TAKE 5 VIEWS

Sustainable Investing

Volume 12:2
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This edition introduces current discussions about how the investment industry is meeting the challenge of incorporating sustainable principles in a range of strategies. ClearBridge Investments opens with a current snapshot of ESG investing, and the challenges facing it 2022. BlackRock cites engagement as core to the firm's stewardship efforts as it provides the opportunity to improve understanding of the business risks and opportunities that are material to the companies in which its clients invest. AXA Investment Managers offers research from a European group that seeks to provide an analytical tool that quantifies the long-term value of biodiversity. AllianceBernstein defines a framework for using the investment process to help the victims of modern slavery. Finally, PIMCO explains how ESG ratings may be applied to the assets that back certain securities, such as mortgages and car loans.

1 2022 ESG Outlook: The Value of Knowing What You Own

ClearBridge Investments

Mary Jane McQuillen; ESG Head, Portfolio Manager
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Key Takeaways

- The vast majority of ESG assets under management continue to be actively managed, which speaks to the value added by those integrating financial and sustainability analysis and pursuing impact through engagement and proxy voting.
- We expect a continued push for diversity disclosures, and, related, a heightened awareness of the increasing importance of talent as an asset in the workforce.
- ESG investors must appreciate the increasing complexity of ownership of large tech platforms, balancing benchmark awareness with fidelity to sustainability criteria.

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In this issue

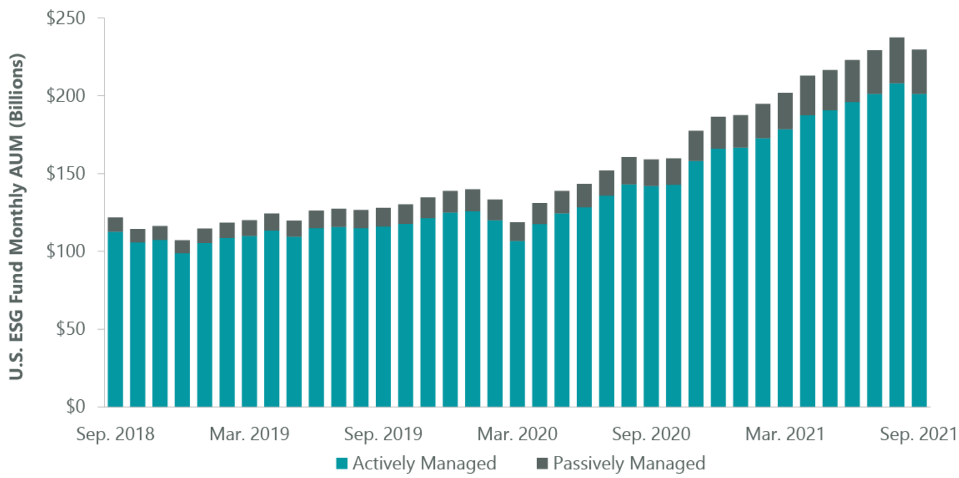
2022: From Reaction to Reflection

If 2020 was a year of reaction, ushering some of the biggest changes to daily life in recent memory, 2021 brought what could be called a year of reflection and reassessment. Many questions were social: vaccines were distributed, but where would they be hard to get? Would wages keep up with inflation? Where were companies on their progress toward more diverse workforces? There were environmental questions as well, as extreme weather events, the International Plant Protection Convention's sixth assessment report delivered in August and the United Nations Climate Change Conference in November (COP26) highlighted the urgency of acting on climate. Companies and governments were ratcheting up net-zero emissions commitments, but would they be enough and how would they meet them?

Continued Growth for ESG Portfolios

Amid such reflection and reassessment, investors continued to seek out sustainability-focused investment strategies in 2021. While flows softened somewhat from peak inflows in early 2021, inflows into ESG funds in the third quarter of 2021 were 63% higher than in the third quarter of 2020 with total monthly inflows near $40 billion for most of the year. The vast majority of ESG assets under management continues to be actively managed, which speaks to the value added by those integrating financial and sustainability analysis and pursuing impact through engagement and proxy voting (Exhibit 1).

Exhibit 1: U.S. ESG Active and Passive Assets Under Management (Monthly)



As of Sept. 30, 2021. Source: Morningstar.

With the accelerated global investment allocations to sustainability strategies, regulatory bodies have stepped in to clarify the process, objectives and risks of credible sustainability funds, versus concerns around "greenwashing." This has been a particularly active discussion for European regulators and investors, with one result being the EU's recent Sustainable Finance Disclosure Regulation (SFDR), through which ClearBridge has a number of funds classified under Article 8.

Areas of Focus: Energy Transition, Role of Proxy and Human Capital Management

With the potential for public equities in mitigating climate change and making progress on social goals such as diversity top of mind, portfolios focused on delivering strong returns while having a credible impact on pressing ESG issues will continue to attract assets in 2022. Companies and investors have a role in such areas as fostering global biodiversity and helping to expand access to medicines as COVID-19 propagates in developing economies.

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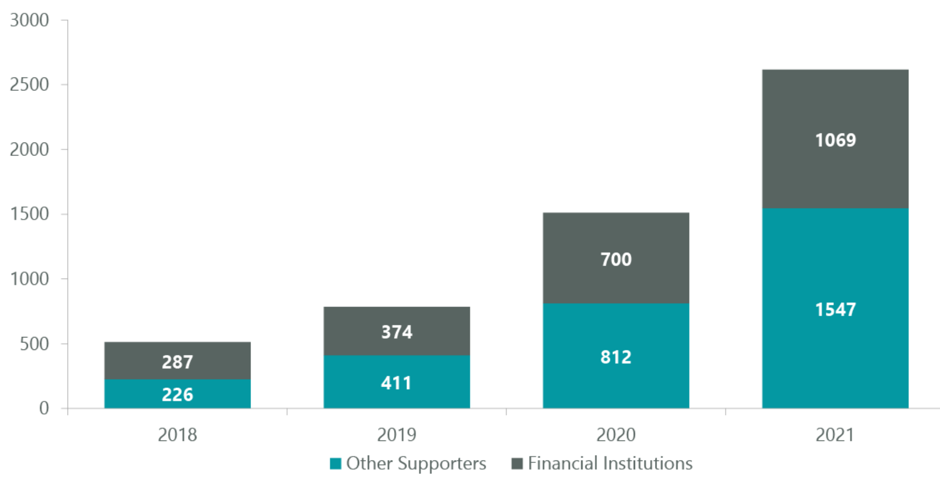
ESG portfolios will not be without their challenges in the next year. From the investment perspective, 2020 was a strong year for ESG performance in, driven by sustainable companies with strong earnings, and a fervor for renewable energy plays amid pandemic-related declines in oil demand. In 2021 this gave way to a bull market for oil and gas producers as industry and travel returned. In 2022 we expect continued economic recovery and rising interest rates may weigh on longer-duration tech companies in the renewables space to extend this back-and-forth, though relief from supply chain constraints and shipping delays should help in 2022. With many factors at play in energy markets — political, capacity-related, pricing, reserves — ESG investors could expect continued volatility between traditional and renewable energy in the short term.

The energy transition is real, however, and will continue to unlock tremendous value in renewable energy. We expect there to be a more acute awareness of climate risk and a move from companies setting targets, as many did in 2021, to investors holding them accountable for making progress on those targets in the first half of the decade. One example is the recent Net Zero Asset Management Initiative (NZAM), to which ClearBridge became a signatory in 2021. The Task Force on Climate-related Financial Disclosures (TCFD) has also been seeing increases in support (Exhibit 2).

Exhibit 2: Number of TCFD Supporters is Growing



As of Oct. 2021. Source: Task Force on Climate-related Financial Disclosures 2021 Status Report.

We expect the role of proxy voting to be more visible in 2022 as well. Proxy voting used to be an underutilized engagement signal, but has become much more visible in recent years, partly because of the increased receptivity to ESG proposals by institutional investors, as well as reporting requirements such as those through SFDR and NZAM. Such regulations and initiatives are encouraging the use of proxy voting as a tool, and it appears to be having an effect. Shareholder proposals in 2021 saw higher pass rates (25%) than in 2020 (13%) amid heightened awareness of the need for diversity disclosures and emission reduction targets. Three major oil companies saw votes calling for greenhouse gas reduction targets pass, a sign of increasingly effective corporate engagement with fossil fuel companies.

Very large asset managers, particularly passive, are putting robust ESG-focused language in their proxy policies, such as stating they will vote in support of management teams that consider climate risk. That's a meaningful force for companies where large passive managers are top owners. These new passive votes help supplement the multi-decade larger active manager votes on ESG-focused shareholder proposals.

In terms of human capital management, we expect a continued push for diversity disclosures, and, related, a heightened awareness of the increasing importance of talent as an asset in the workforce. Many companies set diversity targets in 2020 and 2021 as more dimensions of diversity and inclusion gained mindshare. On one

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hand progress has been difficult, though increased diversity disclosures are a step in the right direction, as are improvements to human capital management practices that look to build an inclusive workplace. Diversity and inclusion was a firm-wide priority for ClearBridge in 2021 and continues to be, featuring as a central part of our company engagements. Large shareowners who are active in growing these conversations such as ClearBridge are helping develop solutions through keeping this topic high in the agenda and seeking and sharing best practices. There is still much work to be done to improve the inclusiveness and diversity of talent, as shown by the recent EEO-1 disclosures from among the 75 largest U.S. companies (Exhibit 3).

Balancing Benchmark Awareness with Sustainability Criteria

Equity markets allow for periods of rapid growth and dominance by a few companies, and increasingly large players are dominating benchmarks today. The trend is not new: General Electric, Exxon Mobil, Microsoft and Apple have had their turns on top in the past 25 years. Today challenges include staying diversified in a narrowing market, especially where some widely owned stocks present complex sustainability stories. The largest companies can have outsize effects, and this is both a challenge and an opportunity consistent with ClearBridge's philosophy of investing in public equities for investment returns while seeking to have an impact. Broad ownership of the largest tech companies, recently known as the FAANG stocks — Facebook (now Meta), Amazon, Apple, Netflix, Google (now Alphabet) — and which might also include Microsoft and Tesla, present challenges for investors to both keep up with benchmarks and stay diversified. There is inevitable concentration risk to manage here, but also complex ESG factors to sort out, which include headline, operational and regulatory risk. One way to manage this is to build diversified information technology exposure, such as in small and mid-size companies that are enablers of the electric vehicle and renewable power transformations, for example.

At the same time, some of these companies are best-in-class sustainability leaders and are powerful tools to set standards for climate change commitments and social goals. This highlights the importance of active company engagement as we seek to influence companies to improve their sustainability potential and learn from those setting positive examples. ESG investors must appreciate the increasing complexity of ownership of large tech platforms, balancing benchmark awareness with fidelity to sustainability criteria. This must be done on a case-by-case basis; knowing what you own is key.

What Really is an Improver? The Importance of Knowing Your Company

The complexity of ownership highlights how greenwashing — inaccurately branding or overstating a company, practice or investment strategy as eco-friendly — is still a challenge for both investors and regulators. This challenge will increase in 2022 as a value rotation in 2021 also meant certain ESG investors seeking performance were looking harder at value companies often found in higher-emitting sectors of the market. Sometimes these companies are considered "improvers." We are encouraged that there are cases of meaningful improvement among more challenging companies, but the risk is that managers really have to be dedicated to improving them and be transparent in their process. Like flipping a house, it can require a lot of work, and not all managers are willing or able to put that work in. Also, not all houses intended to be flipped do so: some flop. At the same time, increasing company disclosure, helped by continued investor advocacy as well as by recent regulation, will be an opportunity for better discussions with management and helpful in seeing risk/reward cases for companies.

Here again, knowing what you own is important, as is actively engaging with companies on a case-by-case basis, rather than simply seeking best-in-class sustainability stories. As regulatory scrutiny increases on how ESG is marketed and implemented, managers who are able to have discussions with companies on material ESG factors and who prioritize these as an essential part of ownership will stand out.

We continue to see an exponential increase in ESG data, from data providers and that required by increasing regulations. New regulations entail new reporting requirements, which means a heightened awareness from investors and company managements. As always, however, there is risk is acting simply on data and not understanding company-specific issues from an investment perspective.

2 Engagement Priorities

BlackRock Investment Stewardship

Our Priorities

BlackRock's purpose is to help more and more people experience financial well-being. We manage assets on behalf of clients, across a full spectrum of investment strategies, asset classes, and regions. As part of our fiduciary duty to our clients, we have determined that it is generally in their best long-term economic interests that we promote sound corporate governance as an informed, engaged shareholder. At BlackRock, this is the responsibility of the Investment Stewardship team.

Engagement is core to our stewardship efforts as it provides us with the opportunity to improve our understanding of the business risks and opportunities that are material to the companies in which our clients invest, including those related to ESG matters. Engagement also informs our voting decisions. As long-term investors on behalf of clients, we seek to have regular and continuing dialogue with executives and board directors to advance sound governance and sustainable business models, as well as to understand the effectiveness of the company's management and oversight of material issues. Engagement is an important mechanism for providing feedback on company practices and disclosures, particularly where we believe they could be enhanced. Similarly, it provides us an opportunity to hear directly from company boards and management on how they believe their actions are aligned with sustainable, long-term value creation. We primarily engage through direct dialogue but may use other tools such as publications and correspondence to share our perspectives.

Engagement Priority	Key Performance Indicators (KPIs)
Board quality and effectiveness Quality leadership is essential to performance. Board composition, effectiveness, diversity, and accountability remain top priorities	**Board effectiveness** – A core component of BlackRock Investment Stewardship's (BIS) work to advance our clients' economic interests is direct engagement with a board member, so that we can provide direct feedback from our perspective as a long-term shareholder. For those companies with which we wish to engage to understand their board's role, we seek dialogue with the most appropriate non-executive, and preferably independent, director(s) who has been identified by the company as having a responsibility to meet with shareholders. **Board quality** – We look to companies to disclose their approach to ensuring meaningful board diversity and encourage the board to set out the self-identified demographic profiles of the directors in aggregate, consistent with local law, and how this aligns with the company's strategy and business model.
Strategy, purpose and financial resilience A purpose driven long-term strategy, underpinned by sound capital management, supports financial resilience	In discussing their corporate strategy and financial resilience, we encourage companies to set out how they have integrated business relevant sustainability risks and opportunities. To aid investor understanding, companies can demonstrate in their disclosures how they are aligning their strategy with their purpose to address these risks and opportunities and create long-term value, evidenced by metrics relevant to their business model. BIS encourages companies to disclose industry- or company-specific metrics to support their narrative on how they have considered key stakeholders' interests in their business decision-making.

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Engagement Priority	Key Performance Indicators (KPIs)
Incentives aligned with value creation Appropriate incentives reward executives for delivering sustainable long-term value creation	BIS looks to companies to disclose incentives that are aligned with long-term value creation and sustained financial performance, underpinned by material and rigorous metrics that align with the company's long-term strategic goals.
Climate and natural capital Business plans with targets to advance the transition to a low-carbon economy. Managing natural capital dependencies and impacts through sustainable business practices	**Climate** —We encourage companies to discuss in their reporting how their business model is aligned to a scenario in which global warming is limited to well below 2°C, moving towards global net zero emissions by 2050. Companies help investors understand their approach when they provide disclosures aligned with the four pillars of the TCFD—including scope 1 and 2 emissions, along with short-, medium-, and long-term science-based reduction targets, where available for their sector. **Natural Capital** —We look to companies to disclose detailed information on their approach to managing material natural capital-related business risks and opportunities, including how their business models are consistent with the sustainable use and management of natural resources such as air, water, land, minerals and forests.
Company impacts on people Sustainable business practices create enduring value for key stakeholders – employees, customers, suppliers and communities	We look to companies to demonstrate a robust approach to human capital management and provide shareholders with the necessary information to understand how their approach aligns with their stated strategy and business model. We look to companies to disclose the actions they are taking to support a diverse and engaged workforce, and how that aligns with their strategy and business model. We look to companies to discuss in their disclosures how the board oversees management's approach to due diligence and remediation of adverse impacts to people arising from their business practices.

3 Measuring the impact of protecting biodiversity: A practical tool

Prof. Dagmar Haase, for The Conversation in partnership with AXA Research Fund

The AXA Research Fund is not a product/strategy. The AXA Research Fund was established in 2007 and is AXA Group's scientific philanthropy initiative. This scientific philanthropy initiative is committed to supporting academic research that contributes to societal progress and to help disseminate this knowledge. The AXA Research Fund supports research projects in the areas of health, climate and the environment, and socioeconomics.

Researchers, public officials and NGOs often ask, "Can we put a price on forests?". The question may sound absurd or even cynical, but as an expert in environmental-conservation practices, I believe that measuring biodiversity value could help us better preserve it. Evaluating the "price" of a forest, a lake or a hill for a village, a city or even a country would ensure better conservation practices.

This is why we developed the Toolkit for Ecosystem Service Site-based Assessment (TESSA). The project is designed to support global environmental governance by allowing local NGOs to quantify – arguably for the first time ever – the real economic impact or advantages of maintaining an ecosystem for biodiversity conservation.

Thousands of local NGOs, agencies, government bodies or even private citizens can use the tool to measure the impact of environment conservation and help protect the environment. The data collected would improve the information available and could help produce better public policies. At the very least, public authorities could not deny or minimise the importance of protecting biodiversity.

The simple toolkit will present a convincing economic case – backed up by real figures – to make the argument that it is actually in the national interest to preserve biodiversity.

Assessing the benefits of protecting biodiversity

As recently as a decade ago, environmental NGOs (non-governmental organizations) – and especially those in the developing world – faced immense challenges in their efforts to persuade governments that there are direct and distinct advantages in protecting nature and safeguarding its benefits (also termed ecosystem services or nature's contributions to people).

Of course, grassroots organizations could call upon and draw inspiration from the "ecosystem approach" – a framework for understanding the nexus between people and their environment. It was endorsed by the Convention of Biological Diversity adopted in 2000 to illustrate – albeit often in abstract terms – the value of nature and the importance of safeguarding healthy and resilient natural environments.

However, NGOs still lacked a yardstick, a "ready reckoner", that would allow them to account for these benefits in monetary and non-monetary ways. For instance, clean water could also be measured using non-monetary metric such as "number of sick days avoided" to demonstrate a wetland's contribution to economic, health and social well-being for the community.

The challenges of creating such a yardstick were substantial. First, there were conceptual hurdles: understanding ecosystem services is a relatively technical task, and failing to grasp its diverse implications could make any assessment of the benefits a daunting task. Many practitioners also did not know then that different ecosystem services do not always overlap. For example, a biodiversity hotspot may not provide significant carbon storage and sequestration.

Thus, important trade-offs between ecosystem services delivery and biodiversity conservation objectives were often neither acknowledged nor identified, and therefore not dealt with in a transparent manner.

An example of how TESSA can assist in land-use decision-making: the UK National Trust used TESSA to calculate that each hectare of Wicken Fen is worth US$200 more per year as wetland than as farmland (see the figure below), providing evidence for supporting the Wicken Fen Vision Project – the creation of a 5,300 hectare (13,100 acre) restored wetland in Cambridgeshire.

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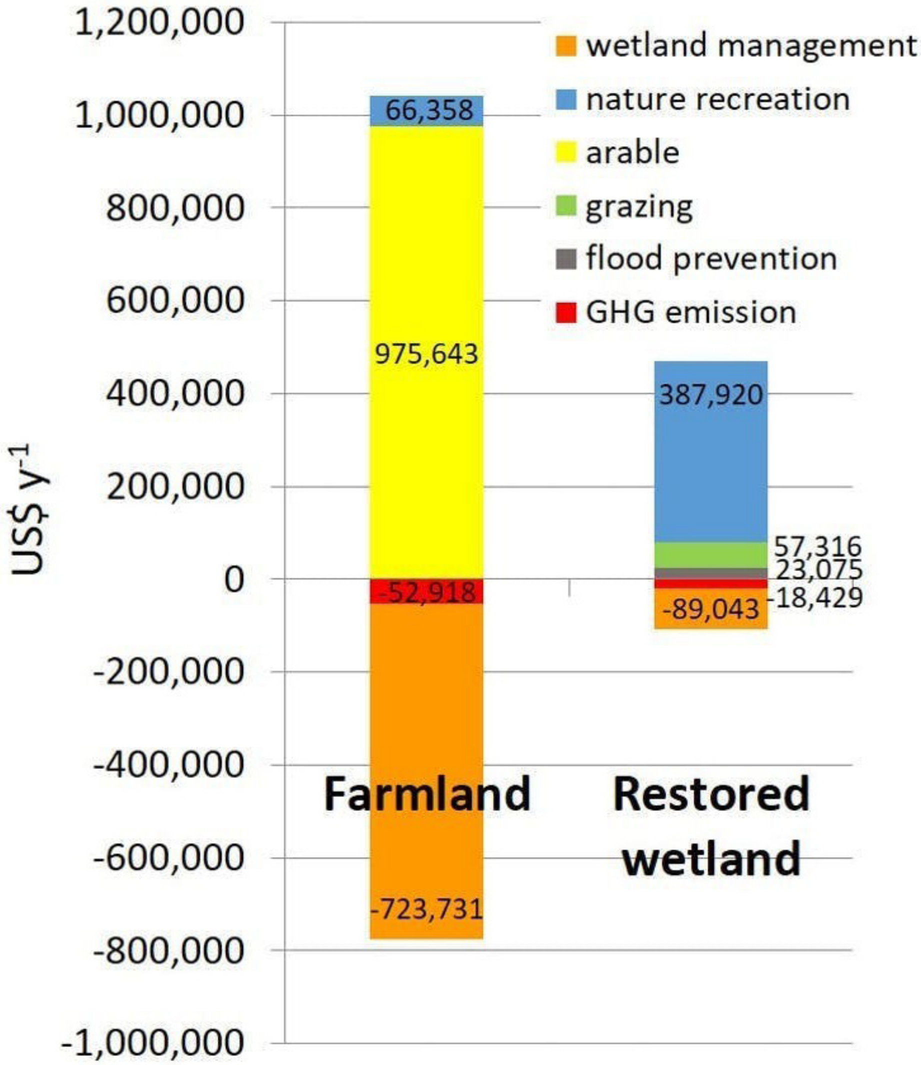

A comparison of the ecosystem-service values and management costs in 2011 (in US dollars for 479 hectares per year) of restored wetland at Wicken Fen and of the same land if returned to agriculture use. K. Peh, Author provided.

Such comparative frameworks help to elucidate any trade-offs between benefits on which policy-makers may be called upon to arbitrate. TESSA also provides practical guidance on how to communicate the results – including the inherent uncertainties – to a broader public.

Thanks to this tool, users can provide critical information on the most important locations for biodiversity and ecosystem services, and thus demonstrate that the protection of wildlife is not separable from or comes at the expense of economic growth and prosperity.

This directly refutes the oft-repeated argument that poorer nations somehow have to make a binary choice between economic growth and biodiversity protection. By offering a valuation mechanism for conservation, one can show that protection of wildlife can go hand in hand with economic development. TESSA data can also inspire the implementation of a country's ecotourism policy, given that many of the natural areas can be a magnet for ecotourism.

4 Modern Slavery: How Investors Can Help the Victims

Michelle Dunstan; Chief Responsibility Officer; Senior Investment Advisor—Global ESG Improvers Strategy
Saskia Kort-Chick; Director of ESG Research and Engagement—Responsible Investing

With profits from forced labor estimated at US$150 billion a year, some companies in global portfolios could be unwittingly associated with modern slavery. The good news: businesses and investors can help tackle the problem—individually and through collaboration.

Investors, for example, can assess the risks of modern slavery in their own portfolios by using a tailored research approach. This effort is helped by the obligations of many companies, under modern slavery regulations, to assess and report risks in their operations and supply chains.

Collaboration comes into play when investors engage directly with companies to understand how they're managing modern slavery risk in their businesses and to encourage them to take concrete steps to reduce it. We believe that it's critical to have a clear idea of corporate best practices in managing modern slavery risk when engaging with companies. It enables investors to understand the company better and to understand—and act on—the risks.

In other words, engagement has two benefits: better investment insights and better corporate practices, which can help push back against practitioners of modern slavery and relieve the human suffering they cause. It's exciting to watch firms deepen their engagement with modern slavery, with many realizing that taking a stand against modern slavery helps not only its victims but their own brands.

Dimensioning Corporate Best Practices on Modern Slavery

So, what exactly constitutes corporate best practices? We've collaborated with certain companies to identify five criteria—a collective benchmark for best practices in managing modern slavery risk, or risks to people:

- Governance Framework: What steps are the board and senior management taking—through policies and procedures, as well as company culture and values—to align the business with the goal of reducing modern slavery risk?
- Risk Identification: The criminal and covert nature of modern slavery practices makes this a difficult and delicate task. How well does the company understand the challenge, and how robust are the techniques and processes it uses to identify the risk?
- Action Plan to Reduce Risks: Is the plan a realistic solution to reduce risk to people within the company and its supply chains? Does the firm appropriately identify the risks and effectively train and empower employees and suppliers to engage with them and reduce them?
- Action Plan Effectiveness: To what extent have the company's actions reduced risk, and how are the board and senior executives measuring progress? What procedures are in place to ensure that follow-up actions are implemented and monitored?
- Future Improvement: For many companies, the road to reducing modern slavery risk will be long, through unfamiliar territory. The best companies will be able to evaluate their progress each step of the way and make changes with an eye to continuously improving their performance against each of the criteria.

For each category, we've developed multiple criteria for assessing individual companies.

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Managing Modern Slavery Risk: Corporate Best Practice

Select Key Criteria

Governance Framework	Risk Identification	Action Plan to Mitigate Risks	Action Plan's Effectiveness	Future Improvement
+ Action on modern slavery seen as an important corporate value and a potential source of competitive advantage + Public commitment with clear policy statements and codes of conduct available to stakeholders in relevant languages and consistent with legislation and global frameworks (e.g., the UN's Guiding Principles on Business and Human Rights)	+ Robust process to identify risks and prioritize exposures across high-risk populations, geographies, products, services and business models + Risks identified across the company's operations and supply chain where the company's own behavior may contribute to risks to people; analysis based on detailed supply-chain maps	+ Train employees and suppliers on the code of conduct, in relevant languages, and how to identify, monitor and manage modern slavery risks + Ensure that workers have a fair living wage, with fair terms and conditions, and ensure they understand their rights and how to safely escalate grievances	+ Management reports include timely key performance indicators and relevant metrics to evaluate progress and shortfalls against modern slavery operational targets + Assessment extends across the company's own operations globally and the supply chain, including key service providers such as recruiters	+ Conduct analysis of the company's approach to modern slavery versus best practice. Develop a strategy for continuous improvement and, where needed, step change + Focus on root causes, such as why certain people are more vulnerable to human trafficking

As of September 30, 2021
Select examples only, for illustrative purposes
Source: Company reports, management interviews and AB analysis

The Four Phases of Modern Slavery Learning and Improvement

This framework—particularly the future improvement component—recognizes that best practice is a process of continuous learning and improvement, with companies moving through four phases. From an initial "laissez-faire" attitude, firms than begin to acknowledge modern slavery as a risk that needs to be managed (primarily as a reputational issue).

In the third phase, they become involved in the cause through charity. Finally, they accept that modern slavery risk in their supply chains is at the heart of what they stand for as a firm—and that reducing that risk should be part of their core values. It's at this point that the fight against modern slavery becomes part of their brand identity and a source of competitive advantage.

We've found that talking to a company's supply-chain manager—a necessary part of engaging on modern slavery risk—can yield valuable information and investment insights beyond those already received from the company's board, senior executives, suppliers and competitors. This helps strengthen the conviction behind stock selection.

Just as important, engagement between investors and corporates, based on a sound knowledge of corporate best practices in addressing modern slavery, may lead over time to both real progress in the fight against this pervasive social evil and better outcomes for its victims.

5 ESG Investing in Structured Sectors

PIMCO

PIMCO

Agency and Non-Agency Mortgage-Backed Securities

With PIMCO's access to vast loan-level mortgage data, we developed a proprietary responsible investing scoring model for mortgages, based on a scale from 1 (weakest) to 5 (best), consistent with other PIMCO ESG scoring frameworks used for corporate credits, sovereigns and others.

PIMCO's philosophy of responsible mortgage investing focuses on four objectives:

- **Support homeownership.** Homeownership is a key path to savings and wealth building for many across the world. Connecting borrowers with capital markets is an established and efficient way to ease the path to homeownership. Not all mortgages are used for homeownership; some mortgages are used for vacation home purchases or investment properties.
- **Increase access for underserved communities.** PIMCO believes a focus on underserved communities and lower income borrowers is a way to magnify the social benefit of home lending without sacrificing on loan quality.
- **Promote responsible lending.** It is critical to focus on ensuring borrowers are not put at added risk of financial distress due to burdensome debt loads.
- **Discourage predatory lending.** A governance-focused way to encourage good lending practices is to penalize or exclude lenders and servicers who engage in practices that are detrimental to homeowners (and in many cases detrimental to bondholders as well).

The mortgage market is not homogeneous; there are agency mortgages and non-agency residential mortgages. We have built analytical frameworks for each part of the market.

For agency mortgage-backed securities (MBS), our ESG research model is based on pool-level characteristics and data we have collected over decades of studying mortgages. For non-government-guaranteed mortgages (non-agency MBS), our quantitative analysis is loan-level-based and again draws on a huge set of data PIMCO's mortgage team has gathered since before the financial crisis.

Commercial Mortgage Backed Securities

In order to analyze Agency and Non-Agency CMBS, PIMCO developed a framework with a focus on Environmental criteria, specifically on industry-standard Silver / Gold / Platinum LEED and Green certifications[1] on properties to differentiate sustainably built structures. From a Social standpoint, analysts have been evaluating the health and safety measures taken post-COVID for the tenants, and from the Governance side, we are looking at the underlying ESG scores of the owners of the building.

Similar to the residential side, green securitizations remain a small part of the market issue by Fannie Mae and Freddie Mac. However, in their annual outlooks, there is an explicit shift to target more green loans, and so we expect Green-labeled Agency CMBS to be a growing marketing going forward. We also look to promote underserved communities and affordable lending, such as through low-income multifamily loans issued by Fannie Mae and Freddie Mac.

1 LEED and "Green" are U.S. industry rating designations for energy and environmental design.

Asset Backed Securities

Given the heterogeneous nature of ABS, we have developed a framework to make sure we are approaching analysis in the same manner across various ABS subsectors. PIMCO's proprietary framework focuses on each pillar of E/S/G, leveraging the Social framework constructed for Non-Agency MBS and expanding upon it with the addition of Environmental and Governance criteria.

For the Environmental criteria, our framework emphasizes ABS that are promoting investment in renewable energy production, storage, and utilization. We look to capture the positive impact of electric vehicles, solar panels, power storage, and other green energy focused endeavors. On the Social side, our goal is to improve affordability and home ownership through responsible lending. We look to encourage responsible lending to consumers and small businesses, and identify and limit investment in predatory lending practices. Lastly, for Governance, we aim to avoid those with high risk servicer behavior such as recent servicer headline risk.

Collateralized Loan Obligations

For PIMCO's CLO analysis, our analysts map existing loan-level ESG scoring to CLO collateral to produce CLO trust-level scoring. We supplement loan scoring with sector scoring for unscored CLO holdings. Here, we look to leverage the bottom-up ESG research of PIMCO credit analysts and the bank loan team to evaluate each loan collateralizing the transaction on all three metrics (E/S/G). With this loan-level analysis, PIMCO discourages overly-aggressive management and non-transparent structures when selecting what will be included in a portfolio with ESG objectives. Further, as CLOs are not a static pool of loans, we continue to monitor the underlying loans over time and are working to create pools that have positive ESG scores and stay that way.

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The correlation of various indexes or securities against one another or against inflation is based upon data over a certain time period. These correlations may vary substantially in the future or over different time periods that can result in greater volatility.

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

Past performance is not a guarantee of future results. Portfolio re-balancing and diversification do not guarantee a profit or protection against loss in a declining market.

No guarantee or representation is made that investment objectives and/or opinions stated will be achieved. The experience of each specific client or investor may vary.

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