



Responsible Investing

Presented By



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Today's Speakers



Benjamin Allen is the **Chief Executive Officer** of Parnassus Investments and Portfolio Manager of the Parnassus Core Equity Fund. He joined Parnassus Investments in 2005 as a Senior Research Analyst. Prior to joining the firm, Mr. Allen worked at Morgan Stanley, first as an Investment Banking Analyst and later in the firm's venture capital group. Mr. Allen graduated Phi Beta Kappa and magna cum laude from Georgetown University with a bachelor's degree in government and completed the general course in philosophy at the London School of Economics. He received his master's degree in business administration from the University of California, Berkeley.



Iyassu Essayas is the **Director of ESG Research** and chair of the firm's proxy committee. He is responsible for oversight of the development and implementation of Parnassus's responsible investment policy, as well as the integration of environmental, social and governance research into the firm's investment process. Mr. Essayas joined Parnassus Investments in 2010 after serving as a Parnassus research intern. He received his bachelor's degree in biology from the University of San Francisco.



Joe Sinha is the **Chief Marketing Officer** with oversight responsibility for client service, business development and marketing. Prior to joining Parnassus Investments in 2015, Mr. Sinha served as Senior Vice President and held key leadership roles in sales, marketing strategy, product development and mergers/acquisitions at Wells Fargo Funds Management, LLC. Prior to Wells Fargo, he held leadership roles in data management and product development at Morningstar, Inc. He earned a bachelor's degree in English from the University of Michigan and a master's of business administration from the University of Southern California.

Introduction to Parnassus Investments

A Pioneer in Responsible Investing

Firm Overview

- Established in 1984 by Jerome Dodson
- Independently owned boutique
- Research driven
- Robust research internship program
- Fossil fuel free
- Largest pure-play ESG Fund Company¹

Principles *and* Performance®

- Responsible investing is all that we have ever done
- Fully integrate fundamental and ESG research in every investment decision
- Committed to seeking attractive, sustainable long-term risk-adjusted results

Chart shows growth of the firm's AUM since 12/31/85 to the most recent quarter end.

¹ Morningstar Direct, as of 10/31/19

What Is Responsible Investing?

What Is Environmental?

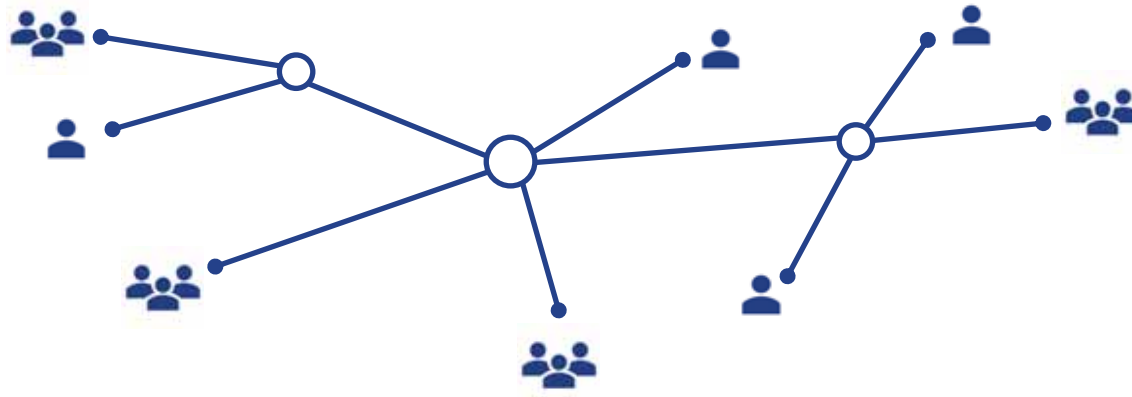
Environmental factors refer to how a company performs as a steward of the natural environment.



Carbon footprint
Waste stream
Energy and water usage
Lifecycle thinking

What Is Social?

Social factors examine how a company maximizes relationships with its internal and external stakeholders.



Workplace

- Diversity and inclusion
- Compensation and benefits
- Employee health and safety
- Employee engagement and development
- Supply chain labor practices

Customers

- Product quality and safety
- Beneficial products
- Data security and privacy

Community

- Stakeholder relations
- Community impacts
- Employee volunteering
- Philanthropy

What Is Governance?

Governance factors examine both the board's and management's ability to effectively manage an organization.



Types of Responsible Investing

Responsible investing has evolved from negative screening of undesirable attributes to more sophisticated methodologies, including ESG integration, sustainability and impact investing.

Exclusions and Screens

- Belief- or values-based
- Usually by activity — weapons, gambling, alcohol, tobacco, pornography, nuclear energy
- Portfolio construction based on ESG scores

ESG Integration

- Investment analysis based
- ESG criteria is integral to portfolio construction
- Company engagement on ESG topics
- ESG insights used as a source of risk management

Thematic

- Investing to make an intentional social or environmental outcome
 - Opportunities in underappreciated companies that address sustainability challenges
- Focused investment strategies drive investment selection

Impact Investing

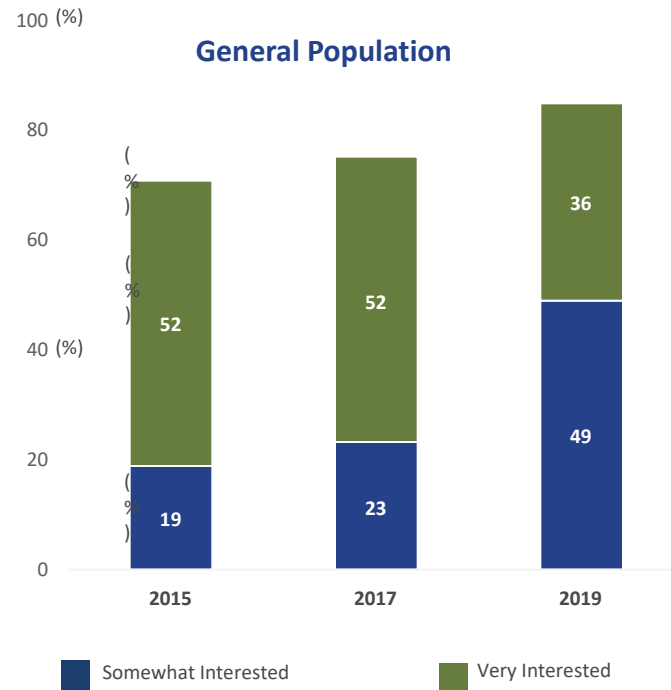
- Social and environmental considerations take precedence over financial returns
 - Typically aligned with certain themes (microfinance, community development, green bonds, etc.)
 - Undertaken to positively effect social change

Responsible Investing Moves Mainstream

Client Interest in Responsible Investing Is Growing

A growing number of investors want to see their money go toward investments that are both profitable and reflective of their values.

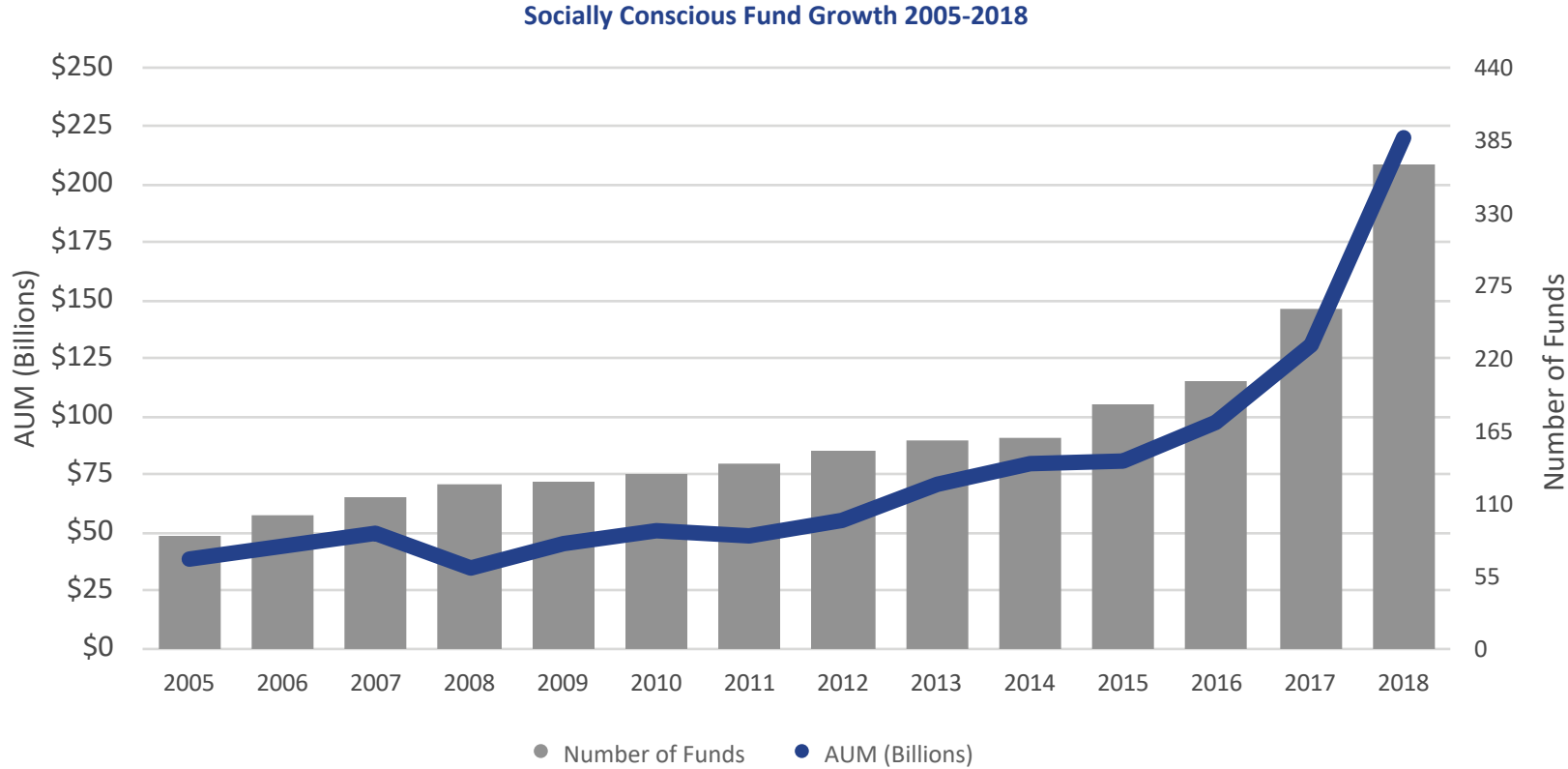
Interest in Sustainable Investing¹



¹Morgan Stanley, Sustainable Signals Report, 2019.

ESG Is Not a Niche Market

As of 9/30/19¹, there were \$688B in 718 socially conscious funds, more than 17x in AUM since 2005.



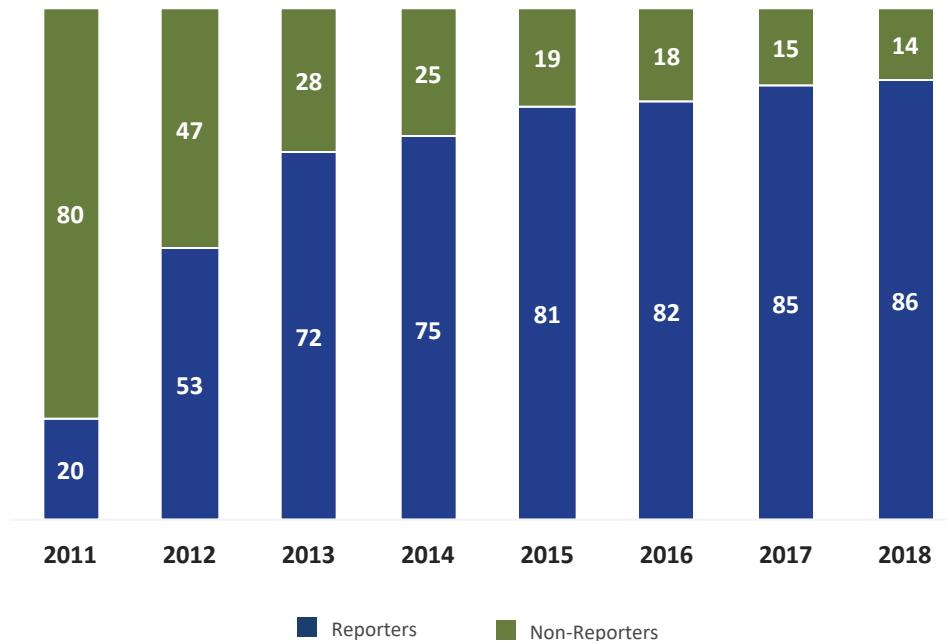
¹Morningstar Direct, as of 09/30/19. Excludes Washington Mutual American Fund and American Mutual Fund.

Graph Source: Morningstar Direct, as of 12/31/18. Excludes Washington Mutual American Fund and American Mutual Fund. Year-end data illustrated.

Growth of S&P 500 Companies Reporting on Responsible Investing

With growing interest in responsible investing, more companies are publishing data on sustainability as they recognize that environmental, social and governance issues are core business operations.

S&P 500 Company Sustainability Reporting



- In 2011, just under 20% of S&P 500 companies reported on their sustainability, corporate social responsibility, ESG performance and related topics.
- In 2018, 86% of all the companies in the S&P 500 Index published sustainability or corporate responsibility reports.

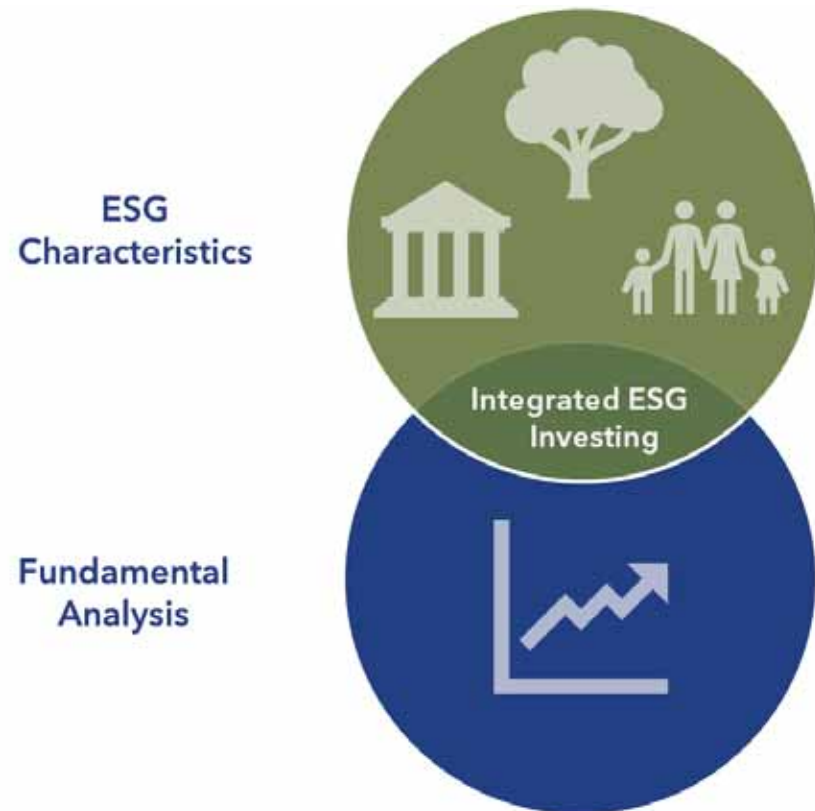
Source: Governance & Accountability Institute, Inc. 2018 Research – www.ga-institute.com.

How ESG Research Is Integrated into Investment Decisions

How Portfolio Managers Consider ESG Research

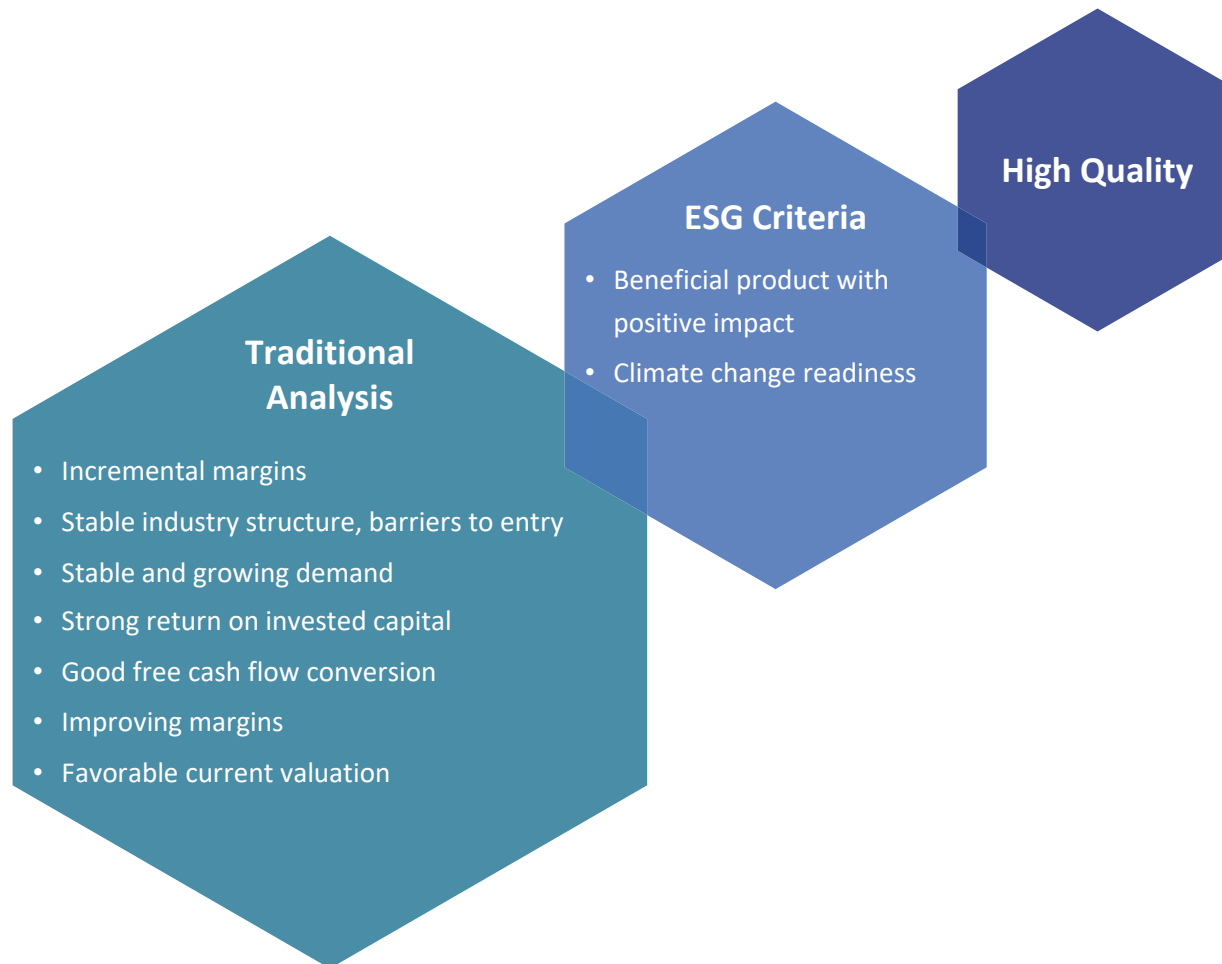
Incorporating ESG research into the decision-making process aims to improve investment outcomes.

- Provides a holistic view of a company's business practices
- Helps identify opportunities that may not be apparent from traditional financial analysis alone
- Helps hedge against volatility and downside risk



How ESG Is Integrated into the Security Selection Process

Combining fundamental screening and ESG criteria helps identify high-quality companies.



Responsible Investing Did Not Compromise Performance

The integration of ESG factors into an investment discipline can be additive to portfolio returns. From its inception on June 5, 2007, through September 30, 2019, the MSCI USA IMI Index has slightly underperformed relative to the MSCI KLD 400 Index.



Past performance does not guarantee future performance results. Indexes are unmanaged and do not reflect fees and expenses. **The MSCI KLD 400 Social Index** is a capitalization weighted index of 400 US 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 parent index is MSCI USA IMI, an equity index of large-, mid- and small-cap companies. The MSCI KLD 400 Social Index (USD) was launched on May 01, 1990. **The MSCI USA Investable Market Index (IMI)** is designed to measure the performance of the large-, mid- and small- cap segments of the US market. With 2,428 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in the US. The MSCI USA IMI (USD) was launched on Jun 05, 2007.

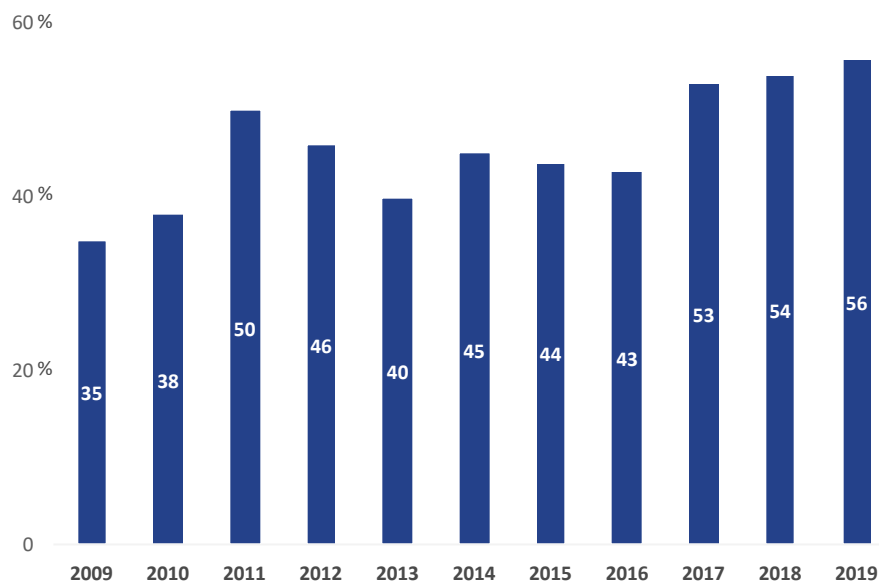
ESG Tools That Investors Use to Effect Change

Shareholder Proposals

After companies are purchased in a portfolio, investors can advocate for positive ESG changes through shareholder proposals.

- Proposals send signals to company management about issues that are important to investors, and often encourage an active dialog between investors and the company.

Environmental & Social Proposal Filings Reach Record Number as Percentage of all Filings¹



¹ISS Proxy Review Report, 2019

Proxy Voting

Why

- Influence corporate behavior
- Pinpoint emerging issues before they become major problems

How

- Vote based on the firm's values



Engagement

Direct engagement with companies encourages positive change.

Mondelez

Mondelez is one of the world's largest snack companies, with brands including Oreo, Ritz and Cadbury. Our goal with engagement was to convince Mondelez to agree to a zero net waste packaging for its products.

- Beginning in 2013, we voted in support of an annual resolution filing that called on the company to improve its record on package waste.
- We directly engaged executives of the company, including its head of sustainability and corporate secretary, as well as its board of directors.
- In September of 2018, media reports highlighted the results of an environmental clean-up campaign of Manila Bay in the Philippines and identified Mondelez as a contributor to the massive amounts of plastic waste they had retrieved from the bay.

Outcome

Mondelez announced that all the company's paper packaging will be sustainably sourced by 2020 and all of its packaging will be recyclable by 2025.



As of 09/30/19, Mondelez Inc (MDLZ) represented 2.0% of the TNA of the Parnassus Core Equity Fund, and 5.0% of the TNA of the Parnassus Fund. Holdings are subject to change.

Engagement

The Opioid Crisis

The opioid crisis is a complex national public health emergency, with addiction affecting more than two million Americans and overdose deaths reaching more than 70,000 in 2017 alone.

We believe that addressing this epidemic is an urgent priority, which led us to engage with senior management at McKesson Corporation and Cardinal Health, Inc.

- These two companies are among the largest drug distributors in the United States.
- We aimed to discuss allegations that these firms had neglected their legal obligation to monitor controlled substance distribution and prevent suspicious orders from being shipped.

Outcome

Following these discussions, we concluded that the responses of both companies were insufficient and too slow, given the growing scope and urgency of the problem—and we sold both holdings.



The Future of ESG Investing

The Future of ESG Investing

We believe the growth of responsible investing is poised to continue.



Additional Resources to Learn About Responsible Investing

Additional Resources



US SIF: The Forum for Sustainable and Responsible Investment is focused on advancing sustainable, responsible and impact investing across all asset classes. Its mission is to rapidly shift investment practices toward sustainability, focusing on long-term investment and the generation of positive social and environmental impacts.



Ceres is a sustainability nonprofit organization working with the most influential investors and companies to build leadership and drive solutions throughout the economy. Through powerful networks and advocacy, Ceres tackles the world's biggest sustainability challenges including climate change, water scarcity and pollution, and inequitable workplaces. Ceres' mission is transforming the economy to build a sustainable future for people and the planet.



The **Morningstar Sustainability Rating™** for funds allows investors to understand how the companies in their portfolios are managing their environmental, social and governance — or ESG — risks relative to their peers. This rating is built to enable advisors and investors to directly compare companies across industries, and a refined design aims to make it easier to use as they make investment decisions.

Important Information

There are no assurances the Parnassus Funds investment objectives will be achieved, and no guarantees the socially responsible investment strategies discussed will be successful.

Risks: Investing involves risk, including the possible loss of principal. The Funds' share price may change daily based on the value of its security holdings. Stock markets can be volatile, and stock values fluctuate in response to the asset levels of individual companies and in response to general U.S. and international market and economic conditions. In addition to large-cap companies, the Funds may invest in small- and/or mid-cap companies, which can be more volatile than large-cap firms. Bond fund values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates. In general, when interest rates rise, bond fund values fall and investors may lose principal value. Security holdings in the Funds can vary significantly from broad market indexes.

The Parnassus Funds are distributed by Parnassus Funds Distributor, LLC.

Before investing, an investor should carefully consider the investment objectives, risks, charges and expenses of a fund and should carefully read the prospectus or summary prospectus, which contain this information. A prospectus or summary prospectus can be obtained on the website www.parnassus.com or by calling (800) 999-3505.

Questions?