

From the Margins to the Mainstream: Navigating Environmental, Social, and Governance (ESG) Issues

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- + Responsible Investing (RI) at PNC is an umbrella term for investment strategies that consider environmental, social, and governance (ESG) issues.
- + We continue to implement RI in to our overall investment approach, including investment strategy, portfolio construction, manager due diligence, and security selection.

We view RI as a goals-based investment strategy that employs a lens or filter to help implement a portfolio that aligns with an investor’s goals, intentions, values, or mission that:



Avoids Harm

Excludes or restricts certain portfolio exposures that may conflict with a set of values, and/or one’s organizational mission.



Benefits Stakeholders

Proactively supports certain values or causes by assessing and engaging on ESG-related factors.



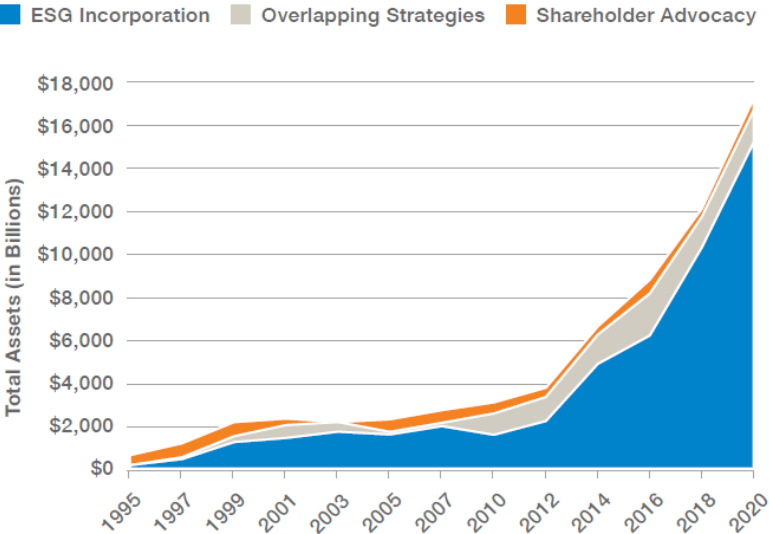
Contributes to Solutions

Defines a specific, targeted impact and allocates capital toward that objective.

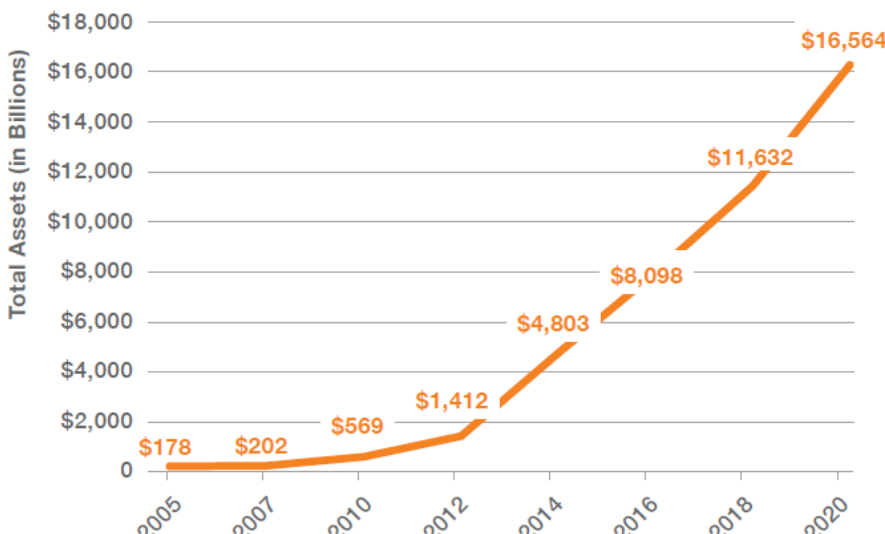
Approximately 1 in 3 US dollars is invested in a responsible investing strategy



Sustainable Investing in the United States 1995–2020



Growth of ESG Incorporation by Money Managers 2005–2020



Total assets under management in the US using RI strategies grew 42% between 2018 and 2020 – from \$12.0 trillion to \$17.1 trillion.

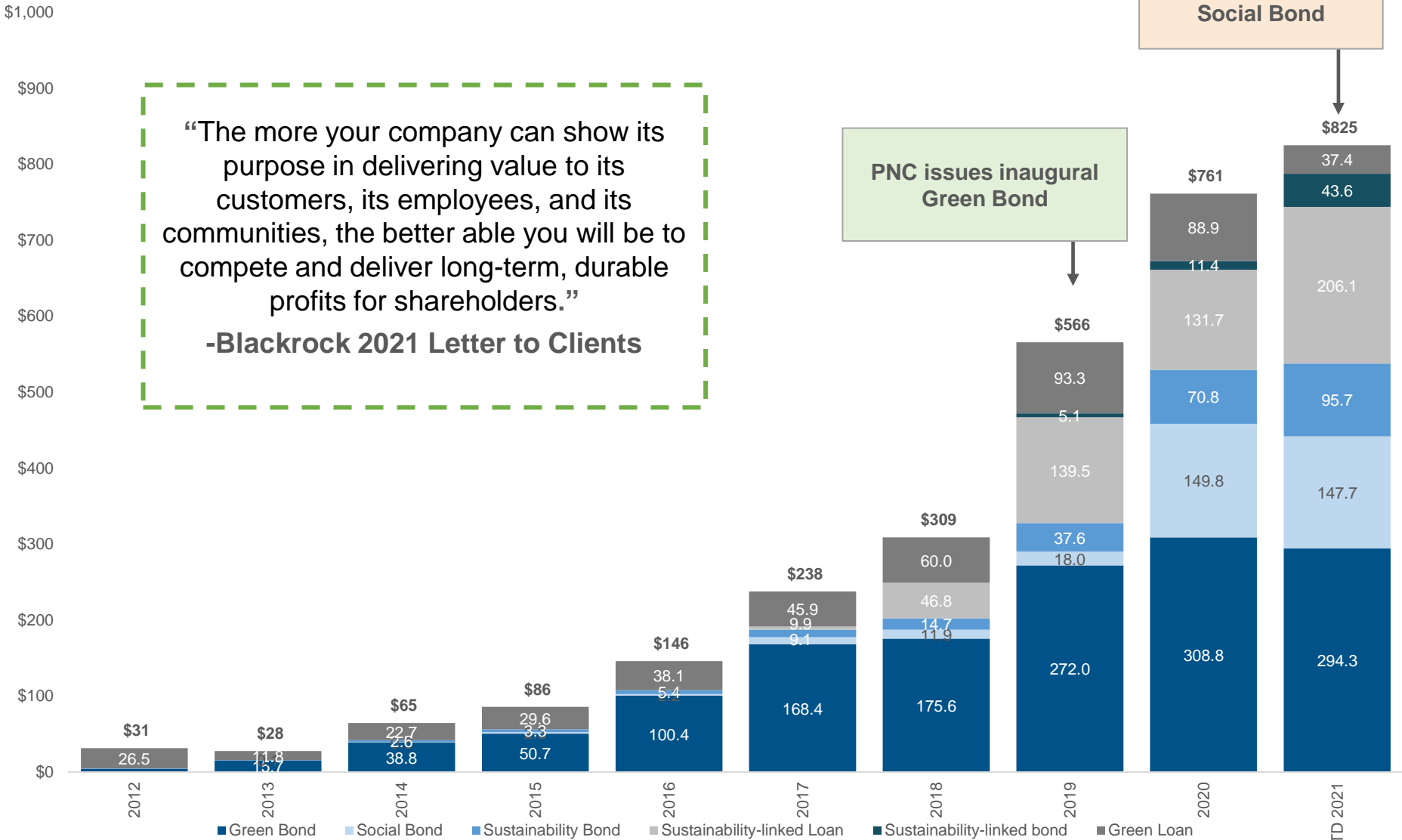
Source: US SIF Foundation, 2020

Growth of the Sustainable Finance Market

Represents ~10% of bond and loan volume



Global Sustainable Finance Debt Issuance (\$ in billions)



“The more your company can show its purpose in delivering value to its customers, its employees, and its communities, the better able you will be to compete and deliver long-term, durable profits for shareholders.”
-Blackrock 2021 Letter to Clients

Sources: Refinitiv, Moody's, Bloomberg, ICMA, Climate Bonds Initiative, Sustainalytics

Matching Goals with Strategies



Removing companies or industries with objectionable activities

- Negative Screens**
- Tobacco
 - Alcohol
 - Gambling
 - Weapons
 - Adult Entertainment
 - Fossil Fuels



Risk management and ESG opportunities

- Engage Actively**
- CO2 emissions
 - Executive compensation
 - Waste reduction
 - Product safety
 - Anti-discrimination
 - Diversity & Inclusion

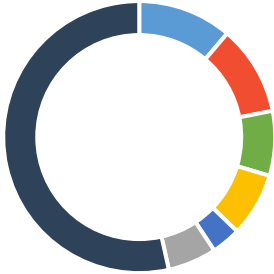


Target specific impact objectives alongside financial return

- Solutions for**
- Climate change
 - Education
 - Healthcare
 - Agriculture
 - Food & Nutrition
 - Financial Inclusion

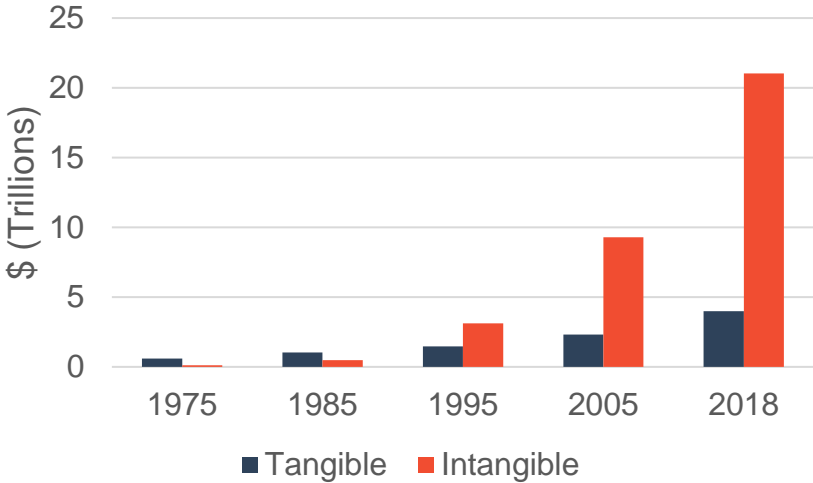
Note: The items listed under each category are examples.

Percent of Nasdaq 100[®]
(as of 11/26/21)



- Apple ■ Microsoft ■ Amazon ■ Alphabet
- Facebook ■ Tesla ■ Other

Tangible v. Intangible Assets Comparison
5 Biggest Companies in S&P 500[®]



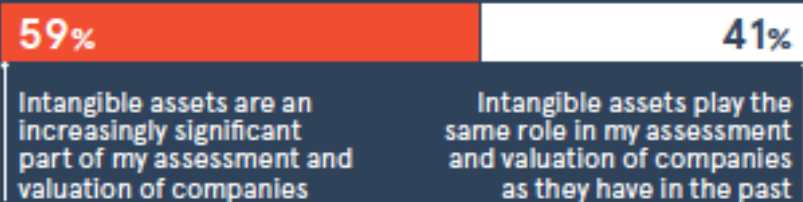
A company's intangible assets contain important information about the future strength of its business model



Conventional valuation methods such as discounted cash flow are inadequate without thorough consideration of intangible assets



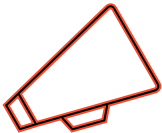
The role of intangible assets in investment assessment



Columbia Threadneedle Investments 2019



Intellectual Property



Brand



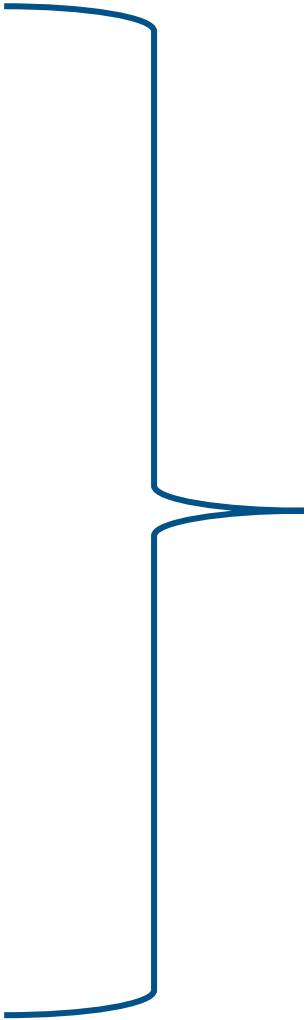
Data



Relationships



Public Rights



**E
S
G**

Sample ESG Issues by Industry

Through a Materiality Lens



The Sustainable Accounting Standards Board (SASB) focuses on how ESG issues can affect enterprise value creation and covers 77 industries.

Category	Issue	Industry					
		Health Care Delivery	Non-Alcoholic Beverages	Electric Utilities & Power Generators	Advertising & Marketing	Auto Parts	Metals & Mining
Environment	Greenhouse Gas Emissions						
	Air Quality						
	Energy Management						
	Water & Wastewater Management						
	Waste & Hazardous Materials Management						
	Ecological Impacts						
	Materials & Sourcing Efficiency						
	Physical Impacts of Climate Change						
Social	Human Rights & Community Relations						
	Customer Privacy						
	Data Security						
	Access & Affordability						
	Product Quality & Safety						
	Selling Practices & Product Labeling						
	Labor Practices						
	Employee Health & Safety						
Governance	Employee Engagement*						
	Business Ethics						
	Competitive Behavior						
	Management of Legal & Regulatory Environment						
	Critical Incident Risk Management						
	Systemic Risk Management						

*Includes Diversity & Inclusion

A Data-Forward Approach

Assessing ESG Characteristics of Companies & Portfolios

Where Have Investors Looked for ESG Data?



Corporate [Social]
Responsibility
Reports

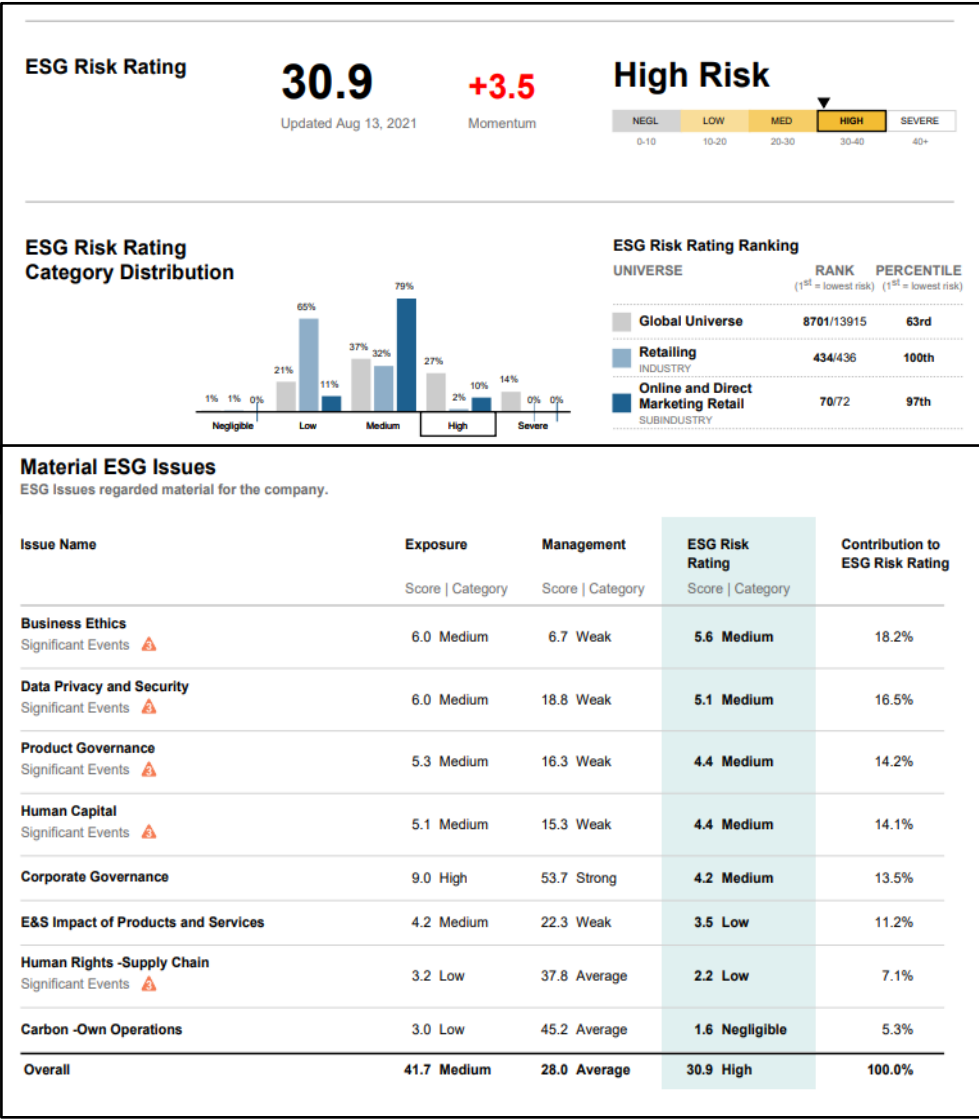
What makes us different is where we make a difference.



Environmental,
Social &
Governance

Third Party ESG Assessments

Company-Level Reporting



ESG Risk Snapshot

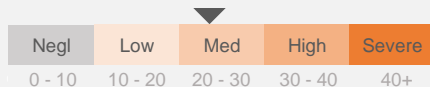
Sample Client Portfolio

ESG Risk Overview

Environmental, social, and governance (ESG) factors are a set of quantitative and qualitative standards used to evaluate material risks at the portfolio-, manager-, and/or security-level.

Generally calculated on a sub-industry basis, material **ESG risks** are the assessment of ESG issues that could potentially affect the economic value of a company or portfolio.

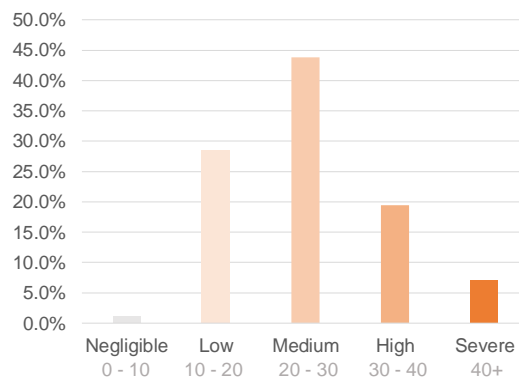
ESG Risk Score
23.5



ESG risk ratings measure companies' exposure to and management of material ESG risks. On a scale of 0-100, the **ESG Risk Score** above is representative of unmanaged ESG risk in your portfolio.

Severity

ESG Risk Categories classify the degree and magnitude to which the portfolio is exposed to ESG risks. The chart below illustrates the different levels of ESG risks in your portfolio.



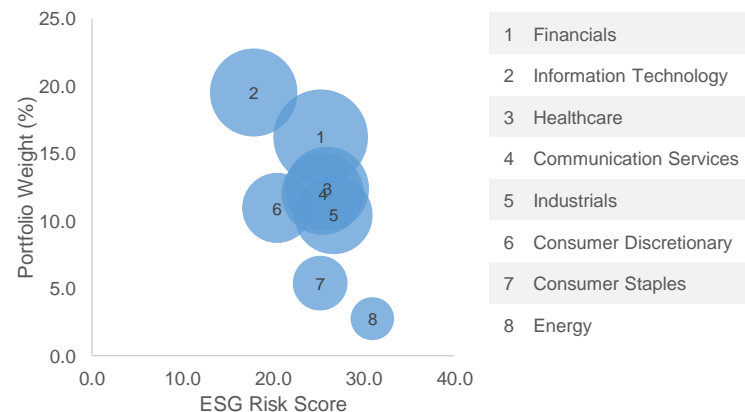
Material ESG Issues (MEIs)

Below are the top ESG issues that contribute to your portfolio's total ESG Risk Score.

Issue	% Port. Risk
Corporate Governance	18.3
Business Ethics	15.5
Product Governance	14.5
Human Capital	14.0
Data Privacy and Security	11.7

ESG Risk by Sector

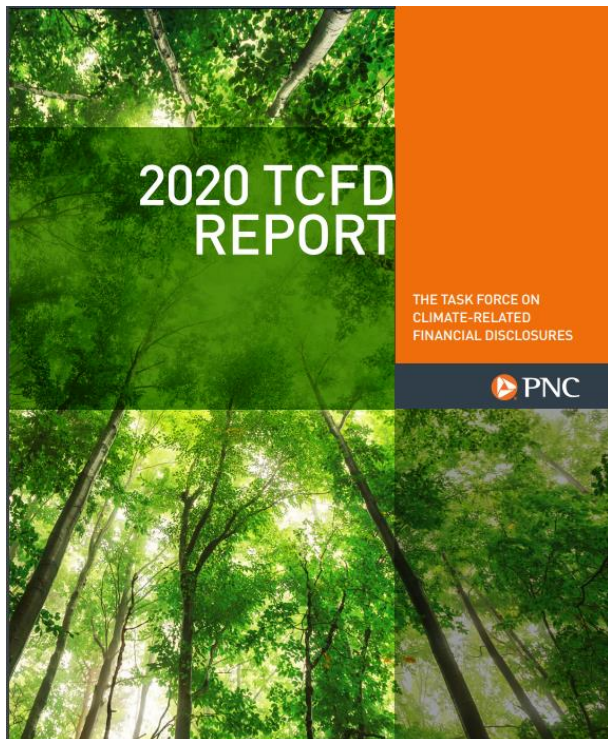
This chart highlights which sectors, on a weighted basis, contribute the most to your ESG Risk Score.



Individual Contributors to ESG Risk

On a weighted basis, these companies contribute most to your portfolio's total ESG Risk Score.

Company	Risk Score	Port. Wt.	Contrib. to Risk
Alphabet Inc. Class C (GOOG)	29.6	3.2	1.0
Microsoft Corporation (MSFT)	15.5	4.8	0.7
Facebook, Inc. Class A (FB)	32.6	2.2	0.7
Amazon.com, Inc. (AMZN)	30.9	1.8	0.6
General Electric Company (GE)	46.3	0.9	0.4



Available at
www.pnc.com/csr

STRATEGY

PNC's sustainability and climate change strategy is based on how we can support the transition to a low-carbon economy and is executed through a four-pronged approach:

- 1 Maintaining risk management controls that incorporate climate change considerations
- 2 Managing our internal operations in a sustainable manner
- 3 Helping our clients finance their sustainable operations
- 4 Managing capital for our clients in responsible ways

We may adapt this approach based on best practices and as we learn what works best for PNC and our stakeholders.

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