



NEUBERGER BERMAN

Navigating the Landscape of SRI/ESG Investing

Socially responsible investing (SRI) has been an investment discipline for decades, initially centered on values and attributes of corporate social responsibility (CSR) while avoiding products that are perceived to cause societal harm. Since its early inception SRI has significantly expanded its focus to look beyond “avoidance” criteria and now seeks to encompass “best-in-class” companies with sustainable and competitive advantages. Today this approach is frequently referred to sustainable investing.

The notion of “integrating” ESG (environmental, social and governance) criteria into mainstream investing has increasingly gained popularity as investors have begun to realize that a company’s ESG efforts are not just important to idealistic investors, but represent key considerations that can have a significant impact on a company’s bottom line—now and into the future. Companies that demonstrate strong overall environmental, social and governance performance are better positioned to add value in the long term.

According to Global Sustainable Investing Alliance¹, assets linked to ESG investing rose 25% since 2014, to about \$23 trillion at the beginning of 2016. Domestically, according to US SIF, assets rose to \$2.6 trillion in 2016². Despite the growth in assets linked to ESG strategies worldwide, there is often a lack of clarity around the different terminologies and concepts associated with these strategies. For the benefit of our investors, we provide a brief discussion on the evolution of the industry and the commonly used terminology to describe different approaches.

¹ Global Sustainable Investment Alliance.

² US SIF Biennial Report on US Sustainable, Responsible and Impact Investing Trends 2016.

Neuberger Berman has a long history of being actively involved in ESG investing. As an investment manager, we play a central role in managing our clients’ capital to help them achieve their long-term goals. The Neuberger Berman Sustainable Equity investing strategy was launched in 1989. While much has changed in the industry at large, we have always had a consistent process and focus on “knowing what we own.” Incorporating ESG considerations as part of this process, either to identify opportunities or to uncover material risks, has always been a core part of our process.

Since its inception, the Neuberger Berman Sustainable Equity strategy has integrated ESG into its investment process by incorporating both best-in-class leadership and avoidance criteria. In addition, the strategy conducts company engagements and proxy voting. The strategy can also be considered for impact investing for those looking to incorporate impact across their equity portfolios.

Commonly Used Industry Terminology: A Spectrum of Approaches

The industry is rife with approaches and terminologies associated with SRI/ESG. Though each has a unique meaning, they all represent the notion of integration or convergence of financial and ESG considerations when analyzing an investment.

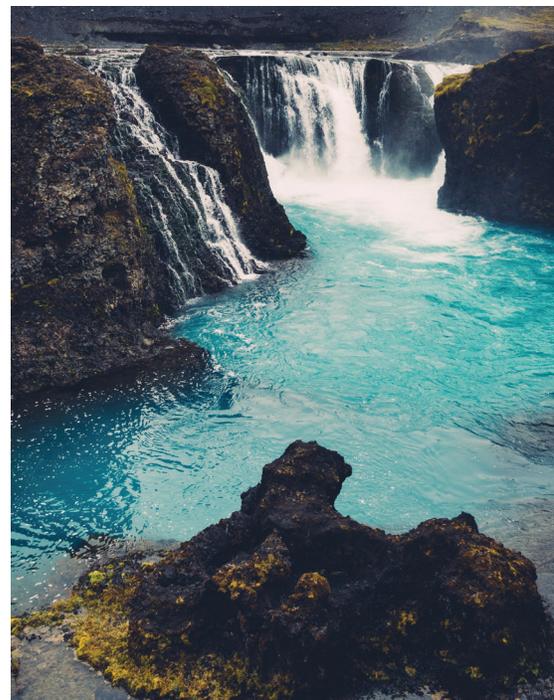
ESG Investing / Sustainable Investing / Responsible Investing: These are all umbrella terms used interchangeably to refer to incorporation of ESG criteria in investments. Strategies may include one or even several of the approaches below.

Read our [ESG Guidelines](#)

- **NEGATIVE SCREENING:** Focused on negative screening or avoidance criteria only in order to comply with the investor's social values, beliefs or a mandate.
- **ESG INTEGRATION:** Explicit incorporation of environmental, social and governance considerations into traditional financial analysis for the purposes of mitigating risk and seeking opportunities. This can include top-down approaches such as using ESG rating overlays, as well as integration into bottom-up fundamental analyses.

Caution: There are two aspects to be mindful of here: materiality and transparency.

- **Materiality:** It is important to consider the materiality of an ESG risk to a specific company or investment.
- **Transparency:** Often times, data is not available on the required ESG issues. Hence the importance of the integrity of the research process and how the ESG issues are evaluated. While efforts by industry organizations like the Carbon Disclosure Project (CDP) and the Sustainability Accounting Standards Board (SASB) are encouraging companies toward greater disclosure, there is still a long way to go.



NEUBERGER BERMAN SUSTAINABLE EQUITY FUNDAMENTAL ANALYSIS INTEGRATING ESG CRITERIA

Actively managed with a focus on quality companies:

- Best-in-class companies
- Secularly advantaged growth
- Top-quartile balance sheet
- High ROIC
- Leadership in ESG characteristics

Incorporate ESG criteria to uncover or validate investment ideas, including:

- Environmental impact
- Workplace policies
- Community impact
- Sustainable supply chains
- Product integrity
- Governance & disclosure



SINCE ITS INCEPTION, THE NEUBERGER BERMAN SUSTAINABLE EQUITY STRATEGY HAS INTEGRATED ESG INTO ITS INVESTMENT PROCESS BY INCORPORATING BOTH BEST-IN-CLASS LEADERSHIP AND AVOIDANCE CRITERIA.

ACTIVE OWNERSHIP: Refers to the practice of corporate engagement, which takes many forms, including filing shareholder resolutions, proxy voting and engaging in support of ESG issues. Company engagements can be either individual or collaborative. Engagement enables investors to encourage management to take positive action, enhance disclosure on material issues and if needed, through collaborative engagement, put pressure on management to effect positive change.

Read our [Engagement policy](#) and [Proxy voting policy](#)

THEMATIC INVESTING OR IMPACT INVESTING: An investment approach that seeks to invest with the purpose of both a financial return and social and/or environmental impact. Focused on investing with exposure to a specific impact theme, for example, clean tech, low-carbon, gender lens investing, etc. Depending on the organization or institution, definitions, approaches and investment objectives to impact investing may vary. *In some cases, impact investing can be considered across asset classes such as ESG integration within a public equity portfolio that seeks market rate returns.* In other cases, impact investing can focus on thematic issues often within a particular asset class such as private debt (low-income housing, community developments, health outcomes, financial inclusion, education, etc.) that may or may not achieve a market rate return.

Read our [Gender Diversity Impact](#) and [Carbon Footprint Analysis](#)

PLACE-BASED INVESTING OR COMMUNITY INVESTING: A term typically used by non-profits, in particular community foundations, looking to make investments for the benefit of their local communities and stakeholders, for example, supporting community programs such as education, scholarships, art and culture, providing services to underprivileged members of the community, including financial assistance (microfinance), small business financing, conservation of local resources, etc. Investments are typically made directly into low-income or disadvantaged communities through channels such as community development banks, credit unions, loan funds and microfinance institutions. Similar to impact investing and perhaps with some overlap, products and strategies can be found across a wide range of asset classes from Certificates of Deposit (CDs) in community development credit unions to mutual fund products focused on affordable housing. This can also fall under the general term “impact investing.”

MISSION-RELATED INVESTMENTS (MRI): An umbrella term used by non-profits seeking mission alignment in their investment portfolios. Any combination of the approaches listed above—screening, ESG integration, impact investing and/or active ownership—may be utilized by institutions to implement mission-aligned investments.

PROGRAM-RELATED INVESTMENTS (PRI): An IRS term specific to private foundations, who are allowed to utilize their 5% payout to make sub-market investments that are aligned with their charitable mission³. Program-related investments are sometimes considered a subset of mission-related investments, with the key difference being PRIs have to be sub-market rate investments whereas MRIs are typically market-rate investments.

³ Internal Revenue Service.

FOSSIL-FREE INVESTING OR FOSSIL FUEL DIVESTMENT: A movement that began with the 350.org⁴ campaign on college campuses that seeks to divest university endowments from fossil fuels, typically those companies listed in the top 200 by reserves.

GREEN BONDS: Fixed income investments generally issued by federal organizations, municipalities, corporations or generally backed by proceeds from developmental finance institutions like the World Bank and IFC to fund projects that support climate change adaptation and mitigation. Examples include bonds issued by municipalities to fund renewable energy production and distribution infrastructure.

Industry Initiatives

Over the years, many industry initiatives led by a combination of investor coalitions, non-profits, membership-based networks, academia, research think tanks, development organizations, etc., have contributed to the growth of the ESG space.

Neuberger Berman’s SRI investment team has a long history of integration, advocacy and engagement in the industry with well-established organizations that share our long-standing core beliefs.

INVESTOR INITIATIVES



⁴ 350.org.

Glossary of Common Industry Initiatives

Carbon Disclosure Project (CDP) requests standardized climate change, water and forest information from some of the world's largest listed companies through annual questionnaires sent on behalf of institutional investors that endorse them as 'CDP signatories'. These shareholder requests for information encourage companies to account for and be transparent about environmental risk.

Center for Political Accountability (CPA) is a non-profit, non-partisan organization that was created to bring transparency and accountability to corporate political spending. The CPA-Zicklin Index looks at the top 200 companies in the S&P 500 Index and how they are implementing policies and practices for disclosing, decision-making and managing the risks associated with their political spending.

Center for Responsible Lending (CRL) is a nonprofit, non-partisan organization that works to protect homeownership and family wealth by fighting predatory lending practices.

Ceres / Investor Network on Climate Risk (INCR) is a network of 100 institutional investors representing more than \$11 trillion in assets committed to addressing the risks and seizing the opportunities resulting from climate change and other sustainability challenges.

Electronics Industry Citizenship Coalition (EICC) was formed to develop an industry code of conduct, ranging from workplace practices to conflict minerals, and set standards for social and environmental performance in the electronic industry's global supply chain. Business for Social Responsibility serves as secretariat for this coalition, which now includes over 40 members worldwide and represents various tiers of the electronic industry supply chain.

Equitable Food Initiative (EFI) is a new project that brings together workers, growers and retailers in the effort to produce better fruits and vegetables. Produce farms that comply with the EFI Standard strive for improved working conditions, pesticide management and food safety.

Extractive Industries Transparency Initiative (EITI) was established to set a global standard for transparency in oil, gas and mining. This coalition includes governments, companies, civil society groups, investors and international organizations at both the membership and board levels. Over 40 of the world's largest oil, gas and mining companies support and actively participate in the EITI process through their local operating companies in participating countries, through international-level commitments and through industry associations.

Farm Animal Investment Risk & Return (FAIRR) is an initiative which aims to help investors better understand the material investment risks and opportunities connected with intensive livestock farming and animal welfare standards.

Forest Stewardship Council (FSC), a multi-stakeholder initiative, brings together loggers, foresters, environmentalists and sociologists to develop the FSC sustainable forestry standards and certification systems. FSC paper and wood products that use the FSC label in conjunction with the Rainforest Alliance Certified seal must meet standards that integrate economics and biodiversity, as well as the social effects on communities and workers' rights.

Global Impact Investing Network (GIIN) is a not-for-profit organization dedicated to increasing the scale and effectiveness of impact investing. Impact investments are investments made into companies, organizations and funds with the intention to generate measurable social and environmental impact alongside a financial return.

Global Network Initiative (GNI): A multi-stakeholder group of companies, civil society organizations (including human rights and press freedom groups), investors and academics spent two years negotiating and creating a collaborative approach to protect and advance freedom of expression and privacy in the Information and Communications Technology (ICT) sector, and have formed an Initiative to take this work forward.

Global Reporting Initiative (GRI) is a leading organization in the sustainability field that has pioneered and developed a comprehensive Sustainability Reporting Framework that is widely used by corporations and investors globally.



Interfaith Center on Corporate Responsibility (ICCR), a faith-based organization dedicated to shareholder advocacy to promote corporate sustainability.

Investor Environmental Health Network (IEHN) is a collaborative partnership of investment managers, advised by nongovernmental organizations, concerned about the financial and public health risks associated with corporate toxic chemicals policies. IEHN, through dialogue and shareholder resolutions, encourages companies to adopt policies to continually and systematically reduce and eliminate the toxic chemicals in their products and activities.

Rainforest Alliance Network (RAN) promotes standards for sustainability that conserve wildlife and wetlands while ensuring the well-being of workers and the surrounding community. Farms that meet the comprehensive criteria of the Sustainable Agriculture Network earn the right to use the Rainforest Alliance Certified™ seal that can be found on various food product labels. Forestry enterprises that comply with the rigorous standards of the Forest Stewardship Council (FSC) can use the Rainforest Alliance Certified seal in conjunction with the FSC logo to differentiate their products in the marketplace.

Sustainability Accounting Standards Board (SASB) Alliance aims to develop and maintain standards for public company ESG disclosures using a rigorous process of evidence-based research and broad, balanced stakeholder participation.

The United Nations-supported Principles for Responsible Investment (PRI) Initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices.

US SIF – The Forum for Sustainable and Responsible Investment is the US membership association for professionals, firms, institutions and organizations engaged in sustainable and responsible investing. US SIF and its members advance investment practices that consider environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact.

Verité is a non-profit organization with the mission to ensure that people around the world work under safe, fair and legal conditions. In their experience in partnering with corporations, suppliers, civil society and investors help promote socially responsible, safe and fair working conditions globally.

World Wildlife Fund (WWF), a global NGO, focuses on conservation of nature and the preservation of biodiversity. Companies often partner with the WWF to ensure they are following best practices as it relates to environmental commitments.

For additional information please visit: www.nb.com/sustainableequity

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