Sustainable Balanced Fund
Frequently Asked Questions

1. **What is a balanced fund?**

   A **balanced fund** invests across asset classes, usually in a stated asset allocation among stocks, bonds, and other assets. The **Pension Boards Balanced Fund** seeks to provide long-term growth of principal and income and is suitable for investors who are willing to accept a greater degree of short-term principal and income volatility for a portion of their assets in pursuit of long-term growth of principal and income. Under normal conditions, between 40% and 70% of the Fund's assets will be invested in global stocks, 30% to 60% will be invested in bonds and 0% to 10% will be invested in alternative assets.

2. **What is a sustainable fund?**

   Sustainable funds incorporate Environmental, Social, and Governance (ESG) criteria, which assess the fund's societal or environmental impact. For example, sustainable bond investments are classified in three categories: green bonds, social bonds, and sustainability bonds. Investing in green bonds addresses key areas of climate change — adaption and mitigation. This includes investments in renewable energy projects, sustainable water, energy efficiency, and clean transportation. Social bonds focus on clear social benefits for targeted populations, usually through the provision of basic goods and services such as access to healthcare facilities, education, food, and clean water. Sustainable bonds span both categories of green and social bonds.

3. **Aren't all of our investments sustainable?**

   All the Pension Boards managers are required to screen for exposure to non-sustainable companies in industries such as tobacco, coal and tar sands, and firearms. Managers we hire are also asked to become signatories to the United Nations Principles for Responsible Investment, and in so doing they pledge to a focus on sustainability and environmental, social (such as human rights) and governance risk factors. What makes the relaunched and rebranded Sustainable Balanced Fund different is that it will seek to not only exclude these types of non-sustainable companies and industries, but also seek to incorporate managers that proactively invest in companies that are leaders in sustainability-related efforts, as outlined in the following question.

4. **How will the Sustainable Balanced Fund approach sustainable investing?**
   The fund will seek to combine the full scope of approaches to ESG investing in the public markets, including passive strategies that systematically tilt towards high-performing companies on ESG metrics, while avoiding poor performers; active strategies investing thematically in companies providing solutions to environmental and social challenges; and strategies that apply active ownership and stewardship techniques to improve the ESG practices of portfolio companies.

5. **Why invest sustainably?**
   In addition to aligning investments with our values as a ministry of the United Church of Christ, we believe that investing sustainably may have financial benefits. For example, integrating ESG factors into security selection may increase risk-adjusted return potential. Furthermore, investing through an ESG-aware lens may lead to capturing important economic shifts and industry trends.

6. **Can you provide a specific example of why investing sustainably may increase risk-adjusted return potential?**
   One of the most significant, and perhaps most misunderstood risks that organizations face today relates to climate change. To stem the disastrous effects of climate change within this century, nearly 200 countries agreed in December 2015 to reduce greenhouse gas emissions and accelerate the transition to a lower-carbon economy. The reduction in greenhouse emissions implies movement away from fossil fuel energy and related physical assets. This coupled with rapidly declining costs and increased deployment of clean and energy-efficient technologies could have significant, near-term financial implications for organizations dependent on extracting, producing, and using coal, oil, and natural gas. While changes associated with a transition to a lower-carbon economy present significant risk, they also create significant opportunities for organizations focused on climate change mitigation and adaptation solutions. The expected transition to a lower-carbon economy is estimated to require around $1 trillion of investments a year for the foreseeable future, generating new investment opportunities. Organizations that invest in activities that may not be viable in the longer term may be less resilient to the transition to a lower-carbon economy; and their investors will likely experience lower returns.[1]

[1] Source: *https://www.fsb-tcfd.org/publications/final-recommendations-report/*

7. **Are sustainable investments in demand and are they common?**

   Demand for ESG-aware strategies has grown substantially. Total US-domiciled assets under management using sustainable investing strategies grew from $12.0 trillion at the start of 2018 to **$17.1 trillion**[1] at the start of 2020, an increase of 42%. This represents **$1 in every $3** of U.S. assets under professional management[2].

8. **Are sustainable balanced funds being offered in the retirement market?**

   The market for sustainable balanced funds is still a very small proportion of the broader balanced fund universe, accounting for a small percentage of available balanced funds in the retirement marketplace. This positions the Pension Boards to be a leader in this investment arena on your behalf, with a fund option aligned with our shared values as a ministry of the United Church of Christ.

9. **What will happen to investments in the current Balanced Fund?**

   The Sustainable Balanced Fund replaces the current Balanced Fund option. Annuity Plan members with investment allocations in the current balanced option will become invested in the Sustainable Balanced Fund on February 28, 2021, unless the member elects to reallocate these funds to one of the other available options.

10. **Will new investments be welcomed in the Sustainable Balanced Fund?**

    The Sustainable Balanced Fund is one of 11 investment options for Annuity Plan members with accumulation (non-annuitized) accounts. As such, it is available beginning on February 1, 2021 to any member who wishes to invest their employer and personal contributions into a 100% sustainable fund.

11. **When will the fund launch?**

    The Sustainable Balanced Fund will be available for investment on **February 1, 2021.**

12. **What are the expectations for performance?**

    The Sustainable Balanced Fund invests in exceptional companies and fixed income securities, with a two-fold objective:

    1) to deliver attractive long-term returns (+2% per year versus a benchmark of the MSCI All Country World Index (MSCI-ACWI), a stock index designed to track broad global equity-market performance; and the U.S. Barclays Government/Credit Index, a bond index designed to track U.S fixed income securities); and

    2) to deliver a positive change by contributing toward a more sustainable and inclusive world.

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[2] Source: US SIF Foundation. [1] Includes both individual/retail and institutional investors

13. Is the Sustainable Balanced Fund the right choice for everyone?

To determine the best fund allocations for your particular situation and long-term financial goals, we encourage you to consult with a financial planner. Annuity Plan members may receive no-cost professional financial planning services through Ernst & Young (EY). EY financial planners do not sell investment or insurance products. They provide professional advice without sales pressure. To speak with a planner, call the **EY Navigate™ Financial Planner Line** at **1.877.927.1047**, Monday through Friday from 9:00 a.m. to 8:00 p.m. (ET). You may also visit the EY Navigate™ website at **pbucc.eynavigate.com**; click **Get Started**; and enter your **7-digit Pension Boards Member ID** (without the dash); and follow the prompts.

14. What other investment options are available?

The Pension Boards offers members 11 investment options:

- 6 Target Annuitization Date (TAD) Funds (TAD 2025, 2030, 2035, 2040, 2045, 2050)
- 4 managed funds (Equity Fund, Balanced Fund, Bond Fund, and Stable Value Fund)
- 1 index fund (Northern Trust Global Sustainability Index Fund)

15. TAD 2045 and TAD 2050 funds also were launched in 2021. How does a TAD Fund differ from a balanced fund?

Target Annuitization Date, or TAD, Funds are balanced funds in that they are a mix of the Pension Boards' Equity, Bond, and Stable Value Funds. TAD Fund investors can focus on growth through a higher allocation to equities in the early phases of their careers. Over the years, their TAD Fund investments will automatically focus on income and preservation of capital, with higher allocations to fixed-income securities and stable value investments as they grow closer to their anticipated annuitization dates (the date in the name of the TAD Fund they select).

16. Who would benefit from investing in a TAD Fund?

TAD Funds are suitable for investors who plan to annuitize in or around the year of a specific Fund, who want a portfolio that automatically becomes more conservative as time passes, and who do not have the time, interest, or inclination to rebalance their portfolios as their annuitization date approaches. TAD Funds remove the guesswork of deciding the best way to allocate accumulation balances. Younger members (e.g., those with a longer-time horizon who may expect to retire in 25 or 30 years), may benefit from the compounding effect of growth investments made at an earlier age that work over time.

17. How do I decide among the various options?

We encourage you to speak with a financial planner to discuss your financial wellness goals. EY financial planning services are available to Pension Boards members at no cost to them. EY financial planners deliver independent, objective, and confidential financial education and counseling. Please call the **EY Navigate™ Financial Planner Line** at **1.877.927.1047** to get started.