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# Centrepont Investment Roadshow

## ESG Investing

November 2020

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## Poll Question 1

**Sustainable investing assets in the US, Canada, Europe, Japan, Australia & NZ totaled how much in 2018?**

a). \$US10bn

b). \$US30bn

c). \$US1t

d). \$US30t

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# Agenda

- Dimensional Overview
- Sustainability Investing at Dimensional
- Environmental, Social & Governance
- A framework for talking to clients about ESG

# Learning Outcomes

- Breakdown sustainable investing jargon
- Address issues regarding cost, transparency & the impact on investment returns
- Develop a framework for talking to clients about their ESG values
- Be prepared to meet clients investment preferences around sustainability and ethical issues

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## Dimensional Overview

# Changing the Way People Think About Investing

Public markets set prices fairly—in real time

Financial science is at the core of sound investments

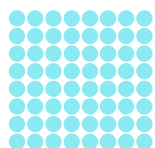
Implementation makes a big difference

Consistent results, across strategies and over time,  
set money managers apart

A robust investment philosophy empowers you  
to focus on what matters

# A Different View of Markets

Track  
the Market



## TRADITIONAL INDEXERS

Focus on matching the returns of an index, restricting which securities to hold and when to trade.

Outguess  
the Market



## STOCK PICKERS AND QUANTITATIVE MANAGERS

Rely on predictions and/or backtested simulations to find mispricing or time markets.

You don't have to outguess  
the market to beat the market.

Start with  
the Market



## DIMENSIONAL

Draws insights from empirical research to emphasise areas of the market with higher expected returns.

Adds value through implementation that has been tested, repeated, and refined for more than three decades.

# The Dimensions of Expected Returns

Long-term drivers of <b>STOCK RETURNS</b>	<b>COMPANY SIZE</b>  Small vs. large companies	<b>RELATIVE PRICE<sup>1</sup></b>  Value vs. growth companies	<b>PROFITABILITY<sup>2</sup></b>  High vs. low profitability companies
Long-term drivers of <b>BOND RETURNS</b>	<b>TERM</b>  Sensitivity to interest rates	<b>CREDIT</b>  Credit quality of issuer	<b>CURRENCY</b>  Currency of issuance

- Guided by decades of academic research, Dimensional structures portfolios around the long-term drivers—or dimensions—that explain differences in expected returns.
- For example, a small company trading at a relatively low price with high profitability has a higher expected return than a large company trading at a higher price with low profitability.

“At Dimensional, we don’t jump on every new idea that comes along. We’re looking for what will stand up over a long period of time.”

Eugene Fama  
Nobel laureate, 2013

Diversification does not eliminate the risk of market loss. Eugene Fama is a member of the Board of Directors of the general partner of, and provides consulting services to, Dimensional Fund Advisors LP an affiliate of DFA Australian Ltd.

1. Relative price as measured by the price-to-book ratio; value stocks are those with lower price-to-book ratios.

2. A company's operating income before depreciation and amortisation minus interest expense scaled by book equity.

Term Premium is the difference in expected return between long-term and short-term bonds. Term spread is the difference between long-term and short-term interest rates. The more steeply the yield curve slopes upward, the wider the term spread. Credit premium is the difference in expected return between bonds of similar maturity but different credit quality. Credit spread is the difference in yield between bonds of similar maturity but different credit quality. Diversification does not eliminate the risk of market loss.



## Poll Question 2

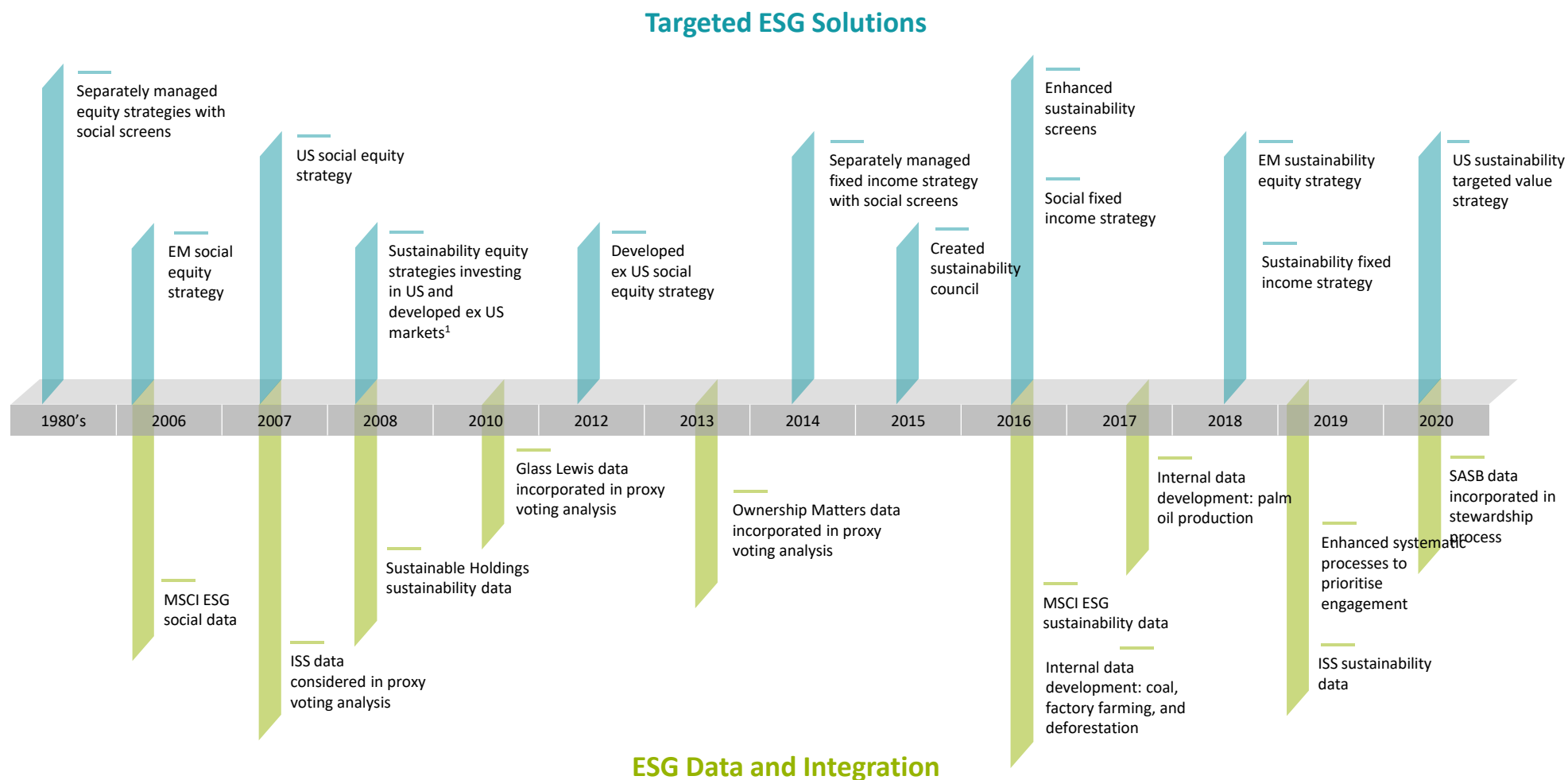
**What does sustainable investing mean to you?**

- a). Connecting social and environmental values to investment goals
- b). Excluding companies with bad environmental practices from my portfolio
- c). Investing directly in causes I care about
- d). Reaching my financial objectives whilst minimizing my carbon footprint

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## Sustainability Investing at Dimensional

# Dimensional's History with ESG Data and Solutions



1. Dimensional's approach to sustainability investing is protected by U.S. Patent Nos. 7,596,525 B1, 7,599,874 B1 and 8,438,092 B2.



# Environmental

# The Sustainability Overlay – Environmental

## Focus on Carbon Emissions in Equity Sustainability Strategies

### SUSTAINABILITY SCORING VARIABLES (INDUSTRY LEVEL)

Greenhouse Gas Emissions Intensity <sup>1</sup>	85% of total score
Land Use and Biodiversity	15% of total score
Toxic Spills and Releases	
Operational Waste	
Water Management	

### EMISSIONS VARIABLES (PORTFOLIO LEVEL)

Greenhouse Gas Emissions Intensity <sup>1</sup>	Exclude or underweight top contributors to greenhouse gas emissions
Potential Emissions from Reserves	Exclude or underweight companies based on potential emissions from reserves

- Emphasises environmental sustainability at both the portfolio and industry level
- Focuses on reducing emissions exposure on an absolute and industry-adjusted basis
- Applies a sustainability scoring system within each industry to emphasise investment in companies with higher sustainability scores and minimise or exclude investment in companies with lower scores

1. Greenhouse Gas Emissions Intensity represents a company's most recently reported or estimated Scope 1 (direct) + Scope 2 (indirect) greenhouse gas emissions normalised by sales in USD (metric tons per USD million sales). Greenhouse gases included are the six gases mandated by the Kyoto Protocol: carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF<sub>6</sub>). This methodology is subject to change with data developments or other findings or events.

# Fossil Fuel Smart

Emissions exposure as at 30 September, 2020



Greenhouse Gas Emissions Intensity represents a company's recently reported or estimated Scope 1 (direct) + Scope 2 (indirect) greenhouse gas emissions in carbon dioxide equivalents (CO2e) normalised by sales in USD (metric tons CO2e per USD million sales). Greenhouse gases included are the six gases mandated by the Kyoto Protocol: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF6). This methodology is subject to change with data developments or other findings or events. Potential Emissions from Reserves is a theoretical estimate 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. Companies are evaluated using estimated Potential Emissions from Reserves divided by Assets in USD. This methodology is subject to change with data developments or other findings or events. Certain information incorporated herein has been provided by Institutional Shareholder Services Inc. ("ISS"), and by MSCI ESG Research Inc. ("ESG"). Although Dimensional Fund Advisors' information providers, including without limitation, ESG and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy, and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential, or any other damages (including lost profits) even if notified of the possibility of such damages. These Emissions figures are as at the date shown and are subject to change. They are non-binding and indicative only. Investors should consider the current PDS in deciding whether to invest in the trusts, or to continue to hold their investments in the trusts. S&P/ASX data copyright 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. MSCI data copyright MSCI 2020, all rights reserved. Bloomberg Barclays data provided by Bloomberg Finance L.P.

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## Social

# Social Screens

## Sustainability Portfolios

SOCIALLY SUSTAINABLE VARIABLES	
Factory Farming	Companies with meaningful revenue related to rearing livestock using particularly intensive methods
Cluster Munitions and Landmines	Manufacturers and certain associated entities
Nuclear Weapon Systems	Companies that manufacture, repair and or maintain nuclear weapon systems
Tobacco	Companies with meaningful revenue related to tobacco products
Child Labour	Companies cited for severe child labor controversies
Alcohol	Companies with meaningful revenue related to alcohol products
Gambling	Companies with meaningful revenue related to gambling or gambling-related products
Adult Entertainment	Companies with meaningful revenue from rental, sale, distribution or production of adult media products
Personal Firearms	Companies with meaningful revenue related to the manufacture of personal firearms

- Companies connected to a select list of other environmental and socially sustainable issues may be excluded





# Governance

# Stewardship Philosophy

Dimensional Believes that Investment Stewardship Can Improve Outcomes for Our Clients


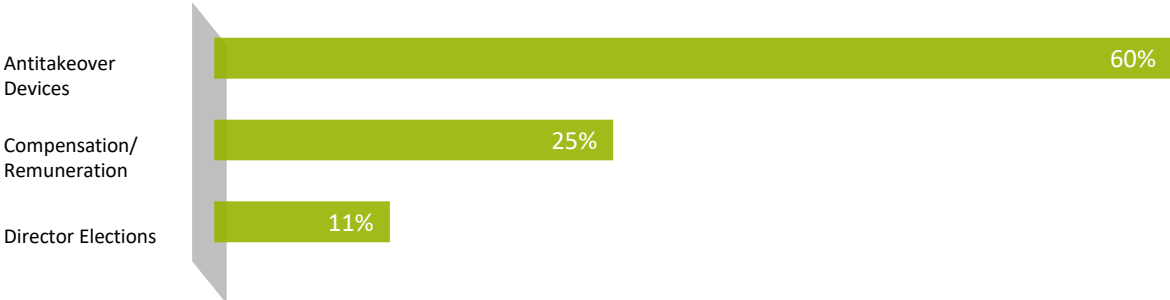
Market prices quickly incorporate information about a company's corporate governance practices.

Improvements in a company's governance practices may be reflected in increased valuations.

Stewardship activities intended to promote better governance practices can add value for investors.

# Enhancing Shareholder Value Through Stewardship

Investment stewardship activity, as of 2020<sup>1</sup>

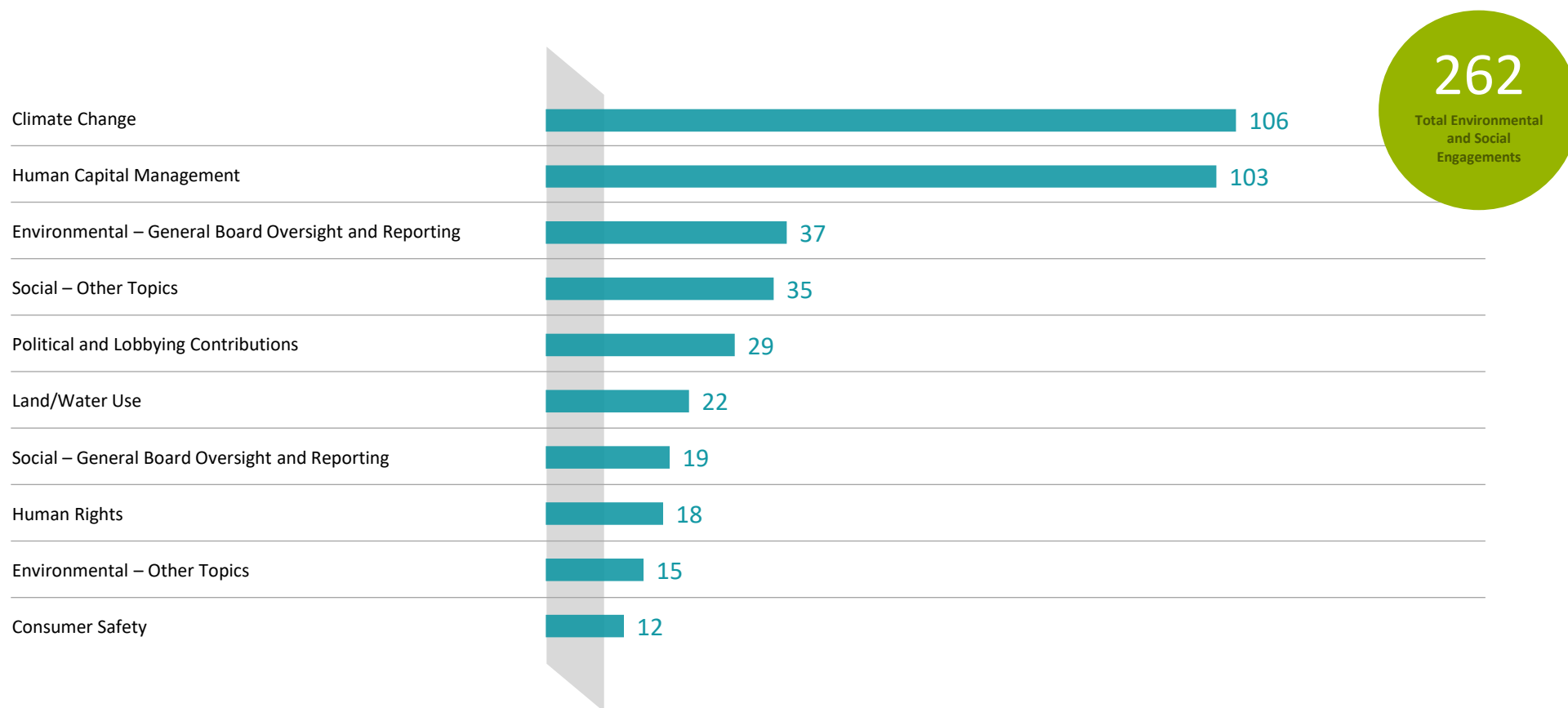
<p>Global Engagement</p> <p><b>640</b></p>	<p>Top Engagement Topics by Count</p>  <table border="1"> <thead> <tr> <th>Topic</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>Compensation/Remuneration</td> <td>416</td> </tr> <tr> <td>Environmental and Social</td> <td>262</td> </tr> <tr> <td>Board Composition</td> <td>242</td> </tr> </tbody> </table>	Topic	Count	Compensation/Remuneration	416	Environmental and Social	262	Board Composition	242
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<p>Global Proxy Voting</p> <p><b>133,592</b></p>	<p>Votes Against Management Proposals by Key Topic</p>  <table border="1"> <thead> <tr> <th>Topic</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Antitakeover Devices</td> <td>60%</td> </tr> <tr> <td>Compensation/Remuneration</td> <td>25%</td> </tr> <tr> <td>Director Elections</td> <td>11%</td> </tr> </tbody> </table>	Topic	Percentage	Antitakeover Devices	60%	Compensation/Remuneration	25%	Director Elections	11%
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<p>Recent Letter Campaigns</p>	<div> <p><b>Board Refreshment</b></p> <p>Dimensional sent letters to over 200 US and EMEA-based companies that we believed may have inadequate processes to ensure an appropriate mix of experience and expertise across board members.</p> </div> <div> <p><b>Political Lobbying Oversight</b></p> <p>Dimensional sent letters to 54 US large cap companies, who we believed had poor disclosure on political spending and its alignment with shareholder interests.</p> </div>								

1. Dimensional's 2020 proxy year period spans July 1, 2019 through June 30, 2020.

More information on Dimensional's proxy voting records may be found on Dimensional's public website at [www.dimensional.com](http://www.dimensional.com). These details may be found on the "Investment Stewardship" page under the "About Us" section of the relevant regional site. Dimensional from time to time discusses governance matters with portfolio companies to represent client interests; however, Dimensional on behalf of its clients, regardless of such conversations, acquires securities solely for the purpose of investment and not with the purpose or intended effect of changing or influencing the control of any portfolio company.

# Environmental and Social Engagements by Topic

2020 Proxy Year: July 1, 2019–June 30, 2020



Dimensional held over 100 discussions with portfolio companies on the topics of climate change and human capital management in proxy year 2020.

Engagements include in-person meetings and calls to portfolio companies and shareholder proponents. Engagements may address multiple topics. Dimensional may, from time to time, discuss governance matters with portfolio companies to represent client interests; however, regardless of such conversations, Dimensional from time to time discusses governance matters with portfolio companies to represent client interests; however, Dimensional on behalf of its clients, regardless of such conversations, acquires securities solely for the purpose of investment and not with the purpose or intended effect of changing or influencing the control of any portfolio company.

# Dimensional's Approach to Sustainability Investing

Start with a broadly diversified, systematic investment approach

Consult with experts to better understand ESG issues and data

Target focused, measurable ESG outcomes without sacrificing expected returns

Provide transparency through meaningful reporting

## Poll Question 3

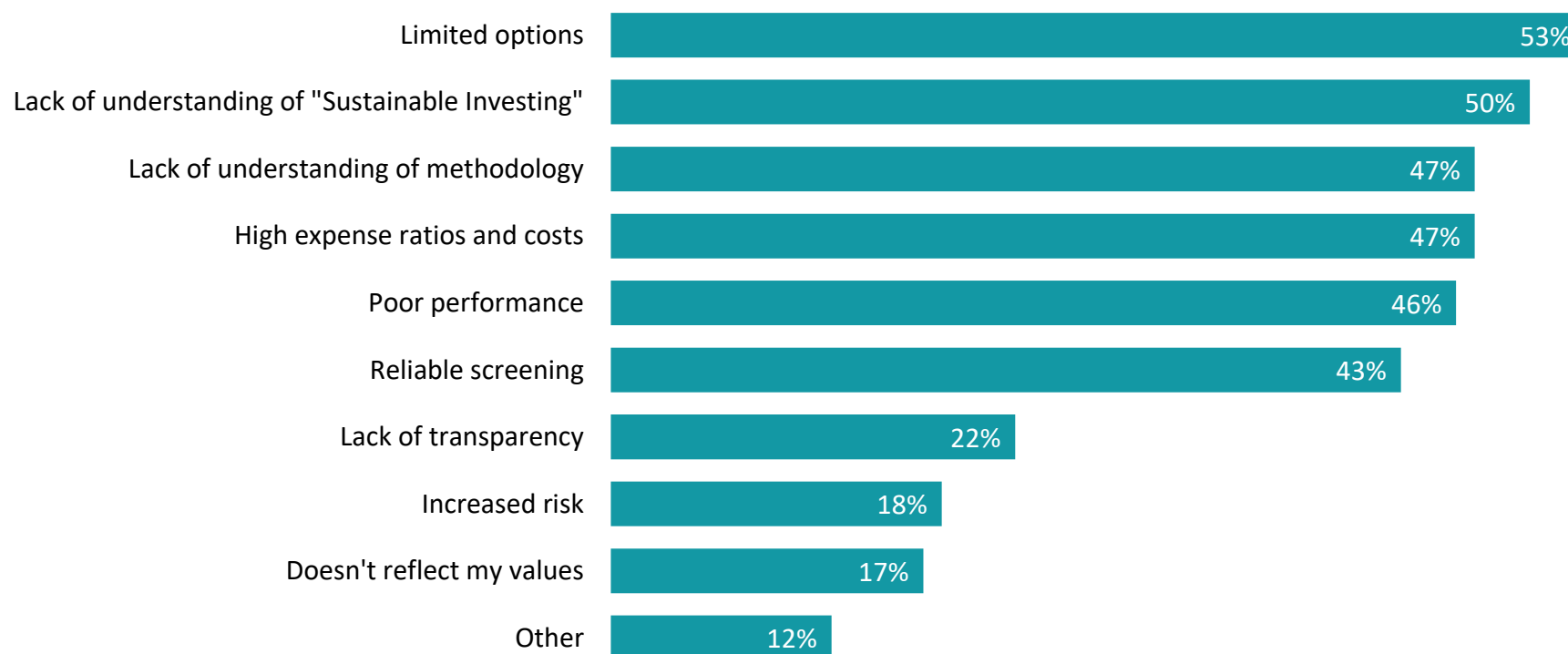
**Have your clients asked you about sustainable investing and how they can incorporate their ESG values in their portfolio?**

- a). Yes
- b). No, none of my clients have ever asked
- c). No, but I also haven't brought it up in discussion
- d). No, but I've brought it up & they were keen to discuss this with me

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## A Framework for talking to Clients about ESG

# Most Common Client Concerns





## Keep it Simple: The UN Definition of Sustainability

“...development that meets the needs of the present without compromising the ability of the future generations to meet their own needs.”<sup>1</sup>



UNITED NATIONS

1. United Nations, "Report of the World Commission on Environment and Development," General Assembly Resolution 42/187 (11 December 1987)

# A Simple Framework for Explaining ESG

## ENVIRONMENTAL

- Carbon Emissions
- Land Use
- Biodiversity
- Toxic Spills
- Waste and Water Management

## SOCIAL

- Tobacco & Alcohol
- Gambling & Pornography
- Child Labour
- Factory Farming
- Nuclear Weapons & Land Mines

## GOVERNANCE

- Ensuring Shareholders are Heard
- Ensuring Boards do their Job
- Aligning Pay with Performance
- Minimising Conflicts of Interest
- Ensuring Best Practices

# Concerns About Methodology?: Take it Step-by-Step

- 1 Have a strong and disciplined investment that is highly diversified, low-cost and targeted at the long-term drivers of higher expected return
- 2 Systematically evaluate company sustainability metrics across all major industries
- 3 Emphasise investment in companies acting in more environmentally sound ways than their industry counterparts
- 4 Exclude or underweight companies based on other key environmental and social considerations while maintaining broad diversification

# Concerns About Cost and Performance?

## WHAT ARE THE COSTS OF ME PURSUING A SUSTAINABLE INVESTING STRATEGY?

- The screens are a cost and you may lose a little diversification
- But this may not be significant and expected returns may be similar to what they would be otherwise
- The aim is to meet your sustainability preferences within a sound framework
- Best of all, you can measure the impact this is having

# Ideas for Communicating Sustainability

Test Clients' Knowledge – Run a Sustainability Survey

Highlight the Demand – Share Industry Surveys

Build Sustainability Scripts into Discovery and Review Meetings

Break Down the Jargon – Highlight Your Expertise

# Ideas for Communicating Sustainability

Showcase Key Questions and Answers

Anticipate and Deal with Common Issues

Make Sustainability a Distinctive Part of Your Business

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The implementation and management of the Dimensional Australian Sustainability Trust, Dimensional Global Sustainability Trust and Dimensional Global Bond Sustainability Trust are protected by U.S. Patent Nos. 7,596,525 B1, 7,599,874 B1 and 8,438,092 B2.