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# ESG Considerations

High Profitability ESG Funds

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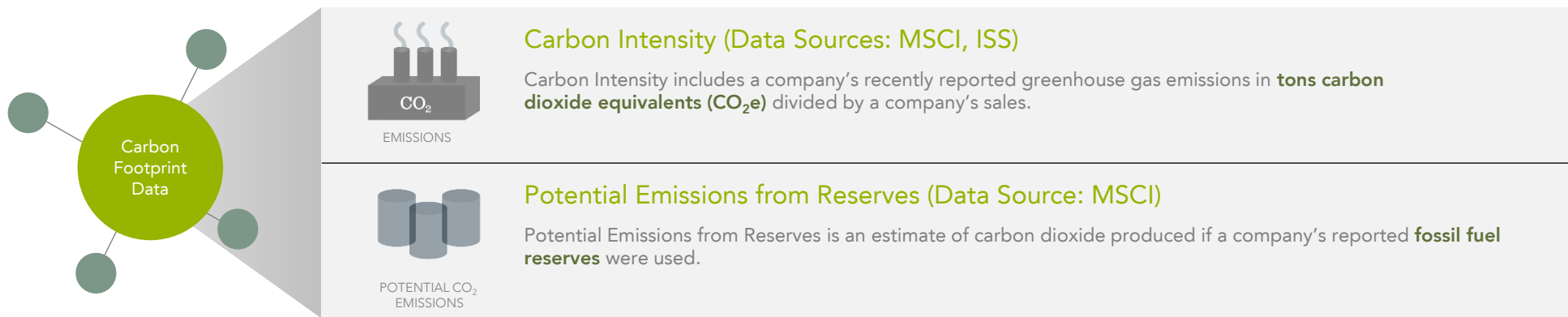
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# Understanding Carbon Footprint Data

Evaluating company emissions by considering what's in the air and in the ground

## Carbon Footprint Components:



## Carbon Concepts at a Glance

### What are carbon dioxide equivalents (CO<sub>2</sub>e)?

CO<sub>2</sub>e is a unit used to compare emissions of the seven greenhouse gases by converting each gas to an equivalent amount of CO<sub>2</sub> based on their global warming potential.<sup>1</sup>

### What is 1 Ton CO<sub>2</sub>e?



Equivalent to emissions from **427** litres of gasoline consumed<sup>1</sup>



Equivalent to carbon sequestered by **1.2** acres of US forests in one year<sup>1</sup>

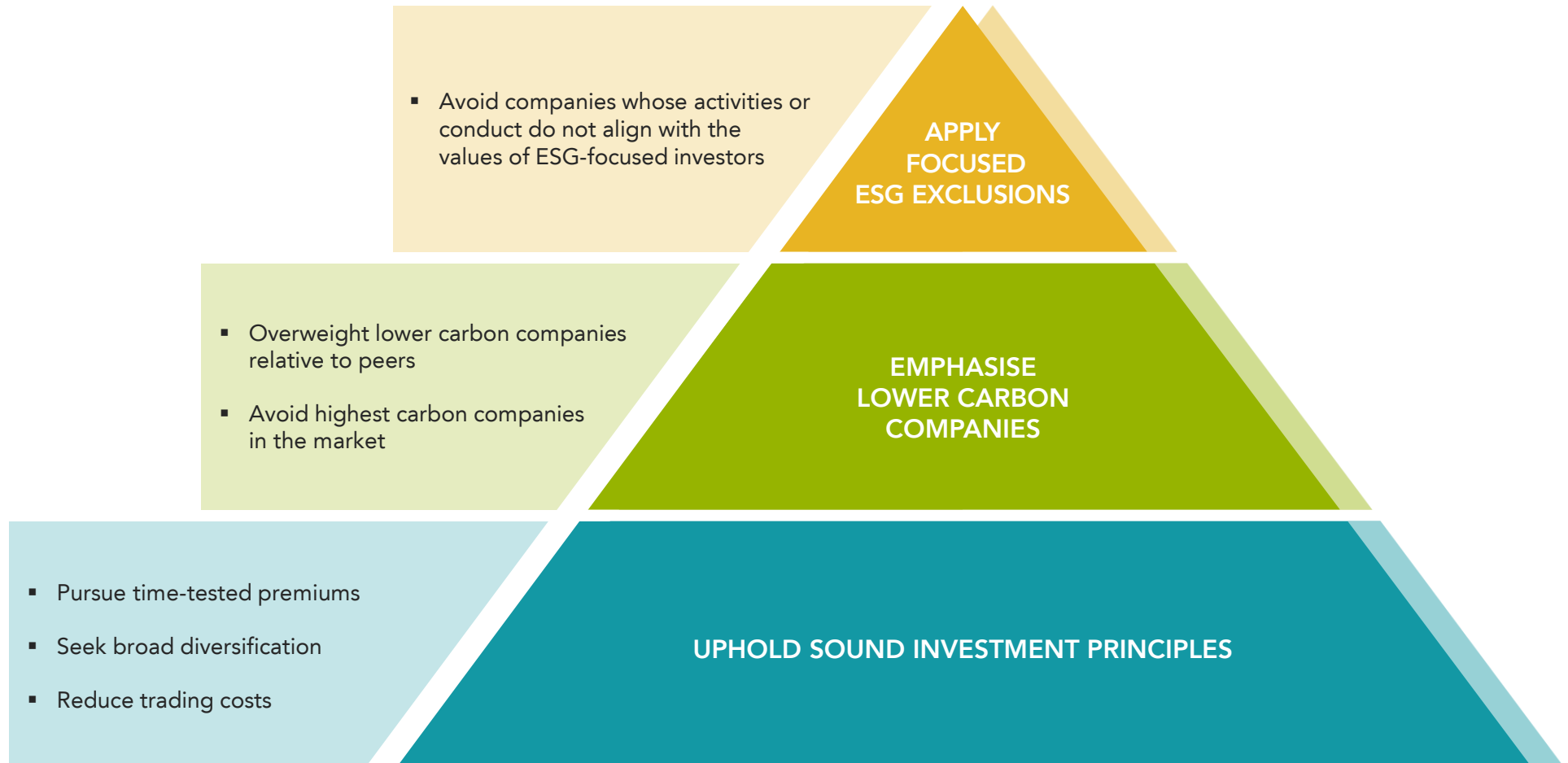
### What are fossil fuel reserves?

Companies may have physical assets that include coal, oil, and natural gas, which can lead to high emissions in the future.<sup>2</sup>

1. Source: EPA.gov.  
2. Source: MSCI.

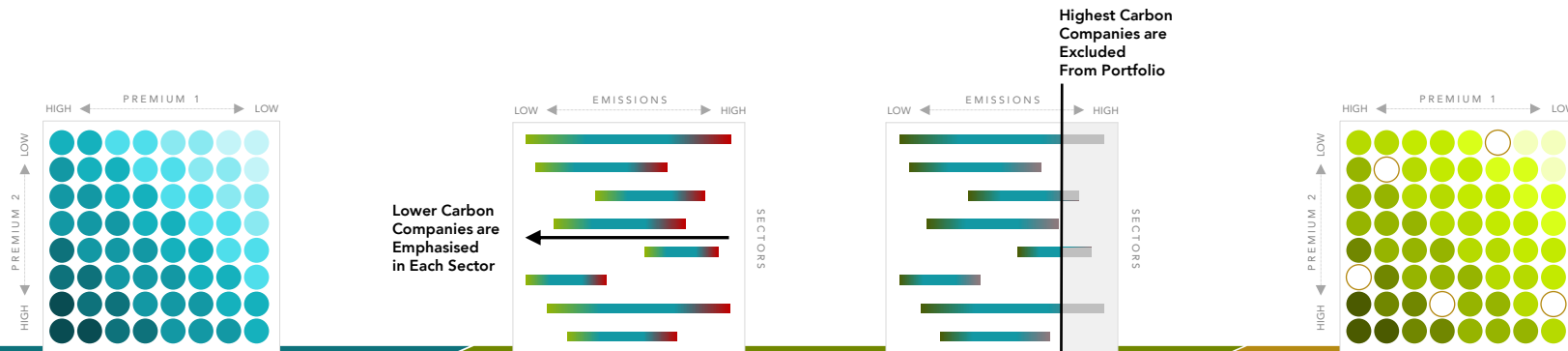
**Carbon Intensity** represents a company's recently reported or estimated Scope 1 (direct) + Scope 2 (indirect) greenhouse gas emissions in carbon dioxide equivalents (CO<sub>2</sub>e) normalised by sales in USD (metric tons CO<sub>2</sub>e per USD million sales). Greenhouse gases included are carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF<sub>6</sub>), and nitrogen trifluoride (NF<sub>3</sub>). **Potential Emissions from Reserves** is a theoretical estimate calculated by MSCI of carbon dioxide produced if a company's reported reserves of oil, gas, and coal were converted to energy, given estimated carbon and energy densities of the respective reserves.

# Dimensional's Approach to ESG Investing



# Applying ESG Considerations

## High Profitability ESG Funds



### UPHOLD SOUND INVESTMENT PRINCIPLES

#### Pursue time-tested premiums

- Remain focused on size, value and profitability among large cap high profitability stocks

#### Seek broad diversification

- Retain high coverage across names while limiting sector overweights

#### Reduce trading costs

- Maintain low turnover through thoughtful portfolio design

### EMPHASISE LOWER CARBON COMPANIES

#### Overweight lower carbon companies relative to peers



Emphasise sector leaders



Underweight sector laggards

#### Avoid highest carbon companies in the market



Exclude companies with highest carbon intensity



Exclude companies with highest potential emissions from reserves

### APPLY FOCUSED ESG EXCLUSIONS

#### Adverse business activities

- Environmental: coal, oil, gas, palm oil and factory farming
- Social: adult entertainment, alcohol, gambling, tobacco, private prisons, civilian firearms and controversial/nuclear weapons

#### Adverse business conduct<sup>1</sup>





- E.g. environmental, child labour, human rights, corruption and fraud controversies

**Profitability** is measured as operating income before depreciation and amortisation minus interest expense scaled by book. **Lower/higher carbon companies** represent companies with lower/higher carbon intensities and/or potential emissions from reserves. **Carbon Intensity** represents a company's recently reported or estimated Scope 1 (direct) + Scope 2 (indirect) greenhouse gas emissions in carbon dioxide equivalents (CO<sub>2</sub>e) normalised by sales in USD (metric tons CO<sub>2</sub>e per USD million sales). Greenhouse gases included are carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF<sub>6</sub>), and nitrogen trifluoride (NF<sub>3</sub>). **Potential Emissions from Reserves** is a theoretical estimate calculated by MSCI of carbon dioxide produced if a company's reported reserves of oil, gas, and coal were converted to energy, given estimated carbon and energy densities of the respective reserves. **Sector leader** represents the companies with lowest carbon intensity within each sector. **Sector laggard** represents the companies with highest carbon intensity within each sector. See "Details on ESG Considerations" and "ESG Data Descriptions and Disclosures" for additional information.

1. Exclusion of companies identified as operating in a manner inconsistent with responsible business conduct standards, such as those defined by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises, because of material involvement in severe controversies. As only a fraction of companies have historically been involved in such controversies, this exclusion may not materially impact the investable universe of a fund.

# Details on ESG Considerations

## High Profitability ESG Funds

EMPHASISE LOWER CARBON COMPANIES			
Goal	Methodology	Policy	Measurement
Overweight lower carbon companies relative to peers	 Overweights sector leaders to emphasise best-in-class companies primarily based on carbon intensity.	The fund reduces its weighted average carbon intensity exposure relative to the market <sup>1</sup> by at least 50%.	The weighted average carbon intensity is measured by using the carbon intensity (tCO <sub>2</sub> e/USD millions sales) of each company in the fund or in the market and calculating the weighted average by fund or market weight.
	 Underweights sector laggards to de-emphasise worst-in-class companies primarily based on carbon intensity.		
Avoid highest carbon companies in the market	 Excludes from purchase companies with the highest carbon intensity.		
	 Excludes from purchase companies with the largest fossil fuel reserves based on potential emissions from reserves.		

The fund generally seeks to invest in direct holdings and a minimum of 90% of its investments will be aligned with the E/S characteristics promoted by the fund. See "Disclosures" to learn how to obtain the fund's Prospectus which includes complete information on the fund's ESG considerations. Additionally, please refer to the fund's Sustainability-Related Disclosures at [www.dimensional.com/SFDR](http://www.dimensional.com/SFDR).

1. The market represents the fund's eligible market universe, which is a list of securities eligible for the fund prior to the application of the fund's investment strategy, weighted according to their market capitalisation. The list generally consists of a broad and diverse group of securities traded in approved countries as defined in the Prospectus of the fund.

# Details on ESG Considerations

## ESG Funds

### APPLY FOCUSED ESG EXCLUSIONS<sup>1</sup>

Type	Topic	Criteria
Adverse business activities: <i>Environmental</i>	Coal	Evidence of owning any proven and probable thermal or metallurgical coal reserves or any revenue from exploration, mining, extraction, distribution or refining of hard coal and lignite.
	Oil	10% or more revenue from the exploration, extraction, distribution or refining of oil fuels.
	Gas	50% or more revenue from the exploration, extraction, manufacturing or distribution of gaseous fuels.
	Fossil Fuel Power Generation	50% or more revenue from electricity generation with a greenhouse gas intensity of more than 100g CO <sub>2</sub> e/kWh (fossil fuels and biomass).
	Palm Oil	10% or more revenue from palm oil farming and/or palm oil processing.
	Factory Farming	10% or more revenue from sectors related to factory farming.
Adverse business activities: <i>Social</i>	Adult Entertainment	10% or more revenue from the production, distribution or retailing of adult entertainment products.
	Alcohol	10% or more revenue from the production, distribution, retailing, licensing or supply of alcoholic beverages, key products and services.
	Gambling	10% or more revenue from the ownership or operation of gambling facilities, or from the support or services to the gambling industry.
	Tobacco	Any involvement in the cultivation and production of tobacco or 10% or more revenue from the distribution, retailing, licensing or supply of key tobacco products and services.
	Private Prisons	Ownership or any revenue from the operation of private prisons and/or immigrant detention facilities.
	Civilian Firearms	Any revenue from the production of handguns, pistols, shotguns, rifles, revolvers, and ammunition for civilian (nonmilitary) use.
	Controversial and Nuclear Weapons	Any involvement in the manufacture of cluster munitions or anti-personnel mines or their key components, chemical and biological weapons or depleted uranium ammunition and armour, or nuclear weapons or their key components.
Adverse business conduct	ESG Controversies	Material involvement in severe controversies related to the environment (e.g. land use and biodiversity, toxic spills and releases, operational waste or water management), society (e.g. child labour or human rights) or corporate governance (e.g. corruption or fraud).

1. Dimensional's ESG funds generally (a) avoid purchase and (b) divest from companies which, in our opinion, are involved in these activities and controversies. Indirect involvement, for example through ownership structures, may also lead to exclusion. Should existing holdings, compliant at the time of purchase, subsequently become involved, they will be divested within a reasonable period considering turnover, liquidity and associated trading costs. Exclusions are not applied to cash, derivatives or third-party fund holdings. If no relevant information can be obtained from either internal or external sources that would lead a company to be excluded from the fund, the company is deemed to be eligible for investment.

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# Appendix

# Disclosures

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The Emerging Markets Large Cap Core Equity Fund, Emerging Markets Value Fund, Euro Inflation Linked Intermediate Duration Fixed Income Fund, European Small Companies Fund, European Value Fund, Global Core Equity Fund, Global Core Fixed Income Fund, Global Short Fixed Income Fund, Global Short-Term Investment Grade Fixed Income Fund, Global Small Companies Fund, Emerging Markets Core Equity Lower Carbon ESG Screened Fund, Global Core Equity Lower Carbon ESG Screened Fund, Global Core Fixed Income Lower Carbon ESG Screened Fund, Global Short Fixed

Income Lower Carbon ESG Screened Fund, Global High Profitability Lower Carbon ESG Screened Fund, Global Targeted Value Lower Carbon ESG Screened Fund, World Equity Lower Carbon ESG Screened Fund (the implementation and management of the Emerging Markets Core Equity Lower Carbon ESG Screened Fund, Global Core Equity Lower Carbon ESG Screened Fund, Global Core Fixed Income Lower Carbon ESG Screened Fund, Global Short Fixed Income Lower Carbon ESG Screened Fund, Global High Profitability Lower Carbon ESG Screened Fund, Global Targeted Value Lower Carbon ESG Screened Fund and World Equity Lower Carbon ESG Screened Fund is protected by U.S. Patent Nos. 7,596,525 B1, 7,599,874 B1 and 8,438,092 B2), Global Targeted Value Fund, Global Ultra Short Fixed Income Fund, Global Value Fund, Pacific Basin Small Companies Fund, Sterling Inflation Linked Intermediate Duration Fixed Income Fund, U.S. Core Equity Fund, U.S. Small Companies Fund, World Allocation 20/80 Fund, World Allocation 40/60 Fund, World Allocation 60/40 Fund, World Allocation 80/20 Fund and World Equity Fund are sub-funds of Dimensional Funds plc which is structured as an umbrella fund with segregated liability between sub-funds, established as an open-ended investment company with variable capital under the laws of Ireland with registration number 352043. Dimensional Funds plc is authorised by the Central Bank of Ireland as an undertaking for collective investment in transferable securities (UCITS).

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In addition, a summary of investor rights is available at [www.dimensional.com/ssr](http://www.dimensional.com/ssr). The summary is available in English.

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# Disclosures

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Fixed income securities are subject to increased loss of principal during periods of rising interest rates and may be subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. Small cap securities are subject to greater volatility than those in other asset categories. Environmental and social screens may limit investment opportunities for the fund. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase investment risks.

# ESG Data Description and Disclosures

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- Data for carbon intensity are sourced from external vendors, such as MSCI and ISS.
- Data for potential emissions from reserves are primarily sourced from external vendors, such as MSCI, and may be supplemented with internal data sets.
- Data for sovereign-level greenhouse gas emissions per GDP are collected from external sources, such as Climate Watch and the World Bank.
- Data for business activities are primarily sourced from external vendors, such as MSCI and ISS, and may be supplemented with internal data sets.
- Data for ESG controversies are primarily sourced from external vendors, such as MSCI and ISS, and may be supplemented with internal data sets and/or information from publicly available assessments.

The environmental and social data landscape is still maturing. A lack of company reported data remains one of the primary limitations. For example, the coverage of reported greenhouse gas emissions tends to be lower for small and emerging market companies, although the trend of available reported data in these markets continues to improve. Another limitation is the inconsistency of data and methodologies across vendors and companies. Dimensional avoids relying on third-party ESG ratings, which are often subjective, and instead focuses on more objective and consistently reported metrics. We take commercially reasonable efforts to collect external data sets and develop internal data sets that allow Dimensional ESG Funds to apply their ESG considerations.

In equities, external vendors, for example, provide reported or modelled carbon intensity data for nearly all the companies eligible for Dimensional ESG Funds when measured by free-float market capitalisation. Companies where carbon intensity data is not available are assigned a sector average value. Companies where potential emissions from reserves data is not available, either from external or internal data sets, are assigned zero emissions.

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The Emerging Markets Core Equity Lower Carbon ESG Screened Fund, Global Core Equity Lower Carbon ESG Screened Fund, Global Core Fixed Income Lower Carbon ESG Screened Fund, Global Short Fixed Income Lower Carbon ESG Screened Fund, Global High Profitability Lower Carbon ESG Screened Fund, Global Targeted Value Lower Carbon ESG Screened Fund, and World Equity Lower Carbon ESG Screened Fund (the “ESG Funds”) promote sustainability in accordance with Article 8 of Regulation (EU 2019/2088) on sustainability related disclosures in the financial services sector (SFDR). The ESG Funds do not have sustainability investment as their objective but as part of the ESG Funds’ investment policy, the Investment Manager does take into account the sustainability impact associated with securities when making investment decisions for the ESG Funds.

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