Carnegie ESG Select

Investment criteria and general policies

Definition

Carnegie ESG Select is Carnegie Investment Counsel's ("Carnegie") investment approach to meet current and future client demand that weds Carnegie's existing investment approach with the consideration of Environmental, Social and Governance ("ESG") metrics.

An ESG investment portfolio is to be managed in a manner that includes consideration of **both** traditional investment criteria (macro analysis, fundamental analysis, and technical analysis) and Environmental, Social and Governance ("ESG") metrics.

Client Thematic Value Exclusions

In addition to the application of ESG metrics to investment selection, the client may wish to have the portfolio further tailored to reflect their own values or faith beliefs ("client thematic values"). This is accomplished by overlaying further exclusions on the investment selection process. These client thematic values in the form of trading restrictions are to be documented and set-up as trading restrictions.

Defining ESG Criteria

Carnegie ESG Select will utilize the MSCI ESG ratings and data as its principal tool.

According to MSCI, an MSCI ESG Rating is designed to measure a company's resilience to long-term, industry material environmental, social and governance (ESG) risks. We use a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. The ESG ratings range from leader (AAA,AA), Average (A, BBB, BB) to laggards (B, CCC).

According to MSCI ESG Rating Methodology, December 2020, MSCI ESG Ratings model seeks to answer four key questions about companies:

- What are the most significant ESG risks and opportunities facing a company and its industry?
- How exposed is the company to those key risks and/or opportunities?
- How well is the company managing key risks and opportunities?
- What is the overall picture for the company and how does it compare to its global industry peers?"

The MSCI ESG Ratings model focuses on material issues for each industry. MSC uses a team of research analysts to assess thousands of data points across 35 ESG key issues, focusing on "the intersection between a company's core business and the industry issues that can create significant risks and opportunities for the company." The rating is established by determining the weighted average of key issue scores and comparing them to those of industry peers. A company's final score corresponds to a rating between best (AAA) and worst (CCC). These assessments are intended to be interpreted relative to a company's industry peers. Please review the MSCI ESG Ratings Methodology Execute Summary available here for more details on how the ratings are determined.

Under Carnegie ESG Select, the following ESG investment parameters exist:

Fixed Income Holdings Policy –

- All individual bond issuers are to have an MSCI ESG rating of "A" or better at the time of acquisition.
- All individual bond issuers are to meet credit rating standards of Carnegie Investment Counsel and have ratings comporting with any client specific investment policies.
- Bonds issued for prison or detention facility construction, ownership or maintenance are prohibited even if highly rated by MSCI ESG. Green Bonds[1] are to be considered where applicable.
- All fixed income exchange traded funds ("ETFs") are to carry an MSCI ESG rating of "A" or better and meet Carnegie standards in terms of cost, transparency and maturity. A guideline list of such fixed income ETFs will be maintained.

Equity Holdings Policy –

- For portfolios utilizing a mutual fund or ETF approach, all such securities are to meet Carnegie criteria in terms of cost, management and performance. All such funds are to have 95% of their holdings rated by MSCI ESG as "A" or above. A list of such funds and a model will be maintained. It will be reviewed as needed, but no less than quarterly.
- For portfolios utilizing an individual equity approach-
    - The Carnegie ESG Select Portfolio shall be comprised of 36 names. Thirty (weighted at approximately 3% each) shall be drawn from the Carnegie Investment Counsel Periodic Table Guidance List and each have ratings of "A" or better as determined by MSCI ESG. The portfolio will roughly mirror the sector allocation of the S&P 500. Six positions (weighted approximately 1.5% each) will specifically be small cap names for impact purposes in the areas of childcare, pollution control or renewable energy. These six names shall meet Carnegie Investment Counsel metrics for investment and carry an MSCI ESG rating of "A" or better, (or if not rated by MSCI then a satisfactory rating from Morningstar Sustainalytics or inclusion in the iShares ESG Aware MSCI USA Small-Cap ETF (ESML)).
- The Carnegie ESG Select Guidance List shall be reviewed as needed and not less than quarterly. Equity holdings are deleted from the Carnegie ESG Guidance List when determined to either be a sale or removal from the Carnegie Investment Counsel Periodic Table Guidance List or when the company falls to a BBB or lower MSCI ESG rating for two consecutive quarters. Any Carnegie ESG Select portfolios are to reflect these security deletions with a sale within ten days of such changes to the Carnegie ESG Guidance List.

<u>Annual Client ESG Report</u>

A client electing Carnegie ESG Select will receive an annual report updating them on the ESG rankings of portfolio components and providing them with narrative on notable company developments.

[1] A type of bond that is specifically dedicated to raising funds for environmental projects.

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Disclosures

Risks Relating to a Fossil Fuel Free Investment Strategy

An investment strategy that requires not buying, nor trading, nor holding securities issued by fossil fuel - based concerns can contribute to portfolio underperformance in periods when the energy sector may outperform other sectors.

Risks Related to ESG Investments

Environmental, Social and Governance ("ESG') refers to an investment approach that incorporates ESG criteria into the investment process. There is a wide variety of measurements of these criteria and some of the measurements may involve varying degrees of accuracy and rigor. Looking at supply chains and materials sourcing can be highly complex and certain unsatisfactory ESG factors may be hidden.

Carnegie outsources the gathering of ESG data and metrics to third parties. While Carnegie believes these providers to be accurate and above board in providing data, there is no guaranty of accuracy, timeliness or impartialness.

There are academic studies supporting the notion that investments involving companies with high ESG ratings perform as well as or better than companies poorly rated in terms of ESG factors. These studies are limited in scope and are limited by historical data.

Inclusion of ESG criteria into the investment process and or the implementation of thematic client specific value restrictions results in a more limited set of investment opportunities which affect investment returns.

Proxy Voting

Carnegie accepts voting authority for clients. When Carnegie does accept voting authority for client securities, it generally votes with management. That said, Carnegie reserves the right, in certain cases, to vote otherwise. Carnegie relies on recommendations from ProxyEdge Proxy Polices and Insights, which in turn are modeled on the voting records of 30 top global fund families. Consequently, these recommendations and subsequent votes may not always be consistent with an ESG-styled portfolio.