A Guide to Investing for Impact and Sustainability

Definitions and implementation ideas

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Key Points

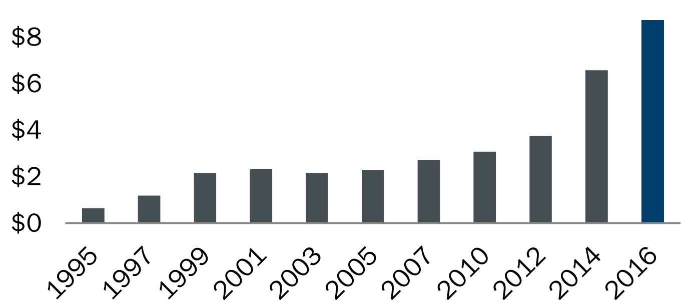
- Impact and sustainable investing strategies are garnering an increasing level of assets.
- Some of the oft-used terms such as ESG Integration, Values-Based Investing, Socially Responsible Investing, Impact Investing, and Shareholder Advocacy, which are often used loosely, actually have meaningful and unique definitions that are commonly accepted.
- Understanding the differences between these definitions can help you differentiate between investment strategies, the strengths of each, and your unique needs.
- The IRG has identified compelling investment options available at Ameriprise.

Introduction

What does E.S.G. stand for? Is it environmental, social, and governance, or is it environmental, sustainable, and governance? Is there a difference between ESG and SRI? If so, what is it? What about impact investing? Is it different from ESG integration? If so, how is it different? All valid questions, and ones you have probably asked yourself if you have researched this once niche corner of investing that is seemingly becoming more mainstream.

Before we formally define the acronym ESG, let's dispel the myth that this type of investing is still a niche. According to The Forum for Sustainable and Responsible Investment (USSIF), an authority on sustainable, responsible, and impact investing, investors now consider environmental, social, and governance (ESG) factors across $8.72 trillion of professionally managed assets. This is a 33% increase since 2014.[1] This growth in assets has caught the industry's attention, bringing more participants, both asset managers and investors, to this conversation, and spawned a confusing lexicon, which makes it challenging for investors to differentiate between the various investment approaches and select a strategy that meets their needs.

USSIF: Sustainable, Responsible, and Impact Investing in the United States 1995 - 2016 (in trillions)



Source: US SIF Foundation.

The goal of this white paper is two-fold. One, to provide definitions to terms commonly used in this arena, which will help when considering the various conceptual approaches to impact and sustainable investing; and two, to provide a few implementation ideas to use.

NOTE: FOR IMPORTANT DISCLOSURES PLEASE SEE THE LAST PAGE OF THIS PUBLICATION.

Values-based investing

Sometimes referred to as socially responsible investing (SRI), negative screening, avoidance, or exclusion, a values-based investing approach avoids investments in companies or industries that some consider morally objectionable. Traditionally, SRI strategies commonly excluded investments in companies that derive benefit from the sale of tobacco, alcohol, and firearms. As interest in values-based screening has grown, so has the list of exclusions. Commonly excluded investments include those related to fossil fuels, nuclear power, adult entertainment, gambling, genetically modified organisms, and countries involved in human rights violations or supporting terrorism. Such values-based investing raises questions around the amount of exclusion, its impact on investment performance, and the easiest ways to implement such a strategy.

Variations of the exclusion approach exist. Some strategies completely exclude owning stocks which operate in specific industries. For example, an investment strategy may exclude ownership in firearms retailers, excluding a sporting goods retailer with meaningful firearms sales. Other strategies set limits on how much a company can benefit from the eschewed industries. Building on the previous example, another investment strategy may exclude ownership in companies that generate a specific percentage of the company's total of revenue from firearms sales. This strategy may be able to own the sporting goods retailer, but may exclude ownership of a firearms manufacturer.

Still another approach, is to allow ownership in any company as long as it has "best-in-class" ESG business policies and operations relative to competitors within its industry. This is also referred to as positive screening. For example, strategies using this approach may get exposure to the oil and gas industry by owning a company that has environmentally conscious extraction practices relative to other companies in the industry.

Perusing the published literature on the performance results of values-based investing is inconclusive. For each published article concluding that exclusionary screening does not have adverse impacts on performance, there is often another article to the contrary.

Theoretically, it seems reasonable to assume that winnowing the number of investment choices using an exclusionary screen would lead to underperformance over time, simply because the investable opportunity set has been truncated. Because the published literature is mixed on the topic, we will not address the performance question. However, we note that underperformance may not be unwelcome by those who are dedicated to this form of investing; they may view the risk of underperformance as a necessary cost of morally aligning their investments with their beliefs.

Catering to the unique moral preferences of a wide array of investors makes an exclusionary approach difficult to implement effectively in a pooled vehicle, such as a mutual fund or ETF. Instead, a customized approach may be more easily implemented in a separate account, using an investment manager who is amenable to accommodating the individual investor's appetite for specific avoidance criteria.

Examples of Varied Approaches to Values-Based Investing

	More Restrictive	**Less Restrictive**
Percentage of Revenue	<u>Restriction:</u> Strategy will not invest in a company that earns more than 5% of revenues from the sale of firearms. • Excludes ownership of firearms producers and sporting goods retailers with meaningful firearms sales.	<u>Restriction:</u> Strategy will not invest in a company that earns more than 50% of revenues from the sale of firearms. • Excludes ownership of firearms manufacturers, but allows investment in sporting goods retailers with meaningful firearms sales.
Industry Involvement	<u>Restriction</u>: Strategy will not invest in integrated oil companies. • Excludes ownership of all companies involved in the extraction of oil and gas.	<u>Restriction:</u> Strategy will invest in oil and gas companies, but only those with best-in-class management of environmental risks and full disclosure of its environmental impacts. • Allows investment in certain oil and gas companies that have best-in-class ESG operational and business policies.

Environmental, social, and governance (ESG) integration

Running parallel with values-based screening is the concept of ESG integration, or just ESG for short. ESG, which is often used as a catch-all term to describe any strategy or fund that falls in this universe, actually has a commonly accepted more specific definition. ESG integration refers to the examination and incorporation of material environmental, social, and governance factors into the investment process and asset valuation.

Investors who subscribe to this approach believe markets inefficiently account for ESG risks and opportunities. Because of this perceived inefficiency, proponents see an opportunity to build a portfolio that can generate alpha through ESG integration, although it has not conclusively proven to do so. For example, an asset manager using an ESG integration approach may apply a higher target price to the stock of a company that has demonstrated a commitment to strict environmental controls and stewardship, by lowering the company's expense assumptions to account for a lower risk of unexpected regulatory fines and clean-up expenses compared to peers. Another example is a company that produces a water-intensive product, such as semi-conductors, that has demonstrated it has secured access to and conservatively manages water may be considered less risky than a semi-conductor company that is not focused on management of water usage. Some additional examples of material environmental factors include energy efficiency, opportunities in clean transportation, opportunities in renewable energy, and management of carbon emissions.

A company that provides solutions to significant social challenges may look appealing to an analyst using an integrated ESG approach. For example, a technology company with hardware or software solutions that provide developing economies access to personal or commercial banking may be positioned for fast growth as global economic equality continues to become an important social priority. Some additional examples of material social factors include opportunities in healthy lifestyles, access to affordable health care, labor management, cyber-security, access to communication, and product safety & quality.

Some governance factors that are often cited as being material to stock valuations include, reasonable dividend payout ratios, separation of CEO and chairman of the board roles, conservative accounting practices, tax transparency, attendance at board meetings, board member tenure, and regulatory and legal fine history.

The extent to which asset management firms claiming to practice ESG integration have done so varies widely. Firms with more robust ESG integration approaches can provide examples in which material ESG factors influenced buy or sell decisions. Often, these strategies have developed industry and sub-industry specific models that identify and analyze material ESG factors.

Parsing between investment strategies that practice ESG integration and those that use the term as a marketing tactic is integral for investors interested in using these strategies for their potential risk-adjusted return benefits.

Examples of ESG Integration

Material ESG Risks

- An oil and gas company with strong business ethics and an impressive record of anti-bribery fines or actions relative to peers.
- A chemical company that has taken strong precautions to ensure safe storage of volatile chemicals in the event of a natural disaster.
- A financial services company with a strong cyber-security program.

Material ESG Opportunities

- A business positioned to benefit from the trend of energy conscious consumers transitioning from incandescent light bulbs to LED lighting.
- A food and beverage manufacturer that is positioned to benefit from trends toward growing demand for healthier food options.
- A medical company positioned to benefit from growing world-wide access to basic health care services.

Shareholder advocacy and engagement

Another approach to impact and sustainable investing is shareholder advocacy and engagement. Advocacy and engagement is the long-time practiced action of alerting company management that some change to the business model is desired by the advocating investors. Historically, these engagements with management have focused on topics outside of ESG, such as those practiced by activist investors, hedge funds, and private equity firms, to unlock financial value. More recently, impact and sustainable investors have adopted this approach and put ESG topics on the agenda.

Investment firms with strong impact and sustainable strategies have put a new twist on advocacy and engagement by focusing on influencing less financially tangible and sometimes non-financial, environmental, social, and governance business practices of the company. Advocacy and engagement methods include voting proxies, filing shareholder resolutions, and dialoguing with company managements committed to improving ESG policies and practices.

Strategies with strong advocacy and engagement efforts may hold stock in companies that seem ill-fit in an impact and sustainability strategy. This may lead investors to question specific holdings if they don't recognize that the investment manager may be working with the company to improve many of those ESG-related business practices that make the company undesirable.

Those who are most interested in maximizing the non-financial impact of their investments may be interested in strategies with a strong advocacy and engagement approach. Many investment firms committed to advocacy and engagement will highlight the results of their efforts through regularly published reports.

Impact investing

Similar to advocacy and engagement strategies' focus on driving an agenda of environmental or social change through equity or debt investment, impact investing also focuses on driving change. However, it is defined separately because impact strategies typically address a specific issue. In addition, they don't require owners to actively participate with management, which is a hallmark of advocacy and engagement strategies.

In fixed income, this has resulted in "green bonds", which are loosely and broadly understood as debt securities tied to environmentally friendly projects. These could be bonds supporting causes such as environmentally friendly public transport, water management, or waste management projects. Traditionally these bonds were issued by multilateral development banks (MDBs) such as the World Bank, or the European Investment Bank. Today, the source of issuance has expanded beyond MDBs to include, public corporations, states and municipalities, and universities and non-profits.[2] For example, Toyota has issued green bonds to fund consumer loans and leases for electric, hybrid, and low-emission vehicles.[3]

Equity impact investments are ownership stakes in companies promoting societal or environmental progress. Many thematic funds focusing on alternative sources of energy, or societal progress such as gender diversity could be considered impact investments. Investors are motivated to marry a strong investment thesis with an overarching agenda of promoting a change about which they are passionate.

Summary of Approaches to Investing for Impact and Sustainability

Values-based-investing

Definition: Not owning companies involved in specific industries or businesses, often those that some consider morally objectionable or that have a negative environmental impact.

Synonyms: socially responsible investing, SRI, negative screening, avoidance, exclusion

Additional uses: Owning companies involved in all industries, but only owning companies that are perceived as best-in-class in terms of managing Environmental, Social, and Governance business practices.

Synonyms: positive screening

Environmental, social, and governance integration

Definition: Examination and incorporation of material environmental, social, and governance factors into the investment process and asset valuation.

Synonyms: ESG, ESG investing

Shareholder advocacy and engagement

Definition: Alerting company management that some change to the business model is desired, in an impact and sustainable investing context these changes are related to the company's management of ESG issues.

Impact investing

Definition: Investing with dual objectives of generating a return and driving an environmental or social agenda. While not always the case, often investment performance can be a secondary objective, foregone to generating a significant social impact.

Implementing at Ameriprise

The approaches to implementing impact and sustainable investing discussed in this paper are not mutually exclusive. That is, an impact and sustainable investment strategy may combine two or more of these tactics, and to varying degrees.

In 2017, the Investment Research Group (IRG) bolstered its coverage of recommended impact and sustainable investing strategies, adding three mutual funds to the Starting Point Recommended List. In total, there are now nine recommended mutual funds, ETFs, or SMAs across the major asset classes.

In our opinion, the extent to which an investment incorporates these approaches is only a component of its total merit. Said another way, our mission has been to identify strategies that we believe possess strong traditional investment merits while demonstrating strong ESG integration capabilities and a commitment to impact and sustainable investing. While the universe of investments is limited in number, the IRG has not relaxed the standards for obtaining a Recommended rating to accommodate the smaller search universe. For example, a domestic equity product that would traditionally warrant a Neutral rating would not be rated Recommended because it is the best available ESG option. Following is an overview of all nine Recommended strategies.

Investors looking for exposure to U.S. equities have two interesting passive options in the **iShares MSCI USA ESG Select Index ETF (ticker SUSA)** and the **iShares MSCI KLD 400 Social Index ETF (ticker DSI)**. While both ETFs are similar in that they leverage MSCI's extensive ESG research and rating capabilities, they are unique from each other and serve different client needs. By mandate, the MSCI USA ESG Select Index seeks to maximize its portfolio level ESG rating while maintaining broad U.S. equity exposure. This results in a portfolio of stocks that have meaningfully higher ESG ratings than the MSCI KLD 400 Social Index. While the MSCI KLD 400 Social Index still maintains a relatively high portfolio level ESG rating, its stricter exclusionary screens differentiate the approach. The MSCI KLD 400 Social Index excludes ownership in companies that are involved in nuclear power, tobacco, alcohol, gambling, military weapons, civilian firearms, genetically modified organisms (GMOs), and adult entertainment. For example, investors that would be puzzled to find out they own stock in a company that develops military solutions such as Rockwell Collins or a nuclear power utility like Xcel Energy, both of which are held in the iShares MSCI USA ESG Select Index ETF, would likely find the iShares MSCI KLD 400 Social Index ETF to be a more suitable option.

In September 2015, the 193 Member States of the United Nations adopted the 17 United Nations Sustainable Development Goals (UNSDGs), designed to end global poverty by 2030 and pursue a sustainable future.[4] The **AB Sustainable**

Global Thematic Fund (ticker ALTFX) invests solely in companies positioned to benefit as the world moves to this sustainable future. To be owned in the mutual fund, stocks must fit into one (or more) of the 17 UNSDGs, each of which has been assigned to one of three broader sustainable investment themes, climate, empowerment, and health. In addition, the fund uses a separate traditional ESG integration approach to incorporate material ESG risks into each stock's valuation. This fund does not own companies that generate significant revenues from weapons, alcohol, tobacco, gambling.

Through its strong advocacy and engagement program, Miller/Howard Investments demonstrates its commitment to investing for impact and sustainability. It is important to know, rather than avoiding owning what many consider traditional "sin stocks" such as energy companies, traditional utilities (water, gas, and electric), oil producing companies, Miller/Howard believes ownership coupled with engagement and advocacy is a more effective way to improve stock price performance and affect social and environmental change. In 2017, Miller/Howard filed shareholder resolutions with over ten companies on initiatives ranging from board diversity, to drug pricing, to improved environmental disclosures. For each shareholder resolution it files or co-files, the firm publishes a write-up detailing the initiative and outcome, a catalog of these write-ups can be found at www.mhinvest.com. Additionally, the firm applies a rigorous and consistent ESG analysis led by a team of four individuals solely focused on ESG analysis and advocacy. The firm also excludes ownership in companies that derive revenues from alcohol, tobacco, gambling, firearms, nuclear power, and companies with serious and persistent human rights problems. In addition to the **Miller/Howard Income Equity** and **Miller/Howard Infrastructure** separately managed accounts available on the Select Separate Account Platform, Miller/Howard is also the sole-subadvisor on the **Touchstone Premium Yield Equity (ticker TPYAX)** mutual fund which can be found on the Starting Point Recommended List.

Combining a leader in fixed income investing with a leader in responsible investing makes **Calvert Bond (ticker CSIBX)** a compelling core fixed income mutual fund. Calvert's Sustainable Research Team, which is solely focused on ESG integration, and advocacy and engagement, is one of the most well-resourced sustainability teams. Setting this fund apart from many competitors is Calvert's commitment to advocacy and engagement. In 2016, Calvert filed or co-filed 28 shareholder resolutions and published a summary of its accomplishments in the report, *Shareholder Advocacy Report: Tools of Change*, which can be found at www.calvert.com. This strategy does not explicitly incorporate a values-based screen.

One of the best examples we have seen of a strategy that fully implements impact and sustainable investing, while offering a compelling investment thesis is the **ClearBridge Appreciation–ESG** separately managed account (SMA). This domestic large-cap core strategy, managed by co-portfolio managers Scott Glasser, Michael Kagan, and Mary Jane McQuillen, has provided attractive risk-adjusted returns and boasted strong downside protection properties. This strategy incorporates ESG integration as McQuillen, ClearBridge's Head of ESG Investing, and dedicated ESG analyst partner with ClearBridge's general analyst team to integrate material ESG considerations into stock valuations. This strategy excludes for consideration investments in companies ClearBridge has rated "ESG Uninvestable" based on the company's history of handling ESG business factors. This strategy also excludes investment in companies benefiting from the weapons, tobacco, adult entertainment, or nuclear energy industries. This strategy is available on the Select Separate Account Platform.

Highlighted by a strong ESG integration approach, **Brown Advisory Large-Cap Sustainable Growth** is a domestic large-cap growth strategy that seeks to own companies boasting what Brown proprietarily calls, an Environmental Business Advantage (EBA™). Brown believes companies that have an EBA will fundamentally benefit from how they manage ESG-related risks and opportunities. Specifically, companies with an EBA will drive revenue growth, cost improvements, or enhance franchise value. This strategy does not explicitly incorporate a values-based screen. This strategy is available on the Select Separate Account Platform.

Table: Primary impact and sustainability approach practiced by IRG Recommended strategies

	Asset Class Focus	Vehicle	Values-Based Investing	ESG Integration	Advocacy and Engagement
iShares MSCI USA ESG Select Index	Large Blend	ETF		✓	
iShares MSCI KLD 400 Social Index	Large Blend	ETF	✓	✓	
AB Sustainable Global Thematic	World Large Stock	MF		✓	
Touchstone Premium Yield Equity	Equity Income	MF	✓	✓	✓
Calvert Bond	Core Fixed Income	MF		✓	✓
ClearBridge Appreciation ESG	Large Blend	SMA	✓	✓	
Brown Advisory Large-Cap Sustainable Growth	Large Growth	SMA		✓	
Miller/Howard Income Equity	Equity Income	SMA	✓	✓	✓
Miller/Howard Infrastructure	Infrastructure	SMA	✓	✓	✓

Source: Ameriprise Investment Research Group

Additional resources

In addition to the nine implementation ideas covered in this paper, there are additional mutual funds and ETFs available on the Ameriprise brokerage and *Ameriprise®* SPS platforms, as well as additional separate accounts available on the Vista Separate Account platform. Identifying the universe of impact and sustainable investments can be a challenge as there is not a simple, comprehensive way to do so. That said, there are three additional resources the IRG has found helpful when building a universe of available strategies, that may prove beneficial as you assess these investments.

The **Mutual Fund Screener** tool, which can be found by searching "Fund Screener" on www.ameirprise.com, can be used to identify all available for sale mutual funds that Morningstar has labeled "Socially Conscious". By selecting the "Socially Conscious" filter, a list of funds is populated, which can be further sorted by Morningstar Category to identify availability by asset class. Using the Mutual Fund Screener, a simple search for socially conscious A share funds without a purchase restriction produced 54 results across 29 Morningstar Categories.[5]

The **USSIF Forum for Sustainable and Responsible Investment** hosts an online database of sustainable and responsible mutual funds and separately managed accounts and should be considered a good resource to get started. Asset management firms that are members of the USSIF are able to self-report investments for inclusion in this database. This database can be found by clicking on the *Mutual Funds* or *Separate Accounts* buttons on the USSIF homepage, www.ussif.org.

In 2016, **Morningstar** introduced a sustainability rating for managed products including mutual funds and exchange traded funds. Using ESG research provider Sustainalytics, the Morningstar Sustainability Rating assigns mutual funds a peer group relative sustainability score based on the fund's underlying holdings. This score can be used to assess peer relative sustainability of a fund's holdings. It is important to note that the Morningstar Sustainability rating does not evaluate the investment firm's forward-looking commitment to impact and sustainable investing, nor its shareholder advocacy and engagement efforts. As such, the Morningstar Sustainability rating only reflects Sustainalytics' and Morningstar's assessment of the fund's sustainability based on current holdings.

In conclusion

Given the recent asset growth trends, investors are demanding more value from their investments than strong risk-adjusted returns. Investors are seeking, from their advisors, compelling investment solutions that also align with their unique values and address pressing societal issues.

Grasping the difference between the four approaches to impact and sustainable investing described in this paper, values-based investing, ESG integration, shareholder advocacy and engagement, and impact investing, is a valuable, foundational, step in evaluating investment strategies, and understanding and selecting the most appropriate implementation solution.

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CITATIONS

[1] *Executive Summary: Report on US Sustainable, Responsible and Impact Investing Trends, USSIF The Forum for Sustainable and Responsible Investment, 4 Jan.2017,* www.ussif.org/files/SIF_Trends_16_Executive_Summary(1).pdf

[2] *"Chapter II – Understanding Green Bonds" What are Green Bonds,* World Bank Treasury, 4 Jan. 2017, www.treasury.worldbank.org/cmd/htm/Chapter-2-Issuer-Profile.html

[3] Toyota Financial Services. *Toyota Financial Services (TFS) Issues Auto Industry's First-Ever Asset-Backed Green Bond*. Torrance. TFS, March 24, 2014. Web. 4 Jan. 2017

[4] *Historic New Sustainable development Agenda Unanimously Adopted by 193 UN Members, The United Nations, 8 Dec. 2017, www.un.org/sustainabledevelopment/blog/2015/09/historic-new-sustainable-development-agenda-unanimously-adopted-by-193-un-members/*

[5] Search was conducted using the Fund Screener on Ameriprise.com on December 8, 2017.

IMPORTANT DISCLOSURES

Investment Research Group Rating Definitions

The Ameriprise Investment Research Group (IRG) has the ability to assign the following ratings to funds and SMAs. All products carrying one of these ratings receive ongoing research and due diligence.

Recommended Based on in-depth research and analysis, the Ameriprise Investment Research Group has high conviction in the forward-looking prospects for the product.

Neutral Indicates the product may be appropriate for certain clients but is exhibiting some trait or concern that leads the Ameriprise Investment Research Group to have a lower level of conviction in its forward-looking prospects.

Restricted Indicates the product has a purchase restriction based on some identified deficiency that the Ameriprise Investment Research Group believes will inhibit the product on a forward-looking basis.

Watch List Transitory rating highlighting the occurrence of a significant change that the Ameriprise Investment Research Group believes may alter the forward-looking prospects for the product.

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As of February 28, 2018, the iShares ETF family of funds is managed by BlackRock.

As of February 28, 2018, BlackRock has an arrangement with either AEIS or AFSI that presents a material conflict of interest. Examples include but are not limited to conducting a stock loan/borrow business with the institution, maintaining a distribution agreement with the company, maintaining a cost reimbursement or marketing support agreement or similar business arrangement with the company and arrangements to provide financial education and/or access to planning or other financial products to the company.

Calvert Research and Management is a subsidiary of Eaton Vance.

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Alpha measures nonsystematic return, or the return that cannot be attributed to the market. Thus, it can be thought of as how the manager performed if the market has had no gain or loss. In contrast, beta measures the return that is attributable to the market and is a measure of the portfolio's overall volatility. If the market's return as measured by an index was equal to the risk-free rate, the manager's expected excess return would be alpha. A positive alpha implies that the manager has added value to the return of the portfolio over that of the market. Returns with negative alpha do not reflect any positive contribution by the manager over the performance of the market. An alpha of zero implies that a manager has provided a return that is equivalent to the market return for the manager's specific risk class.

For a broader discussion of the strategies mentioned in this report, please refer to the applicable strategy factsheets and research reports. These documents contain the Ameriprise Investment Research Group's opinion on various qualitative aspects of the Investment Manager, investment process, parent company and additional information.

Exchange Traded Funds (ETF) trade like stocks, are subject to investment risk and will fluctuate in market value.

Although an ETF's price level may generally trade close to its NAV level, a deviation in price/NAV could occur due to, but not limited to, liquidity fluctuations and/or market operations.

Investors should consider the investment objectives, risks, charges and expenses of mutual funds and exchange traded funds (ETF) carefully before investing. Investors should take time to understand all the fees associated with a fund they might purchase. For a free prospectus, which contains this and other important information about mutual funds go to ameriprise.com. The prospectus should be read carefully before investing.

The MSCI KLD 400 Social Index is a capitalization weighted index of 400 U.S. 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.

The MSCI USA Index is designed to measure the performance of the large- and mid-cap segments of the US market. With 616 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

The MSCI USA ESG Select Index is designed to maximize exposure to positive environmental, social and governance (ESG) factors while exhibiting risk and return characteristics similar to those of the MSCI USA Index. The Index is optimized to be sector diversified, targeting companies with high ESG ratings in each sector.

The Morningstar peer groups are defined by Morningstar and consist of all applicable mutual funds (OE) or separate accounts (SA) of the defined investment style as defined by Morningstar. Peer groups defined by Morningstar are updated on a quarterly basis. Descriptions of Morningstar's peer groups can be found at www.morningstar.com/InvGlossary/morningstar_category.aspx.

Corporate Bonds are debt instruments issued by a private corporation. Non-Investment grade securities, commonly known as "high-yield" or "junk" bonds, are historically subject to greater risk of default, including the loss of principal and interest, than higher-rated bonds, which may result in greater price volatility than experienced with a higher-rated issue.

Environmental, social, and governance (ESG) factors may cause the fund to forgo certain investment opportunities and/or exposures to certain industries, sectors or regions.

Exchange Traded Funds (ETF) trade like stocks, are subject to investment risk and will fluctuate in market value. For additional information on individual ETFs, see available third party research which provides additional investment highlights. SEC filings may be viewed at sec.gov.

There are risks associated with investments in **fixed-income securities** and in a **bond fund**, including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer-term securities.

Growth securities, at times, may not perform as well as value securities or the stock market in general and may be out of favor with investors.

Funds that concentrate investments in **infrastructure-related securities** have greater exposure to adverse economic, regulatory, political, legal and other conditions affecting the issuers of such securities.

International investing involves increased risk and volatility due to political and economic instability, currency fluctuations, and differences in financial reporting and accounting standards and oversight. Risks are enhanced for **emerging market** issuers.

Mortgage- and asset-backed securities are affected by interest rates, financial health of issuers/originators, creditworthiness of entities providing credit enhancements and the value of underlying assets.

Mortgage Backed Securities – Bonds are subject to prepayment risk. Yield and average lives shown consider prepayment assumptions that may not be met. Changes in payments may significantly affect yield and average life. Please contact your financial advisor for information on Collateralized Mortgage Obligations (CMOs) and how they react to different market conditions.

Non-investment-grade (high-yield or junk) securities present greater price volatility and more risk to principal and income than higher rated securities.

In addition to risks which generally pertain to equity investments, including market volatility and the potential loss of principal, investors in **REITs** should be aware that risks include real estate specific uncertainties such as interest rate/refinancing risk, property value changes, and management skill. Overall economic conditions can impact property values and cash flows, which in turn may negatively impact share prices.

A real estate investment trust or **REIT** is a company that owns and operates income-producing real estate. In addition, some **REITs** participate in the financing of real estate. To qualify as a **REIT**, a company must: I) invest at least 75% of its total assets in real estate assets, II) generate at least 75% of its gross income from real property or interest, and III) pay at least 90% of its taxable income to shareholders in the form of distributions. A company that qualifies as a **REIT** is permitted to deduct the distributions paid to shareholders from its corporate taxes. Consequently, many **REITs** target to payout at least 100% of taxable income, resulting in virtually no corporate taxes.

Since **REITs** do not typically pay taxes at the corporate level, their shareholders bear the tax burden. Consequentially, the majority of **REIT** distributions are taxed as ordinary income, up to the (current) maximum rate of 39.5%, according to The American Taxpayer Relief Act of 2012, which was signed into law on January 2, 2013. Please be sure to consult with a tax expert to help assess your unique situation and constraints when it comes to taxation.

Like real estate, **REITs** are subject, but not limited to illiquidity, valuation and financing complexities, taxes, default, bankruptcy and other economic, political, or regulatory occurrences.

Investments in **small- and mid-capitalization companies** involve greater risks and volatility than investments in larger, more established companies.

There is no guarantee as to the market value of **Treasury Securities** if they are sold prior to maturity or redemption.

The **U.S. government** may be unable or unwilling to honor its financial obligations. Securities issued or guaranteed by federal agencies and U.S. government-sponsored instrumentalities may or may not be backed by the full faith and credit of the U.S. government

Utility stocks may be more volatile than stocks in other sectors.

Value securities may be unprofitable if the market fails to recognize their intrinsic worth or the portfolio manager misgauged that worth.

Dividend payments are not guaranteed and the amount, if any, can vary over time.

Investing involves risks including possible loss of principal.

Disclaimer Section

Except for the historical information contained herein, certain matters in this report are forward-looking statements or projections that are dependent upon certain risks and uncertainties, including but not limited to, such factors and considerations as general market volatility, global economic and geopolitical impacts, fiscal and monetary policy, liquidity, the level of interest rates, and historical sector performance relationships as they relate to the business and economic cycle. See the latest third party research reports and updates or the prospectuses for risks pertaining to a particular security.

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