



Insurance AUM Journal

THE INDUSTRY'S RESOURCE HUB

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Introducing

The Insurance AUM Professional Development Series

INTERVIEWS FEATURING

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Paul Norris, Conning • Bernie Ryan & David Stack, DWS • Max Swango, Invesco

Dedicated to Insurance Investment Professionals



2021

NORTHERN TRUST

ASSET MANAGEMENT

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Northern Trust Asset Management is a global investment manager that helps investors navigate changing market environments, so they can confidently realize their long-term objectives.

Entrusted with \$1.2 trillion in assets,¹ we understand that investing ultimately serves a greater purpose and believe investors should be compensated for the risks they take — in all market environments and any investment strategy. That's why we combine robust capital markets research, expert portfolio construction and comprehensive risk management to craft innovative and efficient solutions that deliver targeted investment outcomes.

As engaged contributors to our communities, we consider it a great privilege to serve our investors and our communities with integrity, respect, and transparency.

¹Assets under management as of June 30, 2021



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NORTHERN TRUST

ASSET MANAGEMENT

THE NORTHERN TRUST ESG VECTOR SCORE™

The Northern Trust ESG Vector Score is a measurement that assesses publicly traded companies in the context of financially relevant environmental, social and governance (ESG) related criteria that could impact their operating performance.

As demand for ESG-driven investing has accelerated, so too has the number of data providers — each with varying information, reporting components and levels of transparency. This has created significant confusion and subjectivity for investors to assess the magnitude and direction of individual companies' ESG-related issues.

Investors have expressed the need for a more transparent and disciplined framework that focuses only on the ESG-related business issues that could impact the financial condition of a company — and ultimately their portfolio's investment return.

Aligned with Northern Trust Asset Management's philosophy that investors should be compensated for the risks they take, the methodology leverages the firm's extensive quantitative and sustainable investing experience — capturing both the magnitude and direction of potential ESG-related risks.

Built by applying 30+ years of practical insights and expertise

gained by constructing sustainable investment solutions for many of the world's most sophisticated and progressive investors.

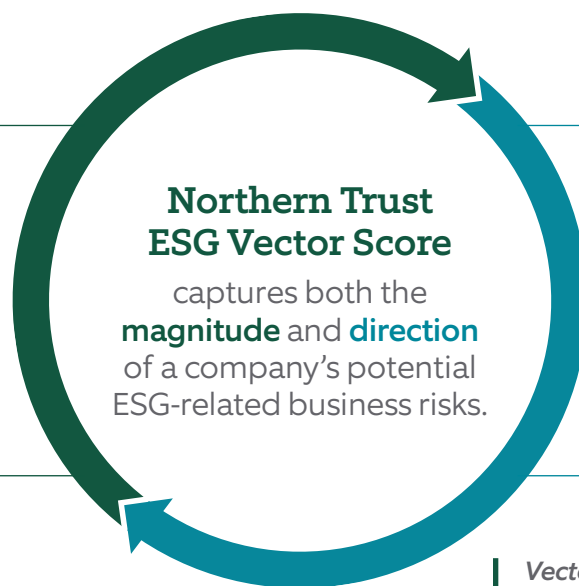
Demonstrated leadership:

- Managing more than \$130 bn of AUM* in sustainable strategies
- 2020's best-performing U.S. asset manager on environmental and social shareholder resolutions**
- Founding signatory of Climate Action 100+
- A+ Rated for Strategy and Governance Principles for Responsible Investment; member since 2009
- TCFD Supporter
- SASB Investor Advisory Group Member



Magnitude

ESG issues that are reasonably likely to impact financial performance



Direction

Forward-looking risk assessment framework

Vector (*vec•tor* / *vekter*) = a quantity that has both **magnitude** and **direction**.

* Assets under management as of March 31, 2021.

** ShareAction *Voting Matters 2020* report, December 2020. Northern Trust Asset Management ranked 18th overall globally and first among U.S. asset managers.

The Methodology

This industry-first approach marries two leading sustainability disclosure frameworks — the Sustainability Accounting Standards Board’s (SASB) Standards, which are industry-specific sustainability disclosure standards focused on financial materiality, and the thematic structure of the Task Force on Climate-related Financial Disclosures’ (TCFD) recommendations.

It applies TCFD’s anticipatory framework on governance, strategy and risk management — beyond simply climate — to all financially material ESG risks across the SASB Standards, resulting in a comprehensive risk assessment. Additionally, the Score places a further emphasis on corporate governance because of the impact it can have on long-term value.



FOCUSING ON FINANCIALLY MATERIAL ESG ISSUES

Guided by the SASB Standards, the ESG Vector Scoring process identifies sustainability issues that are likely to affect the financial condition or operating performance of companies within a given industry.



Environment

- Greenhouse Gas (GHG) Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

Social Capital

- Human Rights & Community Relations
- Customer Privacy
- Data Security
- Access & Affordability
- Product Quality & Safety
- Customer Welfare
- Selling Practices & Product Labeling

Human Capital

- Labor Practices
- Employee Health & Safety
- Employee Engagement, Diversity & Inclusion

Business Model & Innovation

- Product Design & Lifecycle Management
- Business Model Resilience
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change

Leadership & Governance

- Business Ethics
- Competitive Behavior
- Management of the Legal & Regulatory Environment
- Critical Incident Risk Management
- Systemic Risk Management

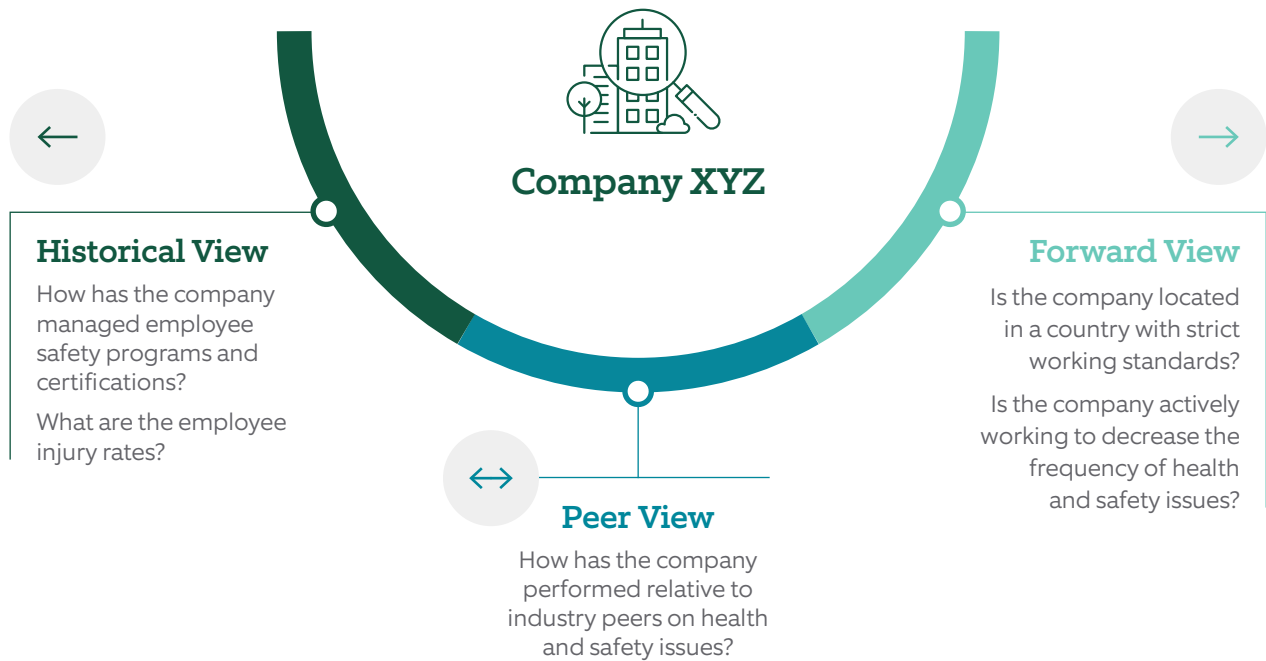
Source: SASB. See [SASB Materiality Map](#) for additional details.

A Comprehensive Assessment, Designed to Last

Appreciating that ESG reporting and requirements are continually maturing, the ESG Vector Score framework was intentionally designed as open-architecture, allowing for the flexibility of incorporating additional best-in-class data as it becomes available. And, in a quickly evolving field, its open architecture design means it can adapt to support multiple data sources and new industry requirements over time, so this can be a foundational metric used for years to come.

EXAMPLE: HUMAN CAPITAL CRITERIA

In a human capital intensive industry such as Air Freight & Logistics, how a company manages this ESG business issue can impact how well it performs. The example below provides a lens into how the ESG Vector Score examines a company's management of human capital, with respect to employee health and safety considerations.



Key Benefits

1

Enables more intentional and transparent integration of ESG considerations into investment processes, addressing the need for a consistent way to measure and report on ESG investments.

2

Provides a consistent, transparent methodology to gain greater clarity when building and managing sustainable portfolios by focusing on the magnitude and direction of key ESG-related business issues likely to have a financial impact on companies.

3

Offers more precision in identifying ESG-related business risks that could impact its performance, whether constructing portfolios using best-in-class security selection or exclusionary techniques.

4

Assists in prioritizing corporate engagements, further aligning sustainable investments and stewardship — leading to more deliberate engagements and the ability to track progress over time with a consistent metric.

About Northern Trust Asset Management

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For more information about the Northern Trust ESG Vector Score visit: www.northerntrust.com/esgvectorscore

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