

SUSTAINABLE & IMPACT INVESTING

A FRAMEWORK FOR APPLYING ESG ACROSS ACCOUNT TYPES

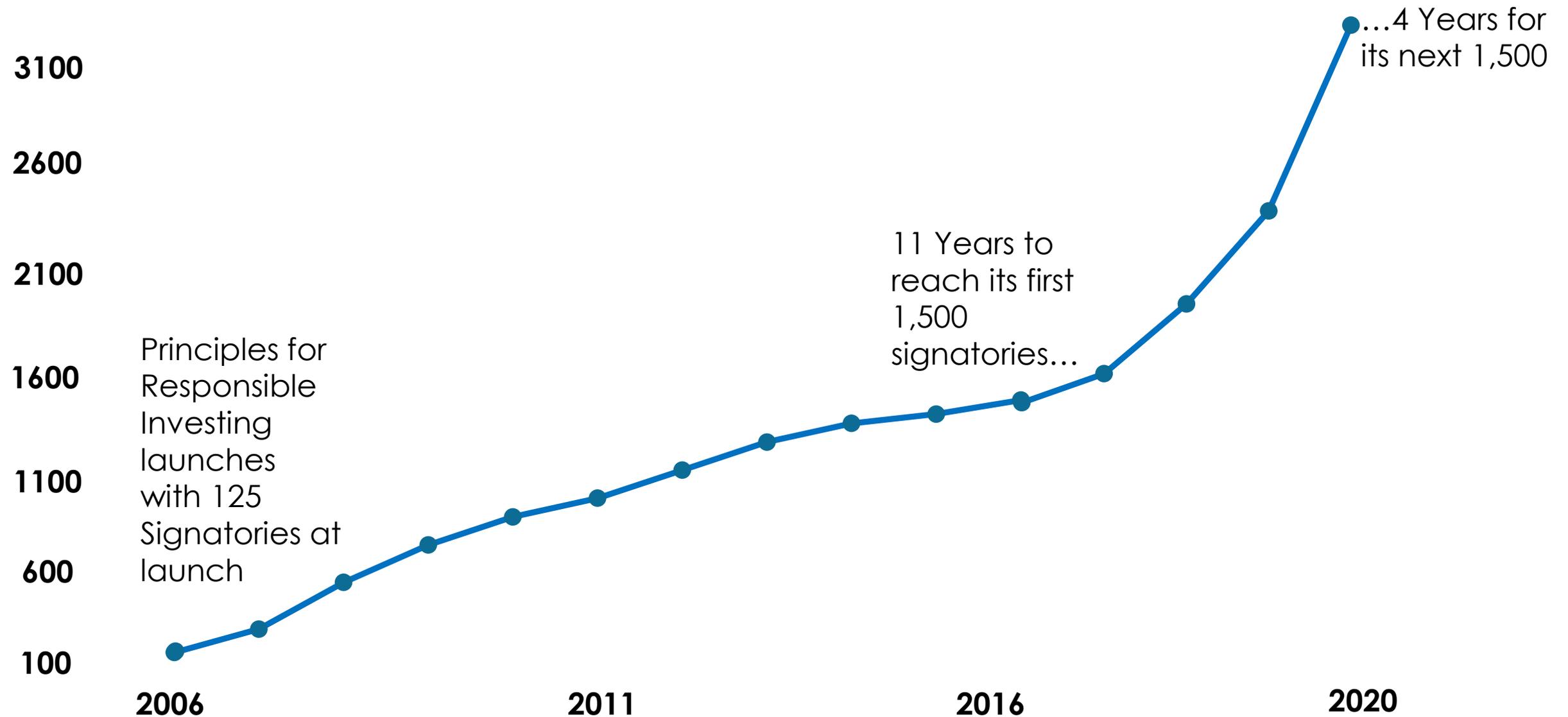
FIRMA 2021

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SUSTAINABLE & IMPACT INVESTING: THE LAST 15 YEARS THROUGH THE LENS OF PRI



Source: Principles for Responsible Investing

A CONVERGENCE OF FACTORS DRIVES SUSTAINABLE & IMPACT GROWTH

Shifting Asset Owner Dynamics



Research linking ESG and financial materiality encourages asset managers

28% → 70%

% of millennials interested in Sustainable Investing, 2015 vs. 2020

63% | 29% | 8%

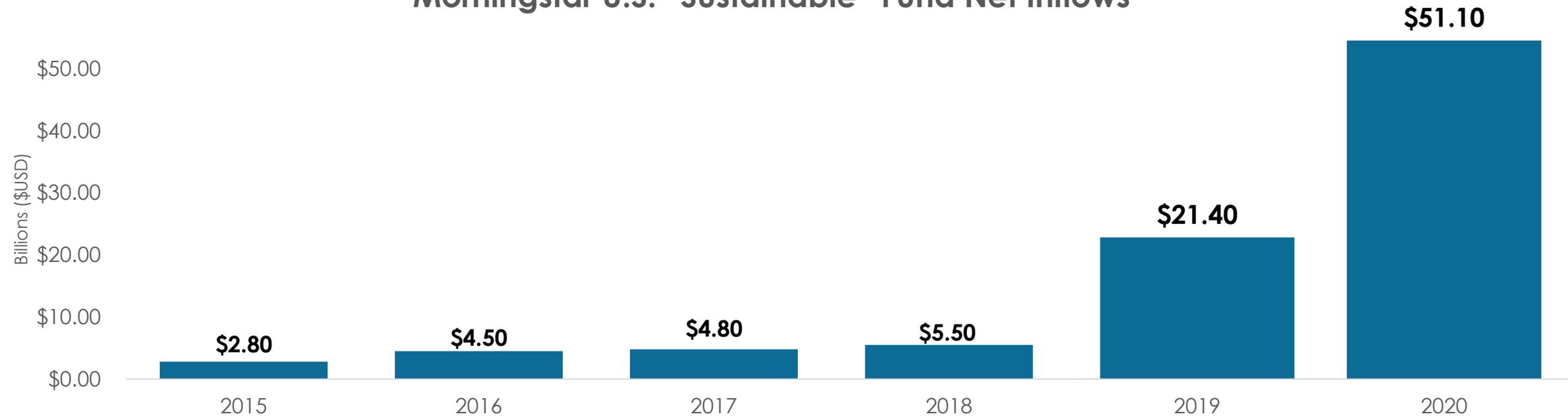
Positive / neutral / negative effect of incorporating ESG into financial analysis

Source: 2020 U.S. Trust Survey

Source: Study of 2,250 studies from 1970-2018, by DWS & Hamburg Institute, December 2018

HERE'S THE CONVERGENCE PLAYING OUT IN PRACTICE

Morningstar U.S. "Sustainable" Fund Net Inflows

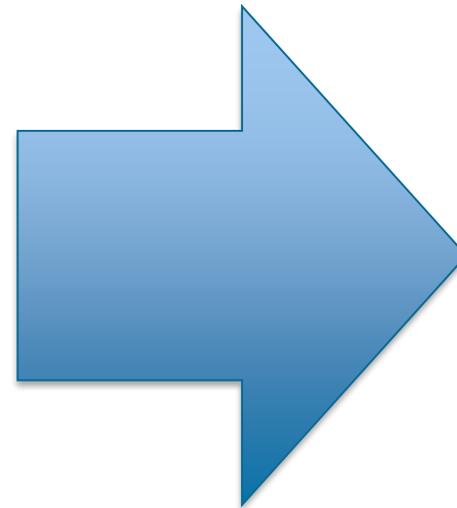


Source: Morningstar as of January 2021

WHAT'S HOLDING THE INDUSTRY BACK?

Asset owners' biggest challenges:

- a) **confusion over terminology** and definitions
- b) **Uncertainty** as to whether ESG investments are **consistent with their fiduciary duties**



Opportunity to define the ESG universe & establish fiduciary guidelines

Source: 2020 CFA Institute Survey

A REPRESENTATIVE CASE STUDY

Client Profile

- A client wants to:
 - Integrate material ESG-related risks across their portfolio
 - Limit their environmental footprint
 - Provide low interest rate funding to local childcare businesses

Glenmede Relationship Profile

- Glenmede manages:
 - An Irrevocable Trust for the client's family
 - An agency investment management account

Key Question for us to Consider:

To what extent can we accommodate their requests in each account type?

DEFINING THE SPACE: GLENMEDE'S TAXONOMY

Moving from risk mitigation to growth opportunities to measurable impact



ESG Integrated

Explicit **consideration of material ESG factors** in the traditional investment decision making process



ESG Mandated

Using ESG screens to **avoid companies** with poor ESG criteria **and/or tilt toward companies** with strong ESG characteristics



Thematic

Dual goal to achieve measurable environmental or social **impact** and **market-rate returns**



Concessionary High Impact

Primary goal to achieve measurable environmental or social **impact**, while **willing to sacrifice returns** to do so

DOES APPLICATION OF THESE TAXONOMY APPROACHES DIFFER BY ACCOUNT TYPE?

Agency	Trusts	ERISA
<ul style="list-style-type: none">• Non-Discretionary• Discretionary	<ul style="list-style-type: none">• Revocable• Irrevocable	<ul style="list-style-type: none">• 401ks & Pensions

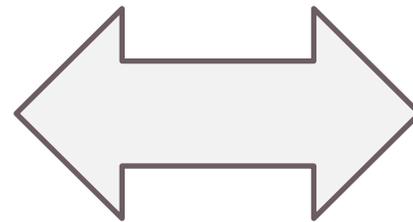
Rigidity of Fiduciary Guidelines Increases 

SPOTLIGHT ON TRUST LAW: FOUNDATIONAL STANDARDS

Prudent Investor Rule

A trustee shall manage trust assets as **a prudent investor would** and exercise **reasonable care, skill and caution**.

(FDIC Trust Examination Manual; Section 2, Clause a)



Duty of Loyalty

A trustee shall invest and manage the trust assets **solely in the interest of the beneficiaries**.

(FDIC Trust Examination Manual; Section 227, Clause c)

INTERPRETATIONS OF TRUST LAW OVER TIME

1980



Social investing is contrary to trust law; raises issues of insufficient diversification, excess fees and breach of the duty of loyalty. (John H. Langbein & Richard A. Posner, “Social Investing and the Law of Trusts,” 79 Mich. L. Rev. 72 (1980))

INTERPRETATIONS OF TRUST LAW OVER TIME

1980



1995



No form of 'social investing' is consistent with the duty of loyalty if the investment activity entails sacrificing the interests of trust beneficiaries – for example, by accepting below market returns – in favor of the interests of the persons supposedly benefitted by pursuing the particular social cause. (Comments to Uniform Prudent Investor Act, 1995)

INTERPRETATIONS OF TRUST LAW OVER TIME

1980



1995

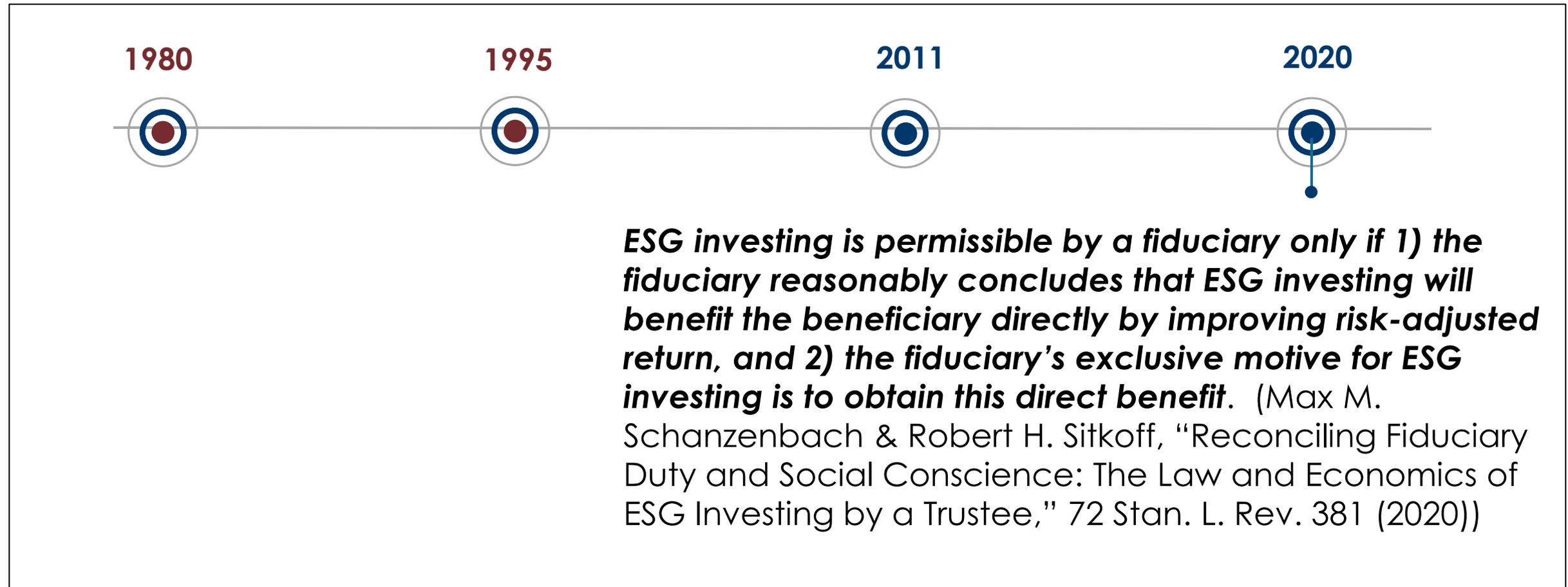


2011



Nothing in the duty of loyalty requires the trustee to exclude consideration of a beneficiary's non-financial interests. (Susan N. Gary, "Is it Prudent to be Responsible? The Legal Rules for Charities that Engage in Socially Responsible Investing and Mission Investing," 6 NW. J. L. & Soc. Pol'y 106 (2011))

INTERPRETATIONS OF TRUST LAW OVER TIME



DELAWARE'S STATUTORY APPROACH

Investment Decisions:

- 12 Del. C. §3302: When considering the needs of the beneficiaries in making investment decisions, "***the fiduciary may take into account*** the financial needs of the beneficiaries as well as ***the beneficiaries' personal values, including the beneficiaries' desire to engage in sustainable investing strategies that align with the beneficiaries' social, environmental, governance or other values or beliefs of the beneficiaries.***"

Governing Instruments:

- 12 Del. C. §3303: "[T]he terms of a governing instrument may expand, restrict, eliminate, or otherwise vary any laws of general application to fiduciaries, trusts and trust administration, including, but not limited to, any such laws pertaining to ... [t]he manner in which a fiduciary should invest assets, ***including whether to engage in 1 or more sustainable or socially responsible investment strategies, in addition to, or in place of, other investment strategies, with or without regard to investment performance....***"

UPMIFA GUIDELINES

Uniform Prudent Management of Institutional Funds Act (UPMIFA)

“In managing and investing an institutional fund, the following factors, if relevant, must be considered...

An asset’s special relationship or special value, if any, to the charitable purpose of the institution.”

Official Comment to UPMIFA

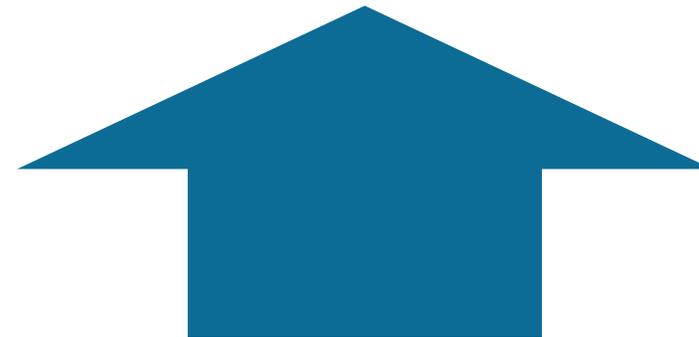
“[a] prudent decision maker can take into consideration the relationship between an investment and the purposes of the institution and of the institutional fund in making an investment that may have a program-related purpose but not be primarily program-related.”

OUR PRINCIPLES UNDERLYING POLICIES



We believe our ESG integrated, ESG Mandated, & Thematic strategies **have equal chance of producing optimal return** as non-ESG strategies

ESG Mandated & Thematic strategies may introduce additional considerations from a **diversification & collateral benefit** perspective

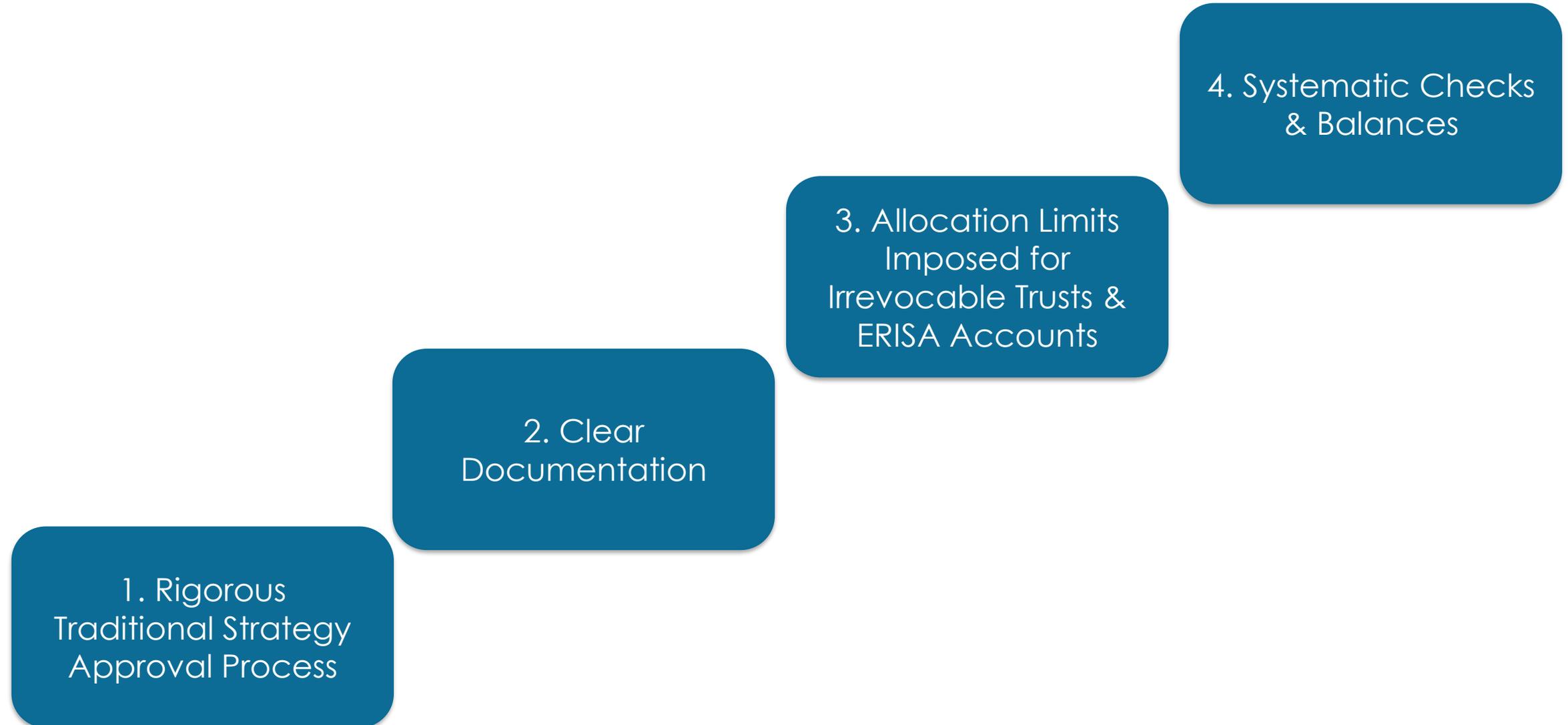


DOES APPLICATION OF THESE TAXONOMY APPROACHES DIFFER BY ACCOUNT TYPE? OUR VIEW

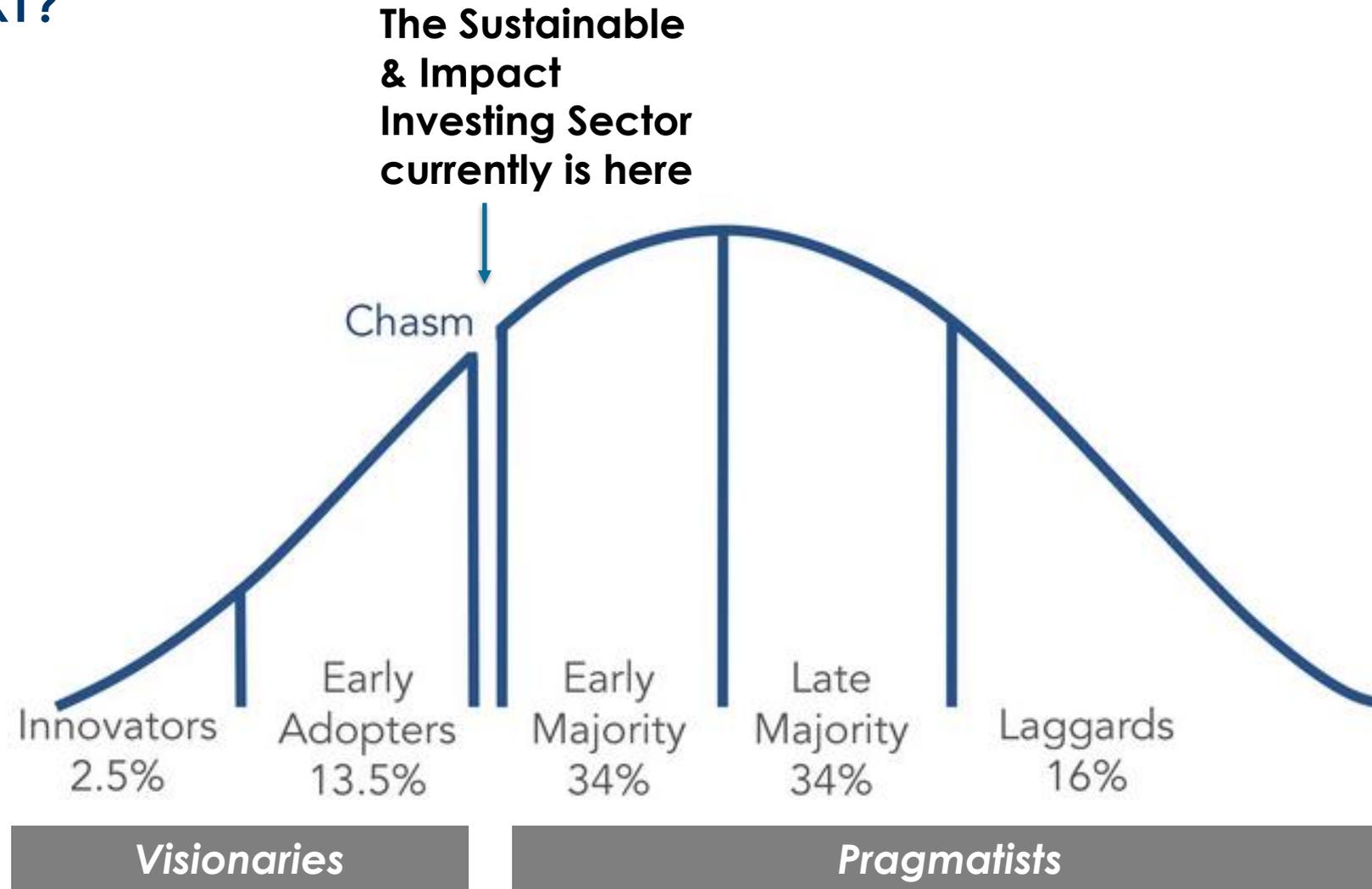
	ESG Integrated	ESG Mandated	Thematic	Concessionary High Impact
Agency: Non-Discretionary*	✓	🔍	🔍	🔍
Agency: Discretionary*	✓	🔍	🔍	🔍
Trust: Revocable	✓	🔍	🔍	🔍
Trust: Irrevocable	✓	🔍	🔍	✗
ERISA Accounts	✓	🔍	🔍	✗

✓ = Acceptable in line with traditional strategy policies
 🔍 = Can be acceptable with stringent procedures, good documentation & thoughtful allocation
 ✗ = Additional considerations required before any investment may be made

SPOTLIGHT ON ESG MANDATED & THEMATIC: POLICIES & PROCEDURES



WHAT'S NEXT?



The next stage of growth will need to be supported by clear frameworks & applicability standards.