

Social Impact Investing

2020 Annual Impact and Engagement Report



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Our mission

It is with great pride that I introduce the Social Impact Investing team's second annual Impact and Engagement Report.

I suspect it will be several years before our society fully takes on the difficult and painful lessons of 2020. The COVID-19 pandemic has sharpened our awareness of the connection between biodiversity loss and infectious disease, the importance of worker safety, and the fragility of global supply chains. Meanwhile, extreme weather events and civil unrest have brought further attention to climate risk and to human capital issues around the world. One thing seems clear: the era of benign neglect is over.

As participants in capital markets, the Social Impact Investing team sees ourselves as doing more than just competing for returns, although that is a central (and indispensable) part of our mission. We also see it as our role to develop a robust view of each company's environmental, social, and governance (ESG) performance. This information is important to our assessment of corporate risk, and ultimately to our asset selection process.

But our ESG assessment also has a deeper function: it guides our dialogue with corporate management teams. Given our focus on risk and reward, corporate governance is naturally a high priority for our corporate engagements. Our expertise in other systemic issues (e.g., climate and human capital) allows us to also have a deeper conversation about risk, one that can help promote positive change in corporate practices.

Although ESG in some form has been with us for many years, I feel that it is only now that our field has reached critical mass: ESG research, data, and systems have reached an unprecedented level of capability. Meanwhile, there is an emerging understanding in the corporate world that systemic risks are on the rise, and that the price of complacency will likely be far higher than that of action. Taken together, I believe these dynamics are creating an opportunity for positive social and environmental impact in the coming years. We invite you to join us on this journey.



Lloyd Kurtz, CFA
Head of Social Impact Investing
Wells Fargo Private Bank

Social Impact Investing at Wells Fargo Private Bank

12.2 years

Average tenure of investment team members at Wells Fargo

20.0 years

Average investment team member industry experience in investment or finance

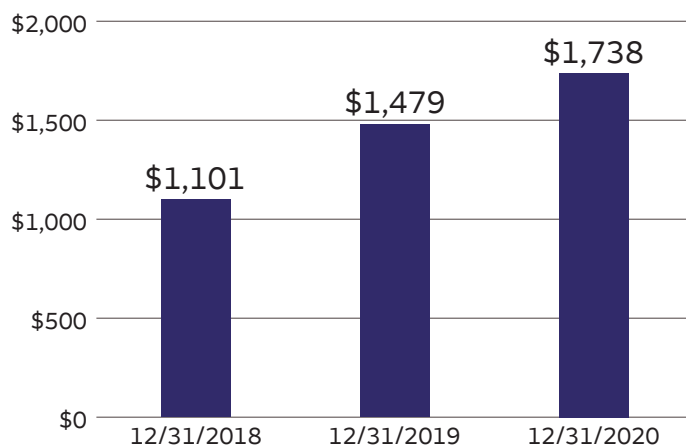
\$1.74 billion

Assets under management (AUM) as of 12/31/2020

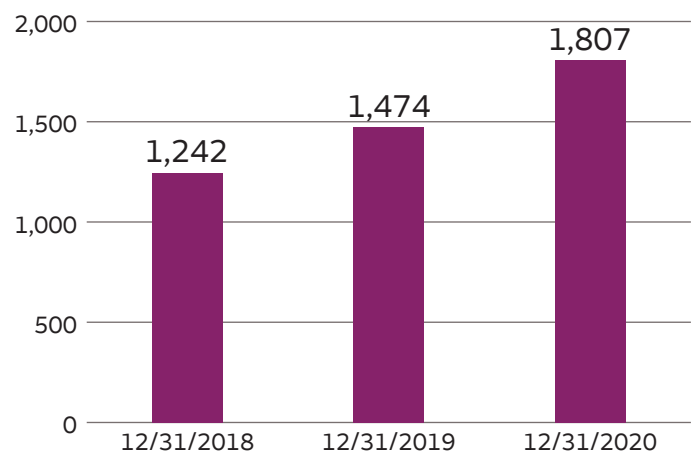
100%

Strategies that incorporate environmental, social, and governance (ESG) assessment and active ownership

Social Impact Investing assets under management (AUM) in \$ millions



Social Impact Investing accounts



Our ESG approach at a glance

First, we ensure that any company eligible for purchase in our strategies is aligned with clients' values. This involves excluding companies that derive revenue from certain areas, such as tobacco, fossil fuels, animal testing, life ethics, and gambling. These exclusions vary depending on the strategy.

Second, we seek companies with strong environmental, social, and governance (ESG) performance. ESG analysis does not necessarily require clients to sacrifice performance; it is an extension of fundamental analysis with the goal of increasing our overall understanding of a potential investment. ESG analysis recognizes that performance on certain non-traditional factors can materially impact financial returns.

Third, we engage in dialogue with our portfolio companies, and conduct research to provide proxy voting recommendations. Our goal is to help companies improve their ESG performance, which in turn may help their overall performance.

1 Alignment with Client Values

We apply exclusions to align each strategy with clients' values. For example, companies that test on animals are excluded from our Animal Welfare strategy.

2 Rigorous ESG assessment

We identify companies that are ESG leaders with strong fundamentals. This is based on our team's assessment of systemic risks, externalities, and stakeholder relationships. We use a wide variety of external research resources.

3 Active ownership

We seek positive change by engaging with our portfolio companies and providing proxy voting recommendations that can raise the standard of ESG performance.

Key aspects of ESG

This report compares the performance of the Social Impact Investing Responsible Strategy on five key aspects of ESG against the strategy's benchmark, the S&P 500. The Social Impact Investing Responsible Strategy is one of eight equity strategies managed by the Social Impact Investing team. Due to its large client base and representative use of screens, it was selected as the representative strategy to compare potential impact against the benchmark.¹

The five aspects of ESG are listed below. Further information on each is provided in the following pages.

Disclosure

Reporting multiple years of reliable ESG data using comparable metrics to peers communicates that a company seeks to be a true ESG leader, it is not merely "greenwashing" (i.e., misleading customers and investors).

Financial materiality

While it's difficult to capture how integrating ESG factors may help a company outperform its peers, there have been significant opportunities on certain issues.² For example, studies³ on human capital have shown that ESG-aware investors had the opportunity to gain a potential performance advantage compared to their benchmark.

Climate change

Climate change is a major societal challenge, but conventional risk management tools are of limited value. For climate change, we believe it cannot be business-as-usual; there is too much at stake.

Diversity

Diverse and inclusive cultures may drive creativity, innovation, and problem solving.⁴ This may contribute to greater employee engagement and customer satisfaction.

Corporate governance

We believe that effective management of the board of directors, shareholders' rights, executive compensation, and other issues related to corporate governance are key for companies to deliver value over the long-term.

Sources:

¹ The Social Impact Investing Responsible Strategy applies the following screens - no tobacco, no controversial weapons, no thermal coal, no gun manufacturing, and no more than 5% revenue from weapons-related military contracting, alcohol, gambling, or adult entertainment.

² Caroline Flammer, "Does Corporate Social Responsibility Lead to Superior Financial Performance? A Regression Discontinuity Approach," January 2013.

³ Alex Edmans, "Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices," *Journal of Financial Economics* Vol. 101, No. 3 (September 2011), pp. 621-640.

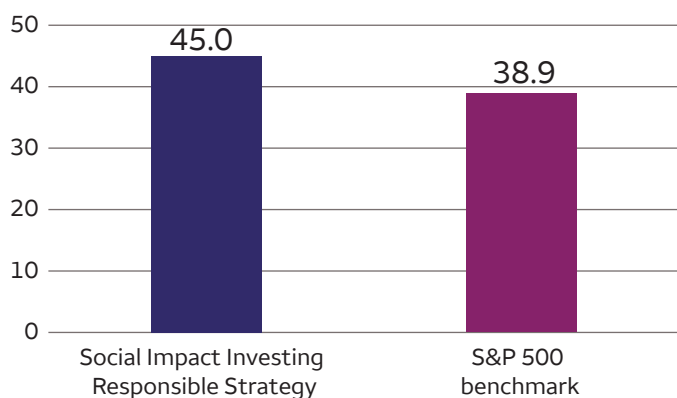
⁴ Günter K Stahl, Martha L Maznevski, Andreas Voigt, and Karsten Jonsen, "Unraveling the effects of cultural diversity in teams: A meta-analysis of research on multicultural work groups," *Journal of International Business Studies* Vol. 41, No. 4 (May 2010), pp. 690-709. Anita Williams Woolley, et al. "Evidence for a Collective Intelligence Factor in the Performance of Human Groups," *Science* Vol. 330, No. 686 (2010), pp. 686-688. David Rock and Heidi Grant, "Why Diverse Teams Are Smarter," *Harvard Business Review*, November 4, 2016.

ESG: Focus on disclosure

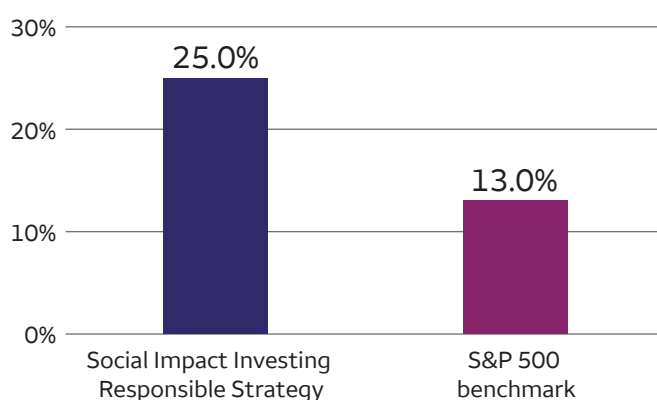
A key challenge to integrating ESG into investment analysis is identifying and gathering data that are relevant, comparable, and useful. We seek companies that are transparent about their performance, both areas of strength and areas for improvement. As most ESG disclosure is voluntary and non-standardized, we appreciate:

- Companies that report multiple years of data, so we can track performance over time
- Companies that report targets/goals, so we can track progress towards these goals and achievement of them, or lack thereof
- Companies that utilize standardized reporting frameworks, such as the Sustainability Accounting Standards Board (SASB), CDP, and others, so we can compare performance versus peers

Average Bloomberg ESG Disclosure Score⁵



Number of companies assuring their ESG report



We also seek companies that obtain external, independent assurance of their ESG reporting as this demonstrates the reliability of their data and the strength of their internal controls. We value high quality, reliable ESG data.

“We’re going to change the course of investment through better disclosure and better data.”

– Larry Fink, Chairman and CEO, BlackRock

⁵ The Bloomberg ESG Disclosure score is based on the extent of a company's public ESG disclosure, ranging from 0.1 for minimum disclosure to 100 for companies that disclose every data point collected by Bloomberg. Each data point is weighted in terms of importance (e.g., data such as greenhouse gas emissions are given greater weight), and scores are tailored to different industry sectors.

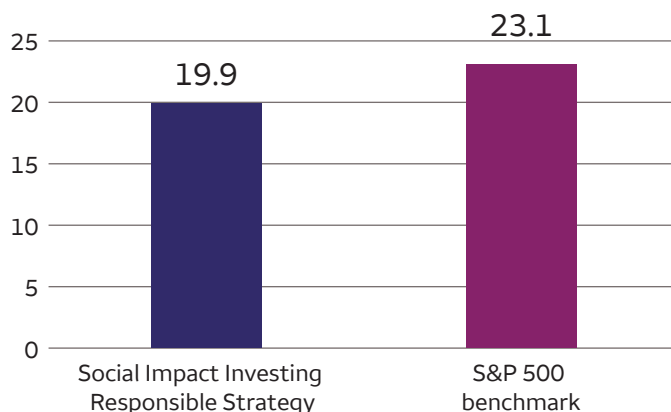
Source: Bloomberg; SASB – ESG for Investors,” available at www.sasb.org/investor-use. The numbers reported are not market cap weighted. Social Impact Investing Responsible Strategy and S&P 500 constituents are as of 12/31/2020.

ESG: Focus on financial materiality

Material ESG issues — such as food safety for a restaurant company, methane leaks for a natural gas company, or diversity in content for a media company — are likely to impact a company’s financial condition or operating performance.

We seek companies that minimize their exposure to financially material ESG risks in order to better manage investment risk.

Average exposure to financially material ESG risks⁶



The Sustainability Accounting Standards Board (SASB) framework provides a useful tool for identifying material ESG issues at the industry level and disclosing on them using comparable metrics to peers. The SASB Standards were developed over many years incorporating the input of companies, investors, and other subject matter experts.

We use the SASB Standards when analyzing what ESG issues are likely to be financially material to a company’s performance, which in turn affects our investment decisions.

For more information on our approach, please see our separate piece, ***Materiality Assessment: A Key Consideration in the Investment Process.***

“There is a growing recognition that some ESG factors are economically material, especially in the long term, and it is, therefore, important to integrate material ESG factors in investment decisions.”

– Future of Sustainability in Investment Management:
From Ideas to Reality,
CFA Institute, Future of Finance, 2020

⁶ A proxy for exposure to Material ESG Risks is the Sustainalytics Risk Rating, which utilizes multiple exposure factors including subindustry, business model, geography, and incidents history to assess enterprise value at risk driven by ESG factors.

Source: Sustainalytics; CFA Institute, “Future of Sustainability in Investment Management: From Ideas to Reality.” The numbers reported are not market cap weighted. Social Impact Investing Responsible Strategy and S&P 500 constituents are as of 12/31/2020. SASB logo used with permission.

ESG: Focus on climate change

CDP (formerly known as the Carbon Disclosure Project) is the leading global climate data reporting framework. Companies, cities, states, and regions use CDP to disclose their climate, water, and deforestation impacts.

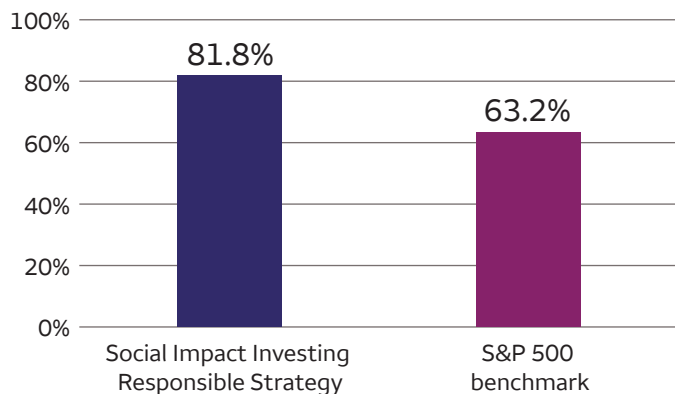


We seek companies that report on the annual CDP questionnaire as this provides transparency regarding their management of climate risk and allows us to assess them versus peers.

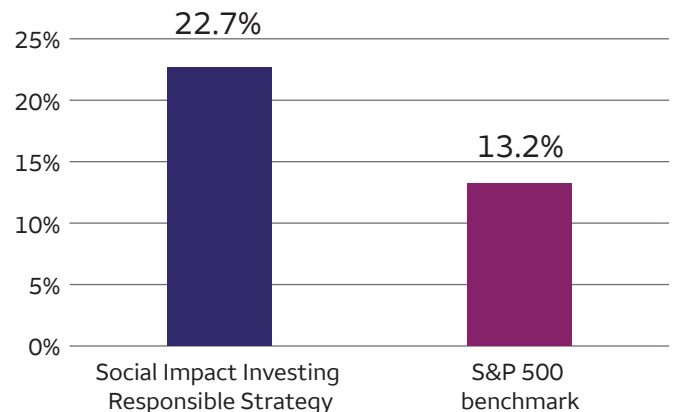
Science-based targets are aligned with the goals of the Paris Agreement⁷ to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit warming to 1.5°C.

We seek companies that have set science-based targets. We believe this demonstrates their leadership at reducing greenhouse gas emissions.

Number of companies reporting on CDP



Number of companies with science-based targets



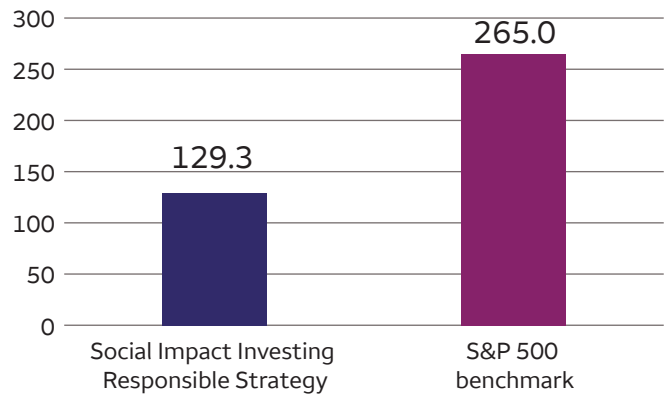
⁷ United Nations 2015 Paris Agreement available at unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf.

Source: FactSet; Bloomberg; Trucost; "What Is a Science Based Target?" Science Based Targets Initiative website; CDP website. The numbers reported are not market cap weighted. Social Impact Investing Responsible Strategy and S&P 500 constituents are as of 12/31/2020. CDP logo used with permission.

ESG: Focus on climate change (continued)

We measure our portfolio's carbon footprint as the sum of Scope 1 and Scope 2 emissions per unit of annual revenue. The unit is metric tons CO2 equivalent/USD \$1 million. The aggregation of operational (Scope 1) and first-tier supply chain (Scope 2) emissions per USD \$1 million allows for comparison of emissions intensity across companies of different sizes, in different geographies, and over time.⁸

Average carbon footprint



“Climate change poses a major risk to the stability of the U.S. financial system and to its ability to sustain the American economy.”

– U.S. Commodity Futures Trading Commission (CFTC)

⁸ Emissions data are collected by Trucost (part of S&P Dow Jones Indices) covering 12,000 companies, representing 93% of global market capitalization. In the absence of company disclosure, Trucost estimates emissions using its proprietary environmentally extended input-output model and its granular, multi-sector assessment of a company's business activities.

Source: “Managing Climate Risk in the U.S. Financial System: Report of the Climate-Related Market Risk Subcommittee, Market Risk Advisory Committee of the U.S. Commodity Futures Trading Commission,” published September 2020 under Commissioner Rostin Behnam, Sponsor.

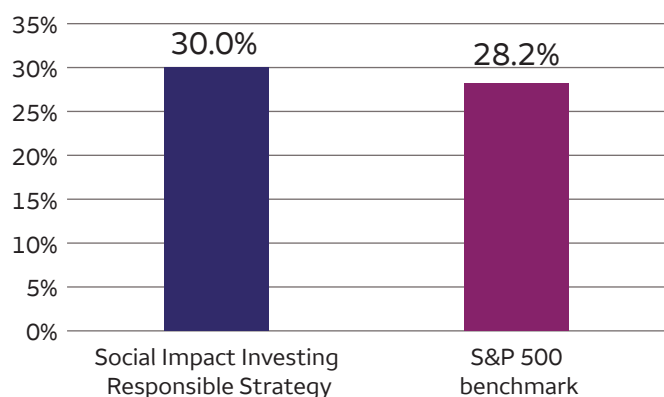
ESG: Focus on diversity

Companies have increasingly begun to see diversity, equity, and inclusion as a potential source of competitive advantage. Diverse perspectives may lead to innovation, creativity, and growth. We believe that the intentional focus of investors on the issue of equality will ultimately help effect real change in the corporate world.

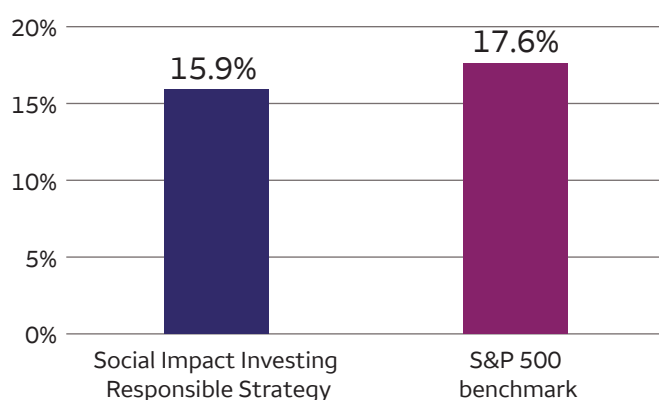
We seek companies that invest in skills development programs and initiatives to create supportive work environments for women and minorities, and those with a meaningful representation of women and minorities on their boards of directors and in executive leadership.

For more information on our approach, please see our separate piece, **Gender Equality and Inclusion: Just Good Business**.

Average number of female board members



Number of companies with a female CEO or CFO



In 2019, the Social Impact Investing Responsible Strategy outperformed our benchmark with respect to the number of companies with a female CEO or CFO. However, as the average number of women in executive roles has increased over time across the S&P 500, and last year we sold a few companies with female leaders due to poor fundamental reasons, we now find ourselves slightly behind our benchmark. In the coming year we will prioritize tilting towards companies that are diversity leaders.

“Sustainability is the future of the planet and of its people. You cannot have a just and sustainable future without humanity — the subjugation of women, or poverty, or food shortages... all of these are conditions that people cannot survive in.”

– Mindy Lubber, CEO and President of Ceres

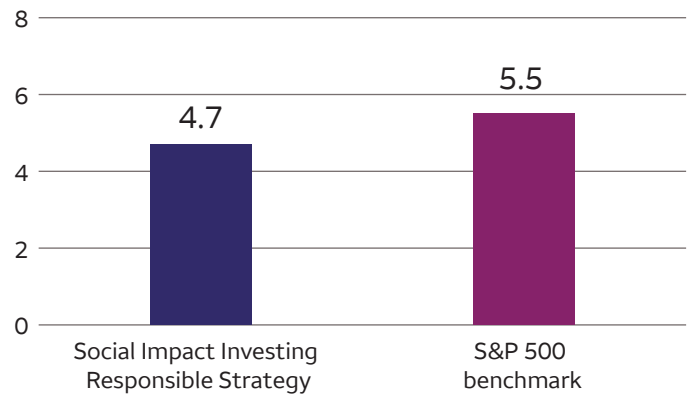
Sources: FactSet; Bloomberg; “Invest in a More Equitable Future: Bloomberg 2021 Gender-Equality Index;” “Mindy Lubber - Entrepreneurial Vision Award” available at www.unenvironment.org/championsofearth/laureates/2020/mindy-lubber. The numbers reported are not market cap weighted, with Social Impact Investing Responsible Strategy and S&P 500 constituents and weights as of 12/31/2020.

ESG: Focus on corporate governance

Effective corporate governance — including management of relationships among management, the board, shareholders, and other stakeholders — is essential for companies to avoid scandal, manage risk, and operate efficiently. High levels of transparency and accountability are basic elements of corporate governance that help ensure the sustainability of corporations, markets, and society and the environment.

We believe that poor corporate governance can hurt investors and other stakeholders. We seek companies that minimize their exposure to corporate governance risks.

Average exposure to corporate governance risks⁹



“Global market forces will sort out those companies that do not have sound corporate governance.”

– Mervyn King, Chairman,
The King Report [South Africa]

⁹ A proxy for exposure to corporate governance risks is the Institutional Shareholder Services (ISS) quality score, which is an overall score from 1 (best) to 10 (worst) assigned by ISS based on the company's governance practices across audit and risk oversight, board structure, compensation/remuneration, and shareholders' rights.

Sources: *Speculum Juris*, Nelson R. Mandela School of Law, University of Fort Hare and Faculty of Law, Rhodes University, vol. 20, part 2 (2006), available at open.uct.ac.za/bitstream/handle/11427/18899/SpeculumJuris_2006_Part_2%20-%20%20cube.pdf.

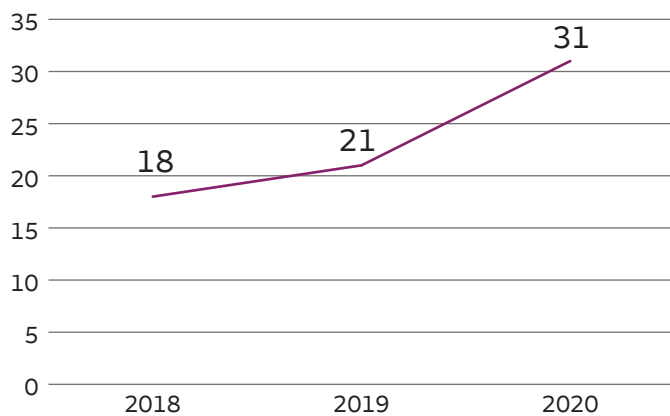
Active ownership: Approach to engagement

We engage with our portfolio holdings to learn from their strengths and to share those lessons with companies that may be further behind, in order to have a positive impact on society and the environment.

We take a targeted, customized, and highly collaborative approach to working with our portfolio holdings. This results in fewer, higher quality engagements. Research has shown that collaboration is more likely to achieve management buy-in, which helps the dialogue succeed. It can even improve long-term financial results.¹⁰

In 2020, we had 31 engagements, a significant increase from prior years.

Number of calls or meetings with companies during which ESG topics were discussed



We also work with other investor groups such as Ceres to help amplify our voice.



¹⁰ Dimson, Elroy, Oğuzhan Karakaş, and Xi Li. "Active Ownership." *The Review of Financial Studies*, vol. 28, issue 12, December 2015, pp. 3225-3268

Source: "The SDG Investment Case" *The Principles for Responsible Investing (PRI)*. Ceres logo used with permission.

Active ownership: Engagement focus areas

We consider the business impacts to the company as well as the impact to society and environment when selecting our engagement priorities. Our engagements usually focus on topics identified in the United Nations (UN) Sustainable Development Goals (SDGs). The SDGs are an articulation of the world's most pressing global sustainability challenges, as agreed upon by all 193 member states of the UN in 2015.

The **focus of our 2020 engagements** was:

- Climate change (SDG 13)
- Disclosure (SDG 17)
- Human capital (SDGs 3, 4, 5 and 8)
- Corporate governance (SDG 16)

SUSTAINABLE DEVELOPMENT GOALS



“The SDGs provide all businesses with a new lens through which to translate the world’s needs and ambitions into business solutions. These solutions will enable companies to better manage their risks, anticipate consumer demand, build positions in growth markets, secure access to needed resources, and strengthen their supply chains, while moving the world towards a sustainable and inclusive development path.”

– International Chamber of Commerce

Engagement case study

Background

A diversified financials company with otherwise strong ESG performance had only 14% women on its board. This relative lack of board diversity had persisted since proxy advisor Institutional Shareholder Services (ISS) started tracking corporate board gender diversity in 2013 (i.e., from the 2013 annual general meeting through the 2020 annual general meeting, the diversified financials company had 13-17% women on its board, each year lagging the average for the S&P 500 benchmark and for its sector).

In addition, the diversified financials company lacked transparency about its human capital management — and specifically about its diversity, equity, and inclusion policies and programs. By 2020, the company had received seven shareholder proposals related to workforce diversity. Shareholder support for these proposals had almost doubled over the years (from approximately 20% support to 40% support), but the company was slow to improve its disclosure.

Engagement

The Social Impact Investing team recognized the diversified financials company's strong performance on most ESG issues, purchasing the company with the intention to engage with them about board diversity and human capital management. We shared with them:

- How numerous studies have underscored the link between diversity and improved corporate governance and long-term financial performance
- How the company significantly lagged its peers with respect to disclosure of comparable diversity metrics
- How most peers also had board or executive management oversight of diversity
- How we planned to monitor progress and follow-up if the company was not able to source diverse board candidates and/or improve disclosure

Changes at the company

In summer 2020, the company added two new female board members. The company also began disclosing its EEO-1 report¹¹ publicly, providing a breakdown of employee race and gender across 10 job categories. Data from the EEO-1 report are very useful to investors because they are standardized, allowing for comparison versus peers and over time.

We are proud of the diversified financials company's progress in diversifying its board and improving its disclosure on diversity, equity, and inclusion. We are pleased to have contributed to this progress.

“The problems of the world may seem overwhelming but with equity ownership, you have tremendous leverage for global change.”

– Geeta Ayer, President and Founder of Boston Common

¹¹ U.S. companies with 100 or more employees and some federal contractors are required to submit an EEO-1 report annually to the U.S. Equal Employment Opportunity Commission.

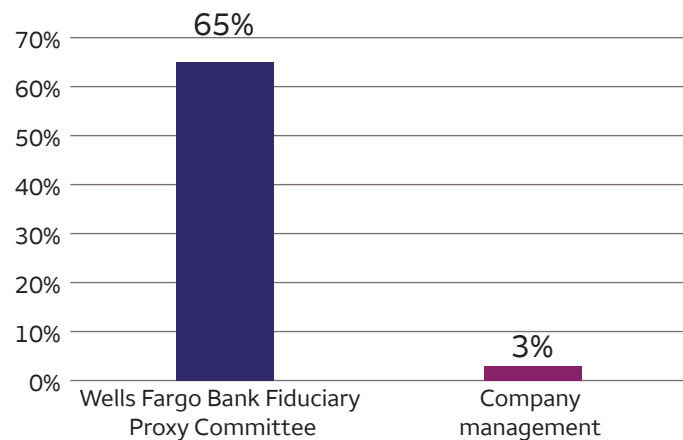
Source: ISS Proxy Analysis & Benchmark Policy Voting Recommendations, 2013-2020; Glass Lewis Proxy Papers, 2019-2020; Jena McGregor, “Urged to back up pledges for racial justice, 34 major firms commit to disclose government workforce data,” *The Washington Post*, September 29, 2020; “Money as a Lever to Change the World: Geeta Ayer on Active Management & Investing for Impact” available at www.solutionswithsonya.com/news/geetaayer

Active ownership: Proxy voting

Investors use proxy voting to elect directors to the board and provide input on other topics at a company’s annual meeting. Proxy voting can be a powerful tool for investors to convey their concerns to management, such as that executive pay is too high compared to the company’s peers, or to offer suggestions, such as that the board should consider creating a Human Rights Risk Oversight Committee to improve its oversight of human rights-related issues. While most proxy voting results are non-binding, companies often make changes when the majority of shareholders do not vote in alignment with management on a particular proposal.

- In 2020, we recommended proxy votes for 109 companies held in Social Impact Investing Strategies — Based on our recommendations, 1,494 votes were cast on 100 shareholder proposals and 1,394 management proposals
- We recommended a vote against management on one or more issues at 46 company meetings (42% of total) — Our focus was executive officers’ compensation and directors deemed unsuitable by the Social Impact Investing team due to a range of corporate governance concerns
- We supported 65% of shareholder proposals, while management supported 3% of shareholder proposals — Our focus was increased transparency on political contributions; assessing the feasibility of linking executive pay to ESG metrics; increasing proxy access; and improving reporting on climate risk, deforestation, sex-based harassment, data privacy, and other ESG issues

Support for shareholder proposals during the 2020 proxy season



Note: Proxy voting only applies to the Social Impact Investing strategy assets in Wells Fargo Bank NA and does not apply to the SII Customized model strategies in Wells Fargo Advisors.

Wells Fargo Private Bank proxies are voted by the Proxy Committee, on which Kimberly Ryan, Senior Portfolio Manager, is a voting member. In 2020, the Proxy Committee accepted all the Social Impact Investing team’s recommendations. Sources: voting results from Institutional Shareholder Services (ISS).

Wells Fargo Private Bank offers products and services through Wells Fargo Bank, N.A. and its various affiliates and subsidiaries. Wells Fargo Bank, N.A. is a bank affiliate of Wells Fargo & Company.

Brokerage services are offered through Wells Fargo Advisors. Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC, Member SIPC, a registered broker-dealer and separate non-bank affiliate of Wells Fargo & Company.

Wells Fargo Bank, N.A. offers various advisory and fiduciary products and services including discretionary portfolio management. Wells Fargo affiliates, including Financial Advisors of Wells Fargo Advisors, a separate non-bank affiliate, may be paid an ongoing or one-time referral fee in relation to clients referred to the bank. The bank is responsible for the day-to-day management of the account and for providing investment advice, investment management services and wealth management services to clients. The role of the Financial Advisor with respect to the Bank products and services is limited to referral and relationship management services.