

Impact Manager Research and Due Diligence

Envestnet | PMC Research incorporates an additional layer of analysis to its comprehensive research and due diligence process to uncover high-conviction equity and fixed income managers that are meaningfully and systematically integrating impact factors into the investment process across the spectrum of impact approaches. We do this by evaluating firm policies and governance of impact, incorporation into the investment process, reporting on impact outcomes and active ownership.

Finding Quality Impact Managers

To construct the “Impact Available List” we perform a multi-step process. We partner with many organizations such as Veris Wealth Partners, Morningstar, Sustainalytics and the US SIF, leveraging resources within the impact ecosystem in an effort to align with best practice and common understandings of impact definitions. The work done by our partners informs the initial stages of our impact due diligence process.

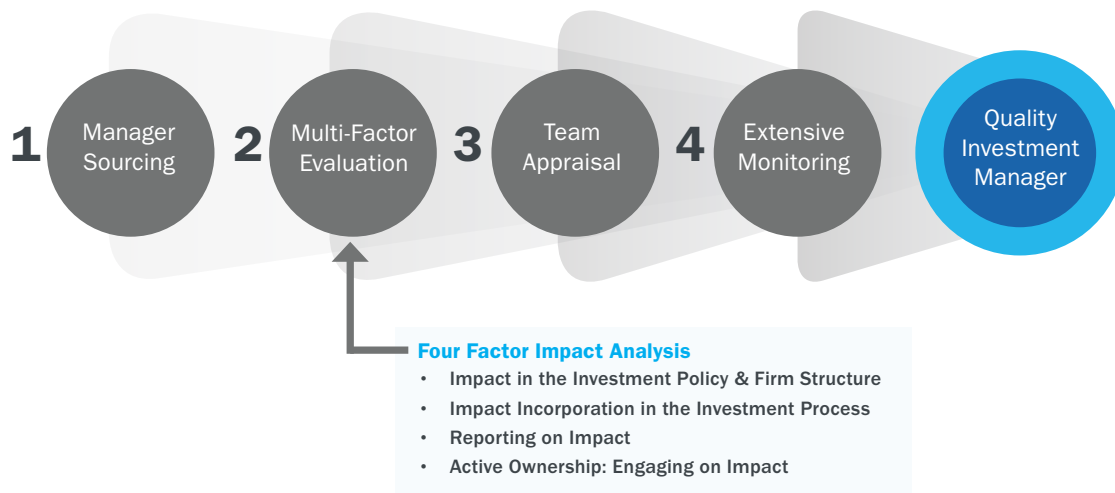
Each strategy is then vetted to ensure it meets at least one of the following criteria:

- 1. Performs exclusionary ESG screens**
- 2. Integrates ESG factors into investment decision-making**
- 3. Pursues a stated social or environmental impact goal or theme as a strategy**

This forms the “Impact Available List”

Once a strategy is added to coverage, due diligence is conducted. Alongside the traditional due diligence process, Envestnet PMC considers four factors in the analysis of an impact manager:

Investment Policy & Firm Structure, Investment Process, Reporting & Transparency, and Active Ownership. This evaluation is done through extensive conversations with each manager.



More On Our Four Factor Analysis



Impact in the Investment Policy & Firm Structure

Assess the firm level commitment to impact.

- Does the investment policy refer to ESG integration practices explicitly? How is it outlined and how detailed is it?
- Who is responsible (person, team, committee) for implementing a responsible investment program and who is responsible for ESG analysis within the investment process? What responsibility do they have in deciding what gets included in the portfolio?
- Does the manager have sufficient resources devoted to ESG incorporation into the investment process?
- Does the organization have a dedicated ESG team? If so, how does the investment team work with the ESG team? How frequently do the teams interact, and is there a formal process in place for this interaction? What are the ESG team responsibilities and how is their work used by the investment team? If there is not a dedicated ESG team, are traditional analysts trained on ESG issues and if so how? What type of research do the analysts conduct?



Impact Incorporation in the Investment Process

Consider how robust and systematic the ESG integration process is within the strategy and across the firm.

- What are specific examples of how ESG factors are incorporated into the investment analysis and decision making process? (e.g. asset allocation, defining investment universe, portfolio construction, fundamental or sector analysis, stock selection, more than one?)
- What ESG data, research, resources and tools does the manager use to integrate ESG factors into the investment process and decision making?
- What weighting do ESG factors have on the decision making process and investment decisions?
- How often are ESG factors reviewed for relevance?
- Is there a process in place for monitoring names currently in the portfolio for adherence to ESG/SRI, sustainability and impact criteria and is there a sell discipline associated with the deterioration in these metrics?
- If negative screens are employed, what are they? What is the rationale for selecting these screens? Are appropriate thresholds of revenue involvement defined?



Reporting on Impact

Evaluate how the manager measures impact, demonstrates the positive impact of the investment, and communicates that positive impact to their client.

- Are ESG incorporation processes disclosed transparently in the prospectus of the fund and in firm wide documents? Is ongoing monitoring of these initiatives disclosed regularly?
- Does the manager report on the impact of the portfolio on a regular basis? How robust is this reporting?



Active Ownership: Engaging on Impact

Assess whether the manager utilizes engagement on ESG issues as a tool to achieve meaningful impact.

- Does the manager maintain a “hands-off” approach versus being actively engaged with company management on ESG issues that impact the business model?
- Does the manager vote on ESG related shareholder proxies?
- How does active ownership at the firm impact investment decisions?
- Are there specific examples highlighted in conversations or impact reporting related to active ownership and engagement on ESG issues?

For more information about Impact Investing at Envestnet, please visit InvestPMC.com/Impact



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