12 Principles of Sustainable Investing

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.

ESG Fundamentals

1. Understand the concepts.
2. Set clear priorities.
3. Be mindful of subjectivity.
4. Clarify your motivation.

Investment Foundations

5. Trust the market, not the marketing.
6. Maintain focus on time-tested return drivers.
7. Diversify broadly to manage ESG risks.
8. Be sensitive to concessions.

Real-World Impact

9. Look for effective stewardship.
10. Assess impact rigorously.
11. Consider all your options.
12. Go beyond investing.

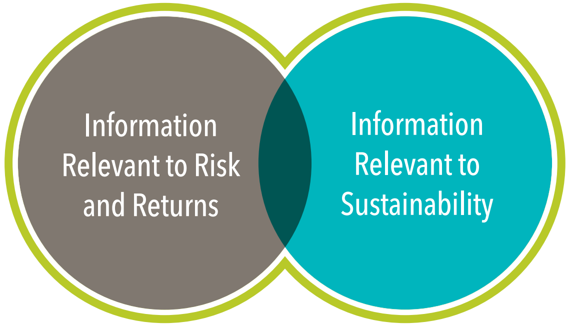
ESG Fundamentals

Understand the Concepts

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 return potential.

Traditional Investing

Sustainable Investing



There is no guarantee investment strategies will be successful. This information is for illustrative purposes only.

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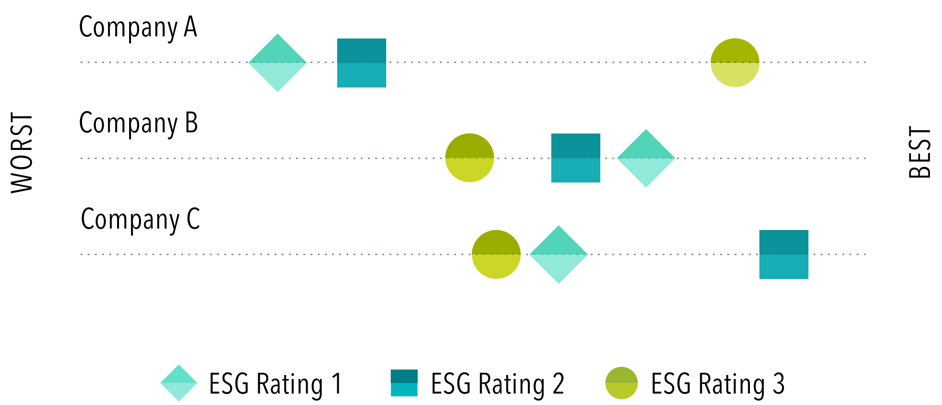
Set Clear Priorities

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 sustainability issues, an ESG 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 an ESG 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.



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Clarify Your 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

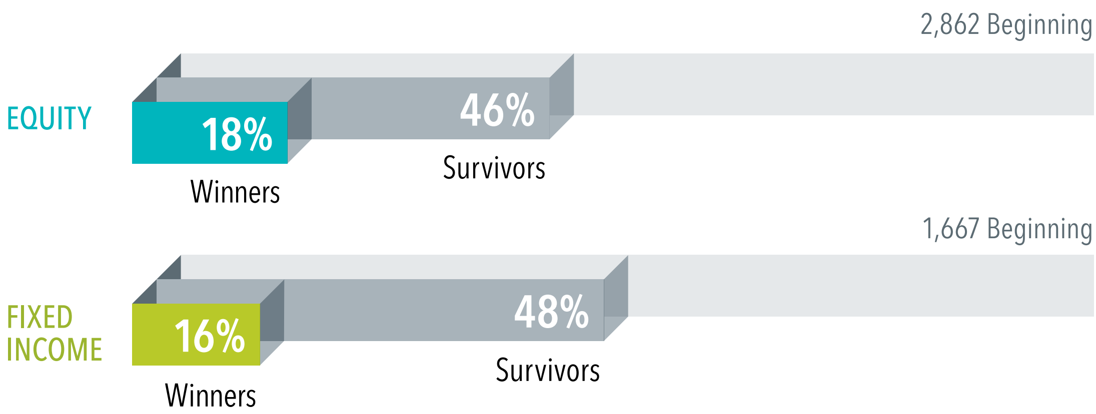
- Values Alignment
- Real-World Impact

Investment Foundations

Trust the Market, Not the Marketing

Historically, most managers have been unsuccessful at outguessing the market. Over the past 20 years, only 18% of equity funds and 15% of fixed income funds investing in different markets around the world 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, 2005-2024



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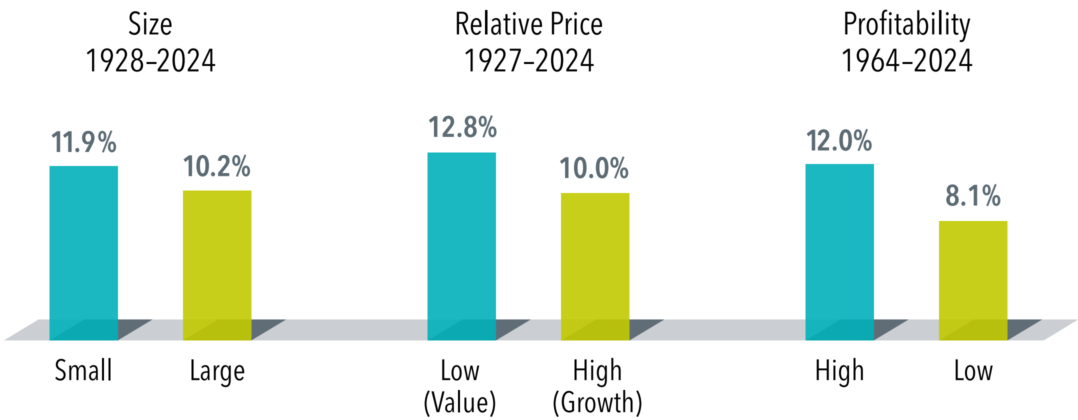
Maintain Focus on Time-Tested Return Drivers

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 return potential. In equities, for example, decades of academic research show that smaller companies, those with lower prices, and those that are more profitable are expected to outperform.

Average Annual Returns of Companies With Different Characteristics



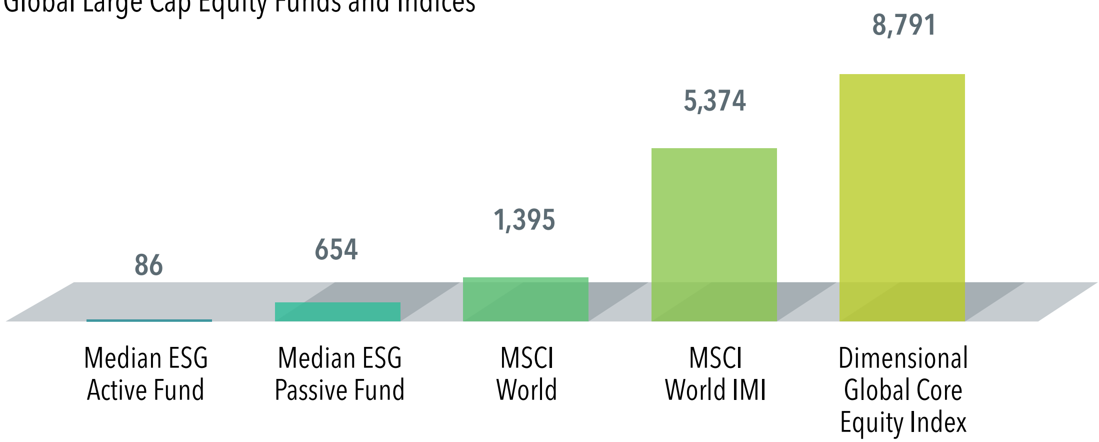
Past performance is no guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. See back page for additional information and important disclosures.

Diversify Broadly to Manage ESG Risks

Some investors are concerned about the financial risks that ESG issues pose. They may view sustainable investing as a solution. However, 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. As such, don't narrow down your portfolio unnecessarily. 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

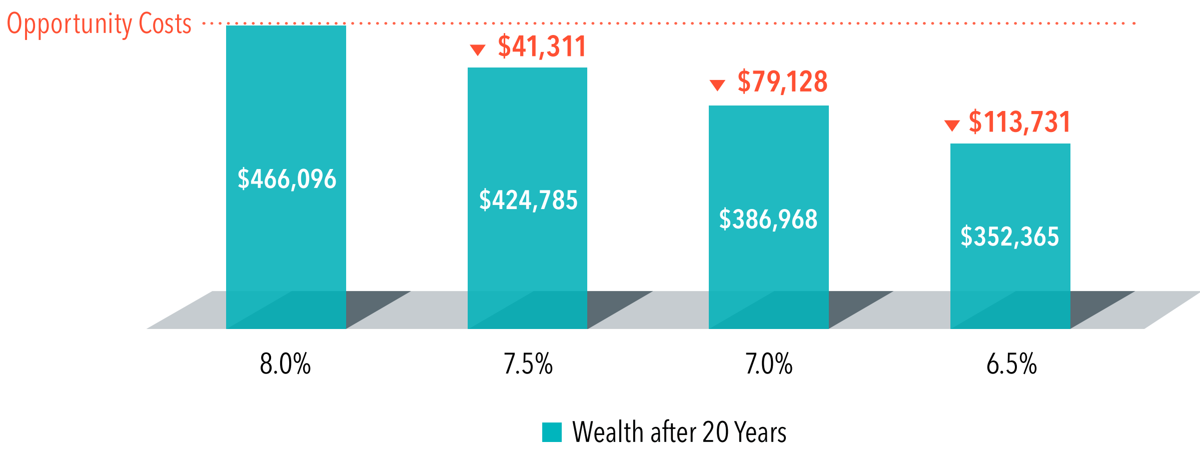


Diversification neither assures a profit nor guarantees against loss in a declining market.
See back page for additional information and important disclosures.

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 investing in companies with good ESG scores but lower return potential—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 over 20 Years with Different Annual Return Assumptions



Past performance, including hypothetical performance, is no guarantee of future results.
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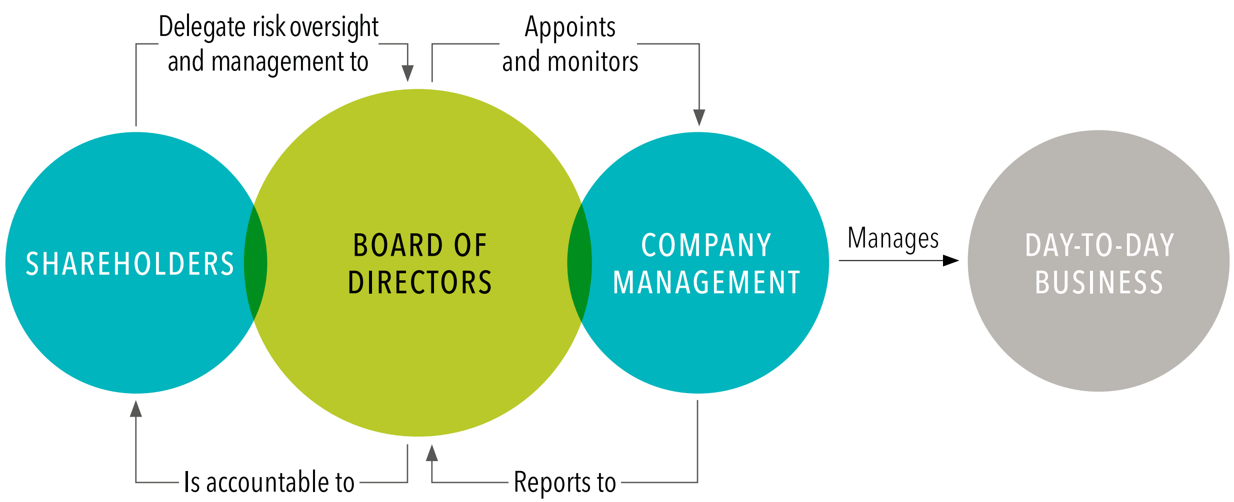
Real-World Impact

Look For Effective Stewardship

As a shareholder, you cannot influence a company's day-to-day business. You can, however, influence its corporate governance. Look for funds that have a rigorous approach to voting for company directors and proposals at 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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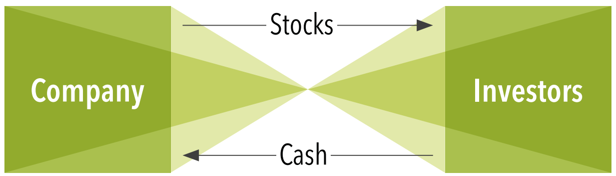
Assess Impact Rigorously

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.

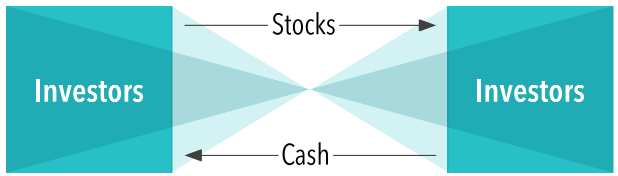
Primary Market

Shares are purchased directly from a company



Secondary Market

Shares are purchased/sold from/to other investors



Percentage of equity transactions in **primary** vs. **secondary markets**

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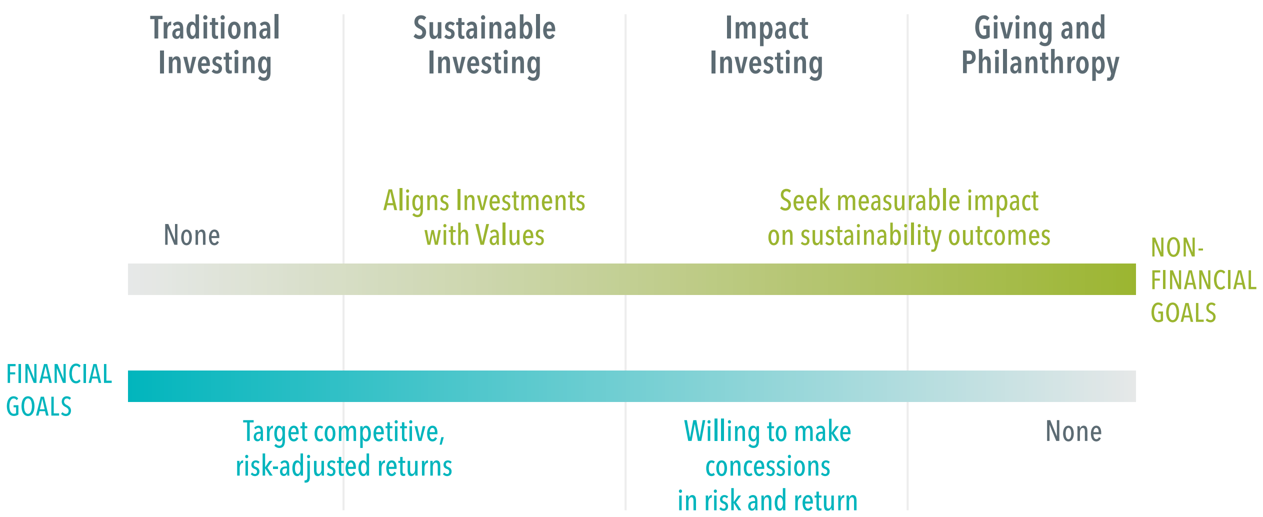
Consider All Your Options

Investors who want to prioritise financial outcomes within a portfolio that reflects their personal values should opt for a sustainable investing approach. Those who also seek a direct, measurable, real-world impact should carefully consider the full spectrum of options, including impact investing and philanthropy, and should be mindful of the required concessions in risk and return.



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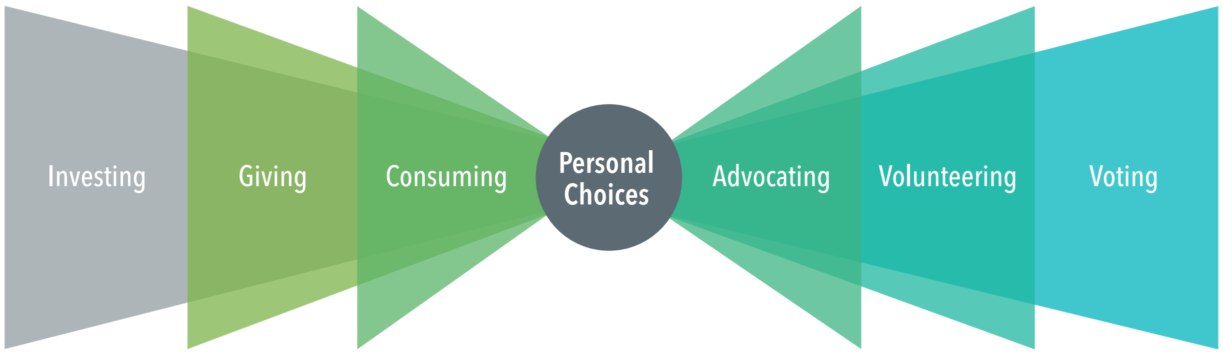
Go Beyond Investing

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.



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, 2024. 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 2025, 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 © 2025 FTSE Fixed Income LLC. All rights reserved. S&P data © 2025 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 © 2025 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: 26.3% (2024), -18.1%, 28.7%, 18.4%, 31.5% (2020).

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 31/12/2024. **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 2025, 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 31/12/2023. Includes primary and secondary exchange trading volume globally for equities. 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.

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

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