



Q1 | 2021



Investing with Values



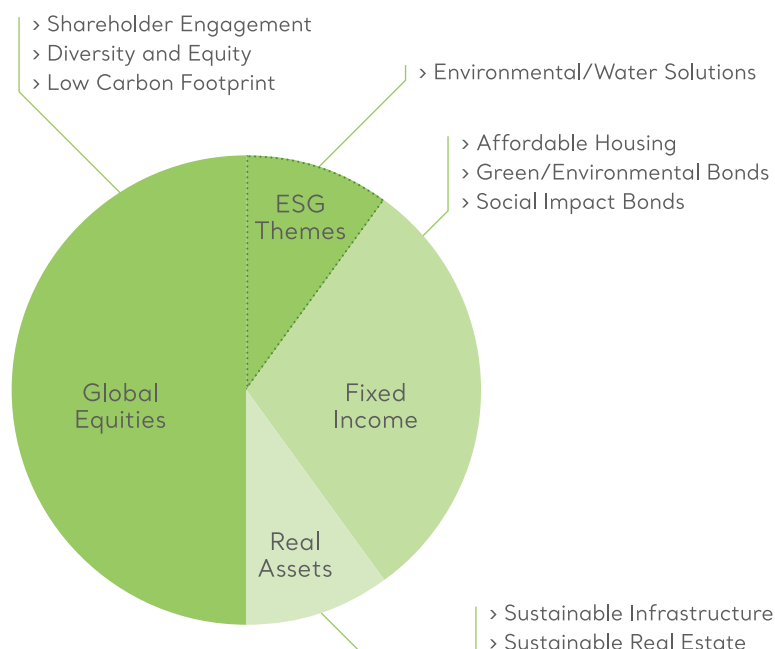
Q1 Observations

Recently, Blackrock's former CIO of Sustainable Investing made headlines when he called out his former employer and the rest of the financial services industry for "duping" the American public with its emphasis on sustainable investing practices. He questioned the intentions of the industry's recent push into sustainable investing, maintaining that for most it is likely a marketing ploy designed to benefit the bottom line. In addition, he concluded that there is no evidence any ESG ETF has made a material social or environmental impact. We responded to those assertions in our March blog, "[Sustainable Impact: Striving to be Much Better than "Better than Average."](#)"

In that blog, we discussed how our differentiated and customized approach to sustainable investing achieves impact. We explained that active ownership is a way for clients to make a meaningful impact by directing their capital to funds who engage portfolio companies to improve their performance on important ESG issues. Areas of engagement may include companies' environmental footprints, workforce and product safety, or board diversity. Furthermore, we discussed how achieving impact is not just about avoiding "bad actors." Equally, if not more, important is integrating proactive approaches that seek tangible solutions to identifiable problems, such as energy or resource efficiency or gender equality. Unmentioned in our blog was how fixed income investments through sustainable bond funds can lead to positive social and environmental outcomes.

These observations underpin the unique framework of a sustainable portfolio. A sustainable portfolio incorporates two types of diversification: asset class and impact. The former is paramount. A key objective is to ensure that a portfolio is properly diversified across global asset classes commensurate with clients' risk and return objectives. A properly constructed sustainable portfolio should achieve this goal as well as the additional objective of realizing impact across a diversity of Environmental, Social, or Governance (ESG) issues. However, the process does not end there. Clients can take the additional step of customizing their sustainable portfolios to target specific areas of impact. For example, a client may wish to emphasize impacting specific "E" or "S" issues in his or her sustainable portfolio.

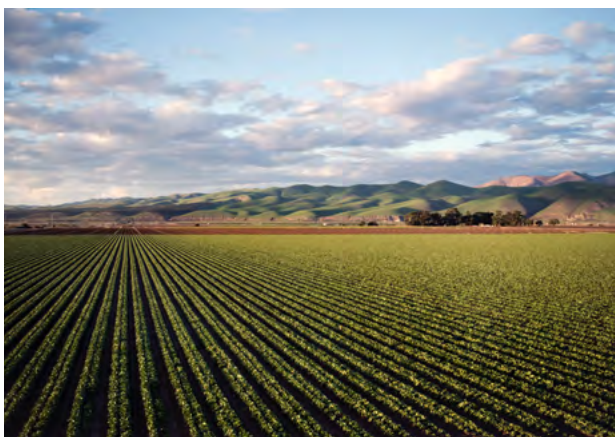
This framework is represented visually as follows. The pie chart represents a hypothetical sustainable portfolio and not an actual client's portfolio. Traditional asset classes are represented inside the pie chart. As you can see, the portfolio is well-diversified across several different asset classes. The portfolio's impact diversification is shown outside of the pie chart, illustrating different ways the client is realizing impact within each asset class. In this example, the client also feels strongly about impacting environmental issues. Thus, part of their global equity portfolio is dedicated specifically to target companies providing solutions to global energy and water challenges. The decision to emphasize a particular impact area(s) is primarily client-driven, in consultation with their advisor.



Sustainable Investing Trend to Watch: Precision Agriculture

According to the United Nations Food and Agriculture Organization, by 2050 food production is expected to increase 70% in developed countries and 100% in developing countries. Unfortunately, regions with the strongest growth in food demand are also expected to have the highest levels of land and water scarcity. Furthermore, the Intergovernmental Panel on Climate Change estimates that agriculture accounts for 70% of global freshwater use. Thus, it is evident that agriculture is the common denominator between our need for both land and water efficiency.

Fortunately, there have been many exciting advancements in technology aimed at increasing crop yields and reducing water usage in agriculture. These new technologies are often referred to as precision agriculture ("ag"). Precision ag typically involves the use of large amounts of data to enable farmers to become more accurate, efficient, and less resource intensive when growing crops or raising livestock. For example, digital soil mapping is a technique used to determine



Sustainable Investing in Action

FINANCIAL

- › In 2020, three out of four sustainable equity funds beat their Morningstar Category average.
- › 25 of 26 sustainable index funds outperformed the comparable conventional index fund.
- › During 2020, flows into sustainable open-end and exchange-traded funds were more than twice 2019's level and represented a nearly tenfold increase over 2018.

ENGAGEMENT

- › In 2020, Boston Trust Walden engaged with nearly three-fourths of its portfolio companies with an impact success ratio of 44%. The company also withdrew 50% of its shareholder resolutions after reaching an agreement with the company involved.
- › Pax engaged with Borgwarner on the diversity of its executive management team and on diversity and inclusion disclosure. The engagement influenced the company to include pay equity in its 2019 proxy statement. The company's CEO also endorsed the CEO Action for Diversity and Inclusion.
- › Calvert engaged with Hawaiian Electric, a utility more heavily reliant on oil, on issues related to climate change and energy transition risk. Following the engagement, the company linked executive compensation to the achievement of renewable energy investment objectives.

CORPORATE RESPONSIBILITY

- › Mastercard and its Impact Fund are collectively deploying \$20 million into the CNote Promise Account, an impact cash management solution that provides funding for underserved communities.
- › Paypal Holdings pledged it would achieve net-zero greenhouse-gas emissions by 2040 and vowed to use renewable-energy sources to power its data centers by 2023.
- › JP Morgan announced new investments as part of its \$30bn commitment to lift up Black, Latinx, and other underserved communities. Specific investments include \$350 million to support underserved small businesses and \$42.5 million to its "Entrepreneurs of Color Fund" that supports Black and brown founders.

Sources: Morningstar, Bloomberg, Business Insider, and engagement reports & publicly available information from funds



the differentiation of soil types and properties. Farmers can use that data to make more informed decisions on where to plant crops or graze cattle. GPS controllers are used to automatically steer equipment based on the coordinates of a field, thereby reducing overlap passes. Moreover, drip irrigation systems are increasingly being used to minimize water lost to evaporation. The precision ag market is estimated to double by 2025 (Mordor Intelligence), and the gross capital investment needed for irrigation development and management may reach \$1 trillion by 2050. (UN FAO)

A successful sustainable investment program can both create a long-term, positive impact and generate attractive financial returns. Investing in companies levered to the precision ag trend may represent one of these opportunities.

Colony Investing Solutions

Some statistics of interest from The Colony Group's Sustainable Focus Portfolio:

0%
Tobacco Exposure

0%
Military Contracting Exposure

0%
Small Arms Exposure

48% Less¹
Scope 1 GHG Emissions

27% Less¹
Scope 2 GHG Emissions

¹Relative to S&P 500 Index
Source: Morningstar Direct

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