

12 Principles of Sustainable Investing

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Sustainable investing can give investors the opportunity to align their portfolio with their personal values. Yet, navigating the landscape can be a daunting task.

We present 12 principles that can help investors understand sustainable investing and find a strategy that fits their needs.

1. Understand the terms.
2. Focus on the issues that matter most to you.
3. Be mindful of subjectivity.
4. Sense check your ESG motivation.
5. Trust the market, not the marketing.
6. Maintain focus on time-tested premiums.
7. Mitigate ESG risks through diversification.
8. Be sensitive to concessions.
9. Ensure your manager practices effective stewardship.
10. Beware of overstated impact claims.
11. Consider all your options.
12. Go beyond investing.

Understand the Terms

In traditional investing, portfolio managers look at information that may affect investment results. This can include certain environmental, social, or corporate governance (ESG) information. In sustainable investing, managers consider ESG

information even when not relevant to investment results. For example, companies may be excluded for ethical reasons or industries emphasised for being environmentally friendly, regardless of their expected returns.

Traditional Investing



Sustainable Investing





Focus on the Issues that Matter Most to You

Diversified funds often contain plenty of companies that have a positive impact in the world by manufacturing essential goods, developing technologies that improve standards of living, and much more. But if an investor feels strongly about particular ESG issues, a sustainability

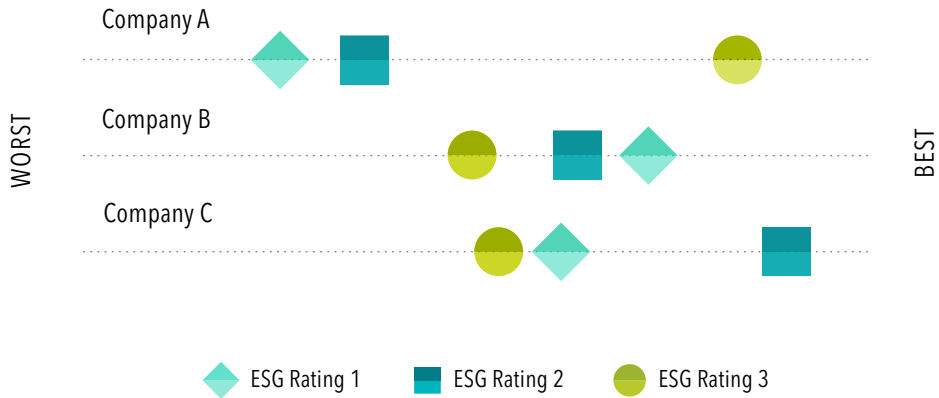
strategy might be suitable. However, trying to focus on too many issues can lead to a confused outcome, just like combining too many strong flavours can ruin the taste of a dish. When evaluating a sustainability strategy, make sure it has a clear focus on the issues that matter most to you.



Be Mindful of Subjectivity

Beauty is in the eye of the beholder, and so is sustainability. For example, some people want to know whether the companies they hold are helping to achieve specific UN Sustainable Development Goals. But this is difficult to define and measure, and there may be differing

views about how best to pursue such goals. ESG ratings are another example: for the same company, different rating providers often reach different conclusions. Robust, relevant and widely reported data, such as carbon emissions, might help mitigate subjectivity.



This information is for illustrative purposes only. See back page for additional information and important disclosures.

Sense Check Your ESG Motivation

It is important to be realistic about what ESG investing can and can't deliver. Sustainable investing is primarily about values alignment; many investors want to invest in companies whose products and services they support.

They may even aspire to achieve a real-world impact. But good ESG credentials do not automatically lead to higher returns or lower risks, and traditional investing may already consider relevant ESG information.

Financial Motivations

Higher
Returns

Lower
Risks

Nonfinancial Motivations

Values
Alignment

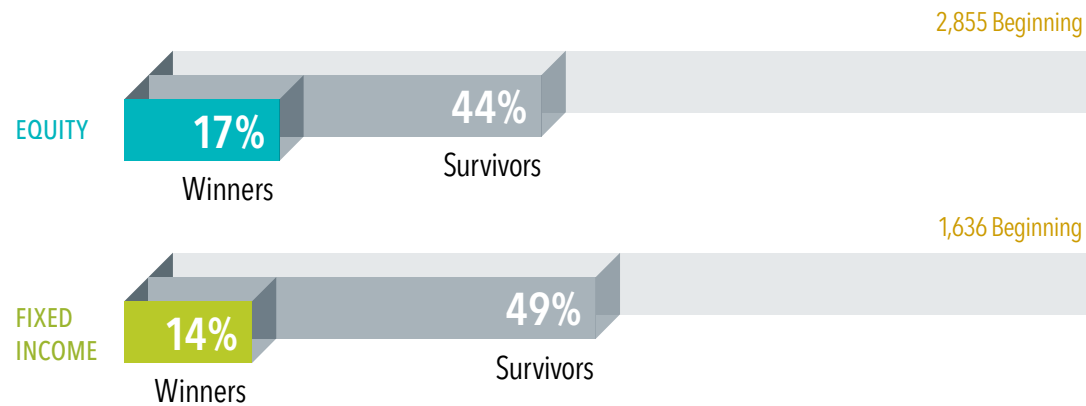
Real-World
Impact

Trust the Market, Not the Marketing

Historically, most managers have been unsuccessful at outguessing the market. Over the past 20 years, only 17% of US-domiciled equity funds and 14% of fixed income funds have survived and outperformed their benchmarks. With so many

eyeballs on ESG news and data, we recommend viewing with caution those managers who make risky bets while promising to predict ESG risks and return opportunities better than everyone else.

US-Domiciled Fund Performance, 2003-2022



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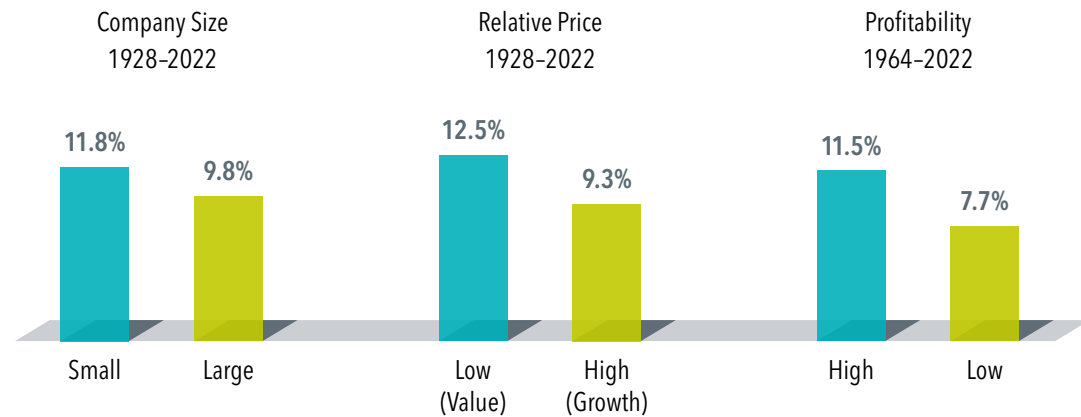
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Maintain Focus on Time-Tested Premiums

As your portfolio integrates ESG considerations, make sure it still harvests the returns capital markets have to offer. Avoid bets on only a handful of niche sectors or companies unless you are prepared for possible strong deviations from broad market returns. And check whether your portfolio

inadvertently doubles down on segments with low expected returns. In equities, for example, decades of academic research show that companies with a lower market capitalisation, lower relative price and higher profitability are expected to outperform.

Annualised Returns



Past performance is no guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. See back page for additional information and important disclosures.

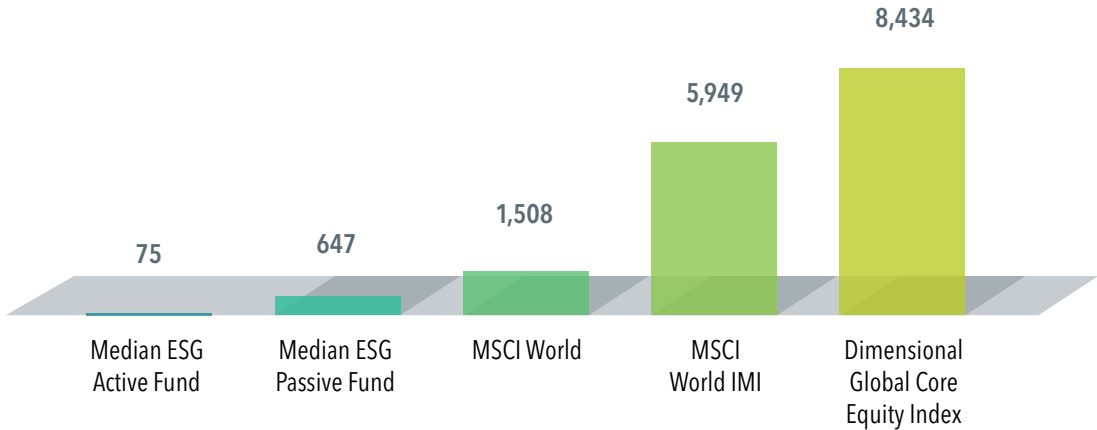
Mitigate ESG Risks through Diversification

No one knows for sure where ESG risks, such as those stemming from climate change, might strike. Fortunately, there is no need for a crystal ball. Diversification mitigates the

impact that any individual company might have on total portfolio performance. Enjoy what is often called the only free lunch in investing—diversify as much as you can.

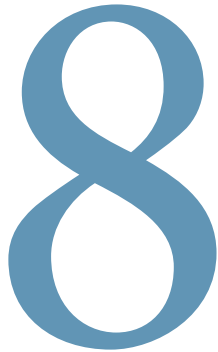
Number of Holdings

Global Large Cap Equity Funds and Indices



Diversification neither assures a profit nor guarantees against loss in a declining market. See back page for additional information and important disclosures.



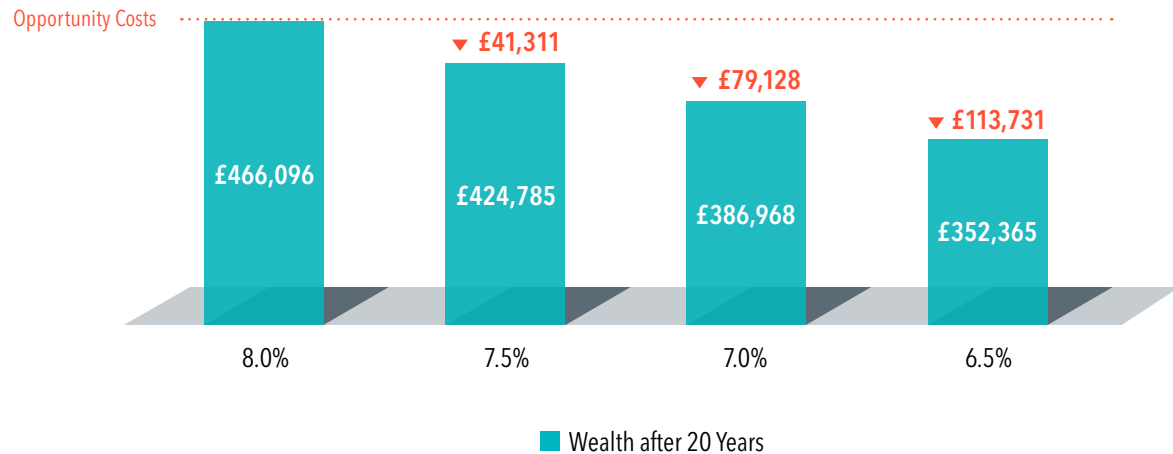


Be Sensitive to Concessions

When choosing an ESG strategy, pay attention to all pillars of a successful investment experience. What might appear as negligible concessions—for instance, paying higher fees for an ESG strategy or overweighting securities with good ESG scores

but lower expected returns—can add up over time. Upholding sound investment principles means higher expected wealth for investors, whether they decide to spend it on themselves or on charitable causes.

Growth of £100,000 for 20 Years with Different Annualised Returns



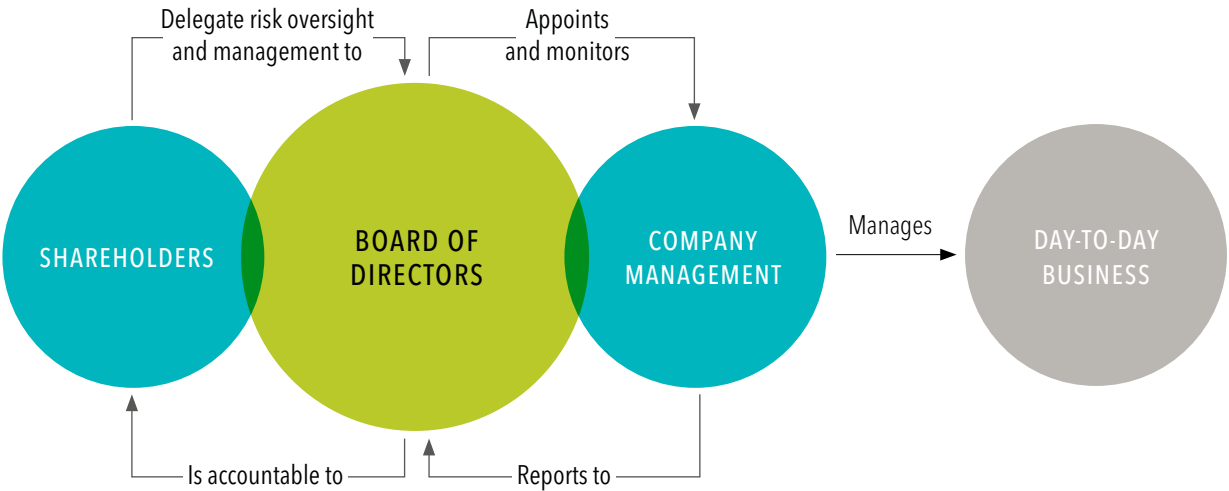
Past performance, including hypothetical performance, is no guarantee of future results. See back page for additional information and important disclosures.

Ensure Your Manager Practices Effective Stewardship

Make sure that your manager has a strong policy when it comes to voting for company directors and proposals in annual general meetings. Not only do directors handle risk oversight, they can also nominate, monitor and

incentivise company executives—all of which can influence how a firm handles ESG considerations. Engaging directly with management to better understand specific issues is another way a fund manager can look after your interests.

Leadership Begins with Boards of Directors



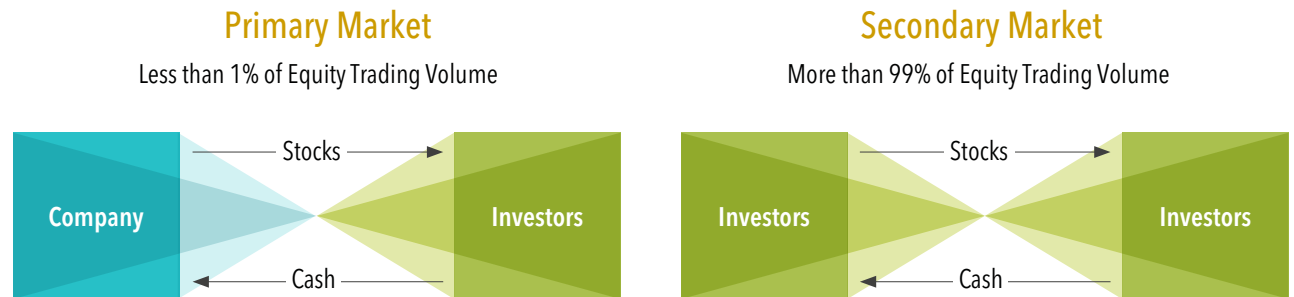
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Beware of Overstated Impact Claims

Quantifying the impact of ESG investing is hard. Equity funds typically buy and sell shares in secondary markets. In the same way that buying a secondhand car does not directly affect the manufacturer, buying shares of a renewable energy provider on the secondary market does not inject

fresh capital into the company. And divesting from high-emitting companies will not directly cause them to emit any less. When presented with impact claims, ask for detailed evidence of how your investment is contributing to real-world activities that would not otherwise have occurred.

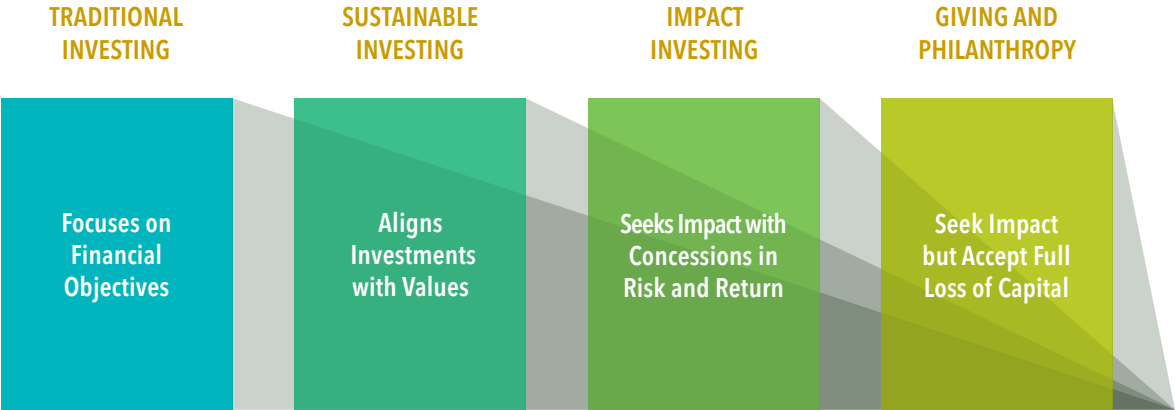


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Consider All Your Options

Sustainability investors seeking a direct, measurable, real-world impact should consider the full spectrum of options, including

concessionary impact investing and philanthropy. A mix of these options may be necessary to achieve the best combination of impact and returns.



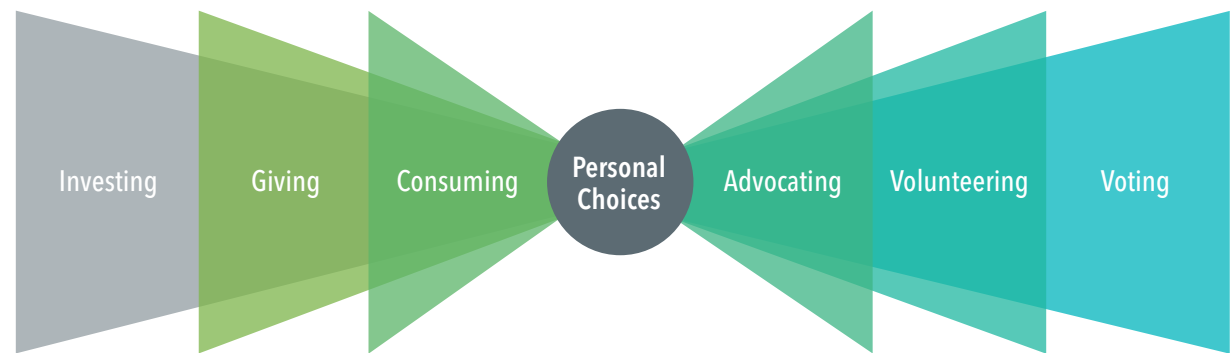
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Go Beyond Investing

Sustainable investing can be a great way for investors to align their portfolios with their values. But the choice of an investment is only one of the many tools individuals can use to express

these values. Fortunately, there are many concrete actions we can all take in our day-to-day lives to contribute to a healthier, happier, and more sustainable future.

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DISCLOSURES

Principle 3: For more details on the topic, please refer to Will Collins-Dean and Eric Geffroy, "[Do ESG Ratings Get High Marks?](#)" Insights (blog), Dimensional Fund Advisors, October 26, 2021.

Principle 4: For a deeper dive on these motivations, please refer to Jim Whittington, Lacey Huebel and Eric Geffroy, "[Navigating ESG Investing.](#)" Insights (blog), Dimensional Fund Advisors, November 21, 2022.

Principle 5: The sample includes funds at the beginning of the 20-year period ending December 31, 2022. Each fund is evaluated relative to its primary prospectus benchmark. Survivors are funds that had returns for every month in the sample period. Winners are funds that survived and outperformed their benchmark over the period. Where the full series of primary prospectus benchmark returns is unavailable, non-Dimensional funds are instead evaluated relative to their Morningstar category index.

Data sample: The sample includes US-domiciled, USD-denominated open-end and exchange-traded funds (ETFs) in the following Morningstar categories. Non-Dimensional fund data provided by Morningstar. Dimensional fund data is provided by the fund accountant. Dimensional funds or subadvised funds whose access is or previously was limited to certain investors are excluded. Index funds, load-waived funds, and funds of funds are excluded from the industry sample.

Morningstar categories (equity): Equity fund sample includes the following Morningstar historical categories: Diversified Emerging Markets, Europe Stock, Foreign Large Blend, Foreign Large Growth, Foreign Large Value, Foreign Small/Mid Blend, Foreign Small/Mid Growth, Foreign Small/Mid Value, Global Real Estate, Japan Stock, Large Blend, Large Growth, Large Value, Mid-Cap Blend, Mid-Cap Growth, Mid-Cap Value, Miscellaneous Region, Pacific/Asia ex-Japan Stock, Real Estate, Small Blend, Small Growth, Small Value, Global Large-Stock Blend, Global Large-Stock Growth, Global Large-Stock Value, and Global Small/Mid Stock. **Morningstar categories (fixed income):** Fixed income fund sample includes the following Morningstar historical categories: Corporate Bond, High Yield Bond, Inflation-Protected Bond, Intermediate Core Bond, Intermediate Core-Plus Bond, Long-Term Bond, Intermediate Government, Long Government, Muni California Intermediate, Muni California Long, Muni Massachusetts, Muni Minnesota, Muni National Intermediate, Muni National Long, Muni National Short, Muni New Jersey, Muni New York Intermediate, Muni New York Long, Muni Ohio, Muni Pennsylvania, Muni Single State Intermediate, Muni Single State Long, Muni Single State Short, Muni Target Maturity, Short Government, Short-Term Bond, Ultrashort Bond, Global Bond, and Global Bond-USD Hedged. **Index data sources:** Index data provided by Bloomberg, MSCI, Russell, FTSE Fixed Income LLC, and S&P Dow Jones Indices LLC. Bloomberg data provided by Bloomberg. MSCI data © MSCI 2023, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. FTSE fixed income indices © 2023 FTSE Fixed Income LLC. All rights reserved. S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with management of an actual portfolio. US-domiciled mutual funds and US-domiciled ETFs are not generally available for distribution outside the US.

Principle 6: Annualised compound return of US stocks per company size, relative price and profitability segment. In USD. Small: Dimensional US Small Cap Index. Large: S&P 500 Index. Value: Fama/French US Value Research Index. Growth: Fama/French US Growth Research Index. High Profitability: Fama/French US High Profitability Index. Low Profitability: Fama/French US Low Profitability Index. S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. The returns of the S&P 500 Index for the last five calendar years were as follows: -18.1% (2022), 28.7%, 18.4%, 31.5%, -4.4% (2018).

Dimensional US Small Cap Index was created by Dimensional in March 2007 and is compiled by Dimensional. January 1975–present: Market-capitalization-weighted index of securities of the smallest US companies whose market capitalization falls in the lowest 8% of the total market capitalization of the Eligible Market. The Eligible Market is

composed of securities of US companies traded on the NYSE, NYSE MKT (formerly AMEX), and Nasdaq Global Market. Exclusions: Non-US companies, REITs, UITs, and Investment Companies and companies with the lowest profitability and highest relative price within the small cap universe. The index also excludes those companies with the highest asset growth within the small cap universe. Source: CRSP and Compustat. The index monthly returns are computed as the simple average of the monthly returns of 12 sub-indices, each one reconstituted once a year at the end of each month of the year. The calculation methodology for the Dimensional US Small Cap Index was amended in January 2014 to include profitability as a factor in selecting securities for inclusion in the index. The calculation methodology for the Dimensional US Small Cap Index was amended in December 2019 to include asset growth as a factor in selecting securities for inclusion in the index. June 1927–December 1974: Market-capitalization-weighted index of securities of the smallest US companies whose market capitalization falls in the lowest 8% of the total market capitalization of the Eligible Market. The Eligible Market is composed of securities of US companies traded on the NYSE, NYSE MKT (formerly AMEX), and Nasdaq Global Market. Exclusions: Non-US companies, REITs, UITs, and Investment Companies. Source: CRSP and Compustat.

Fama/French US Value (Growth) Research Index: Provided by Fama/French from CRSP securities data. Includes the lower (higher) 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

Fama/French US High (Low) Profitability Index: Courtesy of Fama/French from CRSP and Compustat securities data. Includes all stocks in the upper (lower) 30% operating profitability (OP) range of NYSE eligible firms. Rebalanced annually in June. OP for June of year t-1 is annual revenues minus cost of goods sold, interest expense, and selling, general, and administrative expenses divided by book equity for the last fiscal year end in t-1.

Principle 7: As of 31/12/2022. **Median ESG fund:** Number of holdings from index-tracking and non-index-tracking funds with a "sustainable investment" classification in the Morningstar category "EEA Global Large-Cap Blend Equity." Oldest share class only. Funds of funds excluded. **MSCI indices:** MSCI data © MSCI 2023, all rights reserved. **Dimensional Global Core Equity Index** was created by Dimensional in April 2008 and is compiled by Dimensional. January 1990–present: Targets all the securities in the eligible markets with an emphasis on companies with smaller capitalization, lower relative price, and higher profitability, excluding those with the lowest profitability and highest relative price within their country's small cap universe. REITs are included at market cap weight. The index also excludes those companies with the highest asset growth within their country's small cap universe. The index monthly returns are computed as the simple average of the monthly returns of four sub-indices, each one reconstituted once a year at the end of each quarter of the year. Maximum index weight of any one company is capped at 5%. Countries currently included are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom, and United States. Exclusion: Investment Companies. Source: Bloomberg. The calculation methodology for the Dimensional Global Core Equity Index was amended in January 2014 to include profitability as a factor in selecting securities for inclusion in the index. The calculation methodology for the Dimensional Global Core Equity Index was amended in November 2019 to include asset growth as a factor in selecting securities for inclusion in the index.

Principle 8: £100,000 invested for 20 years at an annualised rate of 8.0% grows to £100,000 * (1+8%)²⁰ = £466,096. At a rate of 7.5%, it grows to £424,785, or an opportunity cost of £41,311 compared with the first scenario.

Principle 9: Board structures may differ across companies and regions. For more details on effective stewardship, please refer to Mathieu Pellerin, "[The Economics of Corporate Governance.](#)" Insights (blog), Dimensional Fund Advisors, September 14, 2022.

Principle 10: Source: S&P Global Market Intelligence and Dimensional, using data from Bloomberg LP. As of 31/12/2022. Includes primary and secondary exchange trading volume globally for equities. ETFs and funds are excluded.

The Dimensional and Fama/French Indices reflected above are not “financial indices” for the purpose of the EU Markets in Financial Instruments Directive (MiFID). Rather, they represent academic concepts that may be relevant or informative about portfolio construction and are not available for direct investment or for use as a benchmark.

The Dimensional Indices have been retrospectively calculated by Dimensional Fund Advisors LP and did not exist prior to their index inception dates. Profitability is defined as operating income before depreciation and amortization minus interest expense divided by book equity. Asset growth is defined as change in total assets from the prior fiscal year to current fiscal year.

Results shown during periods prior to each index's inception date do not represent actual returns of the respective index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance results assume the reinvestment of dividends and capital gains.

Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.

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Environmental and social screens may limit investment opportunities for the strategy.

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