CEEP Network

Sustainability Investing Data

What is it, how reliable is it, and how can we use it to make decisions today?

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Dimensional

ESG Terminology

Active Ownership

Governance

Socially Responsible Investing (SRI)

Diversity & Inclusion

Environmental, Social, and Governance (ESG)

Proxy Voting

Sustainability

Stewardship

Responsible Investing

Negative Screening

Environmental

Impact Investing

Stakeholder Governance

Engagement

Activist Investor

Social Screens

Applications of ESG

Positive Screening

Negative Screening

Over/Under-Weighting

Engagement

Dimensional's Approach to Sustainability Investing

Start with a broadly diversified, systematic investment approach

Consult with experts to better understand ESG issues and data

Target focused, measurable ESG outcomes without sacrificing expected returns

Provide transparency through meaningful reporting

There is no guarantee strategies will be successful. Environmental and social screens may limit investment opportunities.

Evaluating ESG Concerns

Some questions we consider:

Do we have enough information to fully understand the issue?

Which securities have activity in the issue? Is the issue part of their supply chain?

How impactful will it be to address the issue at different parts of the value chain?

Will a zero tolerance approach affect diversification or investor outcomes?

A Deep Understanding of ESG Data Supports Our Internal Research

Dimensional's Approach to ESG Data

Continually evaluate available data sources and providers

Work with experts to better understand the data

Use data from multiple providers to improve coverage and audit data

Develop proprietary data when we can improve on what is available from third-party providers

ESG, Building Responsible Investment Solutions

Factoring Environment, Social and Governance Factors into Your Investment Approach

ESG
Environmental
Social
Governance

Environmental

GHG Emissions

Oil & Gas Reserves

Coal Reserves

Land Use

Biodiversity

Toxic Spills

Waste and Water
Management

Social

Tobacco & Alcohol

Gambling & Pornography

Child Labor

Factory Farming

Nuclear Weapons &
Land Mines

Governance

Ensuring Shareholders
are Heard

Ensuring Boards do
their Job

Aligning Pay with
Performance

Minimizing Conflicts
of Interest

Ensuring Best Practices

One Investment Philosophy

OUR CORE BELIEFS	APPLIED TO ESG
Prices quickly incorporate relevant information.	Information captured in prices includes current expectations about ESG-related risks or opportunities.
Expected returns are driven by the prices investors pay and the cash flows they expect to receive.	Our ESG research tests for information in ESG data about differences in discount rates or future cash flows.
We seek to deliver the best available combinations of expected return and risk, subject to relevant laws and constraints.	We have found no reliable relation between ESG data and differences in expected returns, but we can use ESG data to manage risk and add value through stewardship.

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Market Returns vs. the Market ex Energy and Utilities

US Market, 1975–2019

Growth of Wealth

	Market	Market ex Utilities	Market ex Energy	Market ex Energy and Utilities
Annualized Compound Return (%)	12.56	12.59	12.62	12.66
Annualized Standard Deviation (%)	15.09	15.52	15.37	15.89
Monthly Average Return (%)	1.09	1.09	1.09	1.10
t-Stat vs. Market	—	0.84	0.33	0.61
Annualized Tracking Error vs. Market (%)	—	0.76	1.94	2.32

Dimensional's History with ESG Data and Solutions

Targeted ESG Solutions

Separately managed equity portfolios with social screens

US social equity portfolio

Separately managed fixed income portfolio with social screens

EM sustainability equity portfolio

EM social equity portfolio

Sustainability equity portfolios investing in US and developed ex US markets[1]

Developed ex US social equity portfolio

Created sustainability council

Enhanced sustainability screens

Sustainability fixed income portfolio

US sustainability targeted value portfolio

Social fixed income portfolio

| 1980's | 2006 | 2007 | 2008 | 2010 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |

MSCI ESG social data

Sustainable Holdings sustainability data

Ownership Matters data incorporated in proxy voting analysis

Internal data development: palm oil production

SASB data incorporation in stewardship process

ISS data considered in proxy voting analysis

Glass Lewis data incorporated in proxy voting analysis

MSCI ESG sustainability data

ISS sustainability data

Internal data development: coal, factory farming, and deforestation

Enhanced systematic processes to prioritize engagement

ESG Data and Integration

1. Dimensional's approach to sustainability investing is protected by U.S. Patent Nos. 7,596,525 B1, 7,599,874 B1 and 8,438,092 B2.

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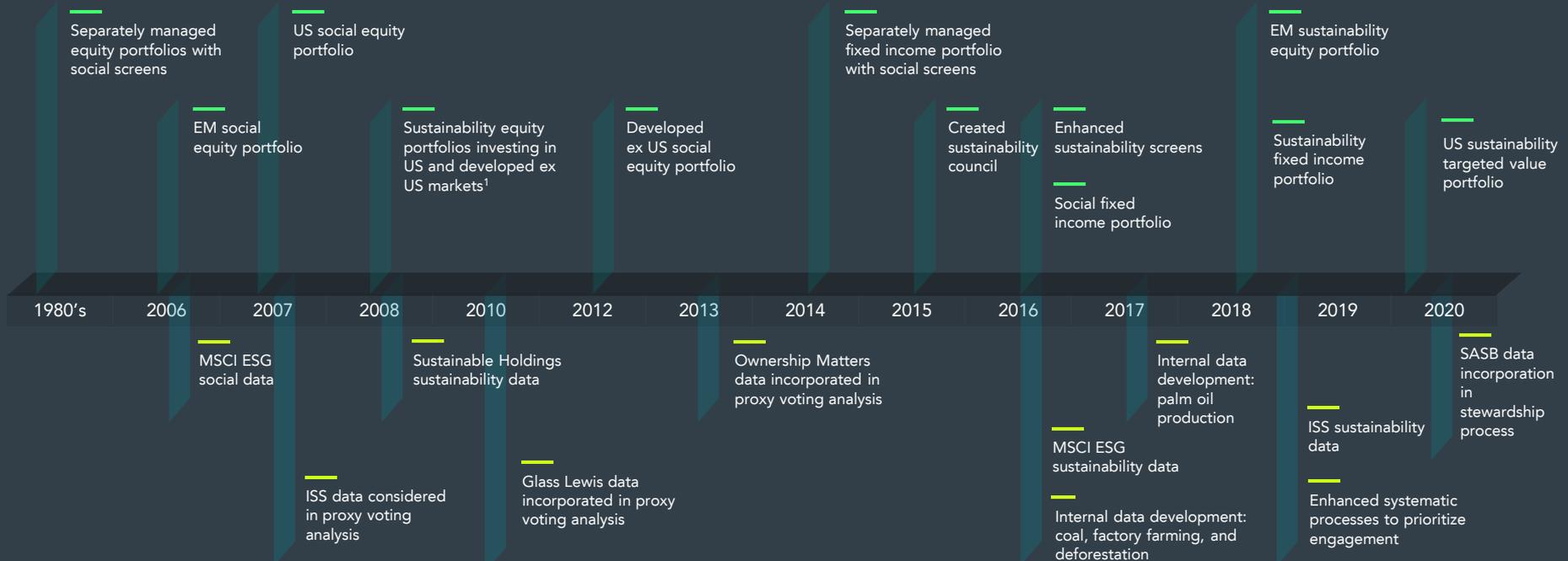
Appendix

Methodology and Disclosures

US market data from CRSP and Compustat. Developed ex US and emerging markets data from Bloomberg. All hypothetical portfolios presented include equity securities across all market capitalizations as listed in the sources stated above and exclude REITs. Hypothetical US portfolios are capitalization-weighted and rebalanced annually at the end of December. Hypothetical developed ex US and emerging market portfolios are capitalization-weighted and rebalanced semiannually at the end of June and December. In the US market, sectors are based on SIC classification, which is mapped to GICS classification using a proprietary mapping. Sectors are based on Bloomberg classification outside the US. CRSP data provided by the Center for Research in Security Prices, University of Chicago. Past performance, including hypothetical performance, is no guarantee of future results.

Filters were applied to data retroactively and with the benefit of hindsight. Returns are not representative of indices or actual strategies managed by Dimensional and do not reflect costs and fees associated with an actual investment. Actual returns may be lower. Performance is hypothetical, doesn't reflect trading in actual accounts, and is for information purposes only.

GLOSSARY

Annualized Compound Return: The rate of return at which capital has compounded over time, expressed in annual terms. For example, a portfolio that increased in value from $100 to $120 over the course of two years would have an average annual return of 10% (20% divided by the two years of the holding period) but an annualized compound return of about 9.54%. A 9.54% return on $100 after one year would increase the portfolio value to $109.54, and a 9.54% return on the $109.54 in year two would increase the portfolio value to $120.

Monthly Average Return: The average percentage change in capital without considering the effects of compounding, expressed in monthly terms. For example, the average monthly return over a two-month period that included a 2% return in month one and a 1% return in month two would be 1.5%.

Standard Deviation: A measure of variation or dispersion of a set of data points. Standard deviation is often used to quantify the historical return volatility of a security or portfolio.

Tracking Error: A measure used to quantify how closely a portfolio follows an index or benchmark, often defined as the standard deviation of the difference between the portfolio and index returns. For example, an annualized tracking error of 1% would indicate that annual returns were within plus-or-minus 1% of the market portfolio return roughly two-thirds of the time.

Market Capitalization: The total market value of a company's outstanding shares, computed as price times shares outstanding.