



Guidebook to *ESG Investing*

Introduction to ESG Investing

Environmental, Social & Governance (ESG) investing is an investment discipline that considers the impact of corporate behavior on stakeholders and shareholders. ESG comes in many varieties with different implementations and motivations.



Common Terminology & Approaches

SUSTAINABLE INVESTING

Meet present needs without sacrificing the future; incorporates long-term costs, risks and externalities into financial analysis; integrates ESG factors and traditional financial analysis to better understand the true performance and long-term health of a company

SRI INVESTING

Historically, the acronym stood for “Socially Responsible Investing”. Today, many investors and organizations refer to SRI as “Sustainable, Responsible and Impact Investing”

IMPACT INVESTING

Spans market return investments to sub-market return and philanthropic opportunities; similar to Mission Investing, often via direct investments

FAITH-BASED INVESTING

Values-based investing guided by a specific religious viewpoint (*BRI, Catholic, Sharia*)

MISSION INVESTING

Values-based investing often focused on themes (*e.g. alternative energy, poverty alleviation, education*) and in some instances incorporating elements of shareholder and/or public advocacy; often accessed via private equity or direct investments

The “Why” of ESG Investing



	Financial	Sustainability	Values
Key Objective	Financial and investment performance impact of ESG factor	Portfolio sustainability; Corporation accountability	Consistently align investments with values
Perspective	“Prudent thing to do”	“Responsible thing to do”	“Right thing to do”
Criteria	Holistic company analysis	Sustainability rating ⁺	Moral/ethical/norms; Mission-related
Investment Thesis	Sustainable financial opportunities	Potential materiality of ESG	None
Key Strategy	Integration	Inclusion	Exclusion

⁺ Ratings that are externally generated by third party researchers and are based on company disclosures in three distinct categories of environmental, social and governance policies.

The “Who” of ESG Investing



FAMILIES / INDIVIDUALS

- Engage millennials and prepare for wealth transfer to the next generation
- Continue to use business as a tool for impact, particularly among those with entrepreneurial wealth
- Align investments with philanthropic goals



NON-PROFITS

- Align investments with the non-profit's mission
- Support fundraising efforts: donors are increasingly interested in having their gifts invested for impact
- Avoid potential headline risk from existing investments



FAITH INVESTORS

- Continue legacy of responsible investing: screening, community investing, environmental awareness
- Advance impetus for climate leadership: Pope Francis' climate change encyclical



ENDOWMENTS

- Respond to pressure from students, alumni and other stakeholders: fossil fuel divestment, etc.
- Align investments goals with endowment's mission
- Support fundraising efforts: donors are increasingly interested in having their gifts invested for impact

The “How” of ESG Investing



ENVIRONMENTAL

- Is the company predisposed to Superfund sites, chemical/oil spills, or other toxic waste?
- How efficiently does the company utilize energy, fuel and water?
- Is the company an excessive greenhouse gas emitter or exposed to nuclear power?
- Does the board have responsibility for the company's environmental policy?



SOCIAL

- Is the company exposed to oppressive regimes and/or areas of political or civil instability?
- Does the company have a history of labor strikes, labor actions, or fair labor issues (e.g. child labor)?
- Does the company manufacture weapons or generate revenue from government defense contracts?
- Does the company derive significant revenue from tobacco or alcohol manufacturing, adult entertainment or gambling?
- Does the company spend significant money on political lobbying?



GOVERNANCE

- Has the company ever been forced to reinstate its financials?
- Are there related-party transactions?
- Is CEO compensation appropriate and management incentives properly aligned?
- Are board members and audit, compensation and governance committees independent?
- Are the directors on a management team, several other company boards, excessively tenured or active CEOs?



FAITH

- Does the company provide abortion services or manufacture/distribute abortifacients?
- Does the company produce alcohol or generate substantial revenue from sales/distribution of alcohol?
- Does the company charge interest on debt or use substantial debt in its operations?
- Does the company conduct/support research involving embryonic stem cells or human cloning?

Traditional Investing

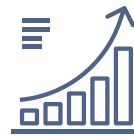
The *traditional approach* to equity investment utilizes an investment process that places significant weight on the relative benefits and detriments of financial metrics. Qualitative assessments are a part of this process, but typically only to the extent that they confirm or reject financial projections.

TRADITIONAL INVESTMENT METRICS



Valuation

P/E, P/CF, EV/EBITDA, Dividend Yield



Growth

Revenue Growth, EPS Growth, PEG Ratio



Earnings

Consistency of Beats, Free Cash Conversion, Estimate Revisions



Balance Sheet

Net Debt, Leverage Ratio, Credit Rating

ESG Investing

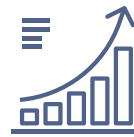
The *ESG investment approach*, in addition to analyzing financial metrics, consistently integrates environmental, social and governance (ESG) metrics into the investment process. These ESG factors can be supplemented with faith-based factors or consideration of social goals.

ESG INVESTMENT METRICS



Valuation

P/E, P/CF, EV/EBITDA, Dividend Yield



Growth

Revenue Growth, EPS Growth, PEG Ratio



Earnings

Consistency of Beats, Free Cash Conversion, Estimate Revisions



Balance Sheet

Net Debt, Leverage Ratio, Credit Rating



Environmental

Pollution, Consumption, Disclosure



Governance

Board Independence, CEO Compensation, Auditing Practices



Social

Tobacco, Labor Practices, Gambling, Pornography, Weapons



Faith

Abortion, Contraceptives, Alcohol

Frequently Asked Questions

WHAT IS ESG INVESTING?

When evaluating potential stocks for your portfolio, ESG investing entails researching and factoring in environmental, social, and governance issues, along with faith-based factors as appropriate

WHY IS ESG IMPORTANT?

Investors in the United States consider environmental, social and governance (ESG) factors across \$12 trillion of professionally managed assets, a new report from the US SIF Foundation concluded.¹ That represents a 38% increase since 2016.

WHY DO INVESTORS CHOOSE ESG INVESTING?

Historically, investors chose ESG to align their investments with their values, but more recent evidence suggests that there may be performance benefits as well

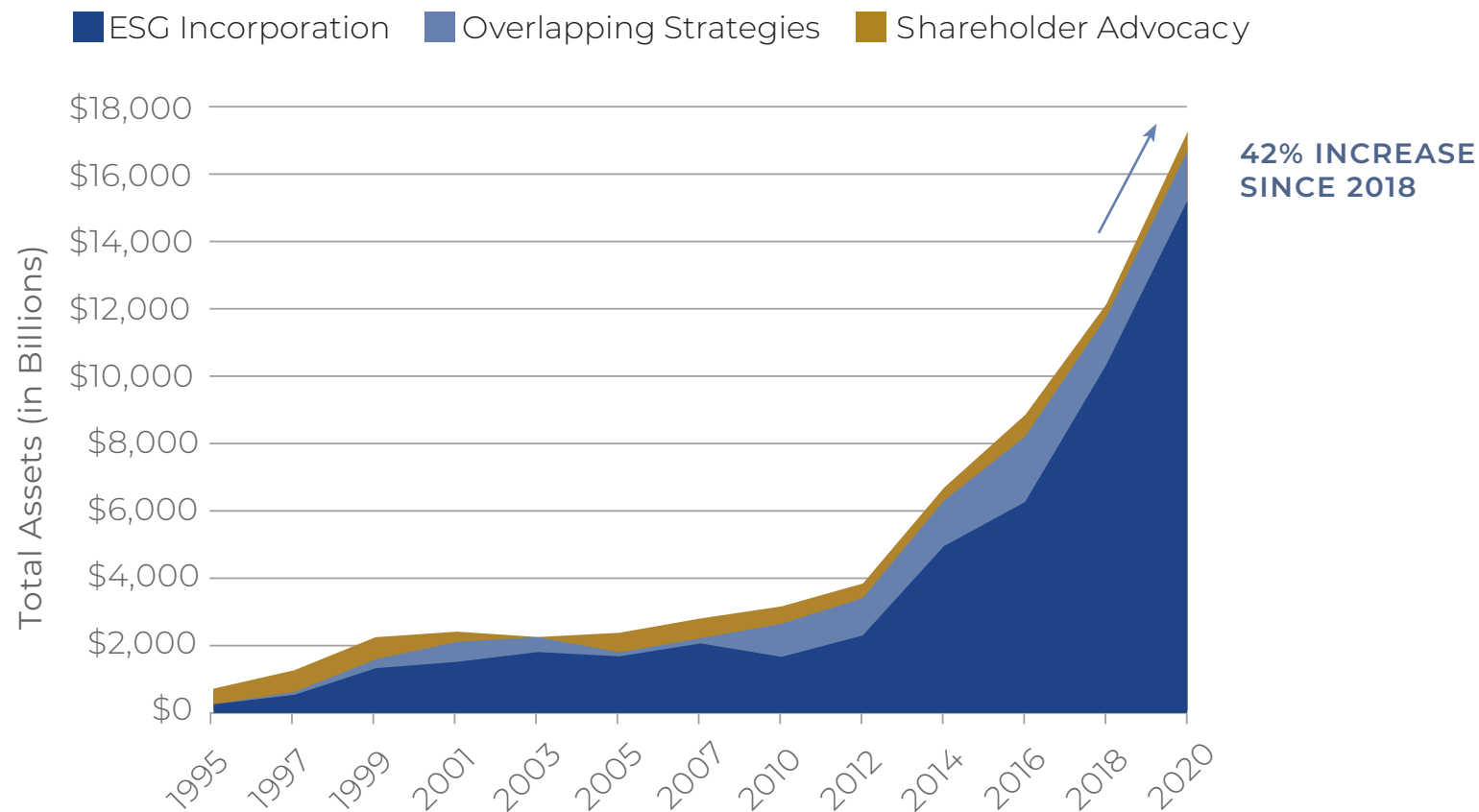
HOW DO I DISTINGUISH BETWEEN INVESTMENT FIRMS OFFERING ESG STRATEGIES?

Firms should be assessed on 1) the degree to which ESG factors are effectively integrated into the investment process and 2) the diversity of “impact” activities like shareholder advocacy. It is important to understand how (and if) one’s investment goals align with one or both of these activities and the depth of the investment manager’s ESG capabilities therein

¹Source: US SIF; “Report on US Sustainable, Responsible, and Impact Investing Trends 2018”

SRI Investing Asset Growth in the United States

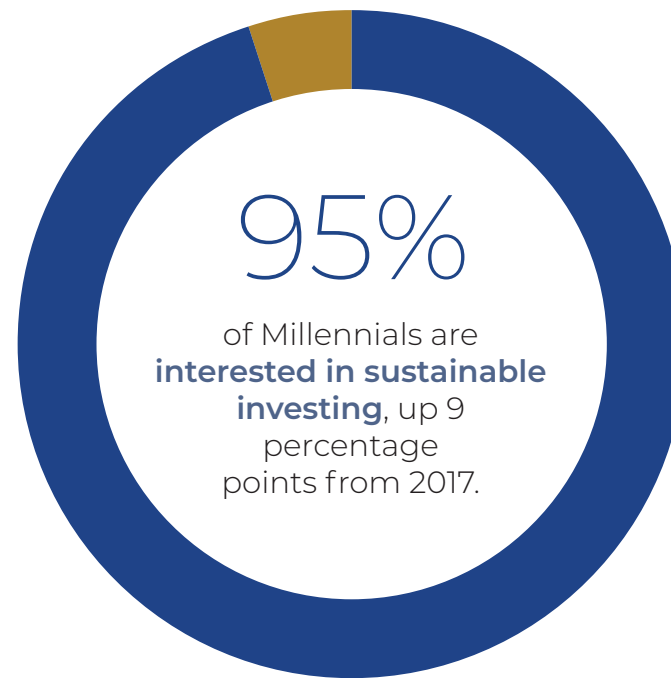
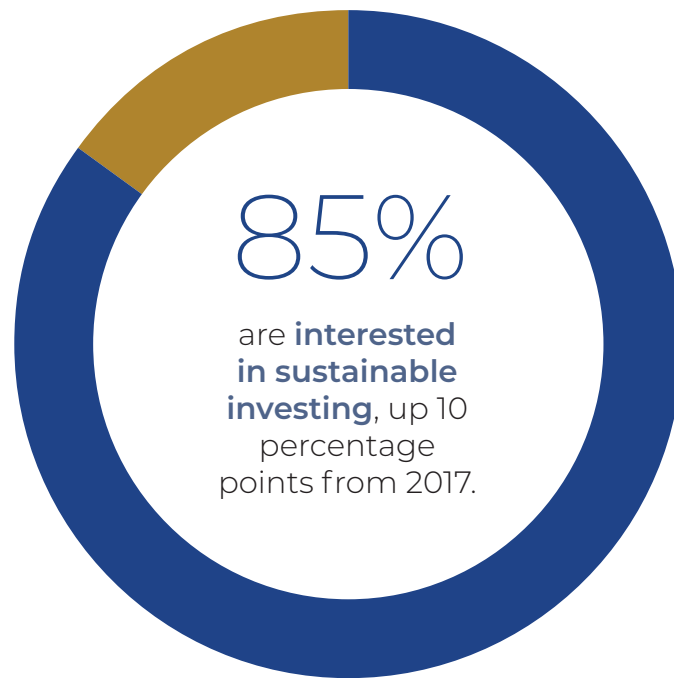
The total US-domiciled assets under management using SRI strategies grew from \$12.0 trillion at the start of 2018 to \$17.1 trillion at the start of 2020, an increase of 42%. This represents 33% (1 in 3 dollars) of the \$51.4 trillion in total US assets under professional management.



REASONS FOR GROWTH

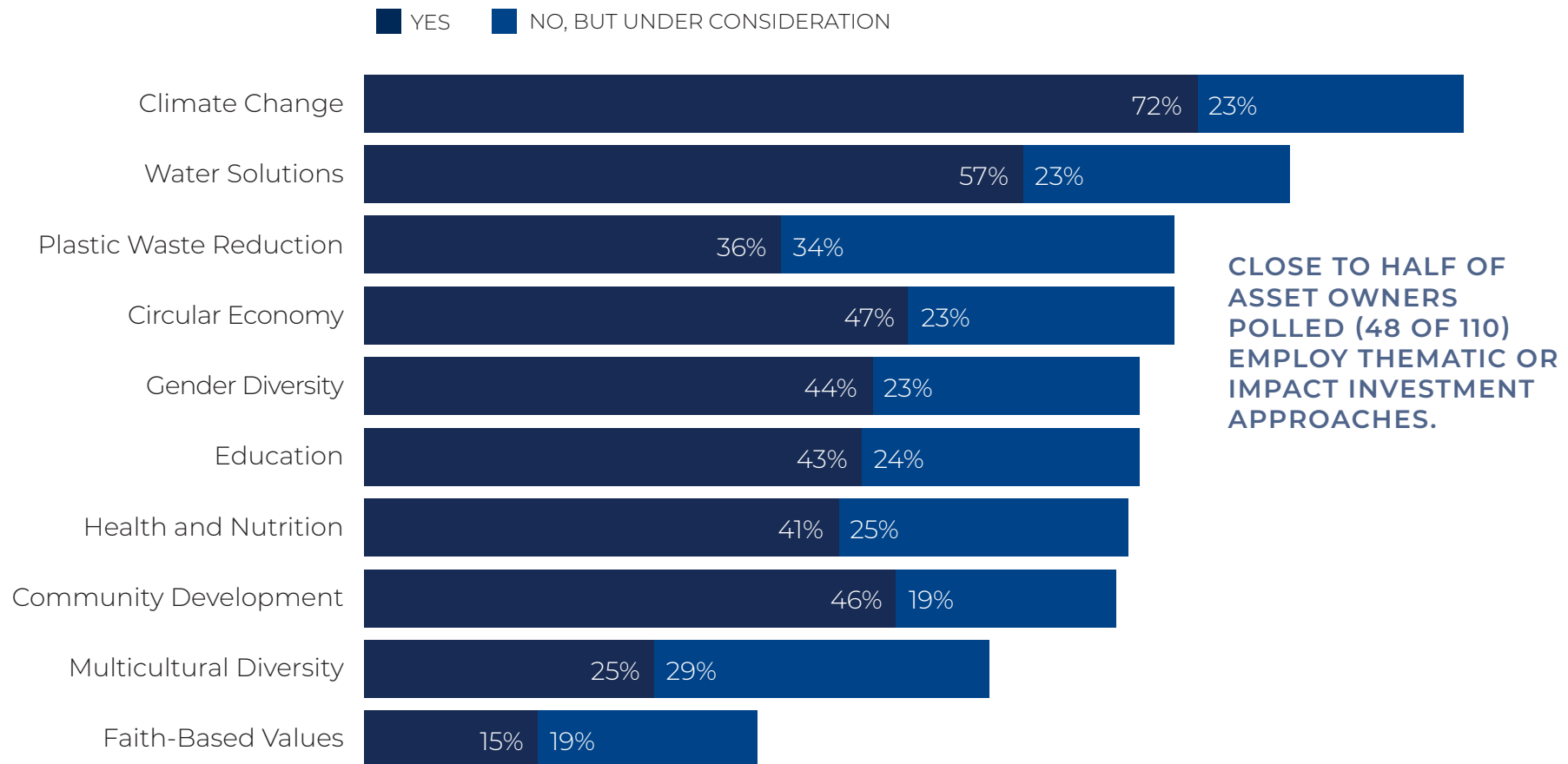
Individual Investor Interest Driven by Impact, Conviction and Choice

AMONG INDIVIDUAL INVESTORS:



REASONS FOR GROWTH

What Matters Most to Thematic and Impact Investors?



Responsible Investing Alliances



Principles for Responsible Investing (PRI) guides its network of global investors toward a more economically efficient, financially sustainable world.

➤ www.unpri.org
in Principles for Responsible Investment
🐦 @PRI_News



Ceres is a nonprofit organization working with the influential investors and companies to build leadership & drive solutions throughout the economy.

➤ www.ceres.org
in Ceres, Inc.
🐦 @CeresNews



CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states, and regions to manage their environmental impact.

➤ www.cdp.net
in CDP
🐦 @CDP



US SIF: The Forum for Sustainable and Responsible Investment promotes sustainable, responsible and impact investing across all asset classes.

➤ www.ussif.org
in US SIF
🐦 @US_SIF



Interfaith Center on Corporate Responsibility is an investor coalition integrating social values into corporate and investor actions better world.

➤ www.iccr.org
in n/a
🐦 @ICCRonline



Intentional Endowments Network (IEN) is the leading network for fiduciaries to learn from peers and experts about sustainable investing.

➤ www.intentionalendowments.org
in Intentional Endowments Network
🐦 @IntentEndowment

About Dana

Founded in 1980, Dana Investment Advisors is an employee-owned equity, tax-exempt fixed income and ESG asset manager. The firm has never wavered from our goal of providing above market returns while reducing volatility for our clients. We believe many Environmental, Social and Governance (ESG) factors impact the financial well-being and returns of corporations and their investors, keeping with our mission to act in the best long-term interests of our clients.

Ready to aim higher than profit alone?

We invite investors to contact us with any questions, concerns, information requests or other issues related to faith-based or ESG investing. We look forward to getting to know you and your investment goals and how Dana can help align your values and investments.

CONTACT US