesFramework™

Until recently, it seems it was generally assumed investors may need to be prepared to accept lower returns if they invested according to their 'values'. This perception likely stems from ethical investing and some forms of socially responsible investing that typically exclude entire industries from their portfolios.

MASECO has chosen an integrated approach to sustainable investing so that it can look to deliver similar diversification and therefore similar returns to those of the more 'traditional' investments.



Risk Warnings

You should remember that the value of an investment and the income from it could go down as well as up. The return at the end of the investment period is not guaranteed and you may get back less than you originally invested.

MASECO Private Wealth is Authorised and Regulated by the Financial Conduct Authority. Our registered office is at Burleigh House, 357 Strand, London, WC2R 0HS, telephone: +44 (0)20 7043 0455, email: enquiries@masecopw.com.

enquiries@masecopw.com
+44 (0) 207 043 0455 | +1-888-MASECO1

[MASECOPRIVATEWEALTH.COM](https://www.masecoprivatewealth.com)
