

# Investment Strategy

## Sustainable & Responsible Investing

4Q 2020

# What is Sustainable and Responsible Investing (SRI)?

An investment discipline that considers environmental, social, and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive contributions to society.



Source: US SIF The Forum for Sustainable and Responsible Investing

# Sustainability Themes

It is possible to invest toward your financial goals while also investing in a more sustainable future for the next generation.

## S U S T A I N A B I L I T Y   T H E M E S

Environmental  
Stewardship

Product Safety

Strong Labor  
Practices  
& Work  
Environments

Health &  
Well-Being

Social Equality

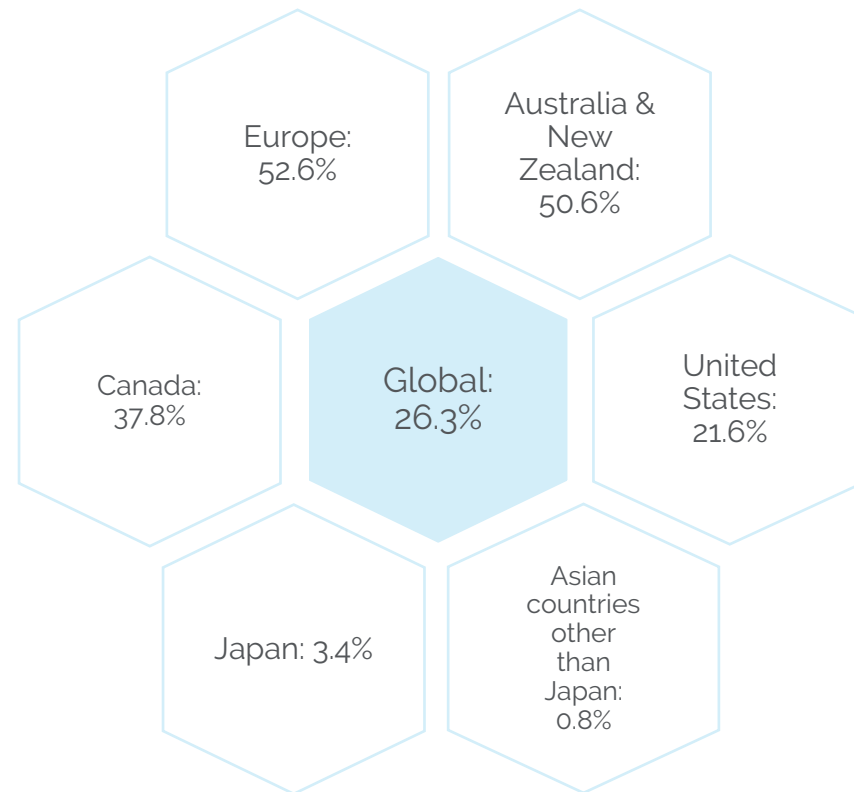
Economic &  
Community  
Development

Strong  
Governance

# Who are Sustainable & Responsible Investors?

## Sustainable investing is less prevalent in the United States

Proportion of sustainable investments relative to total managed assets<sup>1</sup>:

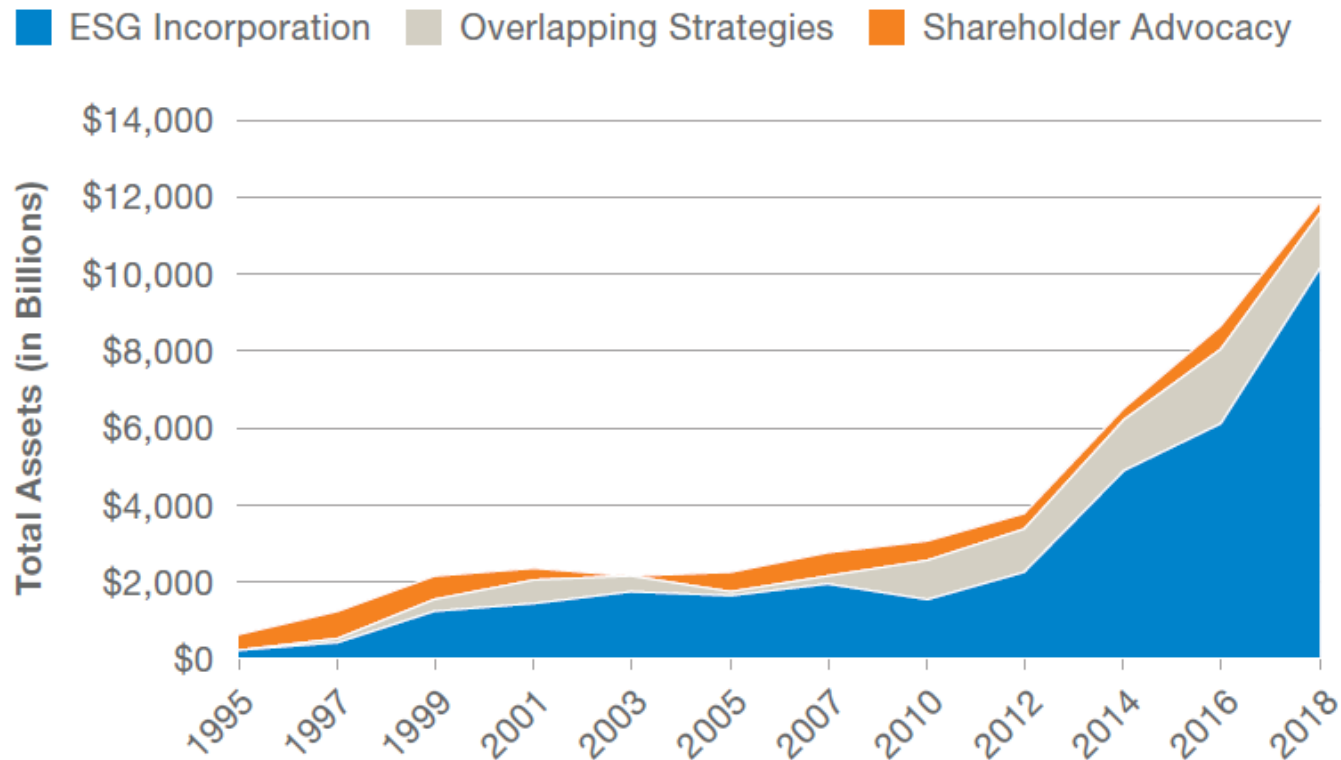


- Individuals
  - Broad range of individual investors
  - Family offices
- Institutions
  - Universities
  - Hospitals
  - Foundations
  - Pension funds
  - Nonprofit organizations
  - Religious institutions

<sup>1</sup>Source: 2016 Global Sustainable Investment Review; <http://www.gsi-alliance.org>

# Sustainable Investing Is Here to Stay

Sustainable, Responsible and Impact Investing Growth in the United States, 1995 - 2018



SOURCE: US SIF Foundation.

Sustainable and responsible investments in the US have been growing at an annual compound rate of 13.6 percent. The total US-domiciled assets under management using SRI strategies has grown to \$12 trillion.

# Traditional Fundamental Research

Investors track similar financial ratios and trends

- Returns
- Capital deployment
- Margins and opportunities to expand margins
- SG&A and R&D investments
- Cost cutting
- Pricing environment
- Innovation and pipeline
- Stability of growth and growth opportunities
- Competitive positioning
- End market challenges and opportunities
- Leverage, capacity, and other balance sheet metrics
- Cash flow generation

# Additional Drivers of Performance

What additional factors are researched by ESG analysts?

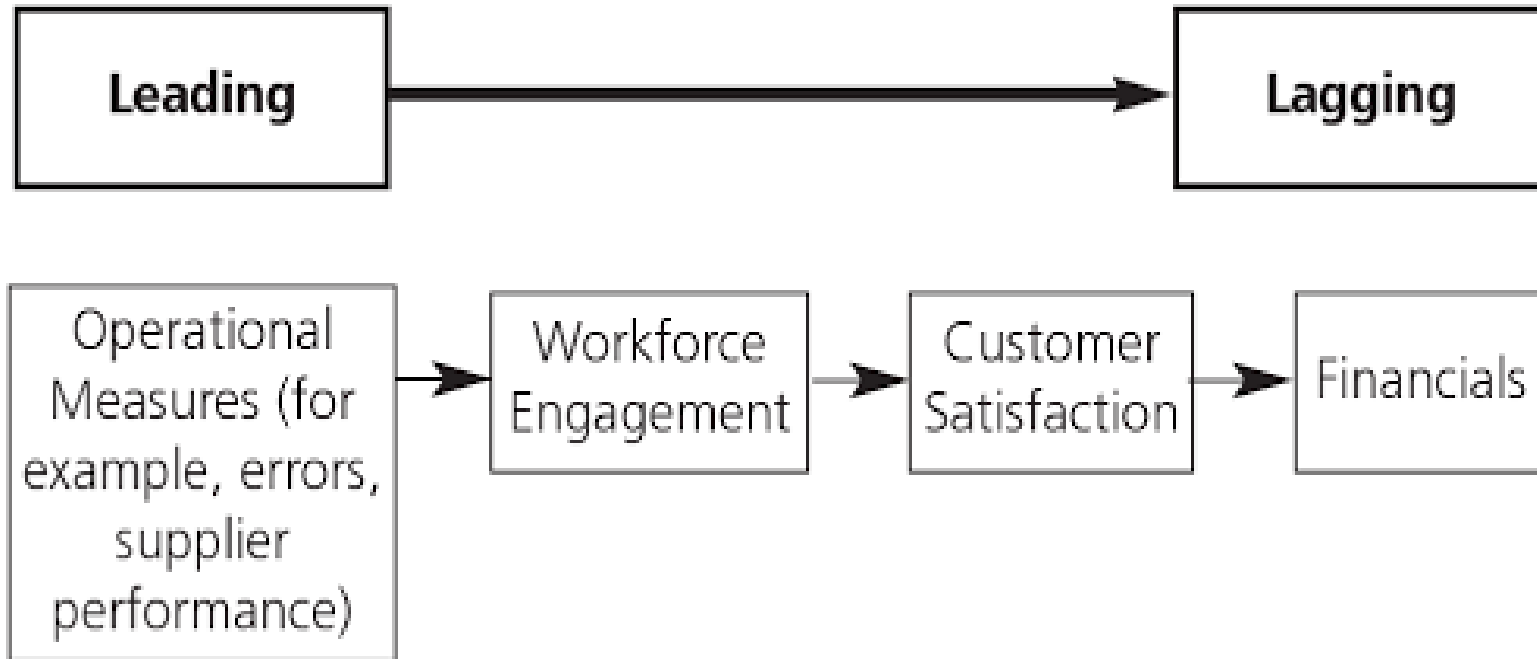
- Product and worker safety
- Audit procedures and accounting controls
- Board composition
- Diversity
- Community involvement
- Supply chain monitoring
- Environmental impact and goals
- Employee development, engagement, and retention

# SRI Research Considerations

- Returns
- Capital deployment
- Margins and opportunities to expand margins
- SG&A and R&D investments
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# ESG Factors are Leading Performance Indicators



Source: Insights to Performance Excellence, Mark Blazey, <https://books.google.com>

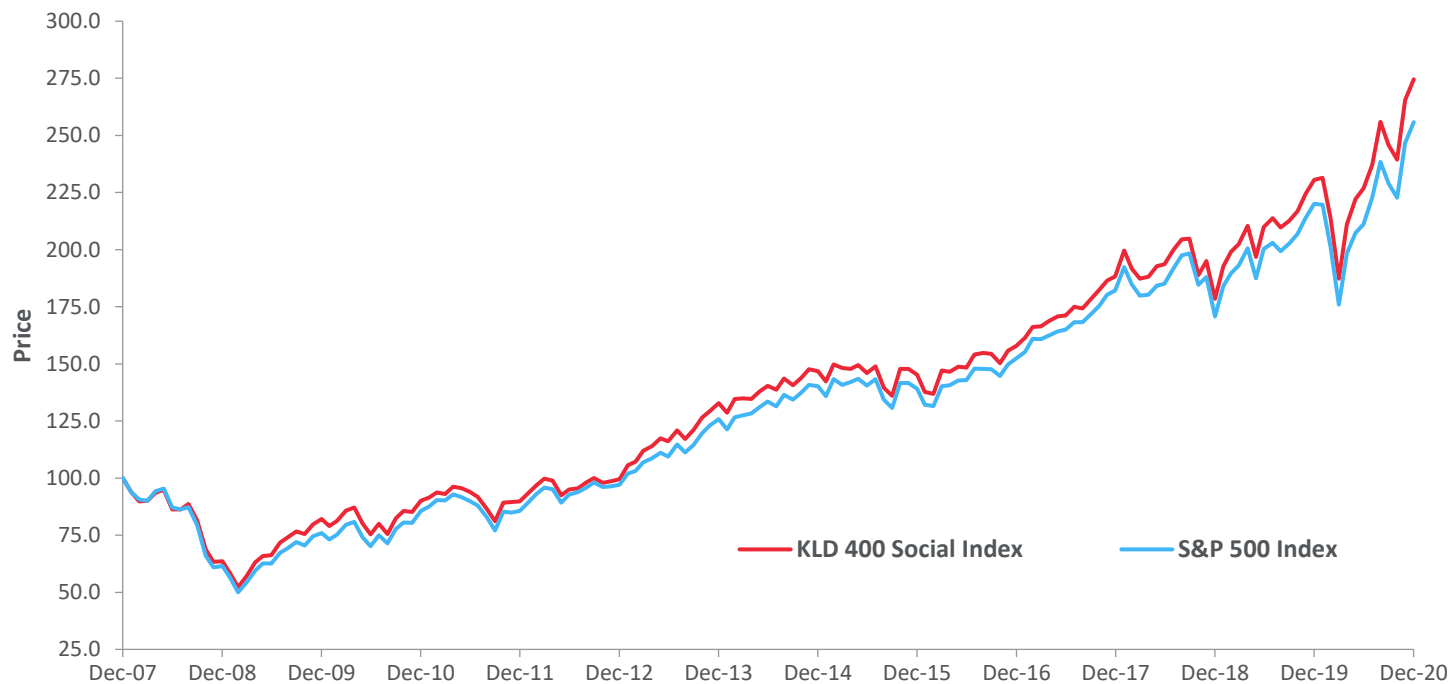
# Corporate Engagement

We engage with corporate executives and the investor relations staff on a variety of topics. These discussions are typically positive, supportive interactions where we are advocating for best practices and in some cases educating companies on current topics in ESG/SRI.

- Cardinal Health – Accounting Controls
- CVS – Accounting Controls
- Eaton Vance – Governance
- First Republic – Increasing CRA Lending
- Herman Miller – Product Safety; Supply Chain
- Idexx – Greater Disclosure
- Johnson and Johnson – Product Safety
- LinkedIn – Hiring More Diverse Workforce
- MSCI – Diversity and Disclosure
- PayPal – Environmental Disclosure; Data Privacy
- TJX – Supply Chain; Corporate Strategic Objectives
- Waste Management – Environmental Initiatives

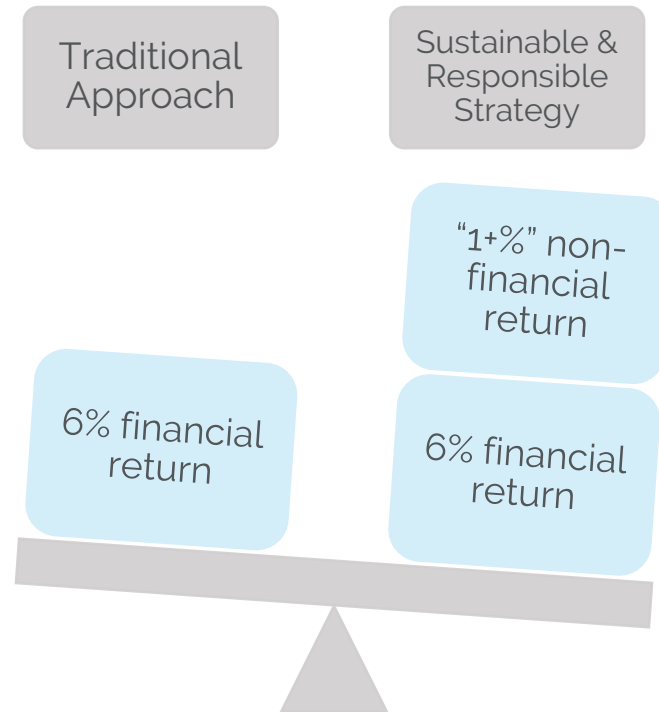
# Myth: Sustainable investing compromises performance

- You can invest in a sustainable and responsible manner while pursuing strong market-rate returns
- Millennials and other consumers continue to support brands and initiatives with a sustainable mission which should have a positive long-term impact on growth



Source: Bloomberg  
MSCI KLD 400 Social Index is a cap weighted index of 400 US Securities that provides exposure to companies with outstanding Environmental, Social and Governance (ESG) ratings and excludes companies whose products have negative social or environmental impacts. – Source: MSCI

# Financial Returns Plus Non-Financial Returns



In addition to financial return, there is often additional non-financial return valued by many SRI investors (in terms of the investor's personal utility function).

For example, 6% earned while pursuing SRI goals is "worth" more to many SRI investors than the same 6% earned via traditional approaches.

# Important Terms & Concepts

Concept	Definition	Cambridge Trust View
<i>SRI</i>	This acronym can mean Sustainable & Responsible Investing or Socially Responsible Investing, depending on context.	<i>We believe that Sustainable &amp; Responsible better describes our philosophy and preferred holdings.</i>
<i>Sustainability</i>	Is this company's culture, process and business model sustainable in our rapidly evolving world?	<i>Sustainability far beyond just the next quarterly earnings report is the major focus of our research.</i>
<i>ESG</i>	Environmental, Social and Governance criteria are important foundational concepts to SRI investing. These factors are critical complements to the traditional accounting metrics of a company.	<i>We focus on outperforming traditional market benchmarks with our proprietary process focused on ESG factors in addition to traditional financial analysis.</i>
<i>Shareholder Activism &amp; Proxy Voting</i>	Actively engaging with management and/or vote proxies in accordance with values. Engagement can be aggressive and public, or cooperative and private.	<i>We prefer private, positive, cooperative engagement with the companies that we own. We typically vote proxies in accordance with ISS guidance on SRI.</i>

# Important Terms & Concepts

Concept	Definition	CT View
<i>Negative vs. Positive Screening</i>	<p>Negative screening has the longest legacy and was the original technique used by ESG investors (systematic screening out of tobacco, carbon, “sin” stocks)</p> <p>Positive screening has grown in popularity (systematic screening in via one or more ESG, SRI or community based factors)</p>	<p><i>We tend not to use absolute in/out screens to make final, binding decisions.</i></p> <p><i>However, we do use screening to help filter and flag stocks/sectors for review and likely exclusion or inclusion after a closer look. Deciding the threshold of materiality is critical here.</i></p>
<i>Best in Class vs. Absolute Avoidance</i>	<p>Are you willing to invest in the best (and most responsible) company in an otherwise “bad” sector? ...to in effect encourage the strides being made, potentially via proxy or other engagement in addition to investment.</p> <p>Or, do you prefer to simply avoid a questionable sector in its entirety?</p>	<p><i>Our portfolio is diversified, but we are not compelled to invest in any sector just for the sake of being invested. For example, we rarely own traditional energy companies.</i></p>
<i>Impact Investing</i>	<p>Emphasizes “impactful” results on community, environment or other targeted area. Often expressed and quantified via non-financial metrics.</p>	<p><i>We support impact investing goals. However, many initiatives are most directly addressed via private equity or private debt, rather than public markets. These investments can require accepting more risk at potentially below market-rate returns, with limited transparency or liquidity.</i></p>

# How do we do things differently?

## Fundamental Analysis

- Sustainable earnings growth opportunities
- Above average profitability: ROE/ROIC
- Balance sheet strength
- Market leaders with sustainable competitive advantages that compound value over time
- Quality and consistency of financial metrics
- Long-term growth and preservation of capital
- Strong risk-adjusted return potential
- Purchases made at discount to intrinsic value



## SRI Criteria and Process

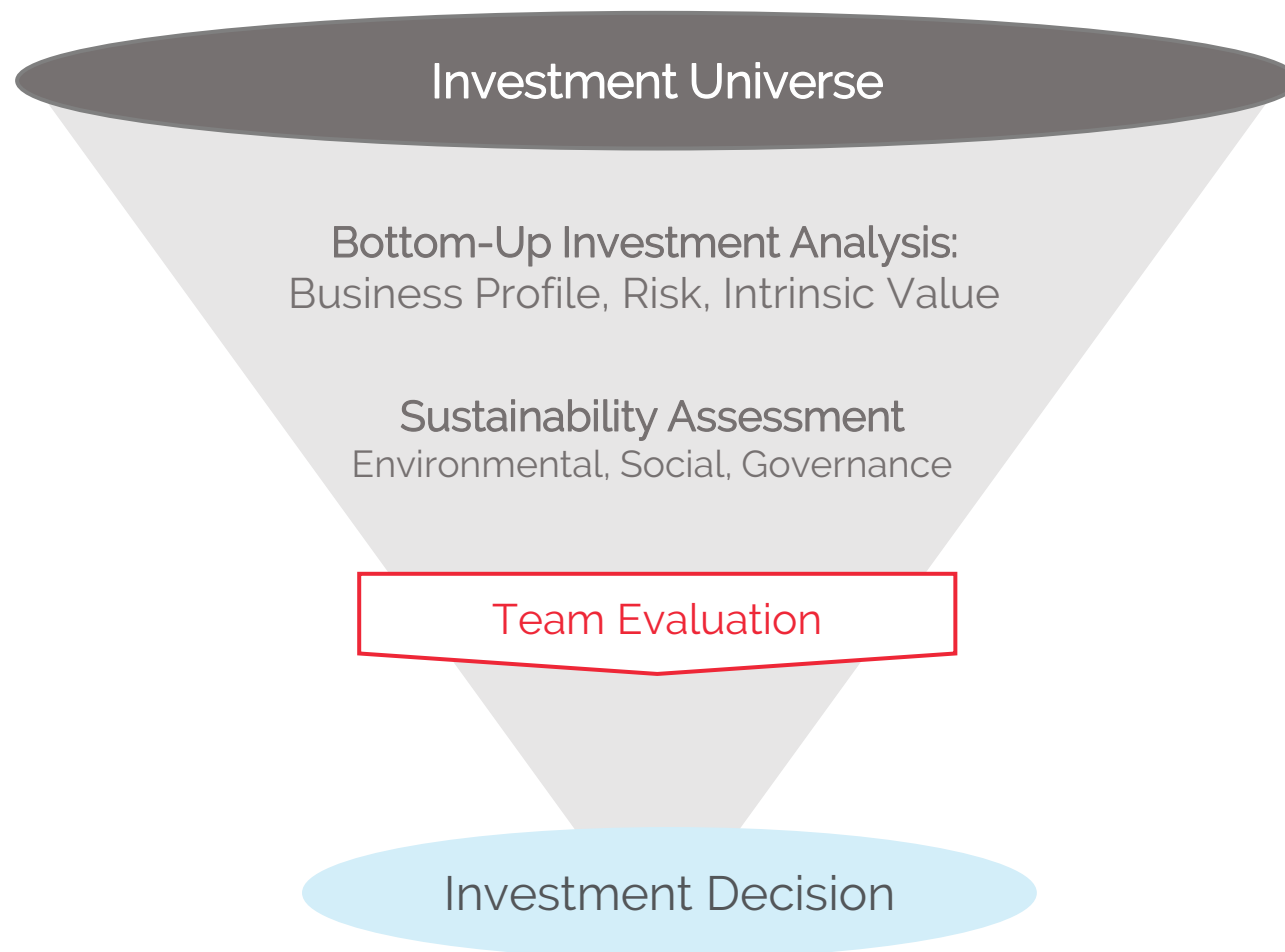
- Proprietary in-house research process
- Pursue positive impact; not just negative screening
- Do not invest in companies that can pose increased ESG risk in an attempt to mirror a benchmark
- Apply a consistent evaluation approach while recognizing that every potential investment presents a different mix of environmental and social risk factors
- Data is only as good as the source: transparency and disclosure are critical
- Engage with companies positively via collaboration on strategy, financials, and ESG factors



CT Sustainable & Responsible Investing  
Portfolio

# Our Investment Process

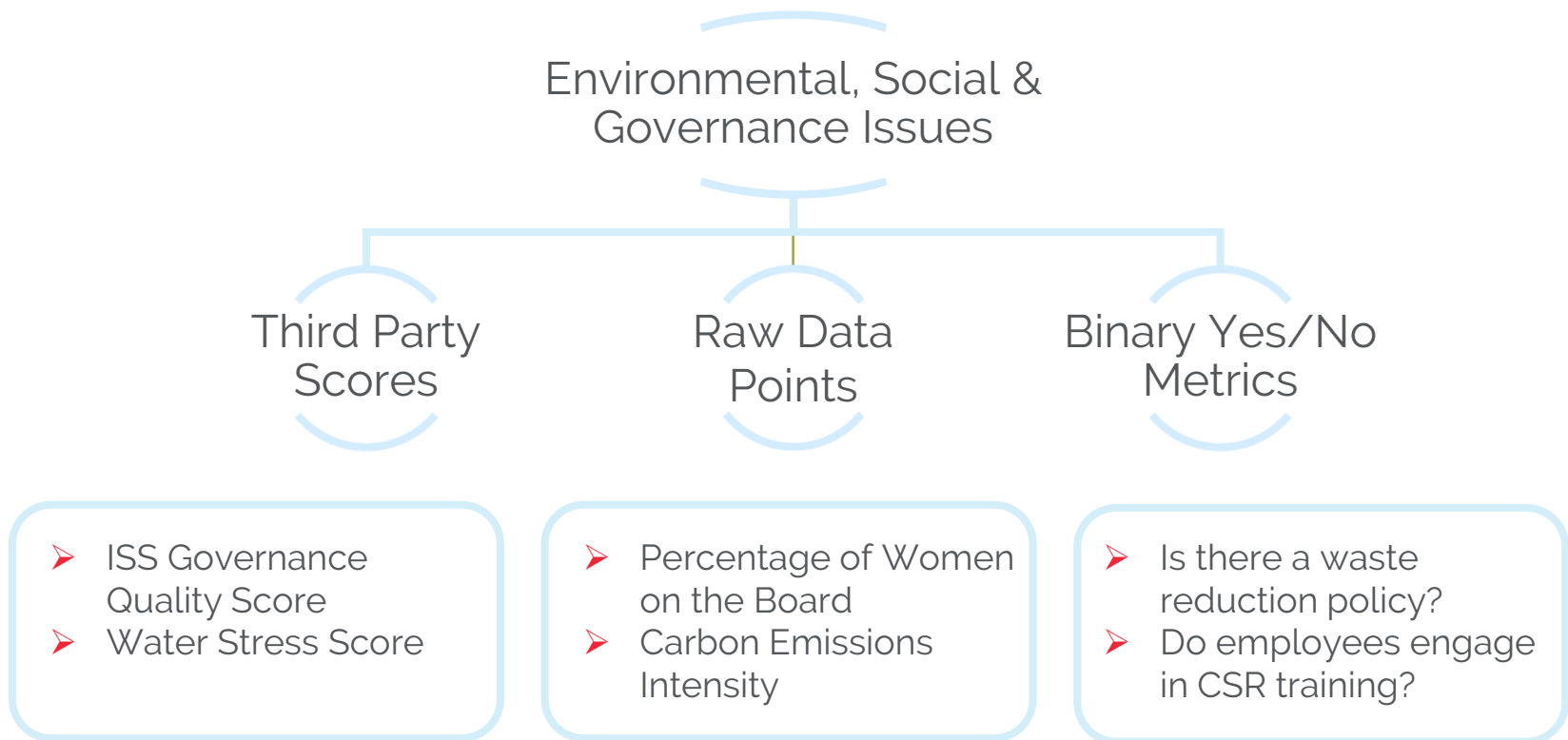
Adding ESG considerations to traditional fundamental analysis creates a broader perspective on long term earnings viability that can enhance returns and potentially mitigate risk.





# ESG Screening Process

- Our ESG dashboard allows us to track sustainability metrics for thousands of individual equity names
- Data sourced from FactSet, Bloomberg, ISS and MSCI ESG Manager
- Metrics shown on the dashboard are used to inform further research



# Sample of Cambridge Trust's ESG Dashboard

We track over 2,000 companies across 11 sectors using 40 different ESG metrics.

Company Name	Market Cap	MSCI	Sustainalytics	Environmental				Social				Governance				Rating
				MSCI Overall Environmental Score	Water Stress Score	Waste Reduction Policy	Carbon Emissions Intensity	MSCI Overall Social Score	Privacy and Data Security Score	Health and Safety Policy	Child Labor Policy	MSCI Overall Governance Score	ISS Board Score	Anti Bribery Ethics Policy	Size of Board	Blended Rating
Company 1	4723.17	AA		8.3			23.9	6.3	5.8			6.5	5.0		10.0	8.0
Company 2	1210.40	BBB		6.2			15.2	4.8	2.8			5.1	7.0		6.0	6.0
Company 3	351.14	B		6.7			10.3	2.2	3.0			5.0	7.0		6.0	4.5
Company 4	14264.05	CCC	7.7	8.0	5.6	Y	15.2	3.3	0.0	Y	N	2.1	10.0	N	9.0	1.9
Company 5	15275.54	B		6.2	5.0	N	22.9	3.6	2.0	N	N	2.1	10.0	N	11.0	3.0
Company 6	280.76	BB	23.3	6.2			44.3	3.7	1.7			4.4	1.0		11.0	6.1
Company 7	1491.42	BB		8.0			6.6	6.9				4.1	6.0		9.0	4.0
Company 8	2298.78	BB		6.2			54.0	2.6	0.0			5.4	4.0		8.0	7.0
Company 9	567.75	BBB		6.7			5.0	4.1	6.6			6.1	8.0		7.0	5.0
Company 10	678.42	BBB		6.3			54.0	5.2	7.1			3.5	8.0		9.0	5.5
Company 11	3202.32	BB		6.7			15.4	3.2	6.7			5.9	5.0		13.0	3.5
Company 12	1123.77	B		3.1		N	13.1	2.4	3.9	N	N	5.8	7.0	Y	9.0	5.0
Company 13	2130.36	BB		8.3		Y	5.0	4.7	6.1	Y	Y	4.4	10.0	Y	8.0	3.5
Company 14	16944.63	BBB	53.8	10.0	5.2	Y	7.0	5.0	6.3	Y	Y	4.9	7.0	Y	12.0	6.5
Company 15	11695.80	BBB		6.7	4.7	N	13.1	3.5	5.5	N	N	5.3	8.0	Y	7.0	6.0
Company 16	17886.28	B	15.4	9.0	5.3	N	17.8	5.2	1.6	Y	N	4.4	9.0	Y	11.0	2.5
Company 17	90711.68	B	41.0	10.0	6.5	N	6.5	1.8	7.3	Y	N	3.2	10.0	Y	11.0	3.4
Company 18	19424.88	BBB	37.2	6.0	5.8	N	6.9	7.6	6.4	Y	N	3.1	10.0	Y	12.0	3.9
Company 19	166924.68	BBB	73.1	10.0	10.0		31.9	4.9	6.3	Y	Y	4.2	6.0	Y	11.0	5.4
Company 20	247.02	BB		6.7			6.5	5.4				4.0	8.0		7.0	3.5
Company 21	1568.87	BBB		8.2		N	13.9	4.8	5.4	Y	N	3.2	5.0	Y	9.0	5.5
Company 22	3877.06	B		6.6			7.5	4.6	5.1			3.4	7.0		9.0	3.5
Company 23	262.46	B		6.6			38.0	3.8	3.8			5.2	3.0		8.0	7.0

# Our Objective

We invest in high-quality companies with diverse teams that are committed to:



# ESG Practices We Look For in Potential Investments

## Environment



Establish and measure progress towards goals pertaining to energy conservation efficiency, CO<sub>2</sub> reduction, waste reduction, etc.

Focus on supply chain including engagement with suppliers, code of ethics and sourcing of materials  
Help influence and improve greater environmental trends

## Social



Focus on volunteerism, targeted community involvement, philanthropic goals

Employee benefits: paid time to volunteer, education assistance, wellness programs, family leave

Equal opportunity practices and minority, veterans and mature adults hiring programs

## Governance



Diverse boards and executive leadership including women and minorities

Best corporate governance practices including review of directors' other board commitments and past performance

Subgroup or committee of the Board of Directors directly oversees company-wide sustainability practices

Transparency, excellent accounting and controls, long term view

# SRI<sup>1</sup> Equity Evaluation Process

## What's included in the strategy?

Yes

### Included in the strategy

- ✓ Strong environmental and social initiatives
- ✓ History of good corporate governance and responsible management
- ✓ Companies that fit with the SRI strategy themes
- ✓ Positive ESG turnaround stories

No

### Excluded from the strategy<sup>2</sup>

- ✓ Tobacco
- ✓ Weapons
- ✓ Gambling
- ✓ Alcohol
- ✓ Nuclear Energy
- ✓ Boards with low female representation
- ✓ Coal
- ✓ Fossil Fuels

Maybe

### Closely evaluate the company's exposure and risk management

- ✓ Supply chain standards (labor and raw materials)
- ✓ Instances where the products or business models promote excessive consumption (e.g. fast fashion), violence (e.g. video games) or an unhealthy lifestyle
- ✓ Palm Oil
- ✓ Environmentally unfriendly packaging/single use plastics
- ✓ Pesticide Use
- ✓ Animal testing
- ✓ Data privacy

<sup>1</sup>Sustainable & Responsible Investing

<sup>2</sup>Exclusions apply to exposures greater than 15% of revenue.

Exposures below 15% are evaluated on a case-by-case basis with regard to materiality and trend of the company's exposure.

# ESG Leaders & Laggards



## Salesforce.com

Salesforce has emerged as an industry leader in equality. They not only promote equality in the workplace but also contribute to providing equal opportunities in K-12 education and they fight for LGBTQ rights.

The company supports a clean environment, having achieved net-zero greenhouse gas emissions and their customer cloud is carbon-neutral.

Salesforce pioneered the 1-1-1 model, pledging to donate 1% of their time, 1% of equity, and 1% of product to non-profits and education. They have inspired over 4,000 other companies to join this movement.

## Agilent

Agilent's major business lines help ensure that global food supply and the environment are free of contaminants as well as supply doctors with accurate diagnostics in the fight against cancer and other diseases.

Agilent utilizes environmental policies, supply chain monitoring, anti-discrimination and bribery and corruption policies that all indicate the company has sustainability and responsibility in mind throughout its business practices.

"One Agilent" is a customer-centric culture that includes collaboration across organizational and geographic boundaries.



## Volkswagen

In 2015, Volkswagen admitted to installing software in cars from 2009-2015 that manipulated emissions tests.

The company was long rated poorly for corporate governance.

Social consequences – studies being performed to estimate increased deaths from emissions.

Environmental consequences – emissions from vehicles greater than reported at a time when the company was promoting sustainability efforts.

## Wells Fargo

Wells Fargo employees fraudulently opened customer accounts in order to meet extreme cross selling goals.

The company previously came under fire for its handling of mortgages during the 2008 financial crisis.

Governance issues – lack of oversight by the board.

Social consequences – customers billed for fees for unauthorized accounts as well as credit effects from unauthorized use of their credit.

# SRI Team

## Aimee B. Forsythe, CFA

*Senior Vice President, Senior Portfolio Manager*



Aimee co-manages the Sustainable and Responsible Investment strategy, which integrates environmental, social and governance factors with traditional fundamental analysis. Additionally, she serves as a portfolio manager, working with individual and institutional clients.

- B.A., Hanover College, 1992
- CFA (Chartered Financial Analyst®) charter holder since 2000
- Joined Cambridge Trust in 2004
- Prior work experience at Hancock Bank in Louisiana and Mississippi, and served in the Peace Corps (Mali)
- Member, CFA Institute
- Member, CFA Society Boston, Inc.
- Member, Board of Directors, Colonel James Hartshorne House Association
- Member, Kappa Alpha Theta Fraternity Investment Committee
- Member, Cambridge Trust Retirement Benefits Committee
- College District Director, Kappa Alpha Theta Fraternity
- Advisory Board Member, Kappa Alpha Theta Fraternity, Nu Chapter, Hanover College
- Member, Town of Wakefield, MA Finance Committee

# SRI Team

## Stig Zarle

*Vice President, Portfolio Manager*



Stig is the co-portfolio manager of the Sustainable and Responsible Investment strategy. He is also the lead analyst for the healthcare and financial services sectors across all strategies.

- B.A., Economics, Bates College, 1989
- M.B.A., The University of Chicago Booth School of Business, 1995
- Joined Cambridge Trust Company in 2020
- Prior industry experience at Zevin Asset Management, BlueGreen Capital, Fidelity Investments/Pyramis Global Advisors, and Pioneer Investment Management



# SRI Team

## Tatiana Makivic

*Investment Analyst*



Tatiana works closely with the investment team to coordinate communication efforts and quarterly performance reporting. She also provides ESG research and analysis for the SRI team.

- B.S., Skidmore College, 2017
- M.B.A., Suffolk University, 2018
- Joined Cambridge Trust in 2018
- Prior work experience at Brookline Bank, Versailles Group, Ltd., and MIT Technology Licensing Office
- Student Advisor, Skidmore College Career Advisor Network

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