



Quantitative International Strategies: Approach to ESG

Our firm understands that a company’s relationships with its stakeholders—including customers, suppliers, employees, communities, governments, creditors, shareholders, and the broader environment—can have meaningful implications on its future investment value.

As such, we methodically review the outcome of corporate behavior of companies within the investable market. Our research teams have integrated environmental, social and governance factors (ESG) into the firm’s multifaceted analysis processes to ensure our investment conclusions are conscious of the risks that unsustainable business practices pose to economic outcomes. Although we consider ESG exposures material to a company’s future investment prospects, these dynamics are considered in the context of the issuer’s underlying business model, operating fundamentals, and market position. This disciplined structural review is accompanied by thorough valuation analysis. The merits of our thorough security evaluation process have been proven over multiple market cycles.

Our Commitment to ESG

SBH became a signatory of the United Nations’ Principles for Responsible Investment (PRI)* in 2017. Signing the internationally recognized PRI reflects our commitment to responsible investment within the global community, seeking companies that exhibit positive stewardship in their environmental, social, and corporate governance practices. To assure quality control in the arena, senior management at SBH is highly involved in the firm’s ESG efforts and we have formed an internal ESG committee tasked with developing best practices across the organization.



Quantitative International Strategies – ESG Philosophy and Overview

	ESG as Risk Factor	We view ESG as a risk factor, like country or sector exposure, in that similarly scored companies may tend to move together. We ensure that portfolio exposures remain at desired levels on a variety of ESG measures.
	Top-Down Approach	We utilize a top-down approach for ESG integration in which the portfolio’s aggregate ESG score relative to the benchmark is continually managed.
	Aggregate ESG Exposure	We measure the change in the portfolio as part of the portfolio construction process, calculating the aggregate ESG exposure on both a pre-trade and post-trade basis to ensure sufficient ESG exposure relative to our benchmark.
	Limited ESG Coverage	Although ESG coverage in international and emerging markets is very sparse with much of the universe not well covered, as more assets are managed according to ESG principles, ESG coverage will likely grow. We will continue to investigate new sources of data.

Quantitative International Strategies – Integration of ESG into Investment Process



ESG INTEGRATION

We utilize a top-down approach for ESG integration. The portfolio's aggregate ESG score is controlled relative to the benchmark on a variety of ESG items. This aggregate score is measured on a continual basis, as one of the characteristics that we assess for our strategies such as dividend yield, price to earnings, or return on equity. We also control the exposure as part of the portfolio construction process. As ESG continues to evolve, our risk bands may evolve as well.

We view ESG as a risk factor, like country or sector exposure, in that similarly scored companies may tend to move together. We typically set risk bands relative to the benchmark for the risk factors that we monitor, meaning that the relative weight will only differ by the band that we set. The bands are dependent on a few factors, chief amongst them how volatile the factor can be along with the ability of our model to add alpha by taking active weight on the factor. ESG is unique in that we limit the exposure on the downside, meaning that we will not have a materially lower ESG exposure than the benchmark in aggregate, but will allow the portfolio to be stronger.



LIMITED COVERAGE OF ESG FACTORS OUTSIDE OF U.S.

ESG coverage outside of the United States tends to drop both as one transitions from international developed to emerging markets and from larger to smaller companies. We see the lowest coverage in emerging markets small cap as company disclosure is lacking.

We believe increased interest from ESG investor demand will result in more robust coverage over time in international and emerging markets. In the meantime, we will continue to investigate new sources of data and the information they provide about companies in our markets. We will continue to refine our approach as the data becomes more available in these markets.

To learn more about our approach to ESG, please email us at contactus@sbhic.com.

** On 9/8/22, SBH received the UNPRI (Principles for Responsible Investment) signatory review for the 2021 period. SBH pays an annual signatory fee to UNPRI for its review. Fees are calculated based on signatories' AUM (for asset owners and investment managers) as reported in the PRI's 2021 Reporting and Assessment Framework. You can learn more about UNPRI methodology, signatory reporting and assessment here: <https://www.unpri.org/signatories/reporting-and-assessment>.*

Environmental, Social and Governance (ESG) Risk: *The ESG screening process may affect exposures to certain companies or industries and cause the strategy to forego certain investment opportunities.*

*All opinions expressed in this paper are solely the opinions of Segall Bryant & Hamill. You should not treat any opinion expressed as a specific inducement to make a particular investment or follow a particular strategy, but only as an expression of the manager's opinions. The opinions expressed are based upon information the manager considers reliable, but completeness or accuracy is not warranted, and it should not be relied upon as such. Market conditions are subject to change at any time, and no forecast can be guaranteed. Any and all information perceived from this paper does not constitute financial, legal, tax or other professional advice and is not intended as a substitute for consultation with a qualified professional. The manager's statements and opinions are subject to change without notice, and Segall Bryant & Hamill is not under any obligation to update or correct any information provided in this paper. **No assurance can be given that any investment will achieve its objectives and avoid losses.***