



**NORTHERN TRUST**

ASSET MANAGEMENT

# SUSTAINABLE INVESTING PHILOSOPHY

Northern Trust Asset Management's (NTAM) Sustainable Investing (SI) Platform provides a variety of capabilities and solutions created and managed for our clients that seek to integrate SI objectives into the investment processes. The SI Platform encompasses NTAM's investment strategies and accounts that utilize values-based and norms-based screens, best-in-class<sup>1</sup> and environmental, social and governance (ESG) integration, or thematic investing that may focus on a specific ESG issue such as climate risk. This Sustainable Investing Philosophy document outlines NTAM's capabilities and approaches to integrating SI objectives into portfolio construction and investment-related activities across asset classes, functions and teams as part of our SI Platform.

Across our Sustainable Investing Platform, we align our business with the fundamental principle of sustainability: meeting the needs of the present without compromising the ability of future generations to meet their own needs. We help investors future-fit their portfolios by bringing clarity to investment opportunities and risks resulting from financially relevant ESG factors. We believe material ESG factors are pre-financial indicators that can affect a company's future financial viability and clients' long-term risk-adjusted investment returns. When managed well, ESG factors can position a company for success, and, when mismanaged, can result in significant risks.

Consistent with our view that investors should be compensated for the risks they take, we believe evaluating companies' performance using certain ESG criteria can enhance our forward-looking view of risks and opportunities. This analysis bolsters our ability to future-fit portfolios and grow clients' capital.

We purposely, and actively, engage with various entities to promote transparency and raise ESG reporting standards with: companies in which we invest; the policymakers and regulators with whom we interact; and our vendors and index providers.

Through our integrated Sustainable Investment Platform combined with our stewardship program, we seek to help investors future-fit their investment portfolios, empower them to align investments with their values and use our voice to drive meaningful change at an economic, societal, and financial level to help maximize shareholder return.

By incorporating a range of available tools and approaches to holistic portfolio construction and stewardship activities, our capabilities encompass a wide spectrum of sustainable approaches, from exclusionary<sup>2</sup> to integration<sup>3</sup> to thematic.<sup>4</sup>

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**Angelo Manioudakis,**  
**Chief Investment Officer,**  
**Northern Trust Asset Management**

<sup>1</sup> Best-in-class ESG is industry terminology referring to an investment approach that selects companies that are leaders in implementing ESG.

<sup>2</sup> The exclusion of stocks through negative screening or norms-based screening.

<sup>3</sup> Incorporating ESG considerations across business activities and investments.

<sup>4</sup> Thematic investing refers to an investment approach that invests under a sustainability-related theme, for example, low carbon.

As part of most sustainable investing strategies, we employ a rigorous analytical investment approach, leveraging quantitative and fundamental research and expertise to uncover financially relevant information that can impact a company's performance. To implement this approach, our sustainability and stewardship specialists work in tandem with investment management teams to surface investment and engagement opportunities.

Our thoughtfully designed sustainable investment solutions purposefully employ a robust four-step investment approach: analyze, measure, monitor and engage.

- Analyze:** We seek out relevant ESG topics and issues — those that are financially material and industry specific — that can shape short- and long-term results. Where applicable, we develop proprietary frameworks of measurable ESG targets by leveraging more than 30 years of experience managing socially responsible portfolios and a mix of leading industry standard frameworks, such as the Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB).
- Measure:** We generally believe that companies that put sustainability at the core of their business — those with a strong strategic vision and a deep understanding of the interconnectivity between people, planet and profit — are likely to reap long-term returns. We use all the tools at our disposal — our proprietary research and analytics, custom exclusionary screens, external best-in-class ESG<sup>5</sup> data sets, and decades of experience — to select the key performance indicators to measure how well publicly traded companies are performing on the ESG topics and issues we deem business-relevant and financially material.
- Monitor:** We continually assess the sustainability performance of the securities we select for our sustainable investment portfolios. Using a host of insights, from industry-specific frameworks to external data providers to our proprietary views in the Northern Trust ESG Vector Score™ (an industry-first sustainability measurement that marries two leading sustainability reporting frameworks — the ISSB Materiality Standards and conceptual aspects of the Taskforce on Climate-Related Financial Disclosures (TCFD) Recommendations) and custom exclusionary criteria, we develop a comprehensive view that helps us separate the leaders from the laggards and flag the companies that require additional research or targeted engagement.
- Engage:** Stewardship is an integral part of our investment process, rooted in our firmly held belief that it is our duty to regularly engage with the companies in our portfolios. That's why we identify long-term risks that have the potential to pose challenges to shareholder value, and we engage on issues of substance — those that can affect businesses on many levels. This active ownership approach applies across most asset classes, regardless of portfolio construction style.

We strive to empower investors to achieve their financial goals and align their investment portfolios with their sustainability philosophy through a wide range of sustainable investing solutions. These innovative solutions are offered across asset classes and in a variety of investment vehicles. Our skilled implementation experts can tailor solutions according to investors' specific sustainable needs or requirements.

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“Our clients have entrusted us as stewards of their capital to protect and enhance their capital to meet their most important financial goals and values. As such, incorporating ESG considerations, coupled with purpose-led stewardship to raise ESG standards with the companies we invest in, can drive positive outcomes alongside financial performance.”

**Julie Moret,**  
**Global Head,**  
**Sustainable Investing Integration,**  
**Northern Trust Asset Management**

<sup>5</sup> Best-in-class ESG is industry terminology referring to an investment approach that selects companies that are leaders in implementing ESG.

## OUR FOCUS ON CLIMATE RISK

Our Capital Markets Assumptions (CMA) outlook includes a sustainable green transition as one of the six key prominent themes we believe investors will face over the next ten years. The sustainable green transition begins as a desire to decarbonize in response to climate change and the risks it poses. NTAM refers to a sustainable green transition as the global energy transition that balances environmental and economic priorities. Climate risk is defined as a threat that global warming could negatively impact economic growth, inflation and investment returns. We differentiate between two types of climate risk: physical risk and transition risk. Physical risk is the risk of damage to land, buildings or infrastructure owing to the physical effects of climate-related factors such as droughts, storms, and flooding. Transition risk is the risk to businesses or assets that arises from policy, legal, and market changes as the world seeks to transition to a lower carbon economy.

The accumulation of debt, combined with an aging demographic, could restrain economic growth in developed countries in the decades ahead. This could be further constrained by the necessary but costly investment required by the green transition, which can be a contributing factor to slower growth expectations in the short term. We expect some transition risk to be priced in by financial markets in the most exposed asset classes, notably natural resources and global listed infrastructure.

From an investment standpoint, our investment teams use many tools and frameworks to incorporate climate risks into the construction process for bespoke indices and portfolios. From a quantitative standpoint, we work with clients to integrate climate metrics relevant to their outlook on climate risk to develop strategies intended to meet both their financial and climate-related goals. NTAM aims to assess which companies are most at risk from climate change and which are best positioned (and/or taking sufficient action) to manage both financial and reputational risks as they arise. Such assessments rely on disclosures from investee companies and third-party research. We support the recommendations of the TCFD, which include disclosure of governance structures overseeing climate-related risks, the risks themselves (analyzed under different climate scenarios), strategy and efforts to manage them, as well as the list of targets and metrics used. More information can be found in the Northern Trust Asset Management's TCFD report.<sup>6</sup>

## OUR PERSPECTIVE ON NATURAL CAPITAL LOSS

Natural capital can be defined as the world's stocks of natural assets — soil, air, water, grasslands, forests, wetlands, rocks and minerals — and all of its living things, from mammals and fish to plants and microbes.<sup>7</sup> To take a wider approach towards mitigating environmental risks that we believe ultimately impact companies' long-term strategies and performance; we think investors should expand their focus on decarbonization to include critical components of natural capital management: deforestation and water use. Through their investment processes, including direct dialogue with companies through their stewardship programs, we think investors can help companies better manage a variety of risks.

<sup>6</sup>[TCFD Report \(northerntrust.com\)](https://www.northerntrust.com).

<sup>7</sup>[World Economic Forum Natural capital: Can you put a value on nature? | World Economic Forum \(weforum.org\)](https://www.weforum.org).

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Our Capital Markets Assumptions (CMA) outlook acknowledges a sustainable green transition as one of the key prominent themes we see facing investors over the next ten years.

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This may include the management of changing regulations, production stoppages, operating costs, lack of capital expenditure and innovation. Additionally, in the long run, as engagement helps foster transparency through increased disclosures, investors will be able to make more informed investment decisions due to the disclosures of supplementary details on material ESG issues. Similar to our support of the TCFD recommendations and disclosure by companies, we also support the best practice disclosure recommendations of the Task Force for Nature-related Financial Disclosures (TNFD) including use of the LEAP (locate, evaluate, assess, prepare) framework to identify and assess nature-related dependencies and impacts.

## SUSTAINABLE INVESTING RESOURCES AND EXPERTISE

NTAM has been managing socially responsible portfolios for more than 30 years, a period during which this space has evolved significantly. We are committed to evolving and advancing our innovative, compelling capabilities available to our clients.

NTAM offers investment capabilities with sustainable objectives in equity, fixed income, listed real assets, and multi-manager solutions. The approach and objective of a sustainable investing strategy can be multi-dimensional and may apply differently between asset classes and geographies. While ESG factors may be broad in nature, our view focuses on certain key issues and specialized approaches in our investment framework. For example, it is our view that the way a company manages diversity, equity, and inclusion can either create or stifle value. The appropriate management of climate risk can distinguish industry leaders from industry laggards and affect stakeholders broadly. To assist in forming our perspective we are guided by international norms and standards, including the Organization for Economic Cooperation and Development (OECD) Guidelines, the United Nations Global Compact (UNGC) and the International Labor Organization (ILO) Core Conventions.

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NTAM has dedicated resources focusing on the integration of sustainable investing factors across our investment processes and has developed in-house, specialized expertise through our long-term commitment to social, environmental and financial integrity.

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## KEY ESG FACTORS FOR SUSTAINABILITY ANALYSIS

*Responsible stewardship is a critical step in ensuring that the capital entrusted to us is working on behalf of our clients to create value and manage risks as we work towards financial, environmental, social, and governance sustainability. Examples of factors that we feature in our sustainability analysis are below.*

<b>ENVIRONMENTAL</b> climate change, resource depletion, including water, waste, pollution, energy efficiency and green revenue	<b>SOCIAL</b> working conditions including child labor, health and safety, employee relations and diversity, human capital	<b>GOVERNANCE</b> board diversity and structure, executive pay, bribery and corruption, shareholders' rights
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Source: Northern Trust Asset Management.

### GLOBAL SUSTAINABLE INVESTING TEAM

NTAM has dedicated resources focusing on the integration of sustainable investing factors across our investment processes and has developed in-house, specialized expertise through our long-term commitment to social, environmental and financial sustainability. The Sustainable Investing team is responsible for research and innovation and serves as a center of excellence for the organization. It has a key role in proactively developing new ideas to ensure sustainable investing innovation remains central to our business development. This team works closely with our clients and key internal stakeholders, such as our portfolio management and quantitative research teams, to develop and implement sustainable investing strategies ranging from customized negative screens to more complex mandates, including thematic or active quantitative strategies.

### SUSTAINABLE INVESTING COUNCIL

NTAM has established a Sustainable Investing Council responsible for governing strategies to address sustainable investment issues and implementing sustainable investing initiatives within NTAM. The mission of the Council is to provide multi-disciplinary oversight of NTAM's sustainable investing practices in our drive to identify and analyze investment opportunities and risks resulting from financially relevant ESG factors.

The Council surfaces informed industry perspectives on investment, commercial and regulatory market developments that can shape ESG investment integration, product development, client engagement and stewardship priorities. The Global Head of Sustainable Investing Integration serves as the chairperson of the Council and is responsible for recommending the appointment of Council members, who are then approved by the NTAM Executive Sponsor of Sustainable Investing and Stewardship. Membership includes representatives from all relevant business units and functions enterprise-wide deemed appropriate by the chairperson or general membership of the Council. Members are expected to have knowledge of sustainable investing issues pertaining to their function. The Council meets periodically and promotes sustainable investing. It has representation from across NTAM, including representatives from corporate sustainability, product development and management, investments, portfolio management, risk, compliance, business development, proxy voting and engagement. We believe this Council contributes to a further enhancement of sustainable investing within and throughout NTAM.

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Members of the sustainable investing team are taking active roles in industry associations and networks, while NTAM has achieved or sought signatory status across relevant codes and initiatives around the world.

**INDUSTRY LEADERSHIP**

We strongly believe in the importance of our leadership role and collaborative effort in the asset management industry. Members of the sustainable investing team are taking active roles in industry associations and networks, while NTAM has achieved or sought Signatory status across codes and initiatives around the world aligned with our Sustainable Investing Philosophy. Industry memberships are considered based on a variety of factors and subject to a robust governance and due diligence process.

INDUSTRY PARTICIPATION OVERVIEW		
The Principles for Responsible Investment (PRI) (Signatory)	IIGCC, and the IIGCC Net Zero Engagement Initiative (Member)	Canadian Investor Statement on Diversity and Inclusion (Signatory)
International Sustainability Standards Board (Member IFRS Sustainability Alliance and ISSB Investor Advisory Group) and Task Force for Climate Related Disclosure (Supporter)	Investor Stewardship Group (Signatory)	Responsible Investment Association Australasia (Member)
Net Zero Asset Manager Initiative (NZAMI) (Signatory)	Hong Kong Stewardship Code (Aligned)	Global Real Estate Sustainability Benchmark (Member/Supporter)
PRI Advance (Member)	Ceres Investor Network (Member)	UK Stewardship Code 2020 (Signatory)
One Planet Asset Managers Initiative (Signatory)	Valuing Water Finance Initiative (Member)	Aotearoa New Zealand Stewardship Code (Signatory)
Farm Animal Investment Risk & Return (FAIRR) Initiative (Signatory)	Climate Action 100+ (Founding Signatory)	Dutch Stewardship Code (Aligned)
DCIIA ESG Subcommittee (Member)	Human Capital Management Coalition (Member)	Investment Company Institute ESG subcommittees (Member)

**INTEGRATION OF SUSTAINABLE INVESTING INTO INVESTMENT DECISION MAKING**

NTAM purposefully combines robust capital markets research, expert portfolio construction and comprehensive risk management to craft efficient solutions to deliver targeted investment outcomes. Our roles and responsibilities as a fiduciary guide our principle-based culture and collaborative approach, resulting in a distinctive client experience. Our business strategy seeks to deliver investment solutions that solve the most complex needs of institutional and individual investors, with a focus on solutions that we believe align with our competitive advantage, provide the most value to investors and show potential for growth. Some of these solutions include sustainable investing, quantitative, multi-asset, cash and alternative strategies. We believe that, by serving as an active owner on behalf of our clients, we can help portfolio companies produce sustainable value as long as a company’s long-term financial returns are connected to their strategic ESG performance.

In 2019, we launched the Northern Trust ESG Vector Score™. The ESG Vector Score™ assesses a company in the context of financially relevant ESG-related criteria that could impact company performance. By leveraging two industry-leading frameworks, the ESG Vector Score™ provides investors a more transparent methodology that can assess companies with a consistent metric for both portfolio construction and stewardship.

We believe our distinct ability to hone in on these critically important and financially material ESG issues will help further align sustainable investments and company engagements.

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Our approach represents a refined perspective on ESG materiality and leverages our quantitative and fundamental research expertise. We believe our distinct ability to hone in on these critically important and financially material ESG issues will help further align sustainable investments and company engagements. And, as sustainable investing continues to mature and evolve, the ESG Vector Score's™ open architecture means it can adapt to support multiple data sources and requirements over time. We see it as a foundational metric that can be used for years to come.

### FUNDAMENTAL RESEARCH

Our approach to fundamental sustainable investing centers on identifying and owning companies whose current market value represents a material discount to our assessment of their intrinsic value. This approach requires a proper understanding of a company's financial and strategic prospects, including its ESG challenges and opportunities. We believe ESG information can help inform the risks to our investment thesis and shine a light on areas not patently obvious from traditional fundamental analysis and review of the public financial statements. This analysis helps us discern how financial markets are pricing risk, and whether the relative pricing of ESG and climate considerations is aligned with fundamental considerations.

Our analysts conduct due diligence to understand the appropriateness of a company's governance structure and its ability to manage principal-agent risks. In addition, we look to understand broader environmental trends and how the sustainable green transition may affect the product mix of a specific company or industry. Analyst team activities are underpinned by deep relationships with a variety of key issuers, 15 years of average analyst experience and industry specific expertise. The team has access to other resources such as the ISSB Sustainability Disclosure Standards, and serves to inform the broader stewardship process.

### PUBLIC EQUITY

#### Index Management

For many index investors, it may be appropriate to reflect a sustainable investing view through the companies that their portfolios include or exclude. Much of this activity involves exclusions based on breaches of standards and norms, regulations or certain ethical or other exclusionary tactics. For example, screens that we commonly apply across passive sustainable investment strategies include the involvement in the production of controversial weapons and the violation of international norms such as the UN Global Compact.

In addition to targeted exclusions, certain investors seek to infuse a portfolio with a sustainable investing approach that also includes positive elements; in this way companies showing superior management of ESG risks and opportunities may be favored. ESG indexes are constantly evolving, but NTAM has been at the forefront of these activities and spearheaded the development of a range of market leading custom ESG indexes. We continue to do pioneering work developing strategies to meet our clients' growing needs in this space.

We also maintain the capabilities to integrate alternative weightings to maximize or minimize certain types of exposures, such as our World Natural Capital Paris-Aligned passive equity strategy which incorporates various sustainability objectives, including

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positive weights for companies generating green revenue and companies that we believe are performing best within their sectors at the management of natural capital-related risks in a rules-based methodology.

Our ESG capabilities can cover a variety of approaches across asset classes including:

- Client-directed screens
- Tilting towards specific targeted metrics, such as green revenues
- Alternative weighting
- Best-in-class<sup>8</sup>
- Integrated solutions
- Standard ESG/Socially Responsible Investing indices
- Custom ESG indices designed by NTAM and data providers

Index investors are sometimes thought of as “Universal Owners” because they may own a substantial portion of all companies in a given universe and over a long term. To exercise rights as shareholders, we rely heavily on our proxy voting and engagement efforts, which are spearheaded by our dedicated Stewardship team. By serving as a responsible steward, we seek to help portfolio companies produce sustainable value over the long term. We reiterate our guiding principle of maximizing shareholder value given the universal, long-term nature of our investments. Our philosophy and process surrounding these activities are discussed in greater detail in the “Stewardship” section.

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By serving as a responsible steward, we seek to help portfolio companies produce sustainable value over the long term.

## QUANTITATIVE EQUITY

Our approach to sustainable investing within our quantitative equity platform is premised on the philosophy that investors ought to obtain desired factor and ESG exposures with limited tradeoffs. Our portfolios target factors such as quality, low volatility and value. Equally important to our philosophy is our approach to risk management that seeks to explicitly manage uncompensated and unintended risk. We believe this framework is highly compatible with investors’ goals to achieve a multitude of sustainable investing objectives alongside traditional risk and return targets because the framework is intended to control the interactions that can occur. For example, targeting companies that meet certain ESG criteria may introduce biases towards sectors or countries. These biases can impact the factor and/or risk exposures of the portfolio, and are therefore carefully monitored during our portfolio construction process. In designing factors, we consider ESG information with the same rigor as other datasets for inclusion. For example, we integrate corporate governance metrics such as board composition, pay equity, and business ethics into our Quality factor, which looks for companies with management efficiency, profitability ratio which was driven by both an economic premise surrounding managing principal-agent risk, and empirical research.

In addition, we have found that certain factors or combinations of factors can pair with thematic investing goals, such as low carbon portfolios, as a means of orienting towards low carbon investment objectives. Our Quality ESG strategy provides targeted factor content while controlling portfolio carbon exposure and integrating data that assesses companies based on their low carbon transition risks. Beyond thematic investing goals, we work with a wide array of ESG datasets that are

<sup>8</sup> Best-in-class ESG is industry terminology referring to an investment approach that selects companies that are leaders in implementing ESG.



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used for specific purposes. This includes business involvement, norms-based data, proprietary and external ESG Ratings, climate data (i.e., emissions, foot printing, low carbon transition), UN Sustainable Development Goals (SDG) data, and more. Many of our quantitative equity strategies, such as Quality ESG, Quality Low Carbon, and others, use one or more of these data sets to facilitate desired integration of Sustainable Investing goals.

### FIXED INCOME

Sustainable Investing aims to manage risk from climate change, poor labor relations and lagging governance practices, among other considerations. We believe sustainable investing and bond portfolios are complementary because risk is a key focus for both. Integration of ESG data has the potential to benefit fixed income as a risk control asset and improve risk-adjusted returns compared to conventional bond mandates. For example, based on our research, we have found evidence that bonds with higher ESG ratings may provide downside mitigation during periods of market turbulence.<sup>9</sup> Different aspects of ESG and climate change risk are likely to impact different time horizons; for example, climate transition risks may be impactful to corporate issuers of debt over a near to medium term time horizon, while physical climate risks may be more impactful to corporate bond issuers over a longer time horizon. We generally believe that ESG factors will affect the price of fixed income securities over the long run. The way ESG analysis is integrated in portfolio construction is critical; simply investing in top-rated ESG issuers or excluding some industries could bring unintended risks. We believe investors should take intentional risk and explicitly control unintended biases to achieve the outcomes they seek.

#### Passive Management

NTAM works with certain clients to reflect a sustainable investing objective through the companies included or excluded in their passive portfolio. In addition to targeted exclusions, sustainable investing views can also be managed by favoring companies showing what we believe to be superior management of ESG risks and opportunities. Additionally, NTAM can partner with clients to develop bespoke sustainable investing objectives, or to track a specific ESG benchmark.

#### Fundamental Fixed Income

NTAM can integrate ESG into its investment process using fundamental methodologies. As noted under Fundamental Research section, our approach to fundamental investing centers on identifying and owning companies whose current market value represents a material discount to our assessment of their intrinsic value. We seek to discern how financial markets are pricing risk, and whether the relative pricing of ESG and climate considerations is aligned with fundamental considerations for investment purposes across fixed income instruments of varying time horizons. We believe fundamental portfolios can integrate material ESG analytics alongside traditional fundamental analytics to build portfolios targeting robust investment return.

<sup>9</sup>Source : <https://nordsip.com/2019/12/20/esg-bond-investing-avoiding-the-pitfalls/>.

### Quantitative Fixed Income

Our approach to Sustainable Investing within our quantitative fixed income platform is premised on the philosophy that investors ought to obtain desired ESG exposures with limited tradeoffs to the objective of targeting rewarded factors, such as quality and value. Like other asset classes, quantitative approaches and techniques allow for the integration of sustainability criteria while also considering the aggregate portfolio's risk and return objectives. We believe investors should take intentional risk and explicitly control unintended biases to achieve the outcomes they seek, and that these objectives can be met alongside Sustainable Investing goals.

We seek to identify the most appropriate ESG data sets to fulfill the investment needs of our clients and utilize this data directly into our quantitative investment process, which can be in the form of an approach that is exclusionary, integrated, or both.

### Municipal Bonds

Municipal issuers can also be assessed along sustainability parameters. Municipal bonds support public infrastructure and allow for community access to services such as education, housing and healthcare. For sustainable municipal bond portfolios, we employ robust credit analysis to discern whether the use of the proceeds aligns with sustainability objectives along with a deeper scrutiny of the environmental and social externalities of the borrower or issuance.

## MANAGER RESEARCH

### Multi-Manager for Public Equity and Fixed Income Investment

NTAM has a comprehensive set of investment tools to support a Sustainable Investing mandate, including a platform of approved proprietary and third-party investment capabilities. The strategies and funds approved for our clients undergo a rigorous due diligence process. Strategies are considered and proposed based on client interest and demand. Strategies are also analyzed on an ongoing basis by the Multi-Manager Solutions team that integrates sustainability analysis in the sourcing and due diligence on strategies in the market. Strategies considered for the platform are reviewed by the team's analysts on several quantitative and qualitative factors, including a qualitative review regarding the method and use of ESG data and indicators, the discipline, acumen and longevity of the investment team, and a quantitative analysis around investment style, investment return and other factors.

In addition to qualitative methods, the Multi-Manager Solutions Investment team uses a proprietary sustainable investing scoring methodology focused on key sustainability criteria to systematically measure the comprehensiveness of a manager's sustainable investing capabilities. By evaluating an asset manager's firm-level commitment to sustainable investing, their sustainable investment process, their engagement policies and their reporting capabilities, the Multi-Manager Solutions team can source asset managers executing top-tier sustainability programs.

Furthermore, the Multi-Manager Solutions Investment team has developed a proprietary framework for analyzing diversity, equity and inclusion metrics for managers of strategies approved on the platform. This framework assesses insights into the diversity of key personnel, including portfolio management staff and leadership team, as well as leading metrics that provide insights into a firm's approach to integrating diversity, equity and inclusion objectives.

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All strategies approved for the platform undergo ongoing due diligence monitoring. With regard to Sustainable Investing strategies in addition to traditional due diligence, this monitoring includes ongoing reviews of firm-level initiatives around sustainability, including commitments to industry initiatives like signing on to the Principles of Responsible Investing (PRI) as well as monitoring the consistency and discipline of the investment staff.

A critical step in the process is selecting the right mosaic of strategies for any given investor based on their defined goal for the portfolio. We firmly believe that investors can benefit from seeking ESG-focused managers and do not need to forgo performance to meet their investment return objectives. However, discernment is critical in the manager selection process. As the outsourced chief investment officer, NTAM leverages internal expertise to act as an extension of the client's team to support the organization in defining portfolio goals from a Sustainable Investing perspective anchored by the portfolio's performance objectives and time horizon.

### ALTERNATIVES: 50 SOUTH CAPITAL ADVISORS, LLC

At 50 South Capital Advisors, LLC (50 South Capital) — a wholly owned subsidiary of Northern Trust Corporation and a global alternatives investment management firm that provides differentiated access and solutions to private equity, private credit and hedge fund investment opportunities — we believe that by incorporating financially relevant ESG factors into our investment process, we can create long-term value for our clients, our underlying managers, and our firm. We believe that material ESG issues are business risks, and they augment the comprehensive analysis we complete on investment opportunities. When identified and incorporated into our investment analysis, we believe ESG factors can represent opportunities for value creation and risk reduction, which can lead to reputational and financial risk.

50 South Capital has made a firm-wide commitment to incorporate ESG factors into our business. We are committed to integrating ESG into investment decisions and partnering with the underlying managers with which we invest to do the same. Specifically, we seek to manage reputational and financial risks that arise through the due diligence process, and we strive to engage proactively with our underlying managers around material ESG factors. ESG factors and sustainability considerations are an essential part of 50 South Capital's ongoing monitoring of underlying investments. We are engaged investors by reacting to sustainability considerations that arise during the duration of an investment. Through ongoing engagement, we seek to manage portfolio risk and capture attractive opportunities, all while recognizing the limited role we take in many of our investments.

### SUSTAINABLE PORTFOLIO MONITORING

The portfolio monitoring and risk management procedures for our separately managed accounts and funds are integral to our investment process. On accounts with exclusions, activity is monitored as part of the Guideline Monitoring team's independent post-trade oversight. The Guideline Monitoring team reviews completed trades and positions daily through a third-party portfolio management platform, Aladdin, for equity and fixed income to confirm that trades and holdings are within clients' objectives, restrictions and guidelines dictated by the investment management agreement and fund prospectus/supplement. Portfolio managers

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At 50 South Capital — a global alternatives investment management firm that provides differentiated access and solutions to private equity, private credit and hedge fund investment opportunities — we believe that by incorporating financially relevant ESG factors into our investment process, we can help create long-term value for our clients and our underlying managers, and our firm.

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are alerted as soon as a warning level is breached so that the holding can be assessed and reduced if deemed appropriate. Breaches are reported to the applicable NTAM legal entity governance forum/committee and to the relevant fund's board. Any material breaches relating to a separately managed account are reported to the client.

NTAM Risk Management is also responsible for sustainability-related investment risk monitoring in client portfolios. The nature of monitoring performed in each region in which NTAM operates, including the specification of metrics used, depends upon a range of factors such as the investment guidelines to which the portfolio is managed, specific product features, applicable regulations, and individual client requirements.

## EXCLUSION LIST MANAGEMENT

We have developed a proprietary custom set of ESG screens for our passive and quantitative active ESG funds used by third-party index administrator clients, such as MSCI, Qontigo and Solactive, and by our own portfolio managers. The screens are used for both equities and corporate fixed income issuers and apply to a variety of our investment capabilities. These exclusions are currently applied to a range of Sustainable Investing pooled funds and new strategies globally.

For developed markets, our custom ESG exclusions list has since inception sought to exclude companies that do not comply with UN Global Compact Principles, companies that manufacture tobacco products or derive more than 5% of revenues from the distribution of such products, retailers and suppliers of tobacco products (or vendors of products used for the manufacture of tobacco products) and firms that manufacture controversial weapons, such as cluster bombs, land mines, nuclear weapons, biological/chemical weapons, blinding laser weapons, incendiary weapons (e.g., white phosphorus) and non-detectable fragments.

Regular reviews of the screening methodology are supplemented with client consultations to solicit the input of our broad client base. These reviews and consultations are intended to enable our custom exclusions to reflect current global norms and market practice. Through this valuable dialogue, the original set of screens was over time joined by exclusions for conventional weapons and civilian firearms manufacturers, for-profit prisons and detention centers, unconventional oil and gas (e.g., oil sands and shale gas), Arctic oil and thermal coal (mining and generation). The same lists apply to emerging markets, which also have a corporate governance and human rights-based exclusion list.

## STEWARDSHIP

We believe active ownership can produce sustainable value, and potentially better investment outcomes, over the long term. As investment stewards, we appreciate the influence we can have — and the trust investors place in us. Our comprehensive proxy voting policy and multi-cycle engagement program are designed to encourage the companies in which we invest to pursue and disclose sustainable business practices that we believe will lead to long-term value for shareholders. We detail our stewardship activities in our [Annual Stewardship Report](#) and highlight and [other related materials](#) on our website.

### Proxy Voting

NTAM's proxy voting philosophy is to ensure that the manner in which shares are voted is in the best interest of clients/beneficiaries and the value of the investment. Our proxy voting framework, as outlined in our proxy voting policies, procedures and guidelines, provides that our Proxy Committee will generally vote on all eligible proxy proposals based upon certain defined criteria.

Where a client delegates responsibility for proxy voting to NTAM, we can provide reports on voting activity undertaken on their behalf on a quarterly, semiannual or annual basis, as directed by the client.

Information on how NTAM voted securities within a reporting period and information regarding our rationale for proxy-voting decisions in a client's portfolio may also be provided upon request. We generally view our clients' voting records as their property rather than as our records to make public. Unless authorized by the client in writing or required by applicable laws and regulations, NTAM will not disclose proxy voting records of clients' accounts to any third party. Records of the proxy voting outcomes for our Northern offerings are publicly available on our website along with our Proxy Voting Guidelines.

We recognize that investors appreciate the ability to express their preferences and unique perspectives, and that investor values vary greatly. We believe preferences are an extension of each client's unique goals. With this in mind, we offer a variety of options for certain investors to exercise more direct control over how their votes are cast by offering a menu of voting guidelines for clients in certain institutional pooled investments.

### Conflicts of Interest

NTAM has policies to identify and manage conflicts of interest across its businesses. However, where arrangements are insufficient to manage with reasonable certainty that the risk of damage to client interest will be prevented, NTAM will disclose the nature of such conflicts to clients. In relation to stewardship, the specific elements of conflicts of interest management are incorporated within the proxy voting guidelines.

### Engagement

NTAM's Stewardship team and Active Fundamental analysts engage with hundreds of companies annually on a range of objectives across four principal stewardship themes: environment; social; governance and risk management; and strategy. Output from these engagements is used to inform investment and proxy voting decisions, with the aim of delivering positive long-term investment outcomes. Our [Engagement Policy](#) describes the scope and objectives of our engagements and when we escalate issues.

To maximize the scope of impact, we can engage through a variety of mechanisms and partnerships. In addition to direct engagements managed in-house, we conduct collaborative and outsourced engagement activities. Collaborative engagements tend to entail a partnership of institutional investors with similar long-term sustainability views through collaborative initiatives and membership groups. Such engagements are conducted with the weight of the group's pooled assets and can be an effective tool for underscoring the relevance and importance of issues. Our involvement in collaborative engagements and membership groups are conducted in alignment with our role as an independent fiduciary.

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NTAM's investment analysts engage with hundreds of companies annually on a range of objectives across four principle stewardship themes: environment, social, governance and risk management and strategy.

Also, NTAM publishes a global annual stewardship report highlighting key proxy voting activities and engagements. In addition to these mechanisms, NTAM has entered into an agreement with Hermes Equity Ownership Services (Hermes EOS) to provide monitoring and engagement services for our Europe, Middle East and Africa (EMEA) pooled funds.

Details of the covered portfolios and approach used by Hermes EOS are described in Appendix 2 of our Global NTAM Engagement Policy, the “EMEA Pooled Funds Engagement Policy.” These engagements are conducted on behalf of our funds, in line with our engagement principles. Hermes EOS’s regular reporting provides full disclosure, annually and quarterly, of the number of engagements conducted on our behalf. In certain cases, Hermes EOS engagements may inform our proxy voting activities, but NTAM makes independent proxy voting decisions.

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NTAM publishes a global annual stewardship report highlighting key proxy voting activities and engagements.

<p><b>PRINCIPLES FOR RESPONSIBLE INVESTING (PRI)</b></p>	<p>NTAM joined the United Nations PRI in November 2009.</p> <p>We believe the UNPRI’s overarching themes of transparency, accountability and continuous improvement align with our own values. We also believe it is important to be part of a community working to establish a common language and best practices around these issues. In fact, NTAM contributed to case studies to promote acceptance and understanding of the UNPRI principles in passive management. Internally we use the UNPRI as a framework to formalize our sustainable investing principles and set priorities.</p>
<p><b>INTERNATIONAL SUSTAINABILITY STANDARDS BOARD (ISSB)</b></p>	<p>The IFRS Sustainability Disclosure Standards represent a global baseline for sustainability-related financial information and climate-related risks and opportunities. They are issued by the ISSB, which is part of the IFRS Foundation. As active members of the ISSB Investor Advisory Group, NTAM has contributed to several working groups focused on ISSB’s ongoing corporate engagement and consultative process with corporate issuers around the Disclosure Standards.</p>
<p><b>UK STEWARDSHIP CODE 2020</b></p>	<p>NTAM achieved signatory status of the UK Stewardship Code 2020, a global best practice in investment stewardship. This achievement demonstrates our deep commitment to the principles and purpose of the code. The revised UK Stewardship Code 2020 comprises a set of 12 “apply and explain” principles for asset managers and asset owners designed to ensure the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries. We applaud the Financial Reporting Council’s leadership in continuing to advance the disclosure and application of the standards and will continue to enhance our approach to remain aligned with the code, client expectations and our commitments.</p>

### SUSTAINABLE DEVELOPMENT GOALS

In 2015, after the conclusion of the Millennium Development Goals, the United Nations announced the launch of the Sustainable Development Goals (SDGs), a set of 17 global goals to be achieved by 2030 that cover a broad range of social, environmental and economic development areas. These goals can provide a framework for theme-based investing and reporting. NTAM leverages SDG 14 (Life below Water) and SDG 15 (Life on Land) in our Natural Capital Paris-Aligned strategy to address biodiversity-focused goals. We also reference the SDG framework in communicating certain initiatives, including dimensions of our stewardship activities and our corporate parent's sustainability initiatives. Furthermore, we have begun incorporating SDG-specific datasets into the investment strategies of some of our pooled products and segregated mandates. These datasets look at company-level outcomes through the lens of the SDGs, and issuers are generally assessed on the positive/negative contribution of their products and services in addition to their broader operational alignment.

### NORTHERN TRUST CORPORATION'S COMMITMENT TO SUSTAINABLE OPERATIONS

At Northern Trust, we incorporate fundamental sustainability considerations into how we operate as a corporation, as a financial steward for our clients and as a participant in broader society, alongside offering, via NTAM, sustainable investing solutions across asset classes. More information on our corporate sustainability can be found in our latest [Corporate Sustainability Report](#).

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Northern Trust functions as a global citizen whose contribution to building a healthy, sustainable environment involves deep regard for the surrounding communities.



## LEARN MORE

Visit our [website](#) to learn more about our investment capabilities.

How helpful was this paper?



### ABOUT SUSTAINABLE INVESTING

At Northern Trust Asset Management (“NTAM”), we define Sustainable Investing as encompassing all of NTAM’s investment strategies and accounts that utilize values-based and norms-based screens, best-in-class and ESG integration, or thematic investing that may focus on a specific ESG issue such as climate risk. NTAM’s Sustainable Investing includes portfolios designed by NTAM and those portfolios managed to client-defined methodologies or screens. As the data, analytical models and aforementioned portfolio construction tools available in the marketplace have evolved over time, so too has NTAM. NTAM’s Sustainable Investing encompasses strategies and client assets managed in accordance with client-specified responsible investing terms (historically referred to as Socially Responsible), as well as portfolios that leverage contemporary approaches and datasets, including ESG analytics and ESG thematic investing.

[northerntrust.com](https://www.northerntrust.com)

### IMPORTANT INFORMATION

This document updated as of August 2024.

For Europe, Middle East, Africa and Asia-Pacific markets, this information is directed to institutional, professional and wholesale clients or investors only and should not be relied upon by retail clients or investors.

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All securities investing and trading activities risk the loss of capital. Each portfolio is subject to substantial risks including market risks, strategy risks, adviser risk and risks with respect to its investment in other structures. There can be no assurance that any portfolio investment objectives will be achieved, or that any investment will achieve profits or avoid incurring substantial losses. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Risk controls and models do not promise any level of performance or guarantee against loss of principal. Any discussion of risk management is intended to describe NTAM’s efforts to monitor and manage risk but does not imply low risk.

Forward-looking statements and assumptions are NTAM’s current estimates or expectations of future events or future results based upon proprietary research and should not be construed as an estimate or promise of results that a portfolio may achieve. Actual results could differ materially from the results indicated by this information.

Environmental, Social and Governance (“ESG”) investing involves certain risks because the methodology of an underlying index selects and assigns weights to securities of issuers for nonfinancial reasons, a strategy may underperform the broader equity market or other strategies that do not utilize ESG criteria when selecting investments. The companies selected by an index provider as demonstrating ESG characteristics may not be the same companies selected by other index providers that use similar ESG screens. In addition, companies selected by an index provider may not exhibit positive or favorable ESG characteristics. Regulatory changes or interpretations regarding the definitions and/or use of ESG criteria could have a material adverse effect on a strategy’s ability to invest in accordance with its investment policies and/or achieve its investment objective.

NTAM is composed of Northern Trust Investments, Inc., Northern Trust Global Investments Limited, Northern Trust Fund Managers (Ireland) Limited, Northern Trust Global Investments Japan, K.K., NT Global Advisors, Inc., 50 South Capital Advisors, LLC, Northern Trust Asset Management Australia Pty Ltd, and investment personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company.

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