



# 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.

## About Northern Trust Asset Management

**30+ years** of experience managing socially responsible portfolios for many of the world's most sophisticated and progressive investors

### Sustainable Investing Leadership

• **\$137 billion** of AUM\* in sustainable strategies

• **Best performing U.S. asset manager** — ShareAction "Voting Matters, 2022"

*Published 1/17/2023. NTAM ranked first among U.S. asset managers & 23rd globally\*\**

• **Founding signatory of Climate Action 100+**

• **TCFD Supporter**

• **SASB Investor Advisory Group Member**

• **12 of 15 PRI Assessment Metrics at or Above Median**

*(2021 PRI report published 9/08/2022)\*\*\**



### Magnitude

ESG issues that are reasonably likely to impact financial performance

## Northern Trust ESG Vector Score

captures both the **magnitude** and **direction** of a company's potential ESG-related business risks.



### Direction

Forward-looking risk assessment framework

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

\* As of December 31, 2022.

\*\* ShareAction ranked asset managers from IPE's 2022 top 500 asset managers based on the following criteria: world's largest 29 asset managers based on AUM, next largest 29 European asset managers based on AUM, next largest 10 U.K. asset managers based on AUM.

\*\*\* For the full Northern Trust PRI Transparency Report, visit [www.unpri.org](http://www.unpri.org). Assessment methodology can be found at <https://www.unpri.org/reporting-and-assessment/how-investors-are-assessed-on-their-reporting/3066.article>.

Above rankings are not indicative of future performance.

# 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.



**Sustainability-Related Business Issues**

### 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

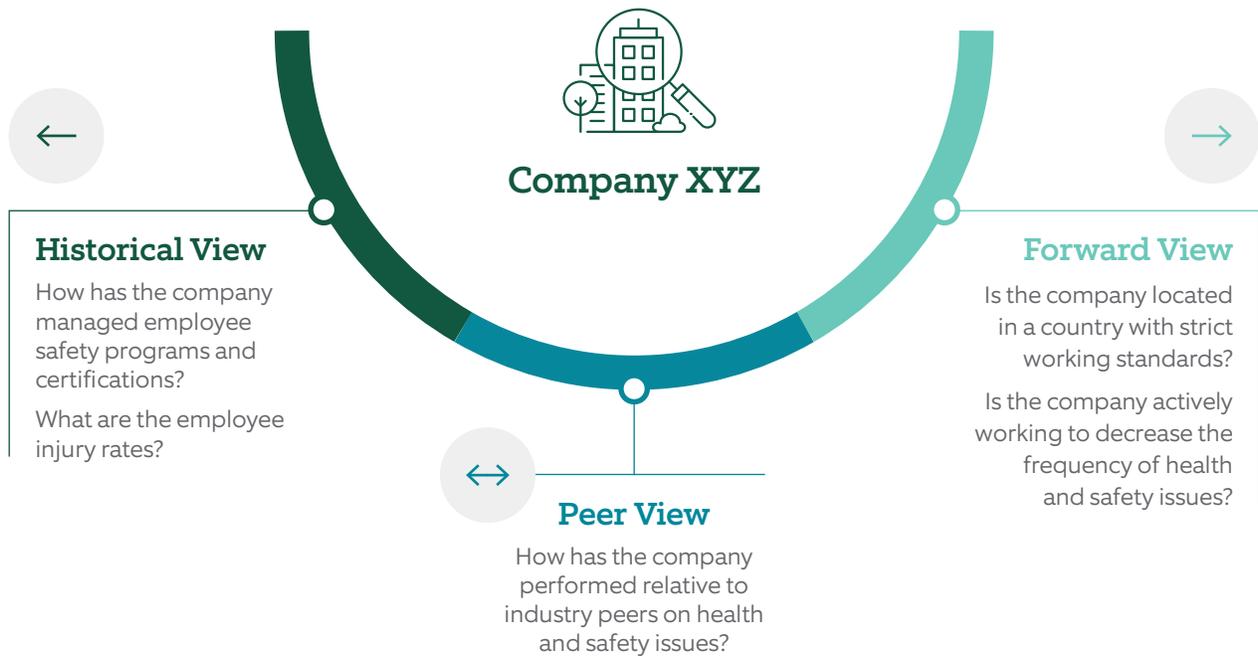
Source: SASB. See [SASB Materiality Map](#) for additional details.

# 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 purposeful 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.

\* Best-in-class ESG is industry terminology referring to an investment approach that selects companies that are leaders in implementing ESG.

# About Northern Trust Asset Management

Northern Trust Asset Management is a global investment manager that helps investors navigate changing market environments in efforts to realize their long-term objectives.

Entrusted with \$1 trillion in assets,\* 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 in an effort to craft innovative and efficient solutions that seek to 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.

For more information about the Northern Trust ESG Vector Score visit: [www.northerntrust.com/esgvectorscore](http://www.northerntrust.com/esgvectorscore)

\* Assets under management as of December 31, 2022.

## ABOUT SUSTAINABLE INVESTING

At Northern Trust Asset Management ("NTAM"), we define Sustainable Investing as encompassing all of NTAM's investment strategies and accounts that utilize values based and norms based screens, best-in-class and ESG integration, or thematic investing that may focus on a specific ESG issue such as climate risk. NTAM's Sustainable Investing includes portfolios designed by NTAM as well as those portfolios managed to client-defined methodologies or screens. As the data, analytical models and aforementioned portfolio construction tools available in the marketplace have evolved over time, so too has NTAM. NTAM's Sustainable Investing encompasses strategies and client assets managed in accordance with client specified responsible investing terms (historically referred to as Socially Responsible), as well as portfolios that leverage contemporary approaches and datasets, including ESG analytics and ESG thematic investing.

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An Environmental, Social and Governance (ESG) strategy's use of ESG factors and screening process may screen out certain companies and industries and/or affect exposures to certain companies or industries. An ESG strategy utilizes ESG analytics as a risk mitigation tool not as an alpha driver and may cause the strategy to forego certain investment opportunities. Investors can integrate ESG data to create a more holistic view of risks and opportunities — resulting in more informed investment decisions and resilient portfolios.

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