

ESG in the Investment Industry

- The Responsible Investment spectrum is comprised of many different flavors.
- ESG investing is the integration of environmental, social, and governance factors into holistic, traditional credit analysis. These factors may impact issuers' long-term value, creditworthiness, and sustainability.
- Socially Responsible Investing (SRI) incorporates negative screening criteria to intentionally avoid selected sectors, adapting for client needs.
- Impact Investing actively pursues investments in organizations that effect constructive environmental or social change while preserving financial return.
- For S&P, Moody's, and Fitch, highlighting ESG factors' relevance to an industry – and an issuer's ESG performance – are growing components of their credit risk assessments.

Characteristics	Bloomberg Barclays US Aggregate (Agg) & MSCI Focused Sub-Indices			
	Standard	ESG-Weighted	SRI	Sustainability
Yield to Worst	2.69	2.61	2.64	2.57
Duration	5.73	5.88	5.57	5.46
Spread	49	44	45	37
Convexity	0.22	0.36	0.15	0.09
1-Yr Return (%)	6.40	6.47	6.38	6.26

- Bloomberg Barclays and MSCI partner to offer a menu of ESG focused fixed income indices, which use proprietary ESG ratings and SRI screens.
- ESG-weighted indices adjust security weights of each parent index using issuers' ESG rating and momentum.
- SRI indices use MSCI ESG Business Involvement Screening Research (BISR) to screen industries such as alcohol, civilian firearms, gambling, and military weapons, among others.
- Sustainability indices contain issuers that are ranked best in class based on MSCI ESG rating (BBB or higher). A secondary screen uses MSCI's ESG Controversies Matrix, which monitors current events for 8,800 publically listed companies.

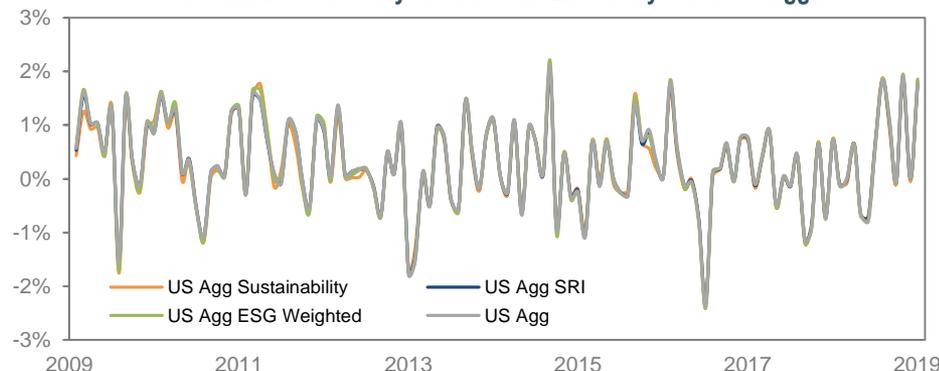
ESG at IR+M

- At IR+M, we believe that ESG analysis is an element of risk control. By incorporating ESG into our investment process, we seek to identify risk – not impose values.
- In 2013, IR+M created an ESG Committee in tandem with becoming a signatory of the Principles for Responsible Investment (PRI). The ESG Committee endeavors to adhere to our commitments under the PRI, advance our internal ESG capabilities, and guide our ESG evolution.
 - The Committee includes members from across the firm – Product Management, Credit Research, Client Service, and Compliance – and reports into the Management Committee.
- In 2017, IR+M established the Sustainability Task Force, which promotes a culture of sustainability and increases awareness about IR+M's environmental impact.
- IR+M's commitment to community is pervasive – the firm's Community Outreach Group (COG) provides volunteer and grant opportunities for employee-sponsored causes with a focus on education, health and wellness, and youth programs.

ESG in the News

- ESG factors may influence headlines and impact credit performance, as reflected in the positive and negative examples below.
 - + Freddie Mac will introduce multi-family green bonds in late June. These bonds will be backed by loans made through the Green Advantage program, which require owners to enhance properties' energy and water efficiency within two years.
 - Teva Pharmaceutical announced that it will pay an \$85 million settlement to the state of Oklahoma in connection with an opioid lawsuit. The company and its executives are also the target of a price-fixing lawsuit.

Focused Indices' Monthly Returns Can Effectively Track the Agg



Sources: Bloomberg, Bloomberg Barclays, and MSCI as of 5/31/2019

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