

**WELLS  
FARGO**

**The Private Bank**

# Wells Fargo Wealth Management Social Impact Investing

February, 2020  
June L. Lundy  
Investment Strategist



## **Investment and Insurance Products**

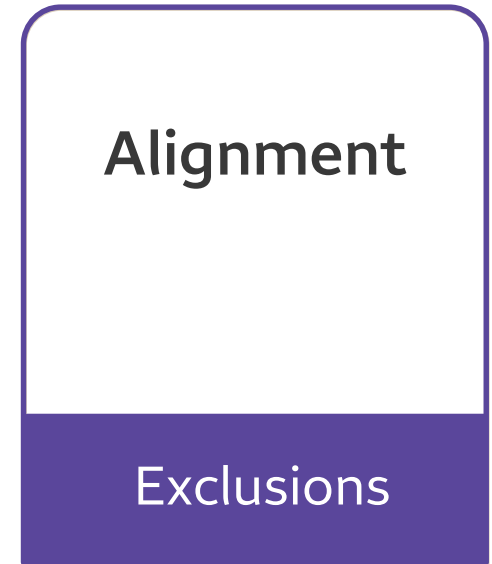
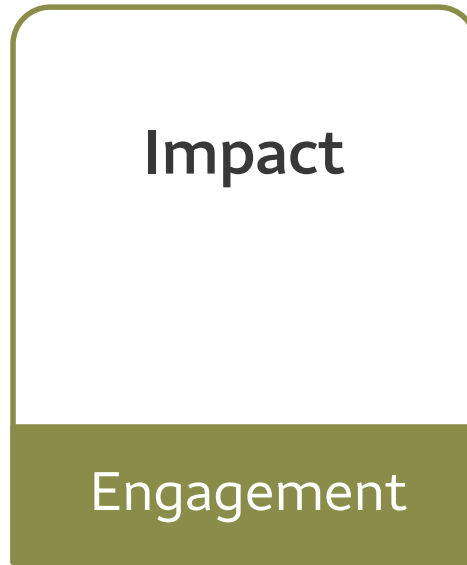
- **Not insured by FDIC or any Federal Government Agency**
- **Not a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate**
- **Subject to Investment Risks, Including Possible Loss of Principal Amount Invested**

# Modern responsible investment

Modern responsible investment strategies help clients align portfolios with their values, integrate Environmental, Social, and Governance (ESG) factors into the investment management process, and include robust engagement capabilities to achieve impact. We refer to this as Social Impact Investing.



# Three key elements of Social Impact Investing



# ESG integration considers stakeholder relationships

## **ESG Integration**

Companies that are mindful of strong environmental, social and governance practices could offer greater long-term financial value.

The focus is on **materiality**.

# Evaluation of Materiality of Sustainability Issues in Each Industry

SASB's research process starts with a broad universe of sustainability issues

## Environment

- GHG Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

## Leadership & Governance

- Business Ethics
- Competitive Behavior
- Management of the Legal & Regulatory Environment
- Critical Incident Risk Management
- Systemic Risk Management



## Business Model & Innovation

- Product Design & Lifecycle Management
- Business Model Resilience
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change

## Social Capital

- Human Rights & Community Relations
- Customer Privacy
- Data Security
- Access & Affordability
- Product Quality & Safety
- Customer Welfare
- Selling Practices & Product Labeling

## Human Capital

- Labor Practices
- Employee Health & Safety
- Employee Engagement, Diversity & Inclusion

# Impact – capital markets, corporations, and society

## Impact

Use market forces and investments to help create change and long-term sustainable living for society at large. In public markets this is accomplished mainly through **engagement**.

# Dialogue with firms on environmental, social, and governance issues

Proxy voting – Disclosure – Shareholder Engagement  
Sustainability Accounting Standards







# Engagement Topics – Sustainable Development Goals

## SUSTAINABLE DEVELOPMENT GOALS





# Alignment with client values

## **Alignment**

Values are important, so investment actions should be aligned with personal or organizational values. This is accomplished mainly through **exclusions**.

# Exclusions for faith-based strategies

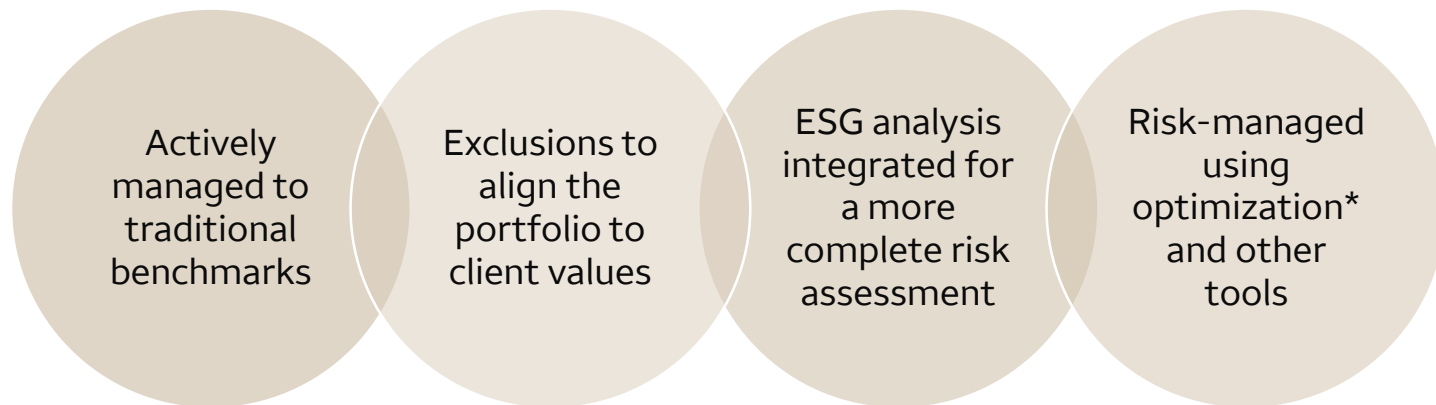
- Tobacco
- Alcohol
- Weapons manufacturing
- Coal
- Gambling
- Adult entertainment
- Abortion
- Contraceptive manufacturing
- Embryonic stem cells

# Social Impact Investing (SII) overview

## SII strategies offered in 3 asset classes

- U.S. Large Cap Equity
- Public Real Estate Investment Trusts (REITs)
- Investment Grade Fixed Income (Taxable and Tax-Advantaged)

## Consistent investment approach



\* Optimization is a common tool used by portfolio managers to manage portfolio risk and sources of volatility (e.g., tracking error).

# Social Impact Investment portfolio characteristics

## SII Equity

- Large capitalization equity
- Benchmark:
  - S&P 500
- Investment Parameters
  - Min. market cap of \$2 billion
  - Min. initial position of 1%
  - Max. position of 8%
  - Eligible securities: common stocks, ADRs (max 15%) and money market funds
  - Sector diversified, except where alignment prohibits
  - Annual portfolio turnover range 25-50% (could vary significantly from year to year)

## SII Fixed Income

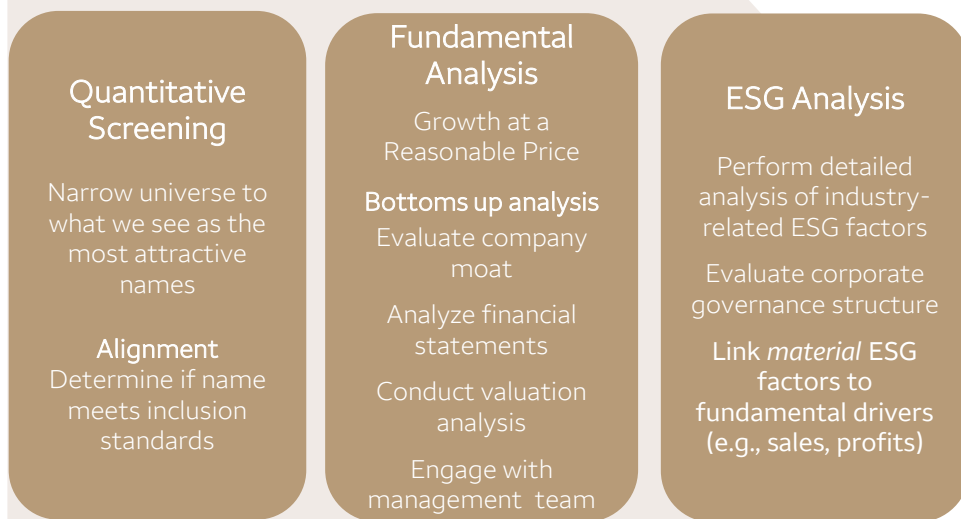
- Investment grade fixed income
- Benchmarks:
  - *Taxable mandates:* Bloomberg Barclays Intermediate Gov't/Credit
  - *Tax-Adv. mandates:* Bloomberg Barclays 1-15 Year Muni Blend
- Investment Parameters
  - Investment grade securities
  - Min. portfolio credit quality of of BBB- from S&P and Baa3 from Moody's
  - Duration range: Taxable 3-5 years, Tax-Adv. 3.75-6.5 years

# SII equity investment process

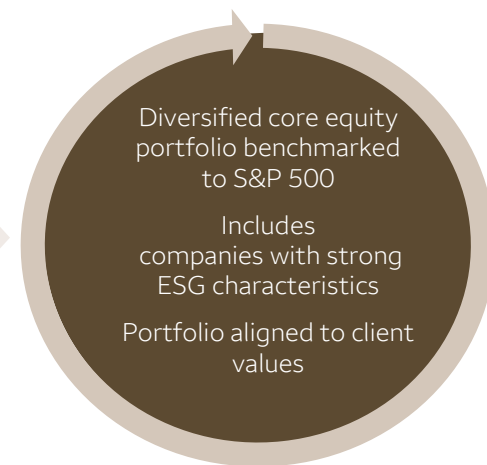
## Investment Universe



## SII Portfolio Construction



## SII Equity Portfolio



# SII taxable fixed income investment process

## Investment Universe

Bloomberg  
Barclays  
Intermediate  
Government/  
Credit Index

## SII Portfolio Construction

Wells Fargo Wealth  
Management's Fixed  
Income Strategies  
Team (FIST)

TOP DOWN  
ANALYSIS

Macroeconomic  
Interest Rate  
Yield Curve

Wells Fargo Wealth  
Management's Fixed  
Income Strategies  
Team (FIST)

BOTTOM UP  
ANALYSIS

Sector  
Security  
Credit

Wells Fargo Wealth  
Management's  
SII Team

ESG  
ANALYSIS

Environmental  
Social  
Governance

## SII Taxable Fixed Income Portfolio

Diversified investment  
grade fixed income  
portfolio

Includes issuers with  
strong ESG  
characteristics

Portfolio aligned to  
client values



# Catholic Values Conservative Christian Values

Faith-Based Equity Strategy

Faith-Based Fixed Income Strategy

Faith-Based REIT Strategy





# SII Faith-Based Equity Strategy

## **Investor Profile**

- Socially conscious investors
- Catholic and Conservative Christian investors who wish to invest according to the teachings of their faith
- Investors who are pro-life and want to incorporate restrictions on companies regarding life ethics issues
- Traditional socially responsible investors who want to exclude companies that generate revenues from products and services considered morally or ethically questionable
- Investors who want to own companies that the SII team believes are best in class based on environmental, social, and governance (ESG) performance

## **Investment Objective**

The strategy seeks to outperform the S&P 500 over a full market cycle while maintaining a comparable risk profile.

## **Investment Style**

The SII Faith Based Equity Strategy is a U.S. large cap equity portfolio that employs a ‘Growth at a Reasonable Price’ style. The SII investment team uses a disciplined approach that seeks to identify companies with strong free cash flow generation, improving margins, consistency of earnings, and high returns on capital that are trading at reasonable valuations. The SII team evaluates a company’s exposure and performance related to ‘industry relevant’ environmental, social, and governance factors, including the strength of its management team and board of directors. The strategy seeks to avoid investing in companies that have issues related to life ethics such as abortion and the use of human embryonic stem cell research. The strategy also seeks to avoid investing in companies with significant revenue from the production of tobacco, alcohol, gambling, adult entertainment, and weapons manufacturing. In aligning the portfolio, the SII team follows the United States Conference of Catholic Bishops guidelines for responsible investing and also considers recent papal guidance on sustainability as written in the Pope’s Encyclical Letter, “Laudato Si of the Holy Father Francis.” The portfolios are Separately Managed Accounts and can be customized to align to religious-focused investor preferences.



# SII Faith-Based Taxable Fixed Income Strategy

## Investor Profile

- Socially conscious investors
- Investors who seek an investment grade intermediate fixed income portfolio
- Catholic and Conservative Christian investors who wish to invest according to the teachings of their faith
- Investors who are pro-life and want to incorporate restrictions on companies regarding life ethics issues
- Traditional socially responsible investors who want to exclude issuers that generate revenues from products and services considered morally or ethically questionable
- Investors who want environmental, social, and governance (ESG) analysis to be a component of the investment decision-making process

## Investment Objective

The strategy seeks to maintain the risk and return profile of the Bloomberg Barclays Intermediate Government/Credit Index.

## Investment Style

The SII Faith Based Taxable Fixed Income strategy is actively managed and applies the strategy decisions of Wells Fargo Wealth Management's Fixed Income Strategies Team (FIST) including top-down macroeconomic, interest rate, and yield curve evaluations and bottom-up sector, security, and credit analysis. The SII team incorporates environmental, social, and governance (ESG) analysis in the investment decision making process. The SII Taxable portfolios consist of bonds with effective maturities of 10 years or less and the portfolios use a range of investment grade securities. The strategy seeks to avoid investing in companies that have issues related to life ethics such as abortion and the use of human embryonic stem cell research. The strategy also seeks to avoid investing in companies with significant revenue from the production of tobacco, alcohol, gambling, adult entertainment, and weapons manufacturing. In aligning the portfolio, the SII team follows the United States Conference of Catholic Bishops guidelines for responsible investing and also considers recent papal guidance on sustainability as written in the Pope's Encyclical Letter, "Laudato Si of the Holy Father Francis." The portfolios are Separately Managed Accounts and can be customized to align to religious-focused investor preferences.

# Disclosures

## RISK CONSIDERATIONS

All investing involves some degree of risk, whether it is associated with market volatility, purchasing power or a specific security. There is no assurance any investment strategy will be successful. Asset allocation does not guarantee a profit or protect against loss

Sustainable investing focuses on companies that demonstrate adherence to environmental, social and corporate governance principles, among other values. There is no assurance that social impact investing can be an effective strategy under all market conditions. Different investment styles tend to shift in and out of favor. In addition, a strategy's social policy could cause it to forgo opportunities to gain exposure to certain industries, companies, sectors or regions of the economy which could cause it to underperform similar portfolios that do not have social policy.

**Equity Securities:** Equity securities are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Investments in equity securities are generally more volatile than other types of securities. There is no guarantee that dividend-paying stocks will return more than the overall stock market. Dividends are not guaranteed and are subject to change or elimination.

**Fixed Income:** Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity. Income from municipal securities is generally free from federal taxes and state taxes for residents of the issuing state. While the interest income is tax-free, capital gains, if any, will be subject to taxes. Income for some investors may be subject to the federal Alternative Minimum Tax (AMT).

**Real Estate:** Real estate investments have special risks, including possible illiquidity of the underlying properties, credit risk, interest rate fluctuations, and the impact of varied economic conditions.

**American Depository Receipts:** Although ADRs are U.S. dollar denominated securities and pay dividends in U.S. dollars, they do not eliminate the currency risk associated with an investment in a non-U.S. company. Consequently, when the exchange rate between the foreign currency and the dollar changes, it can increase or decrease the investments' return to the ADR holder. If the home currency is devalued, this can result in a loss to the ADR holder, even if the company had been performing well. Since ADR prices have a direct correlation to share prices, adverse socio-economic and political trends in the issuer's country, which have a negative impact on the company's local stock price, affect its ADR price in the same way.

Investment strategies that are concentrated in a specific sector or style may be subject to a higher degree of market risk than investments that are more diversified. Portfolio holdings are subject to change without notice. The mention of specific securities is not a recommendation or solicitation for any person to buy, sell, or hold any particular security. The information is as of the date noted above, and will vary over time. Current and future holdings of the portfolio are subject to risk.

## GENERAL DISCLOSURES

Wells Fargo Wealth Management provides products and services through Wells Fargo Bank, N.A. and its various affiliates and subsidiaries. Wells Fargo Bank, N.A. is a bank affiliate of Wells Fargo & Company.

**Wells Fargo Bank, N.A. offers various advisory and fiduciary products and services including discretionary portfolio management. Wells Fargo affiliates, including Financial Advisors of Wells Fargo Advisors, a separate non-bank affiliate, may be paid an ongoing or one-time referral fee in relation to clients referred to the bank. The bank is responsible for the day-to-day management of the account and for providing investment advice, investment management services and wealth management services to clients. The role of the Financial Advisor with respect to Bank products and services is limited to referral and relationship management services.**

Brokerage services are offered through Wells Fargo Advisors. Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company.

# Disclosures

Advisory accounts are not designed for excessively traded or inactive accounts and may not be suitable for all investors. Please carefully review the Wells Fargo Advisors advisory disclosure document for a full description of our services, including fees and expenses. The minimum account size for this strategy is \$50,000.

## General Definitions

- **Duration:** Duration is stated in years and can be used to measure the sensitivity of a bond's price to a change in interest rates.

## Benchmark Definitions

An index is unmanaged and available for direct investment.

- **S&P 500 Index:** The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.
- **Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index:** The Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index is the intermediate component of the Bloomberg Barclays U.S. Government/Credit Index which is generally representative of government and investment grade corporate debt securities.
- **Bloomberg Barclays 1-15 Year Municipal Bond Index** consists of a broad selection of investment grade general obligation and revenue bonds of maturities ranging from one year to 17 years. It is representative of the tax-exempt bond market.
- **The FTSE Nareit All Equity REITs** Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

## Credit Rating Definitions

Bond ratings, issued by private independent ratings services, are a grade given to bonds which is designed to indicate the credit quality of the bond. Bonds rated Aaa through Baa3 by Moody's and AAA through BBB- by S&P, are typically considered to be investment grade. Investors should note that these ratings are subject to change and that an investment grade rating does not insure the bond against default or guarantee the return of principal.

### Explanation of Moody's Investor Service ("Moody's"), Standard & Poor's ("S&P"), and Fitch's Rating ("Fitch") rating scales:

Credit Quality	Moody's	S&P/Fitch
Prime	Aaa	AAA
Excellent	Aa	AA
Upper Medium	A	A
Lower Medium	Baa	BBB
Speculative	Ba	BB
Very Speculative	B, Caa	B,CCC,C
Default	Ca,C	D

The broad credit rating groupings may be further segmented (1,2,3 for Moody's and +,- for S&P/Fitch) to represent gradations within the grouping. Ratings of Baa2/BBB- or higher are considered "investment grade".