



# SUSTAINABLE INVESTING PHILOSOPHY

As a global investment manager and corporate citizen, Northern Trust Asset Management (NTAM) not only has an opportunity but a clear responsibility to contribute to a healthy long-term environment, equitable social structures and well-governed companies. This stakeholder-centric mindset considers our clients, employees and the communities we serve in the decisions we make and the actions we take.

We align our business with the fundamental principle of sustainability: meeting the needs of the present generation without compromising the ability of future generations to meet their own needs. We help investors future-fit their portfolios by bringing clarity to investment opportunities and risks resulting from financially relevant environmental, social and governance (ESG) factors. We believe material environmental, social and governance factors are pre-financial indicators that can affect a company's future financial viability and clients' long-term risk-adjusted investment returns. When managed well, they can position a company for success and when mismanaged, they can result in significant risks.

Consistent with our view that investors should be compensated for the risks they take, we believe evaluating companies' performance using ESG criteria enhances our forward-looking view of risks and opportunities. This analysis bolsters our ability to future-fit portfolios and grow clients' capital.

Further, we believe positive economic and societal change and financial performance are best achieved when ESG analysis is combined with active stewardship. We purposely and actively engage with various entities to promote transparency and raise ESG reporting standards — with companies in which we invest, the policymakers and regulators with whom we interact, and our vendors and index providers.

Through our integrated sustainable investment and stewardship program, we help investors future-fit their investment portfolios, empower them to align their investments with their values and use our voice to drive meaningful change at an economic, societal and financial level. By incorporating a range of available tools and approaches to holistic portfolio construction and stewardship activities, our capabilities encompass a wide spectrum of sustainable approaches, from exclusionary to integration to thematic.<sup>1</sup>

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**Angelo Manioudakis, Chief  
Investment Officer, Northern Trust  
Asset Management**

<sup>1</sup>Thematic investing refers to an investment approach that invests under a sustainability-related theme, for example, low carbon.

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We employ a rigorous analytical investment approach, leveraging quantitative and fundamental research and expertise to uncover financially relevant information that can impact a company's performance. To implement this approach, our sustainability and stewardship specialists work in tandem with investment management teams to surface investment and engagement opportunities.

Our actively designed sustainable investment solutions purposefully employ a robust four-step investment approach: analyze, measure, monitor and engage.

1. **Analyze:** We seek out relevant ESG topics and issues — those that are financially material and industry specific — that can shape short- and long-term results. We develop proprietary frameworks of measurable ESG targets by leveraging a mix of leading industry-standard frameworks, such as the Sustainability Accounting Standards Board (SASB) and Taskforce for Climate Related Financial Disclosures (TCFD) and more than 30 years of managing socially responsible portfolios.
2. **Measure:** We believe the companies that put sustainability at the core of their business — those with a strong strategic vision and a deep understanding of the interconnectivity between people, planet and profit — are likely to reap long-term rewards. We use all the tools at our disposal — external best-in-class ESG<sup>2</sup> data sets, our proprietary research and analytics, custom exclusionary screens and decades of experience — to select the key performance indicators to measure how well publicly traded companies are performing on the ESG topics and issues we deem business-relevant and financially material.
3. **Monitor:** We continually assess the sustainability performance of the securities we select for our ESG portfolios. Using a host of insights, from industry-specific frameworks to external data providers to our proprietary views in the ESG Vector Score™ and custom exclusionary criteria, we develop a comprehensive view that helps us separate the leaders from the laggards and flag the companies that require additional research or targeted engagement.
4. **Engage:** Stewardship is an integral part of our investment process, rooted in our firmly held belief that it is our duty to regularly engage with the companies in our portfolios. That's why we identify long-term risks that have the potential to pose challenges to shareholder value, and we engage on issues of substance — those that can affect businesses on many levels. This active ownership approach applies to all companies we invest in — whether the investment strategy is quantitative active equity or indexed.

Our disciplined proxy voting policy and multi-cycle engagement program encourage the companies in which we invest to pursue and disclose sustainable business practices that we believe will lead to long-term value.

We empower investors to align their investment portfolios with their values and achieve their financial goals through a wide range of sustainable investing solutions. These innovative solutions are offered across asset classes and in a variety of investment vehicles. Our skilled implementation experts can tailor according to investors' specific sustainable needs or requirements.

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“Our clients have entrusted us as stewards of their capital to protect and enhance their capital to meet their most important financial goals and values. As such, incorporating ESG considerations, coupled with purpose-led stewardship, to raise ESG standards with the companies we invest in drives positive outcomes alongside financial performance.”

**Julie Moret, Global Head of Sustainable Investing and Stewardship, Northern Trust Asset Management**

<sup>2</sup>Best-in-class ESG is industry terminology referring to an investment approach that selects companies that are leaders in implementing ESG.

## **OUR FOCUS ON CLIMATE CHANGE**

NTAM has begun exploring the integration of climate-related scenario analyses into its broader risk management program to help align with certain recommendations of the Task Force on Climate Related Financial Disclosures (TCFD). Conducting such climate-related scenario analyses and assessing the magnitude of climate-related financial risks and opportunities related to NTAM's global assets are intended to position the organization to navigate uncertain climate futures more effectively.

For several years, our Capital Markets Assumptions (CMA) five-year outlooks acknowledged climate risk as one of the six key prominent themes we see facing investors over the next five years. Climate risk is defined as a threat that global warming could negatively impact economic growth, inflation and investment returns. We differentiate between two types of climate risk: physical risk and transition risk. Physical risk is the risk of damage to land, buildings or infrastructure owing to the physical effects of climate-related factors such as droughts, storms and flooding. Transition risk is the risk to businesses or assets that arises from policy, legal and market changes as the world seeks to transition to a lower-carbon economy. We do not expect climate risk to have a noticeable impact on economic growth and inflation over the next five years. We do, however, expect some transition risk to be priced in by financial markets in the most exposed asset classes, notably natural resources and global listed infrastructure.

From an investment standpoint, our investment teams use many tools and frameworks to incorporate climate risks into the portfolio construction process. From a quantitative standpoint, we work with clients to integrate climate metrics that are relevant to their outlook on climate to develop a strategy that meets both their financial and climate-related goals. It is the responsibility of investors such as NTAM to assess which companies are most at risk from climate change and which are best positioned (and/or taking sufficient action) to manage both financial and reputational risks as they arise. Such assessments rely on disclosures from investee companies as well as research by third parties. We support the recommendations of the TCFD, which include disclosure of governance structures overseeing climate-related risks, the risks themselves (analyzed under different climate scenarios), strategy and efforts to manage them, as well as the list of targets and metrics used.

## **SUSTAINABLE INVESTING RESOURCES AND EXPERTISE**

NTAM has been managing socially responsible portfolios for more than 30 years, a period during which this space has evolved significantly. We are committed to evolving and advancing the innovative, compelling capabilities available to the marketplace.

NTAM offers investment capabilities with sustainable objectives in equity, fixed income, listed real assets, alternatives and multi-manager. The approach and objective of a sustainable investing strategy are multi-dimensional and may apply differently to different asset classes and in different geographies. While sustainability factors may be broad in nature, our view focuses on certain key issues and approaches in our investment framework. For example, it is our

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view that the way a company manages diversity can either create value or stifle it. Appropriate management of climate risk distinguishes industry leaders from industry laggards and affects stakeholders broadly. In this effort, we are guided by international norms and standards, including the Organization for Economic Cooperation and Development (OECD) guidelines, the United Nations Global Compact (UNGC) and the International Labor Organization (ILO) Core Conventions.

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## KEY ESG FACTORS FOR SUSTAINABILITY ANALYSIS

Responsible stewardship is a critical step in ensuring that the capital entrusted to us is working on behalf of our clients to create value and manage risks as we work towards financial, environmental and social sustainability. Examples of factors that we feature in our sustainability analysis are below.

ENVIROMENTAL	SOCIAL	GOVERNANCE
climate change, resource depletion, including water, waste, pollution, energy efficiency and green revenue	working conditions including child labor, health and safety, employee relations and diversity, human capital	board diversity and structure, executive pay, bribery and corruption, shareholders rights

Source: Northern Trust Asset Management

## GLOBAL SUSTAINABLE INVESTING TEAM

NTAM has dedicated resources focusing on the integration of sustainable investing factors across our investment processes and has developed in-house, specialized expertise through our long-term commitment to social, environmental and financial integrity. The Sustainable Investing team is responsible for ESG research, innovation, product development and product management across our array of asset class capabilities. It has a key role in proactively developing new ideas to ensure sustainable investing thinking remains central to our business development.

This team works closely with our clients and key internal stakeholders, such as our portfolio management and quantitative research teams, to develop and implement sustainable investing strategies ranging from simple negative screens to more complex mandates, including thematic or active quantitative strategies.

## SUSTAINABLE INVESTING COUNCIL

NTAM has established a Sustainable Investing Council in charge of affirming strategies to address sustainable investment issues and implementing the initiative at the level of NTAM. The mission of the Council is to provide multi-disciplinary oversight of NTAM's sustainable investing practices in our drive to bring clarity to investment opportunities and risks resulting from financially relevant environmental, social and governance factors.

The Council will surface informed industry perspectives on investment, commercial and regulatory market developments that can shape ESG investment integration, product development, client engagement and stewardship priorities. The global head of sustainable investing & stewardship serves as the chairperson of the Council and is responsible for the appointment of Council members, who are approved by the NTAM executive sponsor of sustainable

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investing & stewardship. Membership includes representatives from all relevant business units and functions enterprise-wide that are deemed appropriate by the chairperson or general membership of the committee. Members are expected to have knowledge of sustainable investing issues pertaining to their function. All members meet periodically and promote sustainable investing which represent various audiences such as corporate sustainability, product development and management, investments, portfolio management, risk, compliance, business development, proxy voting and engagement. We believe this set-up is contributing to a further enhancement of sustainable investing within and throughout our company.

Members of the sustainable investing team are taking active roles in industry associations and networks, while NTAM has achieved or sought signatory status across relevant codes and initiatives around the world.

## INDUSTRY LEADERSHIP

We strongly believe in the importance of our leadership role and collaborative effort in the industry. Members of the sustainable investing team are taking active roles in industry associations and networks, while NTAM has achieved or sought signatory status across relevant codes and initiatives around the world.

INDUSTRY PARTICIPATION OVERVIEW	
The Principles for Responsible Investing (signatory)	Ceres Investor Network (member)
International Sustainability Standards Board (member of the IFRS Sustainability Alliance and ISSB Investor Advisory Group)	Responsible Investment Association Canada (member)
Net Zero Asset Manager Initiative (NZAMI) (signatory)	Task Force for Climate Related Disclosure (supporter)
Council of Institutional Investors (associate member)	Human Capital Management Coalition (member)
One Planet Asset Managers Initiative (signatory)	Canadian Investor Statement on Diversity and Inclusion (signatory)
Farm Animal Investment Risk & Return (FAIRR) Initiative (signatory)	Canadian Responsible Investing Working Group (member)
DCIIA ESG Subcommittee (member)	Global Real Estate Sustainability Benchmark (member/supporter)
DCIIA Diversity Working Group (member)	UK Stewardship Code 2020 (signatory)
IIGCC (member)	Aotearoa New Zealand Stewardship Code
Investor Stewardship Group (signatory)	Dutch Stewardship Code (aligned)
Hong Kong Stewardship Code (aligned)	Investment Company Institute ESG subcommittees (member)
Climate Action 100+ (founding signatory)	Investment Company Institute ESG subcommittees (member)
Responsible Investment Association Australasia (member)	

## INTEGRATION OF SUSTAINABLE INVESTING INTO INVESTMENT DECISION MAKING

NTAM purposefully combines robust capital markets research, expert portfolio construction and comprehensive risk management to craft efficient solutions that can deliver targeted investment outcomes. Our fiduciary heritage guides our principle-based culture and collaborative approach, resulting in a distinctive client experience. Our business strategy is to seek to deliver investment solutions that solve the most complex needs of institutional and individual investors, with a focus on solutions that we believe align with our competitive advantage, provide the most value to investors and show potential for growth. Some of

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these solutions include sustainable investing, quantitative, multi-asset, cash and alternative strategies. We believe that, by serving as an active owner on behalf of the shareholders, we will help portfolio companies produce sustainable value and that companies' long-term financial returns are connected to their strategic, environmental, social and governance performance.

In 2019, we launched the ESG Vector Score™, an industry-first sustainability measurement that marries two leading sustainability reporting frameworks — the SASB Standards and conceptual aspects of the TCFD Recommendations. The ESG Vector Score™ assesses a company in the context of financially relevant ESG-related criteria that could impact company performance. By leveraging two industry-leading frameworks, the ESG Vector Score™ ultimately gives investors a more transparent and consistent methodology that can assess corporate issuers with a consistent metric for both portfolio construction and stewardship.

Our approach represents a refined perspective on ESG materiality and leverages our quantitative and fundamental research expertise. We believe our distinct ability to home in on these critically important and financially material ESG issues will help further align sustainable investments and stewardship. And, as sustainable investing continues to mature and evolve, the ESG Vector Score's™ open architecture means it can adapt to support multiple data sources and requirements over time. We see it as a foundational metric that can be used for years to come.

### Sustainable Investing Index

For many index investors, it may be appropriate to reflect a sustainable investing view through the companies that their portfolios include or exclude. Much of this activity involves exclusions based on the breach of standards and norms, regulations or certain ethical or other exclusionary tactics. For example, screening companies for breaching labor rights norms or the UNGC Principles are screens that we commonly apply across passive sustainable investment strategies.

More recently, however, infusing a portfolio with sustainable investing views can also include a positive element whereby companies showing superior management of ESG risks and opportunities may be favored. ESG indexes are constantly evolving, but NTAM has been at the forefront of these activities and spearheaded the development of a range of market-leading custom ESG indexes. We continue to do pioneering work in developing strategies that meet our clients' growing needs in this space.

In addition to these approaches, we also maintain the capabilities to integrate alternative weightings to maximize certain types of exposures. One example is our recently launched Green Transition Strategy developed with clients to define a thoughtful approach to fossil fuel divestment that provides opportunities to benefit from the low-carbon transition. This strategy aims to reduce the carbon footprint of the portfolio by removing all companies with carbon reserves and the top 10% of carbon emitters, resulting in a 65% reduction in carbon emissions intensity compared to the parent index. Once the top emitters have been identified, the strategy will tilt towards companies benefiting from green revenue and the low-carbon energy transition.

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Our ESG capabilities cover a variety of approaches including:

- Client-directed screens
- Tilting
- Alternative weighting
- Best-in-class
- Integrated solutions
- Fixed income
- Standard ESG/SRI indexes
- Custom ESG indices designed by NTAM and data providers (NTAM custom ESG pooled funds)
- Global Real Estate Sustainability index
- NTAM FlexShares ESG ETFs

### Traditional Index

Index investors own a substantial part of all of the companies in a given universe and do so for the long term. For clients who direct us to manage passively against a standard market cap, where the holdings are dictated according to predefined methodologies, we are unable to integrate an ESG view in the portfolio construction, so our role as active shareholders and stewards of the corporate ecosystem is of particular importance.

To exercise our rights as shareholders, we rely heavily on our proxy and engagement efforts, which are spearheaded by our dedicated proxy & engagement and sustainable investing teams. By serving as a responsible steward, we seek to help portfolio companies produce sustainable value over the long term. We reiterate our guiding principle of maximizing shareholder value given the universal, long-term nature of our investments. Our philosophy and process surrounding these activities are discussed in greater detail in the “Stewardship” section.

### Quantitative Equity

Our approach to quantitative equity is premised on the long-term existence and persistence of compensated factors such as quality, low volatility and value. Our portfolio construction framework targets such factors, along with explicitly managing undesired and unintended risk. This approach is designed for investors looking to efficiently achieve their investment objectives, including ESG. Our quantitative equity team has been at the forefront of researching and incorporating ESG datasets into our investment process in the form of exclusions, stock selection integration and additional portfolio construction constraints, such as a carbon exposure budget. We have committed to using ESG in a manner that complements our analysis of a company and captures relevant information that financial factors on their own may overlook. Using ESG as an additional portfolio construction factor allows our investors a great deal of flexibility to achieve both their investment and ESG goals, including return enhancement as well as risk management. For example, whether a company has good corporate governance is difficult to ascertain through financial statement analysis. To evaluate corporate governance requires data demonstrating desirable features of a well-governed company, such as independence of key committees, strong shareholder

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protections and executive pay aligned with performance. In addition, we have found that certain factors or combinations of factors can pair with thematic investing goals, such as low carbon portfolios, as a means of orienting towards long-term financial and low carbon economy transition investment objectives.

### Fundamental Equity

Our approach to fundamental equity investing centers on identifying and owning higher quality companies whose current market value represents a material discount to our assessment of their intrinsic value. To do so successfully requires a proper understanding of a company's financial and strategic prospects, including its ESG challenges and opportunities. Incorporating ESG information directly into a traditional forecasting model that prioritizes quantification is challenging. However, we believe ESG information can help inform the risks to our investment thesis and shine a light on areas not patently obvious from traditional fundamental analysis and review of the public financial statements.

Our analysts conduct due diligence with management to understand the appropriateness of the corporate governance structure and its ability to manage principal-agent risks. In addition, we look to understand broader environmental trends and how a shift to a low carbon economy may affect the product mix of a specific company or industry. Underpinned by deep relationships with a variety of key issuers, 25 years of average analyst experience and leveraging the SASB standards, fundamental equity analysis also informs the broader stewardship process.

### Fixed Income

NTAM integrates ESG into its investment process using both quantitative and fundamental methodologies. Sustainable investing and bond portfolios make for a good marriage because risk is a key focus for both. Bonds help manage risk through lower volatility versus equities. Sustainable investing aims to manage damage from climate change, poor labor relations and fraudulent accounting practices, among other considerations.

Fixed income research analysts incorporate ESG criteria into their analysis for a more holistic view of a company's risk profile. This involves using both financial and nonfinancial metrics when evaluating an issuer. Corporate governance and environmental considerations are incorporated in the credit evaluation process, and increasingly social considerations are explicitly considered during both the fundamental credit evaluation and company engagement.

We believe that ESG risks will negatively affect fixed income prices over the long run, but uncertainty remains around the timing, nature and magnitude of ESG risks. Evidence is somewhat mixed on whether bond markets are pricing in ESG uncertainties in credit spreads for environmentally harmful "brown" companies versus "green" companies after controlling for credit rating, sector membership and credit term structure. Given these relationships between better ESG ratings and spreads, it isn't recommended to simply invest in top-rated ESG companies or to exclude some industries. This naïve approach could bring unintended yield, duration, sector and country risks. Investors should take intentional risks and manage those risks to achieve the outcomes they seek.

For various pooled vehicles, NTAM applies a consistent set of screens in equity and fixed income index portfolios that excludes companies involved with tobacco, controversial and conventional weapons, civilian firearms and thermal coal, as well as issuers who violate the U.N. Global Compact principles.

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Municipal issuers can also be assessed along sustainability parameters. Municipal bonds support public infrastructure and allow for community access to services such as education, housing and healthcare. For sustainable municipal bond portfolios, we employ robust credit analysis and discernment on whether the use of the proceeds align largely with sustainability objectives along with a deeper scrutiny of the environmental and social externalities of the borrower or issuance.

### Multi-Manager For Public Equity and Fixed Income Investment

NTAM has a comprehensive set of investment tools to support a sustainability mandate, including a platform of approved proprietary and third party investment capabilities. The strategies and funds approved for our clients undergo a rigorous due diligence process. Strategies are considered and proposed based on client consensus in interest and demand. They are also analyzed on an ongoing basis by the multi-manager team that integrates sustainability analysis in the sourcing and due diligence on strategies in the market. Strategies considered for the platform are reviewed by these analysts on a number of quantitative and qualitative factors, including a qualitative review regarding the method and use of ESG data and indicators, the discipline, acumen and longevity of the investment team and quantitative analysis around investment style, investment return and other factors.

In addition to qualitative methods, the Multi-Manager Investment team uses a proprietary sustainable investing scoring methodology focused on key sustainability criteria to systematically measure the comprehensiveness of a manager's sustainable investing capabilities. By evaluating an asset manager's firm-level commitment to sustainable investing, their sustainable investment process, their engagement policies and their reporting capabilities, the Multi-Manager team can source asset managers executing top-tier sustainability programs.

Furthermore, the team has developed a proprietary framework for analyzing diversity, equity and inclusion metrics for managers of strategies approved on the platform. This framework assesses insights into the diversity of key personnel, including portfolio management staff and leadership team, as well as leading metrics that provide insights into a firm's approach to integrating diversity, equity and inclusion objectives.

Strategies approved for the platform undergo ongoing monitoring. With regard to sustainability investing strategies, this monitoring includes ongoing reviews of firm-level initiatives around sustainability, including commitments to industry initiatives like signing on to the PRI, as well as monitoring the consistency and discipline of the investment staff.

A critical step in the process is selecting the right mosaic of strategies for any given investor based on their defined goal for the portfolio. We are of the firm belief that investors can benefit from seeking ESG-focused managers and do not need to forgo performance to invest well. However, discernment is critical in the manager selection process. As the outsourced chief investment officer, NTAM leverages internal expertise to act as an extension of the client's team to support the organization in defining portfolio goals from a responsible investing perspective anchored by the portfolio's performance objectives and time horizon.

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### Alternatives: 50 South Capital

At 50 South Capital — a global alternatives investment firm that provides differentiated access and solutions to private equity, private credit and hedge fund investment opportunities — we believe that by incorporating ESG or sustainability factors into our decision-making we can create long-term value for our firm, our clients and our investment partners. Material ESG issues are business issues. They augment the comprehensive quantitative and qualitative analysis we complete on investment opportunities. When identified and incorporated into our investment processes, ESG factors represent opportunities for value creation. When ignored, ESG factors can lead to negative externalities that can result in reputational and financial risk.

50 South Capital has made a firm-wide commitment to incorporate ESG factors into our business. We are committed to integrating ESG into investment decisions and partnering with the firms in which we invest to do the same. Specifically, we seek to manage reputational and financial risks that arise through our diligence process, and we strive to engage proactively with managers around material ESG factors, including corporate governance, team diversity and environmental sustainability. Sustainability factors are an essential consideration in 50 South Capital's ongoing monitoring of underlying investments. We are engaged investors, both in reaction to sustainability issues that arise during the duration of an investment and to opportunities related to sustainability factors. Through ongoing engagement, we seek to manage portfolio risk and capture attractive opportunities, all while recognizing the limited liability role we take in many of our partnerships.

### Sustainable Portfolio Monitoring

The portfolio monitoring and risk management procedures for our separately managed accounts and funds are integral to our investment process. On the accounts with ESG exclusions, ESG activity will be monitored as part of the Guideline Monitoring team's independent post-trade oversight. The Guideline Monitoring team reviews completed trades daily through Aladdin for index equity and fixed income to confirm trades are within clients' objectives, restrictions and guidelines agreed within the investment management agreement and fund prospectus/supplement. We have a clear process whereby portfolio managers are alerted as soon as a warning level is breached so that the holding can be assessed and reduced if deemed appropriate. NTAM Risk Management regularly reviews tolerance levels, and all breaches are reported to NTAM's Business Risk Committee. Fund breaches are also reported to the relevant fund's board. Any material breach would be reported to the client.

### Exclusion List Management

We have developed a proprietary custom ESG set of screens for our passive and quant active ESG funds used by our index administrators, such as MSCI, Contigo and Solactive, and our portfolio managers.

For developed markets, the custom ESG exclusions list has since inception excluded companies that do not comply with UN Global Compact Principles, companies that manufacture tobacco products or derive more than 5% of revenues from the distribution, retail or supply of tobacco products (or products for the manufacture of tobacco products) and firms that manufacture controversial weapons, such as cluster bombs, land mines, nuclear weapons, biological/chemical weapons, blinding laser weapons, incendiary weapons (white phosphorus) and non-detectable fragments.

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Through annual reviews and client consultations, these original exclusions were joined by policies excluding conventional weapons and civilian firearms, for-profit prisons and detention centers, unconventional oil and gas and thermal coal (mining and generation). The same lists apply to emerging markets, which also have a corporate governance and human rights-based exclusion list. These lists are currently applied to a range of pooled funds and are forming the basis of new strategies globally.

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NTAM's investment analysts engage with hundreds of companies annually on a range of objectives across four principle stewardship themes: environment, social, governance and risk management and strategy.

## STEWARDSHIP

### Proxy Voting

NTAM's proxy voting philosophy is to vote in the manner that we believe is in the best interest of clients/beneficiaries and will aim to maximize shareholder value. Our proxy voting framework, as outlined in our proxy voting policies, procedures and guidelines, provides that our Proxy Committee will generally vote for or against proxy proposals, usually based upon certain defined criteria.

Where a client delegates responsibility for proxy voting to NTAM, we provide reports on all voting activity undertaken on their behalf on a quarterly, semiannual or annual basis, as directed by the client.

Information on how NTAM voted securities within a reporting period and information regarding our rationale for proxy-voting decisions in a client's portfolio may also be provided upon request. We generally view our clients' voting records as their property rather than as our records to make public. Unless authorized by the client in writing or required by applicable laws and regulations, NTAM will not disclose proxy voting records of clients' accounts to any third party. Records of the proxy voting outcomes for our Northern Funds are publicly available on our website, along with links to our [Annual Stewardship Report](#), [Global Engagement Policy](#), [Proxy Voting Guidelines](#) and [other related materials](#).

### Conflicts of Interest

NTAM has policies to identify and manage conflicts of interest across its businesses. However, where arrangements are insufficient to manage with reasonable certainty that risk of damage to client interest will be prevented, NTAM will disclose the nature of such conflicts to clients.

In relation to stewardship, the specific elements of conflicts of interest management are incorporated within the proxy voting guidelines.

### Engagement

NTAM's investment analysts engage with hundreds of companies annually on a range of objectives across four principle stewardship themes: environment, social, governance and risk management and strategy. Output from these engagements is used to inform investment and proxy voting decisions with the aim of delivering positive long-term investment outcomes. Our [Engagement Policy](#) describes the scope and objectives of our engagements and also when we escalate issues found.

To maximize the scope of impact, we engage through a variety of mechanisms and partnerships. In addition to direct engagements managed in-house, we conduct collaborative and outsourced engagement activities. Collaborative engagements tend to entail a partnership of asset owners and managers with similar long-term sustainability views. They are conducted with the weight of the

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group's pooled assets, and can be an effective tool for underscoring the relevance and importance of issues. This is exemplified by our involvement in initiatives like Climate Action 100+ and FAIRR.

Lastly, NTAM publishes a global annual stewardship report highlighting key proxy voting activities and engagements. In addition to these mechanisms, NTAM has entered into an agreement with Hermes Equity Ownership Services (Hermes EOS) to provide monitoring and engagement services for our Europe, Middle East and Africa (EMEA) pooled funds.

Details of the covered portfolios and approach used by EOS are described in Appendix 2 of our [Global NTAM Engagement Policy](#), the "EMEA Pooled Funds Engagement Policy." These engagements are conducted on behalf of our funds, in line with our engagement principles. EOS' regular reporting provides full disclosure, annually and quarterly, on the number of engagements conducted on our behalf. In certain cases, EOS engagements may inform our proxy voting activities, but NTAM makes independent proxy voting decisions.

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### Principles for Responsible Investing (PRI)

NTAM joined the United Nations Principles for Responsible Investing (PRI) in November 2009. We believe the UNPRI's overarching themes of transparency, accountability and continuous improvement align with our own values. We also believe it is important to be part of a community working to establish a common language and best practices around these issues. In fact, NTAM contributed to case studies to promote acceptance and understanding of the UNPRI principles in passive management. Internally we use the UNPRI as a framework to formalize our sustainable investing principles and set priorities.

In addition, we are participants and signatories to organizations that promote environmental, social and/or governance policies, some of which are detailed below.

### Sustainability Accounting Standards Board (SASB)

As active members of the Sustainability Accounting Standards Board's (SASB) Investor Advisory Group, NTAM contributed to several working groups focused on SASB's ongoing corporate engagement and consultative process with corporate issuers around SASB's standards for disclosure of ESG factors.

### Farm Agriculture Risk and Return (FAIRR)

FAIRR is a well-known, respected leader of research, analysis and benchmarking tools and best practice materials to help investors understand and manage the risks and opportunities associated with intensive animal agriculture. Its approach focuses on productive dialogue for consensus building with the companies with which they engage. We partner with FAIRR investors to strengthen our ability to encourage companies to exit activities that are high risk; establish best practices with respect to animal production, environmental and social stewardship; and improve public disclosures on ESG consistent with our stewardship approach.

### UK Stewardship Code 2020

NTAM achieved signatory status of the UK Stewardship Code 2020, a global best practice in investment stewardship. This achievement demonstrates our deep commitment to the principles and purpose of the code. The revised UK Stewardship Code 2020 comprises a set of 12 "apply and explain" principles for asset managers and asset owners designed to ensure the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries. We applaud the Financial Reporting Council's leadership in continuing to advance the disclosure and application of the standards and will continue to enhance our approach to remain aligned with the code, client expectations and our commitments.

### Sustainable Development Goals

In 2015, after the conclusion of the Millennium Development Goals, the United Nations announced the launch of the Sustainable Development Goals, a set of 17 global goals to be achieved by 2030 that cover a broad range of social, environmental and economic development areas. While these goals were not designed with the investment industry in mind, and some of them do not lend themselves to investment strategies, they can provide a framework for theme-based investing and reporting. No impact metrics have been designed for this framework, but investors are increasingly using this lexicon to discuss investment objectives and impact goals. NTAM leverages this framework for communicating on certain initiatives, including dimensions of our stewardship activities, as well as our corporate parent's sustainability initiatives.

### NORTHERN TRUST CORPORATION'S COMMITMENT TO SUSTAINABLE OPERATIONS

Commitment to sustainability does not stop at NTAM. Our parent company, Northern Trust Corporation (Northern Trust), prides itself on being a corporate citizen with strategy value drivers that aim to help create additional value for its shareholders and key stakeholders by integrating a [strong corporate social responsibility](#) ethos alongside offering, via NTAM, sustainable investing solutions across asset classes.

At the corporate level, Northern Trust has defined a set of near-term objectives and the long-term objective of continuously improving our standards in line with best market practices. Northern Trust's most up-to-date goals are in its latest Corporate Sustainability Report.

In daily operations and strategic planning, Northern Trust strives to manage its environmental impact and improve the social and governance procedures involved in managing assets on behalf of investors. As part of its commitment, members of the Northern Trust team also take active roles in industry associations and networks such as:

- UK Women in Finance Charter (signatory)
- CEO Action for Diversity and Inclusion (member)
- Diversity Project UK and Diversity Project North America (charter member and member of the Advisory Board and Steering Group)
- Women in Super Australia (founding signatory/Australian working group member)
- ABA ESG subcommittee (member)
- Banking Policy Initiative ESG subcommittee (member)
- CDP (Formally known as Carbon Disclosure Project) (discloser)

### CDP

Northern Trust is a participant in CDP's Climate Change Questionnaire. The questionnaire requires the calculation and disclosure of its participants' greenhouse gas emissions (GHG) yearly using available data and assumptions in accordance with the Greenhouse Gas Protocol of the World Resources Institute and the World Business Council for Sustainable Development. Historic disclosures for Northern Trust are available for review at [cdp.net](http://cdp.net)

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### Corporate Services Group and Climate Change Strategy

Northern Trust recognizes that the long-term viability of its business and clients is tied to the health and well-being of our planet. It is, therefore, committed to protecting the environment and managing any negative environmental impacts from its operations. As a group, Northern Trust aligns its business with the fundamental principle of sustainability — meeting the needs of the present generation without compromising the ability of future generations to meet their needs. It does this by integrating environmental considerations into company-wide processes, committing to continually improving its business practices and delivering tangible, positive results related to the environment. Northern Trust's Corporate Services Group manages its real estate portfolio, procurement and facilities services with the objective of reducing the negative environmental impacts of its supply chain. Northern Trust uses energy to power its data centers and facilities, the majority of which are located in North America. As a result, the bulk of its GHG emissions come from its North American operations.

Since it began tracking its carbon footprint (composed of the carbon dioxide equivalent of all GHGs produced from our operations) in 2006, Northern Trust has improved its data collection processes and calculation methodologies to align with the GHG Protocol. Working closely with building managers, it follows the environmentally friendly building strategies and practices outlined by the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) program, which has awarded Northern Trust offices in North America and Asia Pacific one LEED platinum certification, six gold certifications, two silver certifications and one general certification. In addition, it uses reliable and sophisticated tracking programs to monitor and manage its environmental performance and calculate its annual carbon footprint.

In 2019, four Irish offices signed the Business in the Community Carbon Pledge. This includes a commitment of all signatory companies to commit to reducing their Scope 1 and 2 GHG emission intensity by 50% by 2030. The pledge is a commitment for Irish businesses to invest time and resources into creating a more sustainable operation — by being more energy efficient and reducing carbon usage while striving to reach global carbon reduction targets set in the Paris Agreement and maintain global temperatures at less than 2C below pre-industrial levels.

### Operational GHG Emissions

After completing a comprehensive emissions study that formed its baseline, Northern Trust set a goal to reduce its total Scope 1, Scope 2 (using the market-based approach) and Scope 3 carbon emissions by 25% per full-time employee by 2020. As of December 31, 2020, it had reduced its carbon emissions by more than 62% since its 2015 baseline and energy consumption by over 44%. Due to COVID-19, the vast majority of our staff worked from home, which significantly decreased business travel and reduced global emissions by approximately 25%. Northern Trust supplied over 12% of its portfolio with a renewable energy electricity supply, with further plans to expand this. Northern Trust is continuing to reduce its carbon emissions and expanding the number of types of emissions on which it reports (i.e., water and waste emissions).

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### The Sustainability Network

The Sustainability Network (TSN) is Northern Trust's global partner environmental engagement program aimed at increasing awareness of sustainability issues, promoting best practices and unifying environmentally focused business operations under the same umbrella.

The Sustainability Network enables close collaboration between Northern Trust's building managers and TSN champions — partner volunteers — in delivering consistent environment-related messages, gauging partner feedback throughout policy implementation and advocating for increased commitment to conservation and protection of environmental resources.

TSN organizes Earth Day celebrations as well as other environment-related volunteer opportunities and has been a key activator of behavior change in Northern Trust's culture around climate change and other environmental issues. Limited by the unusual pandemic-related circumstances beginning in 2020, it embraced the work-from-home mandates by digitally delivering environmental messages and hosting webinars. The group also established a "Science Club" newsletter featuring environmental experiments that employees and their children could conduct at home.

### Local Communities

Northern Trust functions as a global citizen whose contribution to building a healthy, sustainable environment involves deep regard for the surrounding communities. Its footprint affects the larger ecology and can make tangible differences in the lives of community members, which is why it is meticulous in forecasting and reducing any environmental risks or harms caused by its business operations.

It also believes in the power of community-based actions in effecting positive change for the good of our planet and future generations. Our approach to vendor management ensures we establish an appropriate level of oversight and structure with our vendors. Northern Trust commits an array of resources, including capital support and partner volunteerism, to assist with local initiatives and organizations focused on environmental awareness and protection. As a longstanding sponsor of the Chicago Botanic Garden, as well as other land trust organizations and local youth programs, Northern Trust aims to increase appreciation of biodiversity and motivate sustainable actions in everyday life.

In October 2012, the Board of Governors of the Federal Reserve System, the federal regulator responsible for monitoring the Community Reinvestment Act (CRA), approved the designation of The Northern Trust Company as a "wholesale bank." The wholesale designation allows it to concentrate efforts and resources on direct investments that have a sustainable community impact. In 2020, the company originated new community investments totaling over \$1 billion and has maintained an outstanding CRA rating for 26 consecutive years. The Corporate Governance Committee of the Board of Directors receives an annual CRA and fair lending report and approves its policy related to community reinvestment. As of December 31, 2021, our community investments portfolio exceeded \$4.5 billion.

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**Procurement**

Northern Trust expects vendors to employ high standards of corporate social responsibility governance and to conduct business in an ethical, legal and socially responsible manner. It specifies these terms and conditions in its Supplier Code of Conduct and reviews these terms with suppliers during vendor evaluations. Northern Trust Third Party Service Providers (TPSPs), as business partners, should support Northern Trust’s code of conduct, which includes ethical business conduct, health and safety, human rights and labor practices and respect for the environment. Northern Trust’s global procurement department is led by a senior-level manager, the global head of procurement, who drives the strategy and sets policies worldwide. All partners are required to be committed to corporate social responsibility procurement activities through collaboration with TPSPs. This is crucial to the realization of sustainable growth both for Northern Trust and the TPSP.

Lastly, Northern Trust is committed to integrating ESG factors into its TPSP engagement and review process. Third party agreements have a link to our Supplier Code of Conduct, which is posted externally and reviewed annually. Compliance on behalf of all TPSPs with the Northern Trust Supplier Code of Conduct is essential. Lack of adherence to the Supplier Code of Conduct may result in termination of the engagement or overall relationship. Northern Trust checks its vendors against the U.S. Office of Foreign Asset Control to ensure it complies with any economic and trade sanctions.

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# LEARN MORE

Visit our [website](#) to learn more about sustainable investing at Northern Trust Asset Management.

## How helpful was this article?



### About Sustainable Investing

At Northern Trust Asset Management (“NTAM”), we define Sustainable Investing as encompassing all of NTAM’s investment strategies and accounts that utilize values based and norms based screens, best-in-class and ESG integration, or thematic investing that may focus on a specific ESG issue such as climate risk. NTAM’s Sustainable Investing includes portfolios designed by NTAM as well as those portfolios managed to client-defined methodologies or screens. As the data, analytical models and aforementioned portfolio construction tools available in the marketplace have evolved over time, so too has NTAM. NTAM’s Sustainable Investing encompasses strategies and client assets managed in accordance with client specified responsible investing terms (historically referred to as Socially Responsible), as well as portfolios that leverage contemporary approaches and datasets, including ESG analytics and ESG thematic investing.

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