ASSET & VALUES ALIGNMENT

ESG focused target portfolios

IMPACT RETIREMENT™

www.ESGretire.com

ESG INVESTMENTS & RETIREMENT PLANS

An Opportunity for Employers and Employees

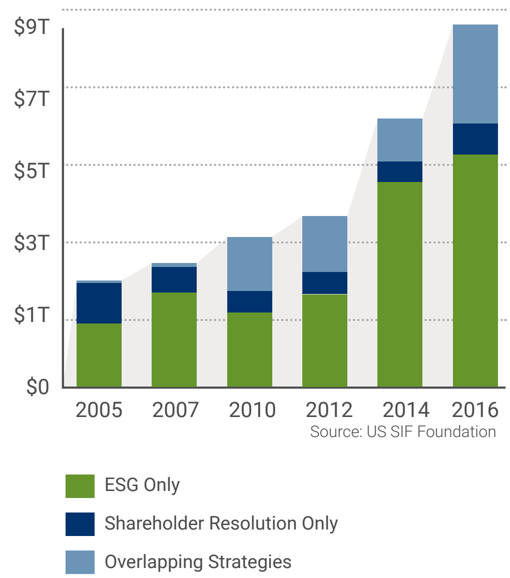
Sustainable, Responsible and Impact investments reached $8.7T in 2016, yet it is estimated it accounts for less than 1% of U.S. defined contribution retirement assets.[1]

While socially responsible or ESG (environmental, social and governance) investing continues to gain mainstream acceptance, it has been slow to find its way into employer sponsored retirement plans.

ESG investing appeals to a broadening audience and is especially strong for Millennials and women. Employers have an opportunity to create a retirement plan that can help attract, engage and retain key talent by adding ESG investments to their 401(k), 403(b) or 457 plans.[2]

ESG investing is the practice of incorporating environmental, social and governance considerations in an investment process.

SRI INVESTING IN THE U.S. 2005-2016



ENVIRONMENTAL

How a company performs as a steward of the natural environment. Considerations include: Biodiversity, Land Use, Carbon Emissions, Climate Change, Energy Usage, Waste and Recycling

SOCIAL

How a company manages its business relationships with its employees, clients and surrounding communities. Considerations include: Community Relations, Diversity, Employee Relations, Health & Safety and Responsible Marketing

GOVERNANCE

How a company is managed. Considerations include: Transparency, Corruption, Accountability, Executive Pay and Board Structure

Growing Demand, Confidence and DOL Support

Currently, there is a disconnect between the growing demand for ESG investments and their lack of availability within retirement plans.

This is in some part due to a common misbelief by many employers that employees would have to give up returns to invest in ESG funds.[3]

Growing experience, data and research by large investment management firms and academic institutions support that ESG funds have the potential to produce as good or better results as non-ESG funds. A 2015 meta study conducted by Deutsche Asset & Wealth Management examined over 2,000 separate studies on ESG investing and found that over 62% showed a positive connection between ESG factors and corporate financial performance.

In 2015, the U.S. Department of Labor (DOL) gave guidance (IB 2015-01) to employers supporting the inclusion of ESG investments in their retirement plans. Employers now have support from the investment community and guidance from the DOL for adding ESG portfolios to their retirement plans.

ESG focused target portfolios present employers and employees an opportunity to connect on common values and make a positive impact in both their retirement accounts and society.

MORE THAN
2K
Studies Examined

OVER
62%
Show a Positive Correlation to Corporate Financial Performance

FAST FACTS

- **Over 90% of Millennials** want their employer and their investments to promote environmental and social good.[2]
- **Only 14% of retirement plans** offer one or more ESG investment options, accounting for less than 1% of U.S. retirement plan assets.[1]
- **Target funds have become the most popular investment** within 401(k), 403(b) and 457 retirement plans, with over 73% of plans using target portfolios as the default investment.[4]
- **The DOL has given guidance** to plan fiduciaries and employers who wish to offer ESG investments within an ERISA qualified retirement plan. (DOL IB-2015-01).
- Studies by the University of Oxford, Deutsche Asset & Wealth Management and others have shown that **ESG factors have a positive connection to corporate inancial performance**.[5]

ENGAGE EMPLOYEES

It's About Choice

A growing number of employees, especially Millennials and women want their employer and their investments to reflect their personal values. These employees want more than a paycheck, they want to make a difference.

Currently, few employers offer ESG funds within their retirement plan and when they do, it is usually only one or two options.[1] It is difficult, if not impossible for employees to create a properly diversified portfolio from one or two ESG investment options. Additionally, employees overwhelmingly prefer the ease and automation of target portfolios, however, ESG versions of these funds are virtually non-existent.

ESG focused target portfolios give employees the ability to align their retirement assets with their values and allow them to enjoy the same professional allocation offered by traditional target portfolios.

Most 401(k), 403(b) and 457 plans already give employees the ability to make their own investment choices from a menu of options. Adding an ESG focused target series gives employees one more choice to decide what best meets their needs to prepare for their future.

Providing the following choices gives each employee the option on how best to invest their retirement assets:

- ☐ **Build it yourself from a menu of investment options**
  ✓ ALREADY EXISTS IN MOST PLANS
- ☐ **Traditional target-date portfolio**
  ✓ ALREADY EXISTS IN MOST PLANS
- ☐ **ESG focused target portfolio** NEW

INVEST WITH PURPOSE

Why Target?

Target portfolios can provide investors instant diversification across U.S. equities, fixed income, and foreign securities. Additionally, target date versions adjust their allocation over time, starting off more aggressive for younger investors and getting more conservative as investors approach retirement age. Target risk versions maintain a static allocation, allowing investors to select a risk level that meets their unique risk tollerance and goals. The unique combination of ease and professional allocation make target portfolios the most popular investment within 401(k), 403(b) and 457 retirement plans.

90%
of retirement plans offer target-date portfolios[4]

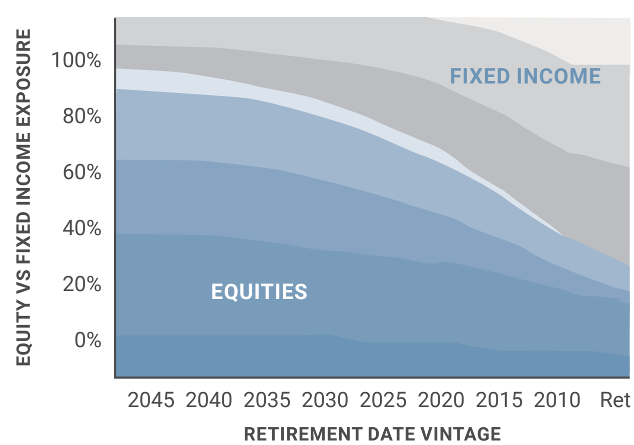
73%
of plans use target-dates as their default investments[4]

Age Appropriate Portfolio Allocation Made Easy

The glide path illustration to the right shows how target-date portfolios (vintages) gradually shift from equities to fixed income over time. A vintage is a portfolio built for investors of a similar age, usually in five year increments and based on the year they will reach age 65, generally considered normal retirement age.

For example, someone age 40 in 2015 would turn 65 in 2040 and would therefore invest in the 2040 target-date vintage. As time passes, each vintage automatically shifts from a more aggressive equity allocation to a more conservative fixed income allocation. The result is an age appropriate allocation over the course of an employee's entire career within a single investment option.

SAMPLE GLIDEPATH ILLUSTRATION



The glide path illustration above is for illustration purposes only and does not reflect actual portfolio allocation percentages.

MAKE A DIFFERENCE

ESG Evaluation and Best-In-Class Manager Selection

We work with plan sponsors and their existing record keepers to create, implement and monitor a series of ESG focused target portfolios. These portfolios are constructed just like traditional target portfolios with the added evaluation of ESG factors for the underlying funds. Additionally, these portfolios are fund-of-fund portfolios, not restricted to a single fund family, allowing for the selection of best-in-class managers for each of the asset classes represented in the portfolio.

Asset classes represented within the Impact Retirement portfolios include:

- Large Cap U.S. Equity
- Small & Mid Cap U.S. Equity
- U.S. Fixed Income
- International
- Emerging Markets
- Cash / Short Term Fixed Income

Managers are evaluated for ESG, performance, risk and management factors. Funds that fail to meet the evaluation criteria documented in the Investment Policy Statement (IPS) will either be placed on "watch" or replaced depending on the deficiencies of the particular fund.[6]

Traditional Factors Considered

- Manager style and market cap consistency
- Performance over short, mid and longer term
- Risk and risk adjusted performance
- Manager tenure
- Expenses
- Overall management firm strength

ESG Factors Considered

- Sustainalytics Score & Morningstar Sustainability Rating
- Objectionable lines of business
- Controversial business practices
- Documented commitment to ESG investment principles
- Involvement with UN Principles for Responsible Investing or similar organization
- Voting of proxies in line with ESG values

[1] US SIF, Adding Sustainable and Responsible Investing to Defined Contribution Plans, July 2017

[2] TIAA – Second Annual Practice Management Study, Responsible Investment, 2015

[3] Morningstar, 7 Myths and Facts about Sustainable Investing, 2016

[4] Vanguard – How America Saves, 2016

[5] University of Oxford / Arabesque Partners, 2014 & Deutsche Asset & Wealth Management / University of Hamburg, 2015

[6] Underlying investment options are selected and monitored by ClearPoint Financial Partners

IMPACT
RETIREMENT™

Giving employees the choice to align
their retirement assets with their values

www.ESGretire.com

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