
The Sustainability Opportunity

Isabelle Williams
Head of Product Management and Vice President

Marilyn Giselle Hazlett
Investment Associate

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Sustainability goes beyond reduce, reuse, and recycle. Today more than ever, investors are calling for sustainability opportunities, and markets are answering. But investing isn't as simple as paper over plastic in the checkout line. For the investor who seeks to hold a portfolio that reflects their commitment to sustainability, Dimensional builds sustainability-focused investment strategies using scientific research and sound investment principles.

One key consideration for investors is whether they can adopt a sustainability focus and still have a good investment experience. For instance, is it possible to reduce a portfolio's greenhouse gas emissions exposure while maintaining broad diversification and a focus on higher expected returns? Because sustainability issues range widely and vary in terms of importance and impact, investors also need to consider which sustainability criteria should guide their approach. At Dimensional, we incorporate insights from climate science to determine which environmental criteria are foundational in our sustainability strategies. Environmental science leads us to focus on climate change, and climate science identifies greenhouse gas emissions as the most significant driver of climate change. Therefore, the primary goal of Dimensional's approach to sustainability investing is to reduce exposure to greenhouse gas emissions.

By focusing on climate change and greenhouse gas emissions, we have the opportunity to build a sustainability strategy that achieves measurable environmental sustainability outcomes within a robust investment framework.

START WITH A SOUND INVESTMENT APPROACH

An effective investment solution must be based on sound investment principles. At Dimensional, we start with a broadly diversified, systematic investment strategy that emphasizes securities with higher expected returns, as indicated by research, while also aiming to minimize unnecessary turnover and trading costs. For instance, in our equity strategies, this means a greater focus on securities with smaller market capitalizations, lower relative prices, and higher profitability.¹ In our fixed income strategies, we use information observed from yield curves to pursue higher expected returns across bonds of varying duration, credit quality, and currencies of issuance.

By starting with a time-tested, systematic investment approach, we can build diversified, cost-effective sustainability strategies that pursue higher expected returns while thoughtfully integrating the environmental criteria that matter most.

SYSTEMATICALLY INTEGRATE SUSTAINABILITY GOALS

It is important to carefully define the sustainability issues and data that a systematic investment strategy can incorporate. Informed by the work of leading academics and climate scientists, we can prioritize a set of climate change-related exclusion and scoring criteria that can be incorporated into a broadly diversified strategy. To do this, we need to understand not only the science of sustainability and the issues that matter to investors, but the availability, reliability, and usability of sustainability data, too. Our approach prioritizes addressing the primary driver of climate change—greenhouse gas emissions—while also considering related sustainability concerns, such as a company's land use, toxic waste production, and water management, in a manner that permits company-level sustainability data to be integrated systematically across thousands of holdings. Additionally, emissions data are readily available from multiple sources, allowing for better data validation.

Dimensional evaluates companies using an emissions-focused sustainability scoring system that enables us to compare companies based on targeted environmental issues. This involves looking at companies across the entirety of a portfolio and within individual sectors. For example, if the objective is to reduce a portfolio's exposure to greenhouse gas emissions and potential emissions from fossil fuel reserves, the worst offenders across all industries may be deemphasized or excluded from the portfolio altogether. An across-industry comparison of this nature provides an efficient way to significantly reduce the aggregate greenhouse gas emissions per unit of revenue produced by portfolio companies. Our approach may also rate portfolio companies on sustainability considerations relative to their sector peers, emphasizing industry leaders with better environmental profiles and underweighting or excluding sustainability laggards.

Dimensional applies our climate change-focused approach to both global fixed income and equity markets. We build sustainability strategies that aim to help clients achieve their investment and sustainability goals concurrently and across asset classes.

DIMENSIONAL'S SUSTAINABILITY APPROACH²



A SCIENCE-BASED APPROACH TO SUSTAINABILITY INVESTING

When a sustainability-minded shopper reaches the checkout line at the grocery store, they no longer need to choose between a weak paper bag or single-use plastic—they can get out a reusable bag that carries their groceries effectively and demonstrates their commitment to sustainability.

We believe that's also the case for sustainability-focused investors—they can pursue a sound investment experience that reflects their sustainability values. Using a patented

investment methodology, Dimensional has effectively implemented sustainability strategies with these dual goals in mind for more than 10 years.² By starting with a robust investment framework, incorporating sustainability considerations guided by climate science, and applying our many decades of experience in data management, we are able to offer a cost-effective approach that provides investors the opportunity to align their investment and sustainability goals.

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1. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book equity.
 2. Dimensional's approach to sustainability investing is protected by U.S. Patent Nos. 7,596,525 B1, 7,599,874 B1 and 8,438,092 B2

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