ROCKEFELLER CAPITAL MANAGEMENT

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We are bolder

Our Approach to Sustainable Investing

Introducing the Rockefeller Sustainable Investment Portfolios

The Rockefeller Sustainable Investment Portfolios are designed within a framework with <u>three</u> essential attributes.

I. Making a Real Impact

Over the past years, a slew of natural disasters – at a frighteningly higher frequency – have drawn media coverage and public awareness to climate change. As public interest and concern continue to increase, more and more investors are seeking to incorporate sustainable and impact objectives into their investment decisions. Such heightened interest in ESG investing, unfortunately, has also given rise to a marketing hype within the financial industry, as certain fund managers make claims to follow a sustainability-led mandate without taking meaningful actions towards making an environmental or societal impact. We are acutely aware of the challenges that investors face due to the practice of “greenwashing.”

> Correspondingly, the Sustainable Investment Portfolios at Rockefeller are built to focus firmly on utilizing intentional[1] and impact focused funds.

By design, 100% of any version of the portfolios (i.e., regardless of risk profiles, liquidity constraints, etc.) is invested in funds that integrate environmental, social, and governance information into investment decisions from the perspective of risk mitigation and opportunity analysis.

Between 50% and 80% of the portfolios are allocated to funds that meet our criteria for the Rockefeller definition of “ESG intentional[1].” **This matters because intentionality demonstrates an investment manager’s long-term commitment towards sustainability**. In our view, investors have the potential to catalyze positive changes by empowering ESG intentional funds, i.e., through impact investments or active shareholder engagement. The majority of the ESG intentional funds within the portfolios consist of thematic strategies that take a solutions-oriented approach to targeting explicit sustainable investing benefits that can be clearly articulated and demonstrated in areas such as climate change and diversity.

II. Uncompromised Quality of Returns

The Sustainable Investment Portfolios seek to drive positive environmental and social changes without compromising the quality of potential investment returns.

In essence, portfolio construction refers to bringing an asset allocation strategy to life. The process of portfolio construction involves translating a combination of strategic and tactical macroeconomic and market outlooks into an investable portfolio using a calibrated blend of solutions. At Rockefeller, we have long been aware of a critical flaw associated with the traditional portfolio construction approach, where one naively maps investment products to asset classes and then mechanically fills up a given asset allocation with one's favorite products within each category. In our view, this approach not only obscures investors' visibility of the underlying risk exposures and return drivers of a portfolio but, more importantly, creates unintended biases.

Within the sustainable investing space, where thematic managers by nature tend to focus on one or a few select industries, portfolios are particularly vulnerable to the risk of under-diversification. We seek to overcome this challenge by taking a factor approach, which we believe **improves the rigor and transparency of our portfolio construction framework beyond the traditional asset class and investment product perspective**. Specifically, we identify the type and measure the magnitude of the systematic risk factors associated with a given fund, and subsequently solve for the appropriate blend of weightings across these funds such that the aggregate portfolio is balanced and cognizant of unintentional factor bias.

The Sustainable Investment Portfolios are designed with **the intention of delivering a comparable degree of diversification versus portfolios without environmental/social impact** objectives. In turn, the **portfolios seek attractive risk-adjusted returns for a given level of risk and expected return and are designed to hedge against potential macro shocks**.

III. Positioning for Long-Term Alpha

The Sustainable Investment Portfolios – **while thoughtfully constructed and balanced – are further intentionally positioned to align with secular tailwinds such as the decarbonization movement**.

Prior to the COVID-19 crisis, we saw emerging signs with the potential of initiating changes that might be subtle at first but could eventually reshape the macroeconomic environment in the medium to long term. The pandemic has accelerated the progression of such developments. Policymakers around the world have seized the economic crisis as a unique window of opportunity to reshape their countries' economies by adopting ambitious climate policies and accelerating the transition to decarbonization. Infrastructure and research spending in renewable power, transportation, industrial processes, and building renovations backed by unprecedented fiscal power could translate into a significant boost to GDP and employment in the short term. In the long term, besides the obvious benefits of curbing climate change, substantial upfront investments are likely to bear fruit by establishing structural economic and even political advantages such as innovation-fueled sustainable growth and energy self-sufficiency.

In our view, innovative green technologies will likely advance to become a new dominant industry – as internet and software have been over the past 20 years – in the decades to come. Investing intentionally in solutions targeted at catalyzing positive changes such as climate mitigation and adaptation has the potential of introducing excess alpha over time.

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1. Rockefeller's definition of ESG Intentional are strategies proclaiming investment alongside sustainability themes, drive change via shareholder engagement and ESG integrated research.

2. Rockefeller's definition of ESG Integrated are strategies proclaiming the use of ESG information to identify risks and opportunities and/or avoid objectionable business activities.