Sustainable and values-based investing:

Ways to invest with purpose

Robin Diedrich, CFA, CFP • Ashtyn Evans, CFA
Slavi Fildishev, CFA • Nej Hannah, CFA
Brandon Lopez, CFA • Mona Mahajan, CFA

A personal choice

With sustainable investing or values-based investing, you have options to personalize your portfolio in a purpose-driven way. Sustainable strategies consider corporate responsibilities toward environmental, social and governance (ESG) factors in addition to traditional fundamentals to evaluate companies. Values-based investing strategies align a portfolio with the investor's personal beliefs by excluding or targeting certain business practices, products and/or services.

Increasingly, investors are considering investments based on criteria that extend beyond financial considerations. Some investors may want to encourage better corporate behavior or make a positive environmental or social impact. Others may want to align their portfolios with their own values and personal views.

Regardless of your reason, there are options to meet your preferences. It's important to work with your financial advisor to determine the best approach for you.

What you need to know

- Investing with purpose is a personal choice. You can build a well-diversified portfolio and achieve your financial goals with or without a sustainable or values-based strategy. But including one of these strategies may align with your purpose and help you meet your nonfinancial goals.
- Two broad approaches that have different objectives and implications for investors are available at Edward Jones: sustainable investing and values-based investing.
- Make sure your nonfinancial goals and priorities are in step with your overall financial objectives and expectations for risk and return. Your financial advisor can help you understand any trade-offs so you can decide what's right for you.

While there are many similarities between sustainable and values-based investing, there are key differences in each approach. For instance, both may consider a company's policies on employee pay and working conditions; however, the motivation and evaluation may differ, depending on the investment strategy. On the following pages, we explain each approach and provide performance guidance.

Sustainable investing

Sustainable investing incorporates environmental, social and governance considerations along with more traditional financial measures.

- **Environmental —** Considerations include climate change, natural resource usage, biodiversity and pollution. Companies can reduce carbon emissions, invest in renewable energy or conserve water resources to reduce environmental risks and capture business opportunities.
- **Social —** Considerations include workforce well-being, product liability and social inequalities. Companies can advance gender pay equality, prioritize safe supply chains, create positive workforce relations and build strong cybersecurity systems to protect consumers.
- **Governance —** Companies can institute stronger ethics policies, improve shareholder voting structures and provide better transparency in their financial reporting to clearly reflect the state of the business.

ESG factors may be considered in the investment process as risks to the environment, society or key stakeholders, such as employees, consumers or shareholders. These may also be viewed as growth opportunities to innovate products and services to solve an environmental or social concern.

ESG-related risks and opportunities can be material to a company's financial performance and therefore may impact investment performance. For example, a company that pollutes may be at higher risk of increased expenses from environmental cleanup efforts. Alternatively, a renewable energy company may represent an investment opportunity as sources of power generation shift. As a result, many company management teams incorporate ESG considerations into managing their businesses.

In our framework, sustainable investing includes ESG intentional, sustainable thematic and impact investing strategies, defined as follows:

ESG intentional

If you want to invest in companies that have "best-in-class" ESG practices or encourage companies to further improve their policies, you may want to consider an ESG intentional strategy. You can invest in individual companies that meet the ESG standards you are comfortable with or invest in ESG intentional funds. In this type of fund, managers will evaluate companies' ESG policies and practices as part of the investment decision along with, but not ahead of, financial performance considerations.

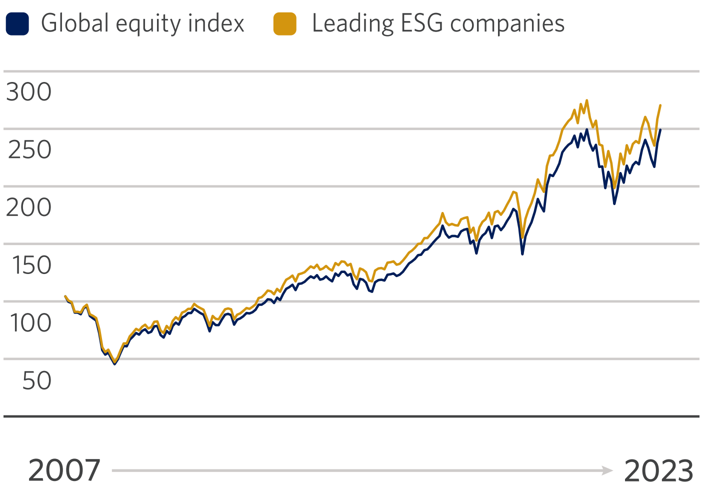
ESG intentional funds prioritize a broad, common set of ESG considerations *alongside* traditional financial measures and explicitly indicate some level of ESG consideration in their fund design. These funds generally have access to dedicated ESG research teams, use proprietary ESG data and investment processes and engage with company management teams to encourage corporate responsibility on a range of ESG issues. Some mutual funds and exchange-traded funds (ETFs) available at Edward Jones are considered ESG intentional funds and are labeled accordingly.

Performance of ESG intentional strategies

Like traditional funds, ESG intentional funds perform differently depending on factors that include the investment team's skill, the strength of the investment process and each fund's internal expenses. The prioritization of ESG considerations *alongside* traditional financial measures and returns should have a neutral impact on performance. And these funds tend to be broadly diversified across industries and sectors. The focus on financial return and diversification means that, generally speaking, ESG intentional funds should perform similarly to traditional fund strategies. ESG Intentional funds on the Investment Manager Research Focus List are expected to outperform the benchmark for their respective asset class.

While all investments perform differently over time, this chart compares a broad group of global companies to those with the highest MSCI ESG ratings. MSCI is a third-party ESG ratings provider that evaluates companies' exposure to ESG risks and opportunities, and their ability to manage them. The group of highly rated ESG companies performed roughly in line with the broader group.

Highly rated ESG companies perform in line over long term



Source: Morningstar Direct. Index performance measured from 10/1/2007 to 12/31/2023. The Global Equity Index is represented by the MSCI ACWI NR index and Leading ESG Companies is represented by the MSCI ACWI ESG Leaders NR index. Indexes are unmanaged and not available for direct investment. Past performance is not a guarantee of future results.

Sustainable thematic and impact strategies

While ESG intentional funds tend to be broad and diversified, you can achieve a more direct intent with a sustainable thematic or impact strategy. Due to this narrower focus, however, we caution investors on the potential for performance trade-offs. Sustainable thematic strategies have one or more specific investment themes targeting an environmental or social issue that may take precedence ahead of financial returns and traditional fundamentals. Impact investments go a step further to target a measurable impact from a single objective or project. The financial return of an impact investment is often considered secondary.

ESG integration — ESG integration is when environmental, social and governance factors are considered through the lens of a business risk or an investment opportunity only when it is thought to be financially material to the company. ESG integration has become a common practice of the investment decision process for many traditional funds, money managers and analysts. Most traditional money managers and analysts consider environmental and social risks and opportunities, in addition to corporate governance, if financially material to the investment decision.

Values-based investing

Values-based investing helps align your portfolio with your personal values by excluding certain investments or targeting issues that are important to you. In contrast to sustainable investing, which focuses on a widely adopted set of ESG factors used by money managers, values-based investing considers morally driven points of view defined by the individual investor, based on either their religious beliefs or personal values.

Exclusions and faith-based

Values-based investing may prioritize a nonfinancial goal or theme over financial returns. For example, if you are interested in avoiding companies that do business in globally sanctioned countries or companies that profit from adult entertainment, you may actively exclude those companies from your portfolio. If you want to express your religious views, you can own faith-based funds that may exclude businesses that violate the religion's beliefs. Faith-based funds predominantly use exclusions to avoid industries such as gambling, tobacco and alcohol, and some may also actively invest in companies that do good for humankind.

Faith-based funds align portfolios to incorporate the guidelines of a specific religion, such as Catholicism or Islam, or apply values and beliefs that may appeal to many faiths or denominations.

Performance guidance for values-based investing

There are potential performance trade-offs to be mindful of when employing a values-based approach. An investment strategy that prioritizes a nonfinancial goal ahead of traditional fundamentals or financial returns may result in increased volatility and experience underperformance compared to traditional strategies. Also, introducing too many exclusions or focusing on a narrow set of industries may decrease the diversification benefits of the portfolio.

How you can take action now

- Work with your financial advisor to determine whether you'd like to focus on sustainable investing or values-based investing strategies.
- You may choose from mutual funds, ETFs, and/or individual securities to achieve a portfolio that is personal to you and your values.
- If you want to reposition your portfolio, talk with your financial advisor about the best way to adjust it in light of taxes and other costs.

The following tables below show various considerations.

	What are your personal investment goals?	Performance considerations*	Investments
Sustainable investing			
ESG intentional	Encourage better corporate behavior by prioritizing a *broad* spectrum of ESG considerations *alongside* traditional financial metrics and performance	ESG considerations are expected to have a neutral impact on performance. ESG intentional funds are broadly diversified within their asset class, and their performance depends on various factors, including the quality of the investment team and process, and the fund's fees. Edward Jones' recommended funds are expected to outperform their asset class benchmark over the long term.	Edward Jones' recommended ESG intentional mutual funds and ETFs, as well as other ESG intentional funds. ESG intentional strategies may focus on "best-in-class" companies or companies that are improving their ESG profiles. Edward Jones' ESG intentional sample portfolios are aligned with our asset class guidance per each investment objective.
Sustainable thematic	Target an environmental or social theme as an investment opportunity	Potential for lower returns and limited diversification due to: • Narrowly focused investments • Prioritization of nonfinancial goals ahead of financial return • Stringent investment criteria	Thematic mutual funds and ETFs Strategies seek companies aligned with a specific ESG theme or themes Example: ETFs focused on clean energy
Sustainable impact	Pursue a measurable social impact that may not be financially oriented		Mutual funds, ETFs and individual green bonds (limited options available) Example: Funds with a measurable goal of supporting low-income housing
Values-based investing			
Faith-based	Invest according to your religious beliefs	Potential for lower returns and limited diversification due to: • Prioritization of nonfinancial goals ahead of financial return • Stringent investment criteria • Too many exclusions	Faith-based mutual funds and ETFs Often exclude certain investments to adhere to a religion's beliefs (e.g., financial interest, adult entertainment) Example: Christian, Islamic or Catholic-based funds
Exclusions	Avoid businesses that don't align with your preferences or values (e.g., alcohol, firearms, nuclear power)		Individual securities (stocks and bonds) You can exclude certain investments from your portfolio based on your preferences

*Performance implications can vary depending on the individual fund's strategy. Additionally, all investments perform differently over time.

Investors should understand the risks involved in owning investments, including interest rate risk, credit risk and market risk. The value of investments fluctuates, and investors can lose some or all of their principal.

