

# Values Overlay

## Personalized Values-Based Screening

FOR ONE-ON-ONE USE WITH A CLIENT'S FINANCIAL ADVISOR ONLY.



The values overlay program at Envestnet allows clients to apply customized values-based restrictions to their investment portfolios. There are more than 20 different restriction criteria available, many of which have both a Best-in-Class and Strict restriction.

### Best-in-Class restriction criteria

The Best-in-Class restriction criteria are designed for investors aiming to achieve alignment between their values and their need to ensure the prudent management of their investments. They exclude companies involved in the production and/or distribution of certain products such as weapons, alcohol, nuclear power, adult entertainment, and tobacco. The Best-in-Class restrictions also allow investors to avoid companies involved in major environmental, social, and/or governance controversies in which the company's operations have major negative impacts on the environment, society at large, and/or external stakeholders.

### Strict restriction criteria

The Strict restrictions are designed for investors who want to integrate more stringent product involvement and environmental/social criteria into their investments. They seek to minimize exposure to companies with specific products, services, and operations that do not meet the personal convictions criteria set by the client. The company's involvement in the operations, production, and distribution of certain products (to be chosen at the discretion of the client), which may include weapons, alcohol, nuclear power, adult entertainment, and tobacco, is given a low tolerance threshold based on annual revenues. The Strict restriction also allow investors to avoid companies with significant controversies or incidents that endanger the health and well-being of the environment, employees, customers, and society.

## Alcohol

### ■ Best-in-Class

Companies that meet the following criteria are deemed ineligible for investment:

- **Production:** The company derives  $\geq 10\%$  of revenue from the manufacture of alcoholic beverages.
- **Related Products/Services:** The company derives  $\geq 25\%$  of revenue from the supply of alcohol-related products/services to alcoholic beverage manufacturers. This includes the supply of specialized equipment and specialized raw materials required for the production of alcoholic beverages.
- **Retail:** The company derives  $\geq 25\%$  of revenue from the distribution and/or retail sale of alcoholic beverages. This includes retail sales of alcoholic beverages through liquor stores, bars or pub chains, restaurants, supermarkets, and convenience stores.

### ■ Strict restriction

Companies that meet the following criteria are deemed ineligible for investment:

- **Production:** The company derives  $\geq 5\%$  of revenue from the manufacture of alcoholic beverages.
- **Related Products/Services:** The company derives  $\geq 10\%$  of revenue from the supply of alcohol-related products/services to alcoholic beverage manufacturers. This includes the supply of specialized equipment and specialized raw materials required for the production of alcoholic beverages.
- **Retail:** The company derives  $\geq 10\%$  of revenue from the distribution and/or retail sale of alcoholic beverages. This includes retail sales of alcoholic beverages through liquor stores, bars or pub chains, restaurants, supermarkets, and convenience stores.

## Animal testing

### ■ Best-in-Class

Companies that meet the following criteria are deemed ineligible for investment:

- **Non-pharmaceutical products:** The company conducts animal testing for non-pharmaceutical products.

### ■ Strict restriction

Companies that meet the following criteria are deemed ineligible for investment:

- **Non-pharmaceutical products:** The company conducts animal testing for non-pharmaceutical products.
- **Pharmaceutical products:** The company conducts animal testing for pharmaceutical products, medical devices, and biotechnology.

## Firearms

### ■ Best-in-Class

Companies that meet the following criteria are considered ineligible for investment:

- **Production:** The company derives  $\geq 10\%$  of revenue from the manufacture and sale of small arms to civilian customers or military/law enforcement.

### ■ Strict restriction

Companies that meet the following criteria are considered ineligible for investment:

- **Production:** The company derives  $\geq 10\%$  of revenue from the manufacture and sale of small arms to civilian customers or military/law enforcement.
- **Retail:** The company derives  $\geq 5\%$  of revenue from the distribution and/or retail sale of small arms and/or key components.

## Fossil fuels

Companies that meet the following criteria are considered ineligible for investment:

- **Oil & gas production:** The company derives  $\geq 5\%$  of revenue from the exploration, production, refining, transportation and/or storage of oil and gas.
- **Oil & gas generation:** The company derives  $\geq 5\%$  of revenue from the generating electricity from oil and gas.
- **Oil & gas supporting products & services:** The company derives  $\geq 5\%$  of revenue from products and services that support the oil and gas industry.
- **Thermal coal extraction:** The company derives  $\geq 5\%$  of revenue from the extraction of thermal coal. Thermal Coal Power Generation: the company derives  $\geq 5\%$  of revenue from generating electricity from thermal coal.

## Catholic values

In adherence to the Principles for The United States Conference for Catholic Bishops – Socially Responsible Investment Guidelines, companies that meet the following criteria are deemed ineligible for investment:

■ **Protecting human life:** Combines the following restriction criteria:

- **Abortion** – Strict restriction
- **Contraceptives** – Strict restriction
- **Human embryonic stem cell & fetal** – Strict restriction

■ **Promoting human dignity:** Combines the following restriction criteria:

- **Human rights** – Strict restriction
- **Adult entertainment** – Strict restriction
  - Production** – The company derives  $>0\%$  of revenue from the production of adult entertainment and/or owns adult entertainment establishments. This includes production of adult entertainment media such as movies, magazines, or websites, and/or the ownership and operation of strip clubs, topless bars, and other types of adult entertainment establishments.
  - Distribution** – The company derives  $\geq 50\%$  of revenue from the distribution of adult entertainment. This includes the distribution of pay-per-view adult channels and/or movie channels with adult content through the internet, cellular telephones, and satellite and broadcast television.
- **Racial & gender discrimination** – Strict restriction: The Racial & Gender Discrimination Strict restriction identifies and excludes companies with severe or significant controversies related to discrimination against either direct employees or employees in the supply chain. Such discrimination may be based on a number of factors including, but not limited to, gender, racial group, ethnicity, religious belief, sexual orientation, disability, age, country of origin, or political affiliation as well as broader labor-related controversies.

■ **Reducing arms production:** Combines the following restriction criteria:

- **Military weapons** –
  - Production of military weapons:** The company derives  $>0\%$  of revenue from the manufacture of military weapons systems and/or integral tailor-made components of these weapons. This area of involvement includes bombs, missiles, missile launchers, grenades, mines, pistols, rifles, machine guns, ammunition, warheads, and incendiaries. It also may include weapons systems such as jet fighters, attack helicopters, battleships, tanks, and other assault vehicles. This area does not include transportation or rescue vehicles.

**Weapons-related products and services:** The company derives  $\geq 50\%$  of revenue from tailor-made products or services that support military weapons. This area of involvement includes equipment, components, or support systems designed or customized for military applications.

- **Controversial weapons –**  
**Tailor-made and essential:** The company is involved in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon.  
**Non tailor-made and non-essential:** The company provides components/services for the core weapon system, which are either not considered tailor-made or not essential to the lethal use of the weapon

■ **Pursuing economic justice:** Combines the following restriction criteria:

- **Employee rights –** Strict restriction
- **Supply chain rights –** Strict restriction: The Supply Chain Rights Strict restriction identifies and excludes companies with severe as well as significant controversies related to labor rights and/or working conditions within operations or in the supply chain. Examples may include poor labor standards, a poor health and safety record, evidence of the use of child or forced labor, a failure to respect the right to freedom of association, or poor union relations.

■ **Protecting the environment:** Combines the following restriction criteria:

- **Environment –** Strict restriction

## Gambling

### ■ Best-in-Class

Companies that meet the following criteria are considered ineligible for investment:

- **Operations:** The company derives  $\geq 10\%$  of revenue from the ownership/operation of a gambling establishment. This includes the ownership and/or operation of casinos, racetracks, online gambling, bingo parlors, or other betting establishments.
- **Specialized equipment:** The company derives  $\geq 10\%$  of revenue from the manufacture of specialized equipment used exclusively for gambling such as slot machines, roulette wheels, and lottery terminals.
- **Supporting products/services:** The company derives  $\geq 10\%$  of revenue from the provision of supporting products/services to gambling operations. This includes gambling-related, customized products or services such as consulting services, credit lines within casinos, or gambling technology.

### ■ Strict restriction

Companies that meet the following criteria are considered ineligible for investment:

- **Operations:** The company derives  $\geq 5\%$  of revenue from the ownership/operation of a gambling establishment. This includes the ownership and/or operation of casinos, racetracks, online gambling, bingo parlors, or other betting establishments.
- **Specialized equipment:** The company derives  $\geq 5\%$  of revenue from the manufacture of specialized equipment used exclusively for gambling such as slot machines, roulette wheels, and lottery terminals.
- **Supporting products/services:** The company derives  $\geq 5\%$  of revenue from the provision of supporting products/services to gambling operations. This includes gambling-related, customized products or services such as consulting services, credit lines within casinos, or gambling technology.

## Adult entertainment

### ■ Best-in-Class

Companies that meet the following criteria are considered ineligible for investment:

- **Production:** The company derives  $\geq 25\%$  of revenue from the production of adult entertainment and/or owns adult entertainment establishments. This includes production of adult entertainment media such as movies, magazines, or websites, and/or the ownership and operation of strip clubs, topless bars, and other types of adult entertainment establishments.
- **Distribution:** The company derives  $\geq 25\%$  of revenue from the distribution of adult entertainment. This includes the distribution of pay-per-view adult channels and/or movie channels with adult content through the internet, cellular telephones, and satellite and broadcast television.

### ■ Strict restriction

Companies that meet the following criteria are considered ineligible for investment:

- **Production:** The company derives  $\geq 10\%$  of revenue from the production of adult entertainment. This includes production of adult entertainment media such as movies, magazines or websites, and/or the ownership and operation of strip clubs, topless bars, and other types of adult entertainment establishments.
- **Distribution:** The company derives  $\geq 10\%$  of revenue from the distribution of adult entertainment. This includes the distribution of pay-per-view adult channels and/or movie channels with adult content through the internet, cellular telephones, and satellite and broadcast television.

## Military weapons

### ■ Best-in-Class

Companies that meet the following criteria are considered ineligible for investment:

- **Production of military weapons:** The company derives  $\geq 25\%$  of revenue from the manufacture of military weapons systems and/or integral tailor-made components of these weapons. This area of involvement includes bombs, missiles, missile launchers, grenades, mines, pistols, rifles, machine guns, ammunition, warheads, and incendiaries. It also may include weapons systems such as jet fighters, attack helicopters, battleships, tanks, and other assault vehicles. This area does not include transportation or rescue vehicles.
- **Biological and chemical weapons:** The company is involved in the core weapons system for biological and chemical weapons systems and/or components/services of these weapons that are considered tailor-made and essential for lethal use.
- **Nuclear weapons:** The company is involved in the core nuclear weapons system or components/services of these weapons that are considered tailor-made and essential for lethal use.
- **Weapons-related products and services:** The company derives  $\geq 25\%$  of revenue from tailor-made products or services that support military weapons. This area of involvement includes equipment, components, or support systems designed or customized for military applications.

### ■ Strict restriction

Companies that meet the following criteria are considered ineligible for investment:

- **Production of military weapons:** The company derives  $\geq 5\%$  of revenue from the manufacture of military weapons systems and/or integral tailor-made components of these weapons. This area of involvement includes bombs, missiles, missile launchers, grenades, mines, pistols, rifles, machine guns, ammunition, warheads, and incendiaries. It also may include weapons systems such as jet fighters, attack helicopters, battleships, tanks, and other assault vehicles. This area does not include transportation or rescue vehicles.
- **Biological and chemical weapons:** The company is involved in the core weapons system for biological and chemical weapons systems and/or components/services of these weapons that are considered tailor-made and essential for lethal use.
- **Nuclear weapons:** The company is involved in the core nuclear weapons system or components/services of these weapons that are considered tailor-made and essential for lethal use.

- **Weapons-related products and services:** The company derives  $\geq 5\%$  of revenue from tailor-made products or services that support military weapons. This area of involvement includes equipment, components or support systems designed or customized for military applications.

## Nuclear power

### ■ Best-in-Class

Companies that meet the following criteria are considered ineligible for investment:

- **Production:** The company derives  $\geq 25\%$  of its energy-generating capacity from nuclear power. This includes utilities that own or operate nuclear power generators.

### ■ Strict restriction

Companies that meet the following criteria are considered ineligible for investment:

- **Production:** The company produces nuclear power. This includes utilities that own or operate nuclear power generators.

## Tobacco

### ■ Best-in-Class

Companies that meet the following criteria are considered ineligible for investment:

- **Production:** The company derives  $\geq 25\%$  of revenue from the manufacture of tobacco products.
- **Retail:** The company derives  $\geq 10\%$  of revenue from the distribution and/or retail sale of tobacco products.

### ■ Strict restriction

Companies that meet the following criteria are considered ineligible for investment:

- **Production:** The company generates  $\geq 5\%$  of revenue from the manufacture of tobacco products.
- **Retail:** The company generates  $\geq 10\%$  of revenue from the distribution and/or retail sale of tobacco products.
- **Related products/services:** The company generates  $\geq 10\%$  of revenue from the supply of tobacco-related products/services.

## Customer rights

### ■ Best-in-Class

The Customer Rights Best-in-Class restriction identifies and excludes companies involved in customer-related controversies or incidents that are severe in nature. These may include, for example, controversies or incidents related to anti-competitive practices; marketing practices; privacy issues related to clients; misleading or fraudulent commercial practices; product quality issues; or concerns over the health and safety of a product. The resulting impact on stakeholders from these incidents is considered to be high.

### ■ Strict restriction

The Customer Rights Strict restriction identifies and excludes companies involved in customer-related controversies or incidents that are severe or significant in nature. These may include, for example, controversies or incidents related to anti-competitive practices; marketing practices; privacy issues related to clients; misleading or fraudulent commercial practices; product quality issues; or concerns over the health and safety of a product. The resulting impact on stakeholders from these incidents is considered to be moderate or high.

## Employee rights

### ■ Best-in-Class

The Employee Rights Best-in-Class restriction identifies and excludes companies with severe controversies over labor rights and/or working conditions at a company's operations and in its social supply chain. These may include, for example, controversies or incidents related to poor labor standards; diversity, health, and safety concerns; evidence of the use of child or forced labor; a failure to respect freedom of association; or poor union relations. The resulting impact on stakeholders from these incidents is considered to be high.

### ■ Strict restriction

The Employee Rights Strict restriction identifies and excludes companies with severe as well as significant controversies over labor rights and/or working conditions at a company's operations and in its social supply chain. These may include, for example, poor labor standards; diversity, health, and safety concerns; evidence of the use of child or forced labor; a failure to respect freedom of association; or poor union relations. The resulting impact on stakeholders from these incidents is considered to be moderate or high.

## Environment

### ■ Best-in-Class

The Environment Best-in-Class restriction identifies and excludes companies involved in severe environmental controversies related to their operations, contractors and supply chain, or products and services. For operations-related controversies or incidents, these may include events related to pollution caused by the company's operations; fines and incidents related to poor environmental practices, waste management, and/or toxic emissions; or environmental damage to ecosystems. For contractor and supply-chain-related controversies or incidents, these may include events related to various types of environmental concerns among suppliers or contractors, such as excessive emissions, spills, and deforestation; destruction of natural habitats; or the lack of environmental standards. For products and services, these may include events related to the poor environmental performance of a company's products or services; the risks the products/services pose to the environment and public health; or concerns related to the products at their end of their life cycle. The impact on stakeholders from these incidents is considered to be high.

### ■ Strict restriction

The Environment Strict restriction identifies and excludes companies involved in severe or significant environmental controversies related to their operations, contractors/supplies, or products and services. For operations-related controversies or incidents, these may include, for example, events related to pollution caused by the company's operations; and/or fines and incidents related to poor environmental practices, waste management, toxic emissions; or environmental damage to ecosystems. For contractor and supply-chain-related controversies or incidents, these may include events related to various types of environmental concerns among suppliers or contractors such as excessive emissions, spills, deforestation, destruction of natural habitats, or the lack of environmental standards. Controversies related to the poor environmental performance of a company's products or services include the risks the products/services pose to the environment and public health, or concerns related to the products at the end of their life cycle. The impact on stakeholders from these incidents is considered to be high or moderate.

The Environment Strict restriction also identifies and excludes companies that generate  $\geq 10\%$  revenue from GMO and seeds, palm oil, thermal coal, or pesticides.

## Human rights

### ■ Best-in-Class

The Human Rights Best-in-Class restriction identifies and excludes companies with severe controversies related to community relations, access to basic services, sanctions, social impact of products, weapons use, and human rights concerns. The impact on stakeholders from these incidents is considered to be high.

### ■ Strict restriction

The Human Rights Strict restriction identifies and excludes companies with severe controversies related to community relations, access to basic services, sanctions, social impact of products, weapons use, and a particular emphasis on human rights violations and concerns both within the organization and throughout the supply chain. The impact on stakeholders from these incidents is considered to be moderate or high.

## Landmines

### ■ Best-in-Class

There is no separate Best in Class restriction for Landmines; please use Strict restriction for landmines.

### ■ Strict restriction

Companies that meet the following criteria are considered ineligible for investment:

- **Anti-personnel landmines:** The company is involved in the core weapons system for landmines and/or components/services that are considered tailor-made and essential for lethal use.

## Abortion

### ■ Best-in-Class

There is no Best-in-Class restriction for Abortion.

### ■ Strict restriction

Companies that meet the following criteria are considered ineligible for investment:

- **Abortion-operations:** The company owns and/or operates acute care hospitals or surgical centers.
- **Abortion-production:** The company manufactures drugs designed and marketed for specific use as abortifacients.

## Contraceptives

### ■ Best-in-Class

There is no Best-in-Class restriction for Contraceptives.

### ■ Strict restriction

Companies that meet the following criteria are considered ineligible for investment:

- **Contraceptives-production:** The company manufactures contraceptives.

## Embryonic stem cell/fetal tissue research

### ■ Best-in-Class

There is no Best-in-Class restriction for Embryonic Stem Cell/Fetal Tissue Research.

### ■ Strict restriction

Companies that meet the following criteria are considered ineligible for investment:

- **Human embryonic stem cells:** The company is involved in the use of human embryonic stem cells.
- **Fetal cell lines:** The company is involved in the use of fetal cell lines for vaccine or biologics development.

## Pork/usury

### ■ Best-in-Class

There is no Best-in-Class restriction for Pork and Usury.

### ■ Strict restriction

Companies that meet the following criteria are considered ineligible for investment:

- **Production of pork:** The company derives  $\geq 10\%$  of revenue from the manufacture of pork products.
- **Retail of pork:** The company derives  $\geq 10\%$  of revenue from the distribution and/or retail sale of pork products.
- **Usury:** The company operates in the finance sector, including the following industry groups: Banks, Finance/Rental/Leasing, Investment Banks/Brokers, Investment Managers, and Financial Conglomerates.

## Social justice

Combines the following restriction criteria:

### ■ Predatory lending – Strict restriction

- Predatory Lending is considered controversial due to its questionable or immoral business ethics and the potential socio-economic impacts of high interest rates and/or unfavorable terms on borrowers.
- Companies that meet the following criteria are considered ineligible for investment:
  - **Operations:** The company is involved predatory lending activities.

#### ■ **Riot weapons** – Strict restriction

- The primary concern with riot control is that crowds are sometimes suppressed violently, leading to injury or death of civilians.
- Companies that meet the following criteria are considered ineligible for investment:
  - **Production:** The company manufactures riot control weapons.

#### ■ **Employees: Human rights** – Strict restriction

- The Employees: Human Rights Strict restriction identifies and excludes companies with severe or significant controversies related to violations of human rights within the company's operations. This includes incidents relating to the use of forced labor and child labor in the company's own operations, or incidents relating to the infringement of human rights within a supplier's own operations. Such incidents may include the use of child labor and forced labor.

#### ■ **Society: Human rights** – Strict restriction

- The Society: Human Rights Strict restriction identifies and excludes companies with severe or significant controversies related to a company's direct or indirect involvement with corrupt and/or dictatorial regimes or parties that have a track record of human rights violations or are engaged in human rights abuses. This also analyzes a company's direct or indirect involvement in the Occupied Territories, or incidents relating to the infringement of human rights by a supplier, affecting a broad range of stakeholders.

#### ■ **Labor relations** – Strict restriction

- The Labor Relations Strict restriction identifies and excludes companies with severe or significant controversies related to violations relating to compensation and working conditions (i.e. wages) as raised by a company's own employees or incidents that relate to activities by a company's supplier that have a negative social impact such as discrimination, labor violations, customer mismanagement, anti-competitive practices, among others.

#### ■ **Community relations** – Strict restriction

- The Community Relations Strict restriction identifies and excludes companies with severe or significant controversies related company activities that have direct negative impacts on specific communities and how the company manages such impacts. Such incidents may include conflicts with indigenous communities and local communities, disputes related to land rights and water rights, among others.

## **Cannabis**

Companies that meet the following criteria are considered ineligible for investment:

■ **Production (medical cannabis)** – The Company is involved in the development and/or cultivation of medical cannabis.

■ **Retail (medical cannabis)** – The Company derives revenues from the distribution and/or retail sale of medical cannabis.

■ **Production (recreational cannabis)** – The Company is involved in the development and/or cultivation of cannabis for recreational purposes.

■ **Retail (recreational cannabis)** – The Company derives revenues from the distribution and/or retail sale of cannabis for recreational purposes.

## **Unsustainable farming**

Companies that meet the following criteria are considered ineligible for investment:

■ **Genetically modified plants and seeds development** – The Company derives > 10% of revenue from development and/or cultivation of genetically modified seeds and/or plants.

■ **Genetically modified plants and seeds growth** – The Company derives > 10% of revenue from growing genetically modified crops.

■ **Palm oil production and distribution** – The Company derives > 10% of revenue from the production and/or distribution of palm oil.

■ **Pesticides production** – The Company derives > 10% of revenue from manufacturing pesticides.



## The Prison Industry (in partnership with Worth Rises)

Companies that meet the following criteria are considered ineligible for investment:

■ The Company maintains a Worth Rises Harm Score above 10. The Harm Score assesses company involvement in human rights violations along three criteria: the salience or gravity of the violation, their responsibility for the violation, and their responsiveness to advocacy engagement. Each criterion is measured on a scale from 1 to 5, making the overall Harm Score a range from 3 to 15. For more information on Worth Rises and the Harm Score, you can learn more [here](#).



### About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG research, ratings, and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices, and capital projects. With 17 offices globally, Morningstar Sustainalytics has more than 1,800 staff members, including more than 800 research analysts with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com).

### About Worth Rises

Worth Rises is a non-profit advocacy organization working to dismantle the prison industry and end the exploitation of those it touches. Their work is conducted through two main strategies: exposing the exploitation and the commercialization of the criminal legal system through research, analyses, and storytelling unmasking the harms caused by the prison industry and organizing and advocacy that centers on protecting the resources of the impacted communities and stripping the industry of its power.

Worth Rises identified every private vendor paid \$150,000 or more by the largest state corrections agency in each geographic region, including that of California, Florida, New York, Ohio, and Texas. Worth Rises then assigned a Harm Score to every publicly traded and private equity owned company based on a rubric developed in collaboration with criminal justice partners, namely Investigate of the American Friends Services Committee - Arizona. Growing in scope and breadth each year, Worth Rises' data set continues to serve as the largest lens into the prison industry ever published. Although this data set does not cover all private sector companies in this space, it captures the companies with significant involvement. For more information on Worth Rises and the Harm Score, you can learn more [here](#).



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