

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Delivering Strong Returns and a Measurable Decarbonization Impact



MATTHEW BREIDERT joined Ecofin in 2006 and is a Senior Portfolio Manager overseeing sustainable, impact and ESG strategies, both long-only and long/short, at TortoiseEcofin. Prior to joining the firm, Mr. Breidert was an assistant portfolio manager at Millennium Partners, based in New York. Previously, he was an investment banker with SG Barr Devlin, a division of Societe Generale, where he focused on mergers and acquisitions and financial advisory to global utilities and power companies. Prior to that, he worked at Cornerstone Energy Advisers and FT Energy/RDI in Boulder, Colorado, where he focused on energy and utility-focused economic policy. Mr. Breidert earned a Bachelor of Science degree in ecology from the University of Illinois-Urbana Champaign and a Master of Business Administration from Washington University in St. Louis.



MICHEL SZNAJER joined Ecofin in 2016 and serves as a Portfolio Manager focused on sustainable products at TortoiseEcofin. Before joining the firm, he was a partner and portfolio manager at Silvaris Capital Management. Previously, Mr. Sznajer was employed at Wellington Management Co. as an industrial/infrastructure analyst and portfolio manager. Prior to that, he worked at Goldman Sachs and Indosuez W.I. CARR, covering the telecommunication sectors in Asia. Mr. Sznajer started his career as a management consultant at Bain & Company, covering technology, media and telecommunication, and financial sectors in Asia and Europe. He earned an M.S. in business and engineering from Brussels University and is a CFA charterholder.

SECTOR — GENERAL INVESTING

TWST: Let's start with a little introduction to the company for readers, a little bit about the area of industry expertise and the overall approach or philosophy of both Tortoise Advisors and Ecofin. And what does the combination of the two firms mean for your work and your clients?

Mr. Breidert: Let me start by describing Ecofin. Ecofin is a sustainable investment firm with a mission to generate strong risk-adjusted returns while making a positive impact on society. The Ecofin team overall manages about \$1.1 billion in assets under management as of the end of August, and the primary investment areas include energy transition, renewable and sustainable infrastructure, social infrastructure and water, in both listed and private strategies.

Ecofin was acquired by Tortoise in late 2018 and recently has changed its name to TortoiseEcofin overall. The purpose of the original business combination was to effectively marry one of the leading franchises in traditional energy infrastructure with a specialty manager

with a lot of experience in renewable infrastructure, electric utilities, power and sustainability, and to complement effectively each other's activities all the way through the organizations, from the investment teams into sales distribution and dealing with clients. Many of the same topics can be covered better when you're addressing it from both the existing side of energy infrastructure and the growing side because they fundamentally interact with each other a lot.

TWST: From your perspective, within the clean energy space, what would you say are the big themes and trends that you're following and that investors should be thinking about?

Mr. Breidert: I think the overriding theme — regarding energy and really much of the entire economy — is that the push to decarbonize is going to result in very significant shifts in the way we produce and consume energy over the next 20 years to 30 years. The goal is to make that transition while continuing to deliver high levels of utility, with meaningful levels of improvement in some cases.

Inside that framework, there are two primary drivers: regulation

at numerous levels — international, federal, state, cities and municipalities — which are driving specific requirements for declining greenhouse gas emissions over time; and then technology solutions, which can be deployed to enable those improvements. We believe that both of these forces will be dynamic and iterative, with differing levels of challenges across various industries.

For example, as the leveled cost of the decarbonizing technology falls below an existing technology, an incumbent, then the regulatory framework can seize on that improvement and actually increase or accelerate its own target goals. We think investors should care deeply about this overall area.

First and foremost, it's creating an incredible secular growth opportunity across multiple sectors. We're basically going to have to rebuild most of our existing major energy systems and redirect future growth toward these same clean solutions, and we think that provides an investment opportunity similar to the accumulated migration of consumer retail activities online. You can create enormous market share gains and value growth in one part, at the expense of the most polluting incumbents, and yet still see overall growth in the total utility provided to customers. And clearly, this energy transition needs to accommodate further growth as we see continued growth in wealth around the world.

Secondly, investors need to know which businesses might be negatively impacted and de-select some of that exposure. We think there are going to be incredible winners and losers in this multidecade progression.

“As far as valuations are concerned, overall valuations have moved higher, not unlike what we have experienced for the broader equity market. However, we see the overall sector trading at a meaningful discount to the market, partly because earnings have been much more resilient in this downturn, unlike for most sectors that are exposed to the cycle.”

TWST: Are there any particular emerging technologies that you think are noteworthy right now?

Mr. Breidert: I think the first point we'd make on this is that the best investment opportunities are likely to be those early-stage technologies that are already gaining market share, where they're experiencing steady and cumulative cost declines and thus are becoming more and more competitive each year. We're certainly going to see more disruptors entering energy transition, but we think it's more likely these happen over the course of multiple components of improvement.

For example, high-voltage semiconductor chips might enable an electric car to use less copper, have less weight, even potentially need less battery. Those kinds of improvements might conspire to create a faster penetration rate versus, wow, this is a whole new disruptive thing coming in. So I think those incremental improvements could be quite important and quite attractive.

On the purely emerging side, there have been three areas I'd highlight as potential interesting opportunities. The first would be around

heavy-duty truck powertrains. How do we decarbonize the transport haulage industry? I think there are several models under serious development, one of which involves the use of renewable natural gas to fuel a hybrid motor that then generates electricity, which is then used in the overall powertrain of a truck. It's an electric powertrain.

The advantage of a technology like this is that you can deploy that technology on existing truck fleets or within the natural replacement cycle of a current model that's already on offer without having to do a more radical change in the technology. It's quite incremental. Natural gas is also widely available, and the ability to inject zero net natural gas into the gas grid, whether it's renewable gas or potentially an e-fuel in the future, is very similar to what we're doing with renewable electricity today. It's essentially a pretty elegant solution to a meaningful part of the addressable market on that particular industry.

A second area we see is technology developments within the electric vehicle battery itself, which has a pretty attractive opportunity for innovation and improvement. This could include things like solid-state batteries, which are being pursued both by major battery manufacturers and upstarts like **QuantumScape**. The attractive aspects of solid state are several but importantly would include a meaningful reduction in size and weight, which theoretically could

offer vastly longer driving ranges per charge.

And the last area that's emerging is around green hydrogen, and hydrogen is hardly a new thing, but a zero net carbon version of it is. The idea here is to create a vast supply system of green hydrogen that can be used

Highlights

Matthew Breidert and Michel Sznajer discuss the Ecofin Global Renewables Infrastructure Fund (MUTF:ECOIX) and the Tortoise Energy Evolution Fund (MUTF:TOPIX). The goal of the ECOIX fund is to provide strong risk-adjusted returns while also having a measurable impact on decarbonization. Through this fund, Mr. Breidert and Mr. Sznajer invest in companies that have grown faster than the market and have taken market share from other sources of power. The TOPIX fund blends exposure to sustainable/renewable infrastructure with exposure to traditional energy infrastructure. Companies discussed: [NextEra Energy \(NYSE:NEE\)](#); [Renova \(TYO:9519\)](#); [Amazon.com \(NASDAQ:AMZN\)](#) and [Walmart \(NYSE:WMT\)](#).

either directly as an end fuel, like in a fuel cell for example, or potentially as a precursor fuel to an e-fuel polymer, where you could use recaptured carbon and you could create a zero net carbon hydrocarbon. So you could actually replicate jet fuel to make it zero net carbon, and then, the addressable market here is huge. It's basically the entire jet fuel market because the commercial aerospace industry wants to go to 100% zero net carbon by 2050.

Any one of these would be interesting on their own. I think there are also going to be new ones in the future that haven't even been thought of yet.

TWST: Broadly speaking, how would you describe investor interest in all of this? Is it more or less than you would expect? And how is that impacting valuations in the space right now?

Mr. Sznajer: Interest has been increasing substantially in the past year as the awareness has risen on the back of strong commitments to decarbonization by countries, by pension funds and by companies. The flow of large investments and the growth opportunities in the sector have definitely attracted a lot of attention.

As far as valuations are concerned, overall valuations have moved higher, not unlike what we have experienced for the broader equity market. However, we see the overall sector trading at a meaningful discount to the market, partly because earnings have been much more resilient in this downturn, unlike for most sectors that are exposed to the cycle. It is worth noting, however, that within the sector, the spread of valuation has widened substantially, with some pockets of our investment universe with blue-sky scenarios embedded in valuations, while value is being completely ignored.

TWST: Let's talk a bit about the Ecofin Global Renewables Infrastructure Fund, which just launched this summer and which the two of you co-manage. Would you give us an overview of the fund and its investment strategy?

Mr. Sznajer: The fund's ticker is ECOIX. It is invested in the listed equities of renewable developers and operators, and that is done globally. ECOIX has two goals: to deliver a strong risk-adjusted return as well as a measurable decarbonization impact.

"There tends to be a focus on direct sustainability reporting and impact, and creating an impact inside the strategy, where in many cases there's a measurable deliverable relating to those objectives, which could be, in particular for our case, carbon avoided or greenhouse gas emissions avoided. That's a part of the return stream that you're delivering to an investor."

1-Year Daily Chart of NextEra Energy



Chart provided by www.BigCharts.com

The fund used to be run in an offshore format and has been converted into ECOIX. We are coming to a five-year track record next month. We believe the fund has a low risk profile and stable income because the companies we invest in the portfolio have historically grown faster than the global economy with higher predictability.

The second goal I mentioned — and it goes hand-in-hand with performance and not at the expense of performance — is to deliver a measurable decarbonization impact. We have a proprietary database with the carbon emission of all the companies in our universe. Hence, we can measure the carbon savings by investing in our fund compared to a benchmark. Our portfolio is over 70% cleaner than the index.

To illustrate that, for every \$1 million invested in the fund, 838 tons of carbon are avoided per year through its investments, and that's equivalent to about 761 round-trip flights from New York to L.A. So you have both a track record of performance and the potential for an attractive risk-adjusted return, together with a deliverable decarbonization impact. And we were pleased to be rated AAA in terms of an ESG rating

by MSCI, reflecting the importance of ESG that we embed in the research process for this fund.

TWST: Would you give us a couple of stock examples, whether they are among your top holdings now or an investment idea that perhaps you like and are adding to your position? How do they illustrate your investment criteria and the kind of investment opportunities you're looking for?

Mr. Sznajer: Let me give you a couple of examples. One is a company called NextEra (NYSE:NEE). It's a U.S.-based company. It's one of the largest developer/operators of renewable assets in the world. It has about 20 gigawatts of renewable assets operating and growing very quickly.

As I mentioned, the decarbonization side is important. NextEra is 54% cleaner than the U.S. grid in terms of CO2 emissions. And despite its existing size, it is growing its regulated asset base 6% to 8% per year. So you really have this combination of predictability with a strong existing asset base, historically cash flow generative, but growing fast at the same time.

A company in a different part of the world is a company called Renova (TYO:9519). Renova is a Japanese renewable developer and operator with solar, wind and biomass assets. Based on its confirmed growth in backlog, it could potentially triple its EBITDA over the next four years. It benefits from an attractive regulatory environment in a country that is still highly dependent on fossil fuel; hence, it has a long runway to grow over the next decade.

So these companies reflect what we're looking for. They have grown faster than the market in an attractive demand environment. They have taken market share from other sources of power. They have generated attractive returns on equity. And they have produced stable cash flow that they have a track record of reinvesting to create compounding value. That's really the kind of companies we keep looking for.

TWST: You're also part of the team that manages the Tortoise Energy Evolution Fund (MUTF:TOPIX). Could you tell us a bit about that investment option, its strategy and how it is different and/or similar to the Ecofin fund?

Mr. Breidert: This is a strategy that evenly blends exposure from the growth-oriented sustainable/renewable infrastructure universe with a contoured exposure to some of the more defensive long-lived assets within the traditional energy infrastructure universe. Both of these asset groups are, of course, real assets backed by physical plants and typically under a significant regulatory structure or long-term contracts. The fund will not have direct exposure to fossil reserves but primarily is exposed to the transportation of energy between supply regions and customers or demand markets. It then has a little bit of emerging energy technology around these two focal points.

Energy has gone through an incredible decline in the market in the last eight years as a percent weight of the MSCI world and certainly in its overall valuation. We think this sector is broadly starting to pivot to a value orientation, where recent equity performance and growing regulations are changing the mindset dramatically for management behavior, and investors are going to demand it. And we think we've started the phase of negative replacing reserves in the OECD.

So upstream capital expenditures is likely to be significantly constrained, I think, across the West — Europe, the United States, etc. — and as the U.S. has been the main supply region for global demand growth over the last decade, this shift could have a pretty meaningful impact on overall equilibrium pricing. The tighter the regulations for further production growth get, we think the higher the pricing potential in the market. We also think it's likely that renewables or zero net carbon fuels can be transported in existing pipelines, which could actually create much longer lives for certain assets, particularly versus upstream-exposed assets, and at the end of the day, the decarbonized solutions that can address the needs of the market quickly and for the most attractive costs are going to win, and I think we're pretty confident that's going to incorporate a lot of the existing energy infrastructure today.

1-Year Daily Chart of Renova



Chart provided by www.BigCharts.com

TWST: To follow up, how open are those more traditional companies to converting themselves or adapting to the new environment? What are their prospects?

Mr. Breidert: The prospects are very good. Given the equity performance has been so terrible, many of these managers realize that they cannot continue on a path of shareholder value destruction. Their shareholders will not allow it. I think we're going to see activism and outright rebellions against any kind of plan that's going in the same direction as the last five to eight years. This was an industry that was growing at all costs, particularly in the U.S., and I think a lot of the growth made sense, but it wasn't making cents, and it wasn't creating value for shareholders, and ultimately, that is the objective.

So we think the management teams are becoming more open to understanding they need to make these pivots. They are starting to hear from customers that their customers want decarbonized solutions, so it's not just a matter of a whim of the market. We've gotten very large commitments to zero net carbon objectives by companies like Amazon (NASDAQ:AMZN), even Walmart (NYSE:WMT), and when you start talking about decarbonizing the entire logistics of some of the largest consumer product companies in the U.S., that's going to have a very clear impact on the fundamentals. So it's becoming more visible. The election will be quite interesting, but it actually won't change all that much.

TWST: We'll tackle that topic in a minute. But one other question in terms of sustainable product and technology companies versus the more traditional energy sector: How, if at all, do they differ in terms of your stock analysis and portfolio management?

Mr. Breidert: I think, in the sustainability investment universe, there tends to be a focus on direct sustainability reporting and impact, and creating an impact inside the strategy, where in many cases there's a measurable deliverable relating to those objectives, which could be, in

particular for our case, carbon avoided or greenhouse gas emissions avoided. That's a part of the return stream that you're delivering to an investor. I think the traditional energy industry and indeed many other industries haven't focused on those metrics so much, so that's a key difference.

I would say that there are many things that you can do within ESG to apply to a traditional energy company to deliver a lot of the same kinds of improvements in overall risk management. Engagement with management teams — very clearly, energy has to be a big part of the mix of making changes overall to have a positive opportunity set for decarbonization, so engaging with these management teams in a productive way as an investor is a very important function. In some ways, there are some big overlaps.

In terms of stock analysis, at the end of the day, fundamentals have to underwrite any investment opportunity. It's true that some opportunities within energy transition will be earlier stage, so they might have less highly visible and defined cash flows, particularly over on the new technology end of the spectrum. But there are other areas like renewable infrastructure, which has very visible contracted or regulated cash flows for 10 years or 20 years, so you can use the traditional valuation approach in that regard.

One thing that's a little bit different is that because there's a declining cost curve overall in the technology deployment within sustainability and energy, it means that the replacement cost function or mode of valuation is somewhat different. It's likely that at the end of the useful life, you might be able to replace a project at a cost structure lower than when you started, so that's somewhat unusual and something to take into consideration in valuation. Within traditional energy, there's been a focus on reserve growth, reserve replacement. We think those metrics fall completely out of favor going forward, and investors are going to want to see how recycled capital and cash flow generates new attractive returns on equity for the future.

TWST: Is there anything else about the general economic environment that you watch for impact on this space? I wonder in particular, with such a slowdown in all kinds of business as a result of the pandemic, what does that mean in terms of demand drivers?

Mr. Sznajder: Most of the companies in our universe are partially or entirely immune from cyclical demand. Most assets are either regulated or contracted. Because we are witnessing a structural shift to renewables, the demand drivers are secular, not cyclical. And so even with the contraction in cyclical demand, as you mentioned, in energy that we have experienced this year, we have seen very resilient growth in the companies we invest in. They have been very much immune from the cycle, and that's really the attractiveness of this investment universe.

TWST: Matt, earlier you mentioned the election. What are your thoughts about the global political and public policy landscape in general, and although this will be published just a few days after our election here in the U.S., what are your thoughts on the two possible outcomes in the presidential race? It seems that one would be much more favorable for the renewable space.

Mr. Breidert: It's always hazardous to postulate about an election after it's already occurred. But I think the main takeaway that we see is that regardless of the outcome of the election, energy transition is real, and it's going to continue to happen. Donald Trump has been one of the most outwardly hostile leaders in the world to renewables overall and to climate change as an objective, and during his first term, renewables globally have enjoyed absolutely their best four years. Customers want decarbonized fuels.

There are extremely large demand centers like the EU that are requiring decarbonized fuels progressively to achieve zero net carbon by 2050. But multinational companies cannot come up with a bifurcated solution of that magnitude. These are platform businesses; they require

scale and efficiency to be successful. So we're pretty confident that the secular forces toward significant decarbonization across a global platform are going to push on regardless of the U.S. elections, and I think the last four years speak to that.

Now, clearly, if we get a blue sweep, it's likely we're going to pull in the pace a bit more for the U.S., but possibly even internationally, by changing market access rules for carbon footprints in free trade. If Biden is elected, it's not impossible that he will try to synchronize with Europe — not explicitly, but generally try to synchronize with Europe — which would create an absolutely formidable change in the overall environment of requirements for international companies to access those markets in terms of demand.

The other thing, though, is we think a blue sweep could be just the tonic the energy sector needs to pivot off of its fossil-fueled trajectory toward clean redeployment, and that could really move existing energy prices higher, which ironically then could have a pretty significantly positive impact on the energy sector. I don't think it's a stretch to say that the last four years under the Trump Administration have been a disaster for investors in the energy sector, so it's not a huge expectation that a change of that direction could move things the other way.

TWST: To wrap up, do you have any final thoughts or any other advice for our readers and investors, including whether this is an area all investors should have some exposure to?

Mr. Sznajer: We believe we are still very early days in the migration to clean energy and clean fuel. The sector has been growing multiple times faster than the broader economy, and we expect that growth to last for over a decade. As we said, this is really structural, secular growth and not cyclical growth. Let me give you a simple example to illustrate that.

In the U.K. over the past 20 years, the whole country has installed 10 gigawatts of offshore wind capacity. Over the next 10 years,

we expect to install 30 gigawatts, so three times more in half the time. That's the kind of acceleration we are seeing in the installation in clean energy, and that's a U.K. example, but you can replicate that in most jurisdictions around the world.

So we believe that this is an attractive environment. The risk-adjusted return is attractive, but also, it provides diversification in a portfolio because of the low correlation of returns, as we mentioned, because it's not cyclical returns. And then if I may, finally, we expect impact investing to become a much larger investment segment going forward, partly supported by the EU taxonomy but also as a risk mitigation tool that can help provide returns in a portfolio.

TWST: That does seem to be getting more and more attention.

Mr. Sznajer: As we have demonstrated with our track record, that impact is not at the expense of return, and it's very important to investors and very important to us. And so if you can deliver both, then it's a win-win. Early on, there was a perception that you had to compromise returns for impact. We don't believe that's the case; we actually believe that what we do on the impact side is feeding the performance in the return.

TWST: Thank you. (MN)

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Top 10 Holdings (as of 9/30/2020)

1.	NextEra Energy, Inc.	6.2%
2.	Orsted A/S	4.9%
3.	Sunrun Inc.	4.8%
4.	Covanta Holding Corporation	4.6%
5.	Iberdrola, S.A	4.6%
6.	Brookfield Renewable Energy Partners LP	4.3%
7.	Transalta Renewables Inc.	4.3%
8.	Edison International	4.3%
9.	Power Grid Corp of India Ltd.	4.3%
10.	China Longyuan Power Group Corp.	4.2%

Ten Largest Holdings 46.5%

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international organisation that works to build better policies for better lives. Our goal is to shape policies that foster prosperity, equality, opportunity and well-being for all. Upstream: the sector of the energy industry responsible for exploration and pumping of crude oil and natural gas. Correlation: a statistical measure of how two securities move in relation to each other.

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- A, BB, BB: Average- The fund invests in companies that tend to show average management of ESG issues, or in a mix of companies with both above-average and below-average ESG risk management.
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- 8.6- 10: AAA
- 7.1- 8.6: AA
- 5.7- 7.1: A
- 4.3- 5.7: BBB
- 2.9- 4.3: BB
- 1.4- 2.9: B
- 0.0- 1.4: CCC

The “Fund ESG Quality Score” assesses the resilience of a fund’s aggregate holdings to long term ESG risks. Highly rated funds consist of issuers with leading or improving management of key ESG risks, based on a granular breakdown of each issuer’s business: its core product or business segments, the locations of its assets or revenues, and other relevant measures such as outsourced production. The “Fund ESG Quality Score” is provided on a 0-10 score, with 0 and 10 being the respective lowest and highest possible fund scores.

The “Fund ESG Quality Score” is assessed using the underlying holding’s “Overall ESG Scores”, “Overall ESG Ratings”, and “Overall ESG Rating Trends”. It is calculated in a series of 3 steps.

Step 1: Calculate the “Fund Weighted Average ESG Score” of the underlying holding’s “Overall ESG Scores”. The Overall ESG Scores represent either the ESG Ratings Final Industry-Adjusted Score or Government Adjusted ESG Score of the issuer. Methodology for the issuer level scores are available in the MSCI ESG Ratings Methodology document.

Step 2: Calculate adjustment % based on fund exposure to “Fund ESG Laggards ()”, “Fund ESG Trend Negative ()”, and “Fund ESG Trend Positive (%)”.

Step 3: Multiply the “Fund Weighted Average ESG Score” by $(1 + \text{Adjustment } \%)$.

For more information please visit <https://www.msci.com/esg-fund-ratings>

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